

**BULLETIN
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13-07

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APPLIES TO:

- Contract Management Unit (CMU)**
 Purchasing Services Unit (PSU)

SUBJECT:

**Indirect Cost Rates for Contracts with Local Health
Departments**

<p>EFFECTIVE DATE:</p>	<p>This bulletin is effective July 1, 2014 and supersedes CPSS Bulletin 10-08.</p>
<p>PURPOSE:</p>	<p>This bulletin announcing the standardization of the Indirect Cost Rates (ICR) for California Department of Public Health (CDPH) agreements with Local Health Departments (LHD). Agreements include, but are not limited to, Subvention/Local Assistance contracts, Allocations and Grants.</p>
<p>BACKGROUND INFORMATION</p>	<p>The ICR represents the expenses of doing business that are not readily identified within a grant or contract, but are necessary for the general operation of the organization and the conduct of activities it performs.</p> <p>The ICR is usually expressed as a percentage and is applied to either:</p> <ul style="list-style-type: none"> • The total of Personnel Services (Salary and Benefits) or • The total Allowable Direct Cost of the contract. <p>Beginning January 1, 2014 and each year thereafter, CDPH will require each LHD to submit their proposed ICR percentage and application using either the contract(s) personnel services or total allowable direct cost.</p> <p>Each LHD's ICR percentage and application will be reviewed and verified by CDPH Financial Management Branch (FMB) and posted on the CDPH Intranet website for use by CDPH Programs agreements for the upcoming State Fiscal Year.</p> <p>For example, the county ICRs posted in January 2014 are to be applied to all CDPH agreements (including amendments) with LHD for the 2014/15 State Fiscal Year (SFY) i.e. with a July 1, 2014 contract start date or within the SFY 2014/15.</p>

<p>ACTIONS:</p>	<p>When executing agreement(s) with an LHD, CDPH Programs shall apply the respective County's ICR published on the CDPH Intranet website.</p> <p>For example, XYZ County's CDPH published ICR is 20% of the Personnel Services; therefore, the ICR for all CDPH contracts with XYZ county will be 20% of the total budgeted Personnel Services total.</p> <p>REDUCED ICR</p> <p>LHDs may elect to reduce their published ICR percentage with CDPH programs on a case-by-case basis; however how the ICR is applied (Total Personnel Services or Total Allowable Direct costs) cannot be changed from what's published on the CDPH Intranet site.</p> <p>FUNDING RESTRICTIONS</p> <p>Any Federal or State funding restrictions and/or requirements shall supersede the CDPH Published ICR rates and application.</p> <p>FREQUENTLY ASKED QUESTIONS</p> <p>The attached Frequently Asked Questions (FAQ) has been developed to provide clarification, additional guidance and shall be incorporated as part of this Bulletin.</p>
<p>QUESTIONS:</p>	<p>Please direct any questions to this Bulletin to through your assigned CMU analyst.</p>

**CALIFORNIA DEPARTMENT OF PUBLIC HEALTH
INDIRECT COST RATE PROPOSAL
FREQUENTLY ASKED QUESTIONS**

1. Does this new Indirect Cost Rate (ICR) apply to all contracts?

No. The new ICR policy only applies to Subvention / Local Assistance contracts, Allocation Agreements and Grants with local health departments.

2. When does the new ICR go in effect?

Each local health department's ICR will be posted on the Contract Management Unit's (CMU) Intranet Website by January 1st, and each year thereafter, for use by California Department of Public Health (CDPH) programs for the upcoming State Fiscal Year.

For example, the January 1, 2014 CDPH Posted ICR is to be used for local health department agreements with a start date of July 1, 2014 and/or agreements executed within the Fiscal Year 2014-15.

3. What if I am in the middle of a multi-year contract? Do I need to amend the contract? If so, when?

A contract's ICR may be changed only when an amendment for other business / programmatic reasons is made.

When amended, the ICR percentage may be adjusted to the current FY ICR at the time of amendment. However the contract's ICR application (i.e., Total Personnel Services Costs or Total Allowable Direct Costs) may not change for the life of the contract.

For example, if an existing contract was executed with a 14% ICR applied to the Total Allowable Direct Costs and at the time of an amendment, the local health department's published ICR is 14.5%, the contract's ICR may be amended to 14.5%. However, the new ICR would only apply to expenses incurred after the amendment's final execution date and not retroactively. Conversely if the ICR decreased, the lower ICR will be applied at the time of the amendment's final execution and not retroactively.

4. Can the local health department amend the contract at any time to reflect this new ICR policy or if it gets a new ICR?

Yes and No. An amendment just to change the ICR will not be allowed.

Amendments to the ICR can only be made when an amendment for Business / Programmatic reasons are made.

5. What if the local health department's ICR goes down? Do I need to amend the contract?

See answers to questions 3 & 4.

6. Can the local health department charge less than the ICR for its indirect costs?

Yes, a local health department may elect to charge less than its CDPH posted ICR. However, the ICR application (i.e., Total Personnel Services Costs or the Total Allowable Direct Costs) may not differ from the CDPH-posted ICR for that local health department.

For example, if the local health department's CDPH posted ICR is 20% of Total Personnel Services Costs, the local health department may elect to charge less than 20% of Total Personnel Services Costs but it cannot change its ICR application to a percent of the Total Allowable Direct Costs.

