

Accounting Newsletter for Grant Schools

Indirect Cost Allocation Plans - Will They Work for Me?

by Melanie Askew, CPA, Senior Associate

With the Federal budget shrinking due to the recession, sequester and other attempts to cut back Federal spending, all Federal entities are experiencing budget cuts. One area that has been hit hard for several years is the Administrative Cost Grants for Indian Schools. Tribally-controlled grant schools are being funded at approximately 60% of their allocation. This is leading to underfunded administration and causing schools to reduce their business staff, over-expend their grant or struggle with finding other ways to pay for these items. One potential solution is to use an indirect cost allocation plan to allocate these costs to other Federal grants. Circular A-87 provides a uniform approach to determining allowable costs of Federal-funded programs, including indirect costs.

There are several factors to consider when looking into the feasibility of using an indirect cost allocation plan. It is important to note that any cost allocable to a particular Federal award or cost objective under the principles in Circular A-87 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. Such a practice constitutes unallowable cost shifting. However, this prohibition does not preclude governmental units from charging costs that are allowable and allocable under two or more awards, pursuant to existing program agreements. These are viewed as funding allocations rather than unallowable cost allocations.

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You're Hired! (How to Protect Your School from IRS Issues and Fines)

by Karin M. Smith, MBA, SFO, Consulting Manager

Every year, your school probably hires many individuals as both employees and contractors to fulfill any number of responsibilities. Your administration is charged with ensuring the contractual agreement is appropriate based on the individual's key responsibilities and relationship with your agency. Most specifically, governmental entities are under tight scrutiny to determine if the individual is an employee or independent contractor.

The IRS provides guidance on how to evaluate this decision. The employer can be held liable for employment taxes, plus interest and penalties, if a worker is incorrectly classified as an independent contractor. The decision to classify someone as an employee versus an independent contractor hinges on the amount of control and independence the person has.

The IRS has identified three categories to be used in the evaluation:

- *Behavior Control* - Does the school control or have the right to control what the worker does and how the worker does his or her job?
- *Financial Control* - Are the business aspects of the worker's job controlled by the payer? How the worker is paid, reimbursements, etc.

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Indirect Cost Allocation Plans

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For example, a school cannot move the cost of the business manager to Title I simply because Administrative Cost funds are insufficient to cover the costs. However, if the business manager is in charge of portions of the Title I program management, a proportional share of his/her salary could be covered by an indirect cost allocation. This same principle extends to other administrative functions that are used in more than one area, including costs of copiers or other equipment or supplies. This will require an indirect cost rate agreement as described in Circular A-87. A brief description of this follows.

The method for indirect cost allocation that schools could use is the indirect cost rate proposal (IDC). Using this method, the school would calculate a rate to charge indirect costs to Department of Education Federal grants that covers their relative use of central service costs.



There are four different types of rates that may be used: *provisional, final, fixed and predetermined*. Depending on the rate type chosen, these may be based on known costs or anticipated future costs. Rates based on anticipated future costs may require retroactive adjustment or the differences may be permanent. Detailed guidance is available in the Implementation Guide for Office of Management and Budget Circular A-87 (ASMBC-10) which is available here: <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf>.

Once a rate type has been determined, the indirect cost rate allocation may be calculated using either the simplified method or the multiple allocation base method. The simplified method

may be used if the relative benefits received from the central costs are similar across all grants. If the relative benefits are different for each grant, it is more appropriate to use the multiple allocation base method.

As an example, consider the central costs associated with payroll processing. If each dollar of payroll processing cost provides an equivalent benefit for each dollar of federal grants spent, it may be appropriate to use the simplified approach. However, in most cases, this is not true. In most organizations, the level of service provided by payroll processing is driven by the number of employees, regardless of the each employee's salary. In other words, it takes a similar effort to generate a paycheck for an employee with a \$40,000 annual salary as it does for an employee with a \$60,000 annual salary. Therefore, in most cases, the multiple allocation base method may be more appropriate. The specifics can be found in ASMBC-10.

Although most tribally-controlled grant schools are not required to submit their indirect cost allocation plan for Federal approval, tribal or BIA requirements may apply. The school's Education Line Officer or pass-through granting agency should be consulted prior to implementation. A copy of the plan and supporting documents must also be retained for review by independent auditors and/or Federal auditors.

