

# CONTRACT AUDIT CIRCULAR No. MPO - 2



## OHIO DEPARTMENT OF TRANSPORTATION

CENTRAL OFFICE, 1980 W. Broad St., 4<sup>th</sup> Floor, COLUMBUS, OHIO 43223

**SUBJECT:** Submittal of Cost Allocation Plans; Required Documentation;  
Treatment of Unallowable Costs

**Effective Date:** July 1, 2010

**Last Updated:** December 26, 2014

### I. DEFINITIONS

Terminology used in these Ohio Department of Transportation (ODOT) MPO Contract Audit Circulars is intended to be consistent with 2 CFR 200.<sup>1</sup> Users should refer to the defined terms in 2 CFR 200 Subpart A - *Acronyms and Definitions* and other sections of 2 CFR 200 as cited throughout the text.

Users should be familiar with the definition of the following specific terms to aid in comprehension of the subject matter discussed in these documents—

- (1) "MPO" refers to a handling agency that ODOT contracts with to conduct the MPO urban transportation planning process required by 23 USC 134. Typical Ohio MPO handling agencies include Regional Planning Commissions established pursuant to *Ohio Revised Code* §713, Regional Councils of Governments established pursuant to *Ohio Revised Code* §167, and authority afforded Boards of County Commissioners pursuant to *Ohio Revised Code* §307.
- (2) The "*Code of Federal Regulations*" (CFR) is the codification of the general and permanent rules published in the *Federal Register* by the executive departments and agencies of the Federal Government. The CFR is divided into 50 titles that represent broad areas subject to Federal regulation.
- (3) "Cognizant agency for indirect costs" means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under 2 CFR 200 on behalf of all Federal agencies. The cognizant agency for indirect cost is not necessarily the same as the cognizant agency for audit. See also 2 CFR §200.19, *Cognizant agency for indirect costs*.
- (4) "Incurred Cost" refers to the various elements of total cost submitted on the MPO agency's overhead schedule or invoices. Costs may be categorized as either: (a) Direct labor, (b) Fringe benefits, (c) Indirect, or (d) Other direct.
- (5) An "incurred cost audit" involves an examination of the accounting records and source documents that support submitted costs billed against Federal-aid contracts. The examination also includes an assessment of the auditee's internal controls, timekeeping practices, and general operating policies.
- (6) "Internal Controls" are policies, procedures, and activities designed to help an organization achieve its management objectives, safeguard resources, report reliable information, and comply with applicable laws. While internal controls cannot completely eliminate the risk of error, fraud, or mismanagement, well-conceived procedures and a good control environment can minimize the potential for abuse. Also see §200.61 *Internal controls*.

<sup>1</sup> Title 2 Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

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- (7) A "Cost Allocation Plan" (CAP) (a.k.a. *Indirect Cost Rate Proposal*) is a series of documents that summarizes the methods and procedures that an organization will use to allocate costs to various programs, grants, contracts and agreements. It includes, but is not limited to, a "Schedule of Direct Labor, Fringe Benefits, and General Overhead". Also see 2 CFR 200 Subpart E-*Cost Principles* and Appendix VII to Part 200-*States and Local Government and Indian Tribe Indirect Cost Proposals*.
  - (8) A "Schedule of Direct Labor, Fringe Benefits, and General Overhead" is a schedule that shows details regarding an MPO's estimated versus actual total incurred costs for an accounting period. For enhanced readability, in these Contract Audit Circulars the term "overhead schedule" is used synonymously with "Schedule of Direct Labor, Fringe Benefits, and General Overhead."
  - (9) An "Overhead rate" is comprised of two components: a) the Fringe Benefits Cost Rate and b) the Indirect Cost Rate.
  - (10) The "Fringe Benefits Cost Rate" is a ratio which compares employee fringe benefit costs to a suitable allocation base. For this MPO planning program the approved formula is as follows. The numerator is the total of all fringe benefit costs (e.g., all paid leave types, employer retirement contributions, employer payroll taxes, the employer share of employee health insurance, workers compensation insurance, etc.). The denominator is total labor costs, including both direct and indirect wages.
  - (11) The "Indirect Cost Rate" is a ratio that compares indirect costs to a suitable allocation base. For this MPO planning program, the approved formula is as follows: The numerator is the total of all indirect costs (e.g., indirect labor, indirect labor fringe benefits, building occupancy, miscellaneous materials and supplies, equipment, etc.) divided by either a) direct labor costs, **or** b) direct labor costs plus direct labor fringe benefits costs.

