Attachment B
Indirect Cost Allocation Plan/Indirect Cost Rate Proposal
Submission, Audit, and Documentation Requirements

Annual ICAP/ICRP Submission Process

- Local Government Agencies (LGA) will submit an Indirect Cost Allocation Plan/Indirect Cost Rate Proposal (ICAP/ICRP) to the Department for review and acceptance prior to invoicing for indirect costs. If allocated central service costs are included in an ICRP, the LGA should also submit its Central Service Cost Allocation Plan (CSCAP) along with the ICRP to the Department. For LGAs that receive federal funds each year, a fixed rate with carry forward should be used. LGAs that do not receive federal funds annually should submit a predetermined rate.

- Within 30 business days of receipt, the Department will review the ICAPs/ICRPs received for compliance to the submission requirements of 2 CFR Part 225. The Department's acceptance must be received by the LGA prior to the LGA billing for indirect costs.

- If necessary, the Department will advise LGAs of the additional documentation needed to support/evaluate the proposed plan or identify changes required to make the proposed plan compliant.

- Non-compliant submissions may be returned to the LGA if requested documentation is not provided or required changes are not made within 5 business days of notification to the LGA of the additional document(s) needed or changes required.

- LGAs with an ICAP/ICRP approved by a cognizant federal agency will submit a copy of the cognizant federal agency approval, the approved proposal, plan, subsidiary worksheets, and other relevant data (see "Documentation of Proposal" section below) to the Department.

- LGAs should submit ICAPs/ICRPs within six months after the close of the LGA's fiscal year or within 30 days from the date the LGA's annual audit is complete. LGAs will have until December 31, 2011, to submit prior fiscal year ICAPs/ICRPs. LGAs that submit an ICAP/ICRP after this timeframe are at risk of unreimbursed indirect costs.

- If overall fringe benefit rates are not approved for the LGA as part of the CSCAP, a proposed fringe benefit rate and computation should accompany the ICAP/ICRP submittal.

- The Department will issue rate acceptance letters for ICAPs/ICRPs that were previously accepted and awaiting audit. The Department will also provide a six-month status report to FHWA.

Timeline

The Department is committed to issuance of a rate acceptance letter within 30 business days of Department receipt, provided that the ICAP/ICRP package is in compliance with all submission requirements of 2 CFR Part 225.

ICAP/ICRP Audits

Annually, the Department will perform a risk assessment of submitted ICAPs/ICRPs for audit. If an ICAP/ICRP is selected for audit, the LGA will be notified. The Department will perform an audit to determine whether the ICAP/ICRP complies with the applicable cost principles. Material audit adjustments will require reimbursement if proposals are later found to have included costs that are unallowable as specified by law or regulation or by the terms and conditions of federal or State awards. FHWA may also conduct reviews/audits.

Documentation of Proposal

All LGAs desiring to claim indirect costs for federal-aid and/or State funded projects must prepare an ICAP/ICRP and related documentation to support those costs. All documents related to the ICAP/ICRP must be retained for audit in accordance with the record retention requirements in the "Common Rule," 49 CFR Part 18 and Master Agreements between the LGA and the Department.

The following documentation shall be included with each proposal as prescribed by 2 CFR Part 225:

1. ICAP/ICRP
   a. Schedule showing calculation of rates proposed including subsidiary worksheets and other relevant data, cross-referenced and reconciled to the financial data noted below.
   b. Subsidiary worksheets should include the following:
      - Schedule of actual direct / indirect /unallowable costs incurred by cost category type (i.e., rent, utilities, depreciation, etc.) as well as by departmental unit.
      - Schedule of budgeted direct costs and indirect costs by cost category type and department unit (include Board approval, etc.)
      - Schedule showing calculation of the over/under carry forward provision when "fixed rate" is used.
   c. A copy of the financial data (financial statements, comprehensive annual financial report, single audit reports and management reports, if applicable, etc.) on which the rate is based.
   d. The approximate amount of direct base costs to be incurred under federal-aid and State reimbursement. These costs should be distinguished between salaries and wages and other direct costs.
   e. A chart identifying the organizational structure of the agency during the period for which the proposal applies along with a functional statement noting the duties and/or responsibilities of all agency units. (Once this is submitted, only revisions need be submitted with subsequent proposals)
   f. Certification that the ICAP/ICRP was prepared in a manner consistent and is in compliance with the Cost Principles of 2 CFR Part 225. (See Attachment D for Sample Certification)
   g. The Department's Submission Review Checklist to assist LGAs in understanding the documentation that is used to review each submittal. (See Attachment C for Submission Review Checklist)

2. Central Service Cost Allocation Plan
   If allocated central service costs are included in an ICRP, the LGA should also submit its CSCAP along with the ICRP to the Department. LGAs submitting their CSCAP to the Department should submit a Certificate of Cost Allocation Plan, document their plan, and include supporting documentation in accordance with 2 CFR 225, Appendix C, Section E. See ASMB C-10 for a sample Central Service Cost Allocation Plan and supporting documentation.