

Accounting for the Recovery of Indirect Costs

Indirect Costs:

Indirect Costs are defined as costs that are incurred for the benefit of more than one cost objective, but are not readily assignable to any program. Indirect costs serve common or joint purposes, and to identify the specific program or project served would take an effort disproportionate to the results achieved.

Each spring MDE sends Michigan public school districts preliminary indirect cost rates calculated using financial information taken from the district's prior year Form B. Some of the most common types of indirect costs for a district include auditing, accounting, payroll, human resources and purchasing. The MDE uses the Form B amounts reported under Business Services (function 25x) and Operations and Maintenance (function 26x) when calculating the indirect cost rates. Districts must either confirm the preliminary rate calculated by the MDE or submit an application to adjust the rate. In order to recover indirect costs for the administration of federal grants, Michigan public schools must have a Michigan Department of Education approved indirect cost rate on file.

Problems in Accounting for Indirect Recovery:

The costs that make up the indirect cost pool and subsequent indirect cost pool are from a prior year. If districts credit the expenditures that make up the indirect cost pool, future indirect cost rates will be lower.

Costs for administration and operations and maintenance used to compute the indirect cost rate are recorded in the general fund while the grants are often accounted for in special revenue funds. There is no matching of revenues to expenditures for those costs.

Districts prefer to have a direct match of revenues associated with expenditures.

Our recommendation is to use the Fund Modification function "6xx" then an object code "9990" to record indirect charges at the end of an accounting period. The recommended accounting entry would look like this:

(Fund, Transaction Code, Object, State Code)

Debit	11-1-611-9990-6013	\$10,000
Debit	11-1-611-9990-6213	\$5,000
Debit	11-1-611-9990-7623	\$2,000
Debit	11-1-611-9990-7653	\$3,000
Credit	11-1-611-9990-0000	20,000

To record the recovery of indirect costs in the appropriate grants

This would allow districts to bill the particular grant for its fair share of indirect costs without affecting the actual costs that make up the indirect cost pool.

The recommendation for accounting across funds would be similar, but would include a transfer in from the fund reimbursing the general fund for the indirect. The recommended accounting entry would look like this:

(Fund, Transaction Code, Function Code/Major Class, Object/Suffix, State Code)

Debit 25-1-611-9990-8513 \$30,000

Debit 25-1-611-9990-8503 \$5,000

Debit 25-1-611-9990-8523 \$2,000

Credit 25-2-101-0000-0000 \$37,000

To record the School Lunch Reimbursement of Indirect Costs in the School Lunch Fund

Credit 11-0-625-0990-0000 \$37,000

Debit 11-2-101-0000-0000 \$37,000

To record the School Lunch Reimbursement of Indirect Costs in the General Fund

Steps in the Indirect Cost Pool Application Process:

Indirect costs incurred and recorded in the districts accounting records

Submission of Form B to MDE

MDE Calculation of an Indirect Rate based on Form B

Recovery of Indirect from Federal Program

Submission of cost reports including the grants share of indirect cost

Process begins again.