



Minnesota Management & Budget Statewide Operating Policy

Minnesota Management and Budget, General Accounting
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Indirect Costs

Objective:

To ensure both statewide and agency indirect costs (IDC) are appropriately allocated and recovered in accordance with Minnesota Statutes, including [Minnesota Statute 16A.127](https://www.revisor.mn.gov/statutes/?id=16A.127) (<https://www.revisor.mn.gov/statutes/?id=16A.127>) and [Minnesota Statute 16A.1286](https://www.revisor.mn.gov/statutes/?id=16A.1286) (<https://www.revisor.mn.gov/statutes/?id=16A.1286>), federal law, and generally accepted accounting principles (GAAP).

Policy

Statewide Cost Allocation Plan

Minnesota Statutes section 16A.127 requires Minnesota Management & Budget (MMB) prepare a plan annually to allocate all statewide central service (general support) costs to the agencies or programs that consume these services. MMB must prepare an annual Statewide Cost Allocation Plan (SWCAP), which is submitted to and approved by the federal cognizant agency in order to be reimbursed for central service costs allocated to and reimbursed by federal awards.

As required by 16A.127, annually costs are allocated by agency, to all funds in proportion to their consumption. Unless specifically appropriated in law, agencies are obligated to reimburse the general fund for all statewide indirect costs. All reimbursements to the general fund must be deposited to the appropriate account as non-dedicated receipts. However, the commissioner of MMB may, for reasons disclosed in this policy, waive the reimbursement for certain non-general fund activities. Entities are obligated to annually reimburse the general fund for these statewide indirect costs and that portion of agency indirect costs attributable to recoveries of general fund expenditures, unless the indirect cost is specifically appropriated in law or a waiver is obtained from MMB. The intent is to recover a proportional share of the general fund appropriations used to provide administrative support to non-general fund programs and activities and maximize the amount reimbursed through federal awards. Without the recovery of general support costs, general tax revenues unfairly subsidize non-general fund programs and activities by paying a disproportionate share of their administrative costs. Central service agencies whose general support costs are appropriated from the general fund must recover both statewide and agency indirect costs. Minnesota Statutes 16A.127 establishes procedures to ensure these costs are allocated, in a fair and equitable manner, and the appropriate funds are properly reimbursed.

Agency Indirect Costs

Minnesota Statutes 16A.127 requires all applications for federal funds to include requests for reimbursement of both statewide and agency indirect costs. All agencies receiving funds directly from federal awards must apply for the recovery of indirect costs, unless granted a waiver from the commissioner of MMB or designated representative. Waivers must be requested annually and will only be granted where the cost of preparing the plan exceeds the cost that would be recovered or where the amount federally approved is less than the entire agency proposal.

All applications must be prepared in accordance with Title 2 in the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225, Appendix E (OMB Circular A-87). In accordance with Appendix E, agencies should use the indirect cost rate methodology based on the nature of its awards, unless otherwise required, to develop a cost allocation plan that distributes indirect, and in some cases direct, cost to specific funding sources. Each rate proposal or plan must include, or be based on, all allowable cost.

Where required, all rate proposals or plans and any amendments must be submitted to the appropriate cognizant federal agency for approval. Once approved, the IDC rate or plan must be used in all relevant agency matters over the life of the agreement.

Unless specifically appropriated in law, agencies are obligated to reimburse the general fund for that portion of agency indirect cost attributable to recoveries of general fund expenditures. All reimbursements to the general fund must be deposited to the appropriate account as non-dedicated receipts. However, the commissioner of MMB may, for reasons disclosed in policy, waive the reimbursement for certain non-general fund activities.

Agency general support cost budgeted in the general fund must be included in all fees and cost allocations. MMB may grant agencies the authority to retain the agency portion of IDC recoveries, if it determines that they are not a recovery of general fund expenditures. If granted, these recoveries may only be used to provide additional administrative support. When this authority is granted, the recoveries must be deposited to fund 2001 – Other Miscellaneous Special Revenue Fund in an appropriation established exclusively for this purpose. Without this authority, recoveries must be reimbursed to the general fund IDC account annually, no later than the close of the fiscal year.

Statewide Systems Indirect Costs

Minnesota Statute 16A.1286 authorizes MMB to collect up to \$10,000,000 each fiscal year for statewide systems services. The intent of this statute is to allocate a sufficient amount of funds to support statewide systems services on an ongoing basis and to maximize the amount reimbursed through federal awards. As with all other indirect costs, these services must be allocated through the SWCAP to all agencies by fund. Statewide system services will be billed separate from the other statewide indirect costs and must be deposited as dedicated receipts. Invoices will only be sent to agencies that fall within the top 40 users of the statewide systems. If your agency receives an invoice for Statewide Systems Services, the total amount billed is required to be paid regardless of exemptions and/or waivers on other statewide indirect cost. Statewide systems indirect costs cannot be waived.

Reimbursement of Indirect Costs

Statewide indirect costs statements are generated annually and are based upon the most recent consumption statistics available. Costs allocated are based upon the budget figures for the current year. The invoice also includes a roll-forward adjustment, which adjusts the budgeted allocation to the actual allocation for the prior closed fiscal year.

Reimbursement of statewide and agency indirect costs must be processed at least quarterly. Agencies whose indirect costs rate is based on direct salaries and wages must process their final reimbursement within 30 days following the last day of the fiscal year. Also, agencies whose indirect costs rate is based on total direct costs must process their final reimbursement within 30 days following the fiscal year close.