As an alternative to an indirect cost allocation plan, another method of recuperating these costs is to directly code employees to the various programs based on the work they perform. For example, a superintendent paid from the Administrative Cost Grants for Indian Schools may also perform instructional activities and participate in teacher development. The school may code this employee

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Indirect Cost Allocation Plans

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to multiple funding sources if it can demonstrate support for the split. This support should be maintained for review by the auditors and any other tribal or Federal entity, and could consist of documentation of time worked in each area or other information to support the split.

If you are interested in developing an indirect cost allocation plan, there is guidance available. The ASMB-10 includes examples and guidance on implementing indirect cost allocation plans. In addition, the Acquisition Services Directorate provides detailed guidance and templates on their website: http://www.doi.gov/ibc/services/Indirect_Cost_Services/indian_tribes.cfm.

Need Assistance? If all of this seems too much to take on, H&M is ready to help. Our Consulting Services Division is available to create an appropriate proposal or plan for your school. Please contact Cherie R. Wright, CPA, CFE, Partner, at (602) 277-9449, ext. 376 or cheriew@heinfeldmeech.com. ■

H&M News

Our firm was recently named one of the Best Arizona Companies of the Past Decade that Shaped Arizona by BestCompaniesAZ.

Michael A. Hoerig, CPA, was recently promoted to Partner. Michael has been with our firm since 2001 and specializes in providing auditing services to governmental and non-profit clients from our Tucson office.

We are also happy to announce the following recent staff promotions - *Eugene Park, CPA*, to Audit Manager; *Kaleigh Hotchkiss, CPA*, and *Michael Paul Rohr, CPA*, to Senior Associate; and *Anthony St. George* to Staff Associate II.

You're Hired!

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- *Type of Relationship* - Are there written contracts or employee type benefits provided? (i.e., pension plan, insurance, vacation pay)

Organizations must weigh all these factors when determining whether a worker is an employee or independent contractor. Some factors may indicate that the worker is an employee, while other factors indicate that the worker is an independent contractor.

When the IRS decides to look more closely at your records, and yes, they will want to look at your records, they will start by reviewing your 1099 submission. These are questions you should ask yourself prior to the IRS asking you:



- Does your school have someone being paid through accounts payable versus payroll?
- Were you required to issue a 1099 to an independent contractor and failed to do so?
- Do you have the same social security number on a 1099 vendor as an employee? (Look at your coaches, substitute teachers, etc.)

Many resources are available from the IRS to assist employers with the determination, including training materials and publications for specific industries. (Available at <http://1.usa.gov/XRCSmM>) Employers can also request the IRS determination by filing Form SS-8 (<http://www.irs.gov/pub/irs-pdf/fss8.pdf>).

Need Help Evaluating Payee Status as Employee or Independent Contractor? Contact Karin Smith, Consulting Manager, at (602) 277-9449, x327 or karins@heinfeldmeech.com. ■

HMU Workshops Summer/Fall 2013

Details and links to online registration can be found at www.heinfeldmeech.com/hmu. For more help, contact Susan at 520-742-2611, x107 or hmu@heinfeldmeech.com.



Introducing the H&M Clinic (A Free Webinar)

Date: Friday, August 16, 2013

Time: 10:00 am to 11:00 am

Registration Ends: Monday, August 12, 2013

Attendees will also receive a \$20 coupon towards a future HMU event!

The Ins and Outs of the FLSA - How to Keep Your Organization Out of Trouble

Location: Mesa, AZ (Mesa Convention Center)

Date: Tuesday, August 20, 2013

Registration Ends: Monday, August 12, 2013

Payroll Essentials for Governments and NPOs

Location: Mesa, AZ (Mesa Convention Center)

Date: Friday, December 6, 2013

Registration Ends: Thursday, December 5, 2013

*** Early Bird Registration! ***

Register at least one week before the registration deadline and receive \$10 off!

About H&M

Heinfeld, Meech & Co., P.C., CPAs and Business Consultants, serves schools throughout Arizona and New Mexico, with offices in Tucson, Phoenix, and Flagstaff.

We are focused exclusively on providing accounting and auditing services to governmental and not-for-profit entities. Our active involvement in national and state associations keep us informed about emerging issues affecting Community Schools. We offer this free quarterly newsletter to you as part of our commitment to providing resources and training to business personnel at Community Schools.

For more about our firm, please visit our web site at www.heinfeldmeech.com.



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