**Section 2630.113 Indirect Cost Proposals**

a) General. The costs of publicly financed educational institutions, local governments, and other grantees performing JTPA activities consist of two basic categories - direct and indirect. Direct costs are those which can be specifically or readily identified with a particular grant or contract or other cost objective. Indirect costs (or overhead) are those incurred for a common or joint purpose benefitting more than one cost objective, and not directly assignable to cost objectives benefited without effort disproportionate to the results achieved. Indirect costs include both:

1) the overhead costs originating in a grantee performing a grant or contract; and

2) the costs of central government services distributed through the central service cost allocation plan and not otherwise treated as direct costs.

b) Indirect cost proposals.

1) Description and content of proposals. Indirect costs shall be charged to State awards via an indirect cost rate. The rate is the percentage relationship of indirect costs to direct costs, (e.g., generally salaries and wages or total direct cost). The computation of the indirect cost rate, supported by workpapers and other documentation (as described in Section 2630.113(b)(2)) is called an indirect cost proposal.

2) Submission. All indirect cost proposals must be supported by the following documentation:

A) A certification by an authorized grantee official that the proposal has been prepared in accordance with policies and procedures contained in this Part.

B) A copy of financial statements prepared by either certified public accountants, licensed public accountants or State or local government auditors, or a copy of the official budget of that department/unit if the budget reports the actual expenditures for the year on which the proposal is based. If these are not available, proposals should be supported by such other official financial documents generated either by the department or unit or higher tier government agency (i.e., general ledgers, ancillary financial statements, statements of changes in fund balance, etc.) which can be used to substantiate the authenticity of the amounts proposed. Any difference between line items shown on the indirect cost proposals and line items shown on the supporting documentation must be reconciled. The initial proposal should include information which provides an understanding of the accounting classification system employed, including a narrative description of the functions treated as indirect costs. Information on the accounting classification system and on the indirect cost narratives need only be updated in years other than the initial year.

C) A schedule of State funds expenditures made during the fiscal year showing for each State department and agency:

i) direct salaries and wages,

ii) other direct expenditures, and

iii) total expenditures.

D) A schedule of items of costs that are treated inconsistently, that is, items which are charged as direct costs to some State grants and contracts but not to all, the costs not charged direct being treated as an indirect cost and, items which are treated as direct costs for State grants and contracts but not for non-State activities and projects, and the costs not charged directly being treated as an indirect cost. The schedule must show the items treated inconsistently, the reasons for the inconsistency, the amounts treated as indirect costs, the amounts charged as direct costs to State grants and contracts, the grants and contracts charged, and the State department and agency which made the awards.

E) A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency. Once submitted, only revisions need be submitted with subsequent proposals.

c) Negotiation agreements. There are three types of agreements under which the Illinois Department of Commerce and Community Affairs shall approve central service cost allocation plans and indirect cost proposals: Provisional-final, predetermined, and fixed with carry-forward. Approval will be based on compliance with this Part.

1) Provisional-final.

A) Central service cost allocation plans and indirect cost proposals are submitted prior to the fiscal year to which they apply. Thus, they reflect either a past period's cost experience or a projection of a future year's expected costs. Since a grantee's actual costs do not become known until the end of its fiscal year and there needs to be some arrangement by which costs can be recovered as incurred, the State shall enter into an agreement under which the grantee proposal is provisionally accepted using either:

i) a prior year's actual costs,

ii) projected costs for the fiscal year under consideration, or

iii) a combination of historical costs and projected costs. Subsequently, at the end of the fiscal year when the actual costs are known, the grantee will need to submit a revised proposal reflecting its actual costs. Another agreement, called final agreement, will then be negotiated and the grantee may retroactively revise the claims it made against JTPA grants and contracts.

B) This procedure, however, has two drawbacks, which are:

i) it entails additional administrative effort for both the State and the grantee in negotiating two agreements for the same period and in processing retroactive claims, and

ii) it could result in a loss in recovery to the grantee if the amount or rate finally agreed to is greater than that provisionally agreed to and there are no JTPA funds available to cover the excess or, conversely, if the final settlement is less than that provisionally agreed to and a repayment is due the State, it may create a hardship to the grantee. To avoid these situations, predetermined or fixed with carry-forward agreements may be considered.

2) Predetermined. A predetermined agreement is a firm agreement, not subject to revision except in the most unusual circumstances (e.g., subsequent audit findings records, subpoena, etc.) and when there is substantial inequity (determined through audit) to either the State or grantee. Like the provisional-final agreement, it is negotiated in advance of the fiscal period to which it applies. The State will enter into a predetermined agreement only when the amounts or rate agreed on will not result in a claim to the State in excess of the proposer's actual costs. Comparable caution is generally exercised by the grantee to assure that it does not inadvertently incur more indirect costs than planned. Because of the potential danger of over or under recovered costs inherent in the predetermined agreement, it is used sparingly.

3) Fixed with carry-forward. The FCF agreement is based on an estimate of a future period's costs and is not subject to revision. However, differences between the estimated costs and actual costs, when they become known, are includable (carried-forward) as an adjustment in a subsequently proposed cost plan of the preparer State or local government. The fixed rate with carry-forward agreement cannot be used where there is only short term or widely fluctuating State funding, or where there is likelihood of organizational change, or a fluctuating level of operation which would make the projection of costs unrealistic.

(Source: Amended at 11 Ill. Reg. 11682, effective June 29, 1987)