Reimbursements from federal funds are calculated using the agency's federally approved indirect cost rate(s) for both statewide and agency indirect costs rather than the amount specified on the invoice. Federal reimbursement will not be invoiced, but will be processed using the SWIFT reverse bilateral netting process. Agencies are allowed 30 days beyond the end of each quarter to calculate and process

reimbursements for federal funds. Copies of all related calculations must be submitted to MMB, for confirmation and reconciliation, within 3 working days following the date of the reimbursement.

Waivers

Minnesota Statutes 16A.127 grants limited authority to the commissioner of MMB or designated representative to waive the reimbursement of indirect costs. Waivers may be granted for the following reasons:

1. State or Federal law or regulations do not allow for the payment of indirect cost
2. Funds are held in trust by the state (i.e. gift funds or agency funds)
3. Endowment funds
4. Debt service or bond-proceeds funds
5. Pass-through funds
6. Receipts are collected to recover the cost of workshops, training seminars or conferences
7. For reasons of sound financial management including:
 - The agency no longer receives money in the fund that the liability has been allocated to
 - The money in the fund is the result of a transfer from a fund that is automatically waived
 - The fund has compellingly similar characteristics to that of a fund that is automatically waived
 - The total of non-federal allocated statewide indirect costs to the agency is less than \$10,000 will be automatically waived

NOTE: Waiver amounts less than \$500 will not be waived due to the costs and benefits associated with processing the waivers.

Exceptions

1. Funds Automatically Waived:
 - Funds where State or Federal law or regulations do not allow for the payment of indirect costs (fund 2012)
 - Funds receiving only proceeds from the General Fund (fund 1000 and 3501)
 - Funds are held in trust by the state (i.e. agency funds – funds 2051, 2380, 6000 to 6499, 7470, and 7500 to 7599)
 - Endowment and gift funds (funds 2400 to 2499 and 3800 to 3899)
 - Funds receiving only proceeds from bond issues (funds 2820, 3510, 3600 to 3699, 3700 to 3799, 5000 and 8250)
2. Single Agency Payer: Certain agencies are responsible for paying all indirect costs associated with a particular fund regardless of the agencies apportioned the allocations and those funds will be automatically waived for the non-paying agencies.
3. Statewide Systems Services: The total amount billed for statewide systems services must be paid, without exception. Unlike other indirect costs, there are no allowances for waivers, exemptions, caps, or any other reason. If the amount allocated to a specific fund cannot be paid from that fund, the amount apportioned to the fund must be paid from another funding source.
4. MNSCU: The Board of Trustees of the Minnesota State Colleges and Universities is exempt from the provisions of Minnesota Statute 16A.127 except for the cost of the legislative auditor to conduct financial audits of federal funds. This exception does not apply to the Statewide Systems Services cost as authorized by Minnesota Statute 16A.1286.

All costs allocated to agencies are summarized, by fund, on the statement of Statewide Indirect Cost (SWIDC) report distributed annually by MMB. Funds detailed as automatically waived above will be clearly identified on this statement and if a fund is automatically waived, no waiver request is required. Agencies are not billed for these costs.

All other waivers must be requested in writing and must be renewed annually. Due to the wide variety of programs administered, waiver requests must include a complete explanation of the program including a citation of the program's enabling legislation and clear justification for granting a waiver.

Definitions

Agency Indirect Costs

All allowable general support costs incurred within the agency that cannot be charged directly to agency programs.

Central Service Agencies

A state agency rendering various support services to other state agencies. These services may or may not be provided with charges to the recipient agency.

Cognizant Federal Agency

The federal agency with predominant interest in the work of the grantee department. This agency is responsible for the necessary negotiation, approval and audit of the indirect cost proposal.

General Support Costs

Cost incurred in providing centralized administrative services to other units within an organization. For purposes of this policy, this includes any expense defined as "allowable" under OMB Circular A-87. Examples include accounting, budget, personnel, centralized computer and legal service cost (for a complete list see OMB Circular A-87). The terms "general support cost" and "administrative support cost" are used interchangeably.

Statewide Indirect Costs

All general fund expenditures made by any state agency attributable to providing general support services to any other state agency or other consuming entity.

Statewide Systems Services

Services include the state accounting system, payroll system, human resources system, procurement system and related information access systems. The billing for this cost is located on the annual statement of Statewide Indirect Cost under Statewide Systems Special Billing.

Related Policies and Procedures

[MMB Statewide Operating Procedure 0105-01.1 Indirect Costs](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0105-01-01-indirect-cost-procedure.docx) (<http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0105-01-01-indirect-cost-procedure.docx>)

[MMB Statewide Operating Policy 0805-01 Interagency Payments](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-8/0805-01-interagency-payments-policy.docx) (<http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-8/0805-01-interagency-payments-policy.docx>)

See also

Gauthier, Stephen J. (2012). *Governmental Accounting, Auditing, and Financial Reporting*. Chicago, IL. Government Finance Officers Association (GFOA).

[Title 2 in the Code of Federal Regulations \(2 CFR\), Subtitle A, Chapter II, part 225](http://www.gpo.gov/fdsys/pkg/CFR-2010-title2-vol1/content-detail.html)

(<http://www.gpo.gov/fdsys/pkg/CFR-2010-title2-vol1/content-detail.html>)

[OMB Circular A-87 - Cost Principles for State, Local, and Indian Tribal Governments](http://www.whitehouse.gov/omb/circulars_default)

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[SWIFT Quick Reference Guides: Bilateral Netting](http://mn.gov/mmb/accounting/swift/training-support/support-resources/reference-guides/bilateral-netting.jsp) (<http://mn.gov/mmb/accounting/swift/training-support/support-resources/reference-guides/bilateral-netting.jsp>)