## II. AUTHORITY

ODOT's authority to conduct incurred-cost audits is granted by 2 CFR 200 §200.331 - *Requirements for pass-through entities*, which provides that the awarding agency, or its designee, shall have the right of access to any pertinent books, documents, papers, or other records of subrecipients which are pertinent to the grant funded in whole or in part with Federal funds.

## III. COGNIZANCE

The Federal Highway Administration (US DOT) is the cognizant agency for indirect costs for most Ohio MPOs. In its role as the lead state "pass-through entity," the Ohio Department of Transportation has oversight responsibility for MPOs located fully within Ohio's boundaries and for bi-state MPOs where Ohio is the lead state. The Ohio Department of Transportation reviews, negotiates, and approves cost allocation plans for these MPOs.

For MPOs where FHWA is not the cognizant agency for indirect costs or for bi-state MPOs where Ohio is not the lead state, the MPO must comply with Section VI. - *Application* of this audit circular.

#### **IV. ISSUE**

During the review and approval of an MPO's overhead rate, the auditor must determine whether the indirect costs proposed by an MPO are allowable, allocable, and reasonable. To facilitate the review and approval process, key documentation is required to ensure that costs comply with applicable Federal regulations and state guidelines.

#### **V. ALLOWABILITY**

To claim indirect costs under Federal awards, an MPO must prepare an annual Cost Allocation Plan to support its indirect costs. The proposal and related documents must be retained for audit in accordance with the records retention requirement contained in 2 CFR 200.

Appendix VII to Part 200 - *States and Local Government and Indian Tribe Indirect Cost Proposals*, provides the conceptual framework regarding the following:

- (1) Preparation of a Cost Allocation Plan;
- (2) Timeline for submittal;
- (3) Documentation;
- (4) Certifications;
- (5) Submittal; and
- (6) Negotiation and approval process.

#### **VI. APPLICATION**

##### **A. Generally**

The MPO must prepare and submit an annual Cost Allocation Plan proposal to ODOT for review, negotiation, and approval. The CAP is a series of documents that summarizes the methods and procedures that an organization will use to allocate costs to various programs, grants, contracts, and agreements.

The CAP must be developed and submitted to the Office of External Audits no less than four months prior to the start of the MPO's fiscal year, unless an exception is requested in writing and approved by ODOT. (See Attachment 2.2).

##### **B. Annual CAP Documentation**

The MPO must submit the following documents to support its claim for indirect costs. ODOT prefers the electronic submission of all documentation, including:

- (1) An overhead schedule, including subsidiary worksheets and other relevant data, cross-referenced and reconciled to the financial records of the MPO.
- (2) A summary table to support all allocated central services costs.

- (3) A copy of the financial statements (preferably audited) upon which the rate is based. Adjustments resulting from the use of unaudited data will be recognized, where appropriate, by ODOT in a subsequent proposal.
- (4) A schedule that discloses the direct labor base for all government awards. The costs should be detailed between salaries and wages and other direct costs. (See Attachment 2.3).
- (5) A Cost Allocation Plan (CAP), including a narrative section that lists and describes each intermediate cost objective utilized by the agency. The CAP must adequately identify:
  - a. The costs charged to each intermediate cost objective;
  - b. The allocation basis used to distribute these costs to other cost objectives;
  - c. The frequency for the allocation of the costs; and
  - d. The records generated during the process which are retained for subsequent confirmation.
- (6) Documentation detailing the standardized treatment of costs as either a direct or indirect expense. This information is used to evaluate the agency's plan for compliance with 2 CFR §200.302, *Financial management*. This documentation must include a list of the MPO's chart of accounts and final cost objectives, along with associated descriptions.
- (7) An organizational chart that details the structure of the MPO during the period for which the proposal applies, along with a functional statement noting the duties and responsibilities of all units that comprise the MPO.
- (8) A completed and signed Certification of Indirect Costs statement. (See Attachment 2.1). This document may be submitted electronically as an Adobe PDF file, provided it is on MPO agency letterhead.
- (9) For MPOs where ODOT is not the lead state, a copy of the approved written agreement establishing the fringe and indirect cost rates to be used for the period.