7. May a program within the local health department opt to choose one ICR calculation over the other (i.e., 25% of Total Personnel Services Costs vs. 15% of Total Allowable Direct Costs)?

No. At the time of submittal, each local health department will provide CDPH with its ICR percentage and application, (i.e. Total Personnel Services Costs or the Total Allowable Direct Costs), it intends to use. This selection will apply to all CDPH contracts with that local health department. However, a program within the local health department still may opt to charge a lower ICR than the CDPH-posted ICR. See question 6.

8. May a local health department switch the CDPH Posted ICR or application? For example, switching from Total Personnel Costs to Total Allowable Direct Costs? If so, when?

No. Local health departments may only select or change how its ICR is to be applied during the annual submittal. In unusual circumstances, local health departments may submit a midyear request to change to the ICR application that will be evaluated on a case by case basis.

9. How do I know if the cost is built into the ICR or should be a direct cost?

Indirect costs are incurred for common or joint objectives, which generally benefit sponsored projects. Typically, internal indirect cost cannot be specifically identified with any one particular project and include such items as: executive, administration, legal, audits, accounting, data processing, and facilities. These internal indirect costs benefit more than one cost objective or organizational unit which are accumulated and distributed through a cost allocation process. For more information, please refer to the Federal Office of Management and Budget (OMB) Circular A-87 at: www.whitehouse.gov/omb/circulars_a087_2004

10. What if different programs within a local health department submit different ICRs?

Local health departments may only submit one ICR form to CDPH which will be applied to all local health department programs.

However as outlined in question 6, local health department programs may elect to charge less than its CDPH posted ICR. However, the ICR application (i.e. Total Personnel Services Costs or Total Direct Allowable Costs) cannot differ from its CDPH-posted ICR.

11. Who from the local health department has authority to submit the local health department's proposed ICR

The local health department's proposed ICR submittals must be approved by the local health department's Health Administrator or designee.

12. If the ICR increases, am I required to increase the contract amount? What if I don't have any money to do so?

No, changes to the ICR cannot impact the total contract cost. ICR Increases are to be funded by budget shifts from other budgeted line items. Conversely, ICR decreases are to be redistributed to other budgeted line items.

13. Is the indirect cost amount invoiced based on the total indirect cost calculated in the contract budget exhibit or based on actual expenditures?

The ICR's total dollar amount in the contract's budget is the maximum allowable to be invoiced. The invoice is to be calculated on the local health department's *actual* expenses consistent with the fully executed contract budget.

14. Are any CDPH programs exempt from the new ICR Policy?

The ICR policy applies to all CDPH programs; however, federal grant restrictions and/or statutory requirements supersede the CDPH published ICR. For example, if the Program's Federal fund has ICR requirements or restrictions that are different than the CDPH published ICR, CDPH programs shall use the Federal Fund ICR requirements.

15. Who within CDPH verifies that the local health department's proposed ICR is accurate?

Each year the local health department's proposed ICR submittals will be reviewed and verified for compliance by the CDPH Financial Management Branch.

16. Who within CDPH will post the local health department ICRs? Where?

CDPH's Contract Management Unit (CMU) will post the ICR on the CMU Intranet site by January 1st to be used in the upcoming State Fiscal Year.

17. What is the timeline for all of this to happen?

CDPH will request each local health department to submit their proposed ICR in late 2013. Each local health department's ICR will be reviewed and posted on the CMU Intranet site by early January 2014. CDPH Programs shall use the CDPH posted ICR on contracts with a start date of July 1, 2014. The ICR cycle will repeat each year thereafter.

18. What if I have a problem with this process or have additional questions? Who do I go to?

Please consult your CDPH Program's Contract Analyst. If they are unable to assist, then they can contact the Program's assigned CMU analyst.

19. Which fiscal year do I need to use for the county's ICR? The most recent? What if the county submits an ICR from an earlier fiscal year?

The CMU ICR website will identify the county's ICR and the State Fiscal Year the ICR will apply to. Local health departments may elect to accept a lower than the published ICR on a contract by contract application, however the application (Personnel Services or Total Allowable Direct Costs) cannot be changed.

20. Does this new ICR process apply to city health departments?

The ICR policy will apply to Berkeley, Long Beach, and Pasadena city health departments. However, the ICR must be certified by the City's equivalent of the County Auditor-Controller and the city must provide substantiation equivalent to the Federal Office of Management and Budget Circular A-87.

21. Will the documentation be different for city health departments since they don't file a Countywide Cost Allocation Plan with the State Controller's Office?

See question 20. Each city must determine what equivalent documentation means for them; CDPH will review cities' submitted documentation.

22. What are CDPH programs to do if they see utilities allocated as an indirect cost in the information submitted by the local health department, but the program level budget includes utilities as a direct cost? Are programs permitted to ask for further clarification from the county?

There may be instances where the contract budget will include item(s) that are included in the ICR. However, there are some budgeted items (i.e., rent, utilities, telecomm or Information Technology) which may be identified as both an indirect and direct cost.

For example, if the local health department leases a building specifically to provide the contracted Subvention / Local Assistance services that are identified within the Contract Scope of Work, then the rent or lease cost associated with the specific services may be allowable as a direct cost even though the local health department's ICR includes rent.