Attachment I

**SIMPLIFIED ALLOCATION METHOD (78683)**

**PREFACE**

This guide has been prepared to assist in understanding the preparation of indirect costs rate proposals (ICP). The format provided in this guide are the preferred formats of Substance Abuse Prevention and Control (SAPC), but are not strictly required, as some other format may be acceptable.

An agency may submitted an ICP on the basis of submitting documentation to a cognizant agency for approval.

The purpose of developing an indirect cost rate is simply to devise a method for determining fairly within the boundaries of sound administrative principles, what proportion of indirect cost each program should bear, i.e. there are costs incurred for common or joint objectives in treatment services which cannot be readily identified to a contract/modality.

Therefore, an ICR will be developed as a ratio between the total indirect expenses and some direct cost base, which is the basis for determining an indirect cost rate.

There are three basis methods of calculating indirect cost rates for non-profits:

* Simplified
* Multiple Rate
* Direct Allocation methods

Most agencies will use the “Simplified” method as their funding is under $10 million in federal, and or in total funding. Those agencies receiving more than $10 million in federal funding can still use the “Simplified” method, but will need to breakout their indirect costs into two components, (1) Facilities and (2) Administration. See attachment IV for an example. Also, agencies receiving non-federal funding will follow the same funding guidelines in preparation of their ICP.

**GUIDELINES FOR PREPARING INDIRECT COST RATES**

The Federal Register (FR) requires a recipient of federal funding to have an established accounting system. The accounting system must provide adequate internal controls to safeguard assets, insure fund accountability by cost category, assure accounting data accuracy and reliability, promote operating efficiency, and comply with Governmental requirements and accounting procedures.

The following documents are required when submitting a proposal for ICP, along with attachments to help guide in the preparation process.

A. Organizational chart. (See Attachment X)

1**.** If one does not exist, prepare a formal organizational chart.

a. Ensure the accounting structure is in agreement with the organization chart so actual dollars expended can be verified to the various programs, i.e.

Modality IOT ODF-I ODF-G Total

No. of Employees 10 2 5 17

Actual Salaries $10,000 $20,000 $50,000 $80,000

This example reflects most of the employee are IOT, therefore the actual cost in IOT should be more, but in this example most of the cost is reflected in ODF-G. This results in the accounting structure not being in agreement with the organization chart.

2. Provide functional statement(s) providing the duties and responsibilities of all the units that comprise the agency.

3. Employee time sheet sample, providing the distribution of hours to direct/indirect functions.

4. Prepare schedule of which programs are indirect (administrative) functions of your agency.

5. Schedule which services are applicable/allowable to the federal funding.

6. Signed Cost Policy Statement.

B. Federal and non-federal funding.

1. Schedule of all funded programs.

2. Prepare a Personnel Cost Worksheet (**see attachment II**), including fringe benefits breakdown.

3. Prepare a Statement of Total Costs.

1. See **attachment III** for sample of ICR with no federal funding (Drug Medi-Cal funding).
2. See **attachment IV** for sample of ICR with federal and non-federal funding under $10 million.
3. See **attachment V** for sample of ICR with federal and non-federal funding over $10 million.

4. Statement of Indirect Costs.

a. This statement will parallel your cost allocation plan, and should explain how indirect cost were determined.

5. Audited financial statements. If audited statements are not available, please provide a copy of IRS Form 990 (non-profit) or Form 1120 (profit) for the same year as your “Statement of Total Costs.”

Note: The Statement of Total Cost must reconcile to Financial Statements, or tax return.

6. Provide a reconciliation statement if costs do not equal Financial Statements.

7. Approved final budget.

C. Accounting structure.

1. Make available agency financial protocol to ensure an established accounting system is in place.

D. Prepare a Cost Policy statement.

1. Prepare and sign a written policy that outlines the costs considered as direct, the cost considered indirect, and the rationale to support those costs. (See **attachment VI**)

E. Prepare certification that indirect cost rate is prepared in a manner with applicable cost principles set forth in the Federal Register. (See **attachment VII**)

1. Certification must be signed by the President/Executive Director, or CFO.

F. A copy of contract(s) received from SAPC showing contract amount, period of performance, and the indirect cost (overhead) limitations (if any) applicable to each, such as, ceiling rates or amounts restricted by administrative or statutory regulations, applicable to the period(s) of the proposal(s).

G Schedule of all contract amounts.

F. Prepare a Negotiated Indirect Cost Rate Agreement (NICRA)

1. See sample **attachment VIII**.

G. Prepare an Acceptance letter.

1. See sample **attachment IX.**

H. Use Indirect Cost Proposal Checklist.

1, See sample **attachment X**.