### **C. Negotiation and Approval of Rates**

For MPOs where ODOT is the lead state, ODOT will review and approve estimated fringe and indirect cost rates for use by the MPO for the applicable fiscal year.

- (1) For MPOs where ODOT is the lead state, ODOT will formalize, in a written agreement, the fringe and indirect cost rates to be used for the period. The agreement will be subject to re-opening if it is subsequently found to violate a statute, or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate.
- (2) The MPO may not unilaterally increase or decrease the estimated fringe and indirect cost rates once approved by ODOT. The MPO should contact the ODOT Office of External Audits for guidance if subsequent events create the potential for a significant amount of over- or under-recovery by the end of the fiscal year.
- (3) The MPO must use the approved fringe and indirect cost rates to allocate costs to all programs. This will ensure that each program is allocated its proportionate share of the overhead costs, regardless if eligible for reimbursement.

#### **D. Application of Overhead Rates**

During an audit, an erroneous payment or unallowable cost may be determined. The treatment of each is discussed below:

- (1) Erroneous payment of a direct cost by an ODOT/FHWA program – The MPO will be required to reimburse ODOT for the Federal and state share of the erroneous payment. In accordance with 2 CFR 200, interest may be charged in compliance with the Federal Claims Collection Standards.<sup>1</sup>
- (2) Inclusion of an unallowable cost as a component of the indirect cost rate – The MPO will be required to record a credit to the financial system for the total unallowable costs identified during the audit. If the financial system is still open for the year under audit, the credit will be charged to that year; however, in most likelihood, the year under audit will have been closed. In the latter case, the credit will be charged to the open, active fiscal year. The fringe cost pool or the indirect cost pool will be credited for the unallowable cost, as appropriate. The MPO must document the credit to demonstrate recognition of the unallowable cost.

#### **E. Monthly Reimbursement Billing Process**

In accordance with ODOT Standard Procedure 322-003 (SP), the MPO submits monthly invoices to the ODOT District office for reimbursement of costs incurred to conduct the various FHWA and ODOT funded work program activities. In compliance with this procedure, the MPO prepares a monthly summary invoice for each ODOT PID using a standard Excel template approved by ODOT. Supporting reports attached to each invoice by the MPO provide details of costs incurred during the period. The supporting reports include the Current Period and Cumulative Cost Reports. These reports are also known as the “Distribution of Costs Claimed Report” and the “Program Financial Status Report.”

#### **F. Electronic Submission of Annual Reports**

The MPO must prepare the monthly Current Period and the Cumulative Cost Reports, referred to in section E above, using Excel spreadsheets, and annually must submit the Excel workbook to the ODOT Office of External Audits within 90 days after the end of the MPO’s fiscal year. The reports are to be prepared by the MPO consistent with the following parameters:

- (1) One Excel workbook file will be prepared per fiscal year.
- (2) Within the Excel workbook, one worksheet will be prepared per PID.
- (3) Each Excel worksheet will contain all twelve of the monthly cost reports for the PID for the fiscal year. In addition, for MPOs using the Provisional-Actual Rate Method, the year-end adjusting cost report must also be included in the worksheet as cost report number 13.
- (4) The monthly cost reports must be sequentially aligned from left to right within the worksheet. For MPOs using the Provisional-Actual Rate Method, the year-end adjusting cost report must be placed at the end of the monthly sequence, as cost report number 13, prior to the annual total cost report.
- (5) The annual total cost report must accumulate the costs for the entire fiscal year from all the monthly reports, including the cost report number 13.
- (6) Excel formulas must be used to calculate row and column totals.

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<sup>1</sup> The Federal Claims Collection Standards are available at 4 CFR Ch. II.

- (7) The fiscal year period must match the MPO's fiscal year. For agencies with a December 31 fiscal year end, the reports will cover the January through December period, and for agencies with a June 30 fiscal year end, the reports will cover the July through June period.

A sample of the required format for the monthly reports is provided as Attachment 2.4 for entities that are not familiar with this reporting format.

#### **VI. REFERENCES**

- 2 CFR 200 Subpart E – Cost Principles
- ODOT Contract Audit Circular No. MPO – 1, *Definitions, Audit Authority, and Guidance for Computing Overhead Rates*
- ODOT Standard Procedure 322-003 (SP), *Financial Reimbursement for Local Public Agencies (LPA) Managing the Metropolitan Transportation Planning Process and Other Work Program Activities*