# AGING PROGRAM DIRECTIVE

**SUBJECT:** INDIRECT COST POLICY FOR DEPARTMENT OF AGING CONTRACTS

**TO:** COUNTY COMMISSIONERS CHAIRPERSONS, NON-PROFIT AAA GOVERNING BOARDS

### FROM:

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### REGULATORY REFERENCES:

- 45 CFR 74, Grants Administration  
- OMB Circular A-122, Cost Principles for Non-Profit Organizations  
- OMB Circular A-87, Cost Principles for Government Agencies

### PURPOSE:

The purpose of this Aging Program Directive is to: (1) define indirect costs, (2) establish Departmental policy and its applications to AAAs and other contractors and (3) clearly outline the methods to be used in charging these costs to the Department. This directive will outline the limitations and methods by which indirect costs may be included in Aging service contracts; it is intended as a supplement to existing Federal regulations, rather than replacement of them.
A. Indirect Costs Defined

Indirect costs are those costs that have been incurred for a common or joint objective and cannot be readily identified with a particular final cost objective*. These costs are for supportive activities which are necessary to maintain the direct effort involved in providing the contracted services. The term "indirect costs," as used by this APD, applies to costs for support services provided by either local government departments or by similar departments in non-profit organizations. Such activities include but are not limited to: general supervision of the program director, accounting, management information systems and auditing to the extent that these costs are not directly allocable to a particular cost objective.

B. Documentation of All Costs

In order to claim indirect costs, the provider must document the cost of general supportive activities provided to each unit of organization included in the contract. A cost allocation plan or other supporting documents must be available to support the indirect cost claim. The overall purpose of the allocation process is to distribute the indirect costs of support services to their various cost objectives in reasonable proportion to the benefits provided to these cost objectives. In effect, this policy requires that all such costs charged to a contract must be identified specifically with supporting documentation. Additional information is available in a brochure entitled, "Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government" (OASC-10). This guide is for state and local agencies and it is available through the U.S. Government Printing Office, Washington, DC 20402.

C. Limitation on Indirect Cost Claims

Maximum indirect costs for direct service contracts with public or private providers shall be either the actual indirect costs as documented in accordance with the procedures outlined in Part B, or 2% of the agency's total direct services costs in a given contract, whichever is lower. These costs are to be considered as part of the administrative cost center in any calculation for determining administrative cost limits. Example: the Aging Block Grant limits administration costs to 10% of the total Block Grant. A 2% indirect cost allocation would be included in the administrative cost center and be part of the 10% limitation.

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*A cost objective, not to be confused with a cost center, is defined as a function, organizational subdivision, contract, grant, or other work unit for which cost data is desired and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects. For our purposes the cost objective would typically be an organizational subdivision of county government i.e., Mental Health, Mental Retardation, Children and Youth, etc.
D. Exception to Indirect Cost Claims

In the case of public providers, the cost of general government, such as County Commissioners, Comptroller, and Solicitor, shall not be included in the cost apportionment. The cost of general support services, however, such as data processing, central purchasing and supplies, and maintenance, may be included in the cost apportionment. When such costs (whether in-kind or certified) are claimed, they must be identified specifically and shall be included in the agency's cost allocation plan or other documentation which supports the rate.

E. Methods for Allocating Indirect Costs

Indirect costs shall be allocated on a logical basis to all the cost objectives provided by the governing body which receive some benefit from "shared" support activities. Thus, if a supportive service is provided to 12 various cost objectives, and all receive some support, the indirect costs shall be allocated among all 12 of these cost objectives.

The method for allocating support services is at the discretion of the governing body; such method, however, must result in a fair and equitable distribution of costs, with a direct relation to actual benefits accruing to the cost objectives to which the costs are charged. Governing bodies should note that when support services costs are charged as a part of direct services, such costs may not be claimed for Departmental reimbursement as a separate non-allocated service or cost category (i.e., a cost cannot be both direct and indirect).

Examples of bases for allocation of costs include, but are limited to: caseload, weighted caseload, relative expenditures, space or utilities and number of phones in each unit for local phone bills. The use of a less complicated cost allocation plan which produces the desired results is preferable to the use of a plan which is more complex.

The AAA may claim up to 2% of direct service costs for indirect costs in accordance with the provisions of part C of this APD. The AAA must maintain a copy of the cost allocation plan or documentation to support the claim. This information must be made available to the Department upon request and it is subject to audit at final settlement.

F. Record Keeping

Records to support their claims for indirect costs, including the methodology used to allocate such costs among the services being provided, shall be kept by governing bodies.