

State and Local Governments

Question # 1: How can I determine which Federal agency is cognizant for a particular governmental unit?

Answer: OMB's guidance for determining the cognizant agency is in 2 CFR Part 200, Appendix V, Section F.1. HHS is cognizant for all state-wide central service cost allocation plans and public assistance cost allocation plans. For local government-wide central service cost allocation plans, the cognizant agency is the Federal agency with the largest dollar value of total Federal awards with the local government (city or county). For state and local government departmental or agency indirect cost rates, the cognizant agency is the Federal agency with the largest dollar value of direct Federal awards with the state or local government department or agency.

For example, the “City of Y” receives the most total Federal funding, including funds passed through the state government, from HHS. Therefore, HHS would be the cognizant agency for the City-Wide Central Service Cost Allocation Plan. The “City of Y Housing Department” receives the majority of direct Federal funding from HUD (not including funds passed through the state). HUD would be the cognizant agency for indirect costs for the “City of Y’s Housing Department”. However, the “City of Y Health Department” receives the majority of direct Federal funding from HHS (not including funds passed through the state). HHS-CAS would be the cognizant agency for indirect costs for the “City of Y Health Department”. If a state or local governmental department or agency only receives Federal funds as a subrecipient (no direct awards), the pass-through entity will be responsible for negotiating and/or monitoring the subrecipient’s indirect costs.

Question # 2: What is a central service cost allocation plan?

Answer: Most governmental units provide services, such as accounting, purchasing, computer services, motor pools, fringe benefits, etc., to operating departments and agencies on a centralized basis. Since Federal awards are normally performed within the individual operating departments and agencies, there needs to be a process whereby central service costs can be identified and assigned to benefiting departments and agencies on a reasonable and consistent basis. The central service cost allocation plan provides that process.

The central service cost allocation plan is a required document that identifies, accumulates, and allocates; or develops billing rates based on the allowable costs of services provided by a governmental unit to its departments and agencies. The costs of these services may be allocated or billed to benefiting agencies.

Allocated central service costs (referred to as Section I costs) are allocated to benefiting departments and agencies on an approved reasonable basis. The costs are usually negotiated and approved for a future year on a “fixed-with-carry-forward” basis. Section I costs allocated to an operating department or agency through the central service costs allocation plan are typically included in that department’s or agency’s indirect cost pool.

Billed central service costs (referred to as Section II costs) are billed to benefiting departments

and agencies on an individual fee-for-service or similar basis. The billed rates are usually based on the estimated costs for providing the services. An adjustment is made at least annually for the difference between the revenue generated and the actual allowable costs. Section II costs that are billed to an operating department or agency may be charged as either direct costs to the agency's Federal awards or included in its indirect cost pool depending on the benefits received.

State-wide central service cost allocation plans must be prepared annually and submitted to HHS-CAS for approval. Federal agencies will not honor claims for states' (including Puerto Rico and District of Columbia) central service costs unless the state-wide cost allocation plans are approved by HHS.

Local government-wide central service cost allocation plans only need to be prepared and maintained on file (including supporting documentation), unless the local government is a Major Local Government. 2 CFR Part 200, Appendix V, Section D defines Major Local Government as a local government that receives more than \$100 million in direct Federal awards (not including awards passed through the state). Major Local Governments' central service cost allocation plans must be prepared annually and submitted to the cognizant Federal agency for the local government (the Federal department providing the largest dollar value of total Federal awards to the local government).

Question # 3: If a central service activity is omitted when the State/local-wide central service cost allocation plan is approved, can the state or local governmental unit recover the cost of the omitted activity in a future plan?

Answer: 2 CFR Part 200, Appendix V, Section C. specifically states that costs of central services omitted from the plan will not be reimbursed. However, if a service did not exist (as opposed to being overlooked) when the plan was prepared, the approved plan can be reopened to include the new activity. The definition of "nonexistent" does not include central services that existed when the plan was finally approved, nor those that the state should have known would exist in the future, based on budgets approved by the state legislature or local government.

