

Vermont Department of Public Safety Indirect Cost Rate

Questions Surrounding How This Affects the Annual Budget

What are Indirect Costs? Indirect costs are costs incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

What are Direct Costs? Direct costs are costs that can be identified specifically with a particular final cost objective. DPS's accounting records identify direct costs for each project/grant program.

When did Public Safety begin applying a Federally Approved Indirect Cost Rate? Public Safety sent the US Department of Homeland Security its first Indirect Cost Rate Proposal on November 8, 2011. We went through the 2 CFR 225 review and negotiation process and finally received an approved Indirect Cost Rate Agreement on December 21, 2011. DPS began putting the Indirect Cost Category into the various grant budgets beginning with the 2012 applications. Previously, the central fees, such as DII, Single Audit, VISION, Insurances, etc., were budgeted directly into the federal grant applications. **Why did Public Safety change cost allocations to an indirect cost rate method?** Central fees are typically billed based on data (VISION expenses/position count) from two fiscal years prior. For example, the 2014 annual VISION charge would be based on 2012 VISION actuals. In some cases, by the time we receive the bill, the Grant would be closed. DPS practice was to charge the next "available" Federal award.

Departments without a federally approved indirect cost rate must identify each cost specifically to each program in order to utilize grant funds. In past audits, federal agencies have questioned central fees (VISION, Single Audit, DII, General Liability, etc.) allocated as direct charge to a program especially when these fees are paid prior to any other costs for a grant have occurred.

What are the changes you will see on the department's annual budget? A new indirect expense will be budgeted in each Division's program. The account code for this expense item is 523610. There will no longer be a budget for the central fees in each Division's program. These central fees will be paid under the Administration appropriation, using a combination of General funds and Interdepartmental funds (Indirect Costs pool).

Why are we seeing a change in budgets due to Indirect Cost Rate? The indirect cost rate affects the budget in two steps.

First each program must budget the indirect expense. Why, because each quarter DPS will determine the direct cost of each program, then will bill the program indirect charges as a percentage of direct costs. The program now has identified direct and indirect costs that are drawn from each federal agency and special fund.

Second when indirect expense is paid by each program, revenue is recognized in the Administration Interdepartmental fund.