Question # 4: Under a central service cost allocation plan, is the governmental unit required to submit documentation for internal service funds (ISFs) with operating budgets under \$5 million?

Answer: 2 CFR Part 200, Appendix V, Section E specifies documentation requirements for ISFs with operating budgets of \$5 million or more. It also states that the requirements may be modified, expanded or reduced by the cognizant Federal agency on a case-by-case basis. At a minimum, the governmental unit must submit a Reconciliation of Retained Earnings for ISFs under \$5 million. (Refer to ASMB C-10, "Implementation Guide for Office of Management and Budget Circular A-87", Illustration 4-7 for a sample format and instructions.) This schedule provides essential information which may not be included in the comprehensive annual financial report or other financial statements. In addition, the schedule determines the fund balance, in accordance with 2 CFR 200, on an on-going basis. Additional documentation may be requested on a case-by-case basis depending, in part, on the dollar impact on Federal awards and on the date the last detailed ISF review was performed by the cognizant agency.

Question # 5: What is a State/local department indirect cost rate proposal?

Answer: An indirect cost rate proposal is prepared by a governmental department or agency to provide necessary documentation to substantiate its request for an indirect cost rate. Indirect costs are normally charged to Federal awards using an indirect cost rate. The indirect costs include: (i) costs originating in the department or agency carrying out the Federal awards, and (ii) costs of governmental central services distributed through the central service cost allocation plan that are not otherwise treated as direct costs.

Question # 6: How does a local governmental unit establish an indirect cost rate with HHS?

Answer: All state or local governmental departments or agencies desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with 2 CFR Part 200 Appendix VII. A state or local government department or agency that receives more than \$35 million in direct Federal funding must submit its indirect cost rate proposal to its cognizant agency for indirect costs. The cognizant agency is the Federal agency with the largest dollar value of direct awards to the state or local government department or agency.

For example, “City of ABC Health Department” receives \$140 million a year in Federal awards. Of the \$140 million in Federal awards, \$100 million was passed through the state government, while \$40 million was received directly from Federal agencies, such as HHS/CDC. All of the \$40 million in direct awards are received from HHS awarding agencies, such as CDC and SAMHSA. Therefore, the “City of ABC Health Department” must submit its indirect cost rate proposal annually to HHS-CAS (because HHS provided the majority of direct Federal funding, and the “City of ABC Health Department” receives more than \$35 million in direct Federal funding).

In a different example, “County Z Department of Health” has \$60 million a year in Federal funding, but only \$2 million was received directly from a Federal awarding agency. “County Z Department of Health” is only required to prepare an indirect cost rate proposal and maintain it on file.

Question # 7: What if a local governmental unit only receives HHS funds as a sub-recipient? Does an indirect cost rate have to be negotiated with HHS?

Answer: No. Where a local governmental unit only receives Federal funds as a sub-recipient, the primary grantee recipient is responsible for negotiating the sub-recipient’s indirect cost rate(s), and monitoring the costs - not HHS.

Question # 8: Are indirect cost rates the only way to recover indirect costs? If a local government department has been using a cost allocation plan in lieu of an indirect cost rate, are they required now to change their practice?

Answer: 2 CFR 200, Appendix VII, Section F.3. states that in certain situations, governmental departments or agencies, because of the nature of their Federal awards, may develop a narrative cost allocation plan, at the discretion of the cognizant agency for indirect costs.

Question # 9: Can a state or local governmental department or agency elect the 10% de minimis indirect cost rate?

Answer: In accordance with 2 CFR 200.414(f), if a governmental department or agency has never received a negotiated indirect cost rate, and the department or agency does not receive more than \$35 million in direct Federal funding, they can elect the 10% de minimis rate. Once elected, the 10% rate should be used for all Federal awards (subject to any program statutory or regulatory limitations).
