

## **INDIRECT COST RATE PLAN PROGRAM/FUNCTION DEFINITIONS**

### **PURPOSE**

The purpose of this document is to define the various cost elements used in the development of the Indirect Cost Rate Plan (ICRP) to be used for the development of administrative rates by California local fire agencies for services provided to the Federal Forest Agencies and CAL FIRE under the California Fire Assistance Agreement (CFAA) and local cooperative fire agreements. Definitions and concepts from the Office of Management & Budget Super Circular (OMB) Title 2 in the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225 (A-87), entitled “Cost Principles for State, Local and Indian Tribal Governments” were used as an initial source.

### **Indirect Cost Rate Plan**

An Indirect Cost Rate Plan (ICRP) is the mechanism used to develop an administrative/indirect cost rate. The ICRP process involves assigning characteristics to costs (i.e. allowable, unallowable) and classifying allowable costs into categories (i.e. direct, indirect) in order to formulate the cost elements needed to compute an indirect cost rate. When developing an ICRP, an organization should use costs from either the prior, prior year actual OR costs from the most recent actual year-end reports.

### **Indirect Cost Rate**

The purpose of an Indirect Cost Rate (ICR) is to determine the ratio of allowable indirect costs to allowable direct costs.

$$\text{Indirect Cost Rate} = \text{Allowable } \textit{Indirect} \text{ Costs} / \text{Allowable } \textit{Direct} \text{ Costs}$$

Proper classification of costs as direct or indirect is important because of the impact on the ICR. For purposes of billing under the CFAA and local cooperative fire agreements, the following classifications have been agreed on and will be used by California local fire agencies opting to develop a specific ICR.

Used in the reimbursement process and expressed as a percentage, the ICR is multiplied by reimbursable direct incident costs to determine the reimbursable indirect amount.

### **EXPENSE DEFINITIONS**

**Labor** – Labor costs include all salaries and benefits. Salaries are composed of the base salary, incentive pay and overtime pay. Benefits include the amount paid directly to the employee and/or the amounts paid or held on behalf of the employee.

### **Services and Supplies**

Services and supplies generally include consumable items with a useful life of less than one year.

### **Minor Equipment**

Minor equipment includes items with a useful life greater than one year and less than \$5,000 per unit cost.

### **Fixed Assets**

Fixed assets include items with a cost per unit of \$5,000 or more.

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### COST DEFINITIONS

#### Allowable Costs

Costs included in the computation of the indirect cost rate. These costs will be categorized into either the direct or indirect cost pool.

#### Unallowable Costs

Costs excluded from the computation of the indirect cost rate. These costs are neither direct nor indirect as they are excluded from the calculation.

OMB Super Circular Title 2 in the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225 (A-87) Appendix B, provides principles in establishing the allowability or unallowability of certain items of costs whether **direct** or **indirect**. Additional information is provided in this package.

#### Direct Costs

Direct costs are usually those expenses that can be identified specifically with an agency's direct operations or those costs that can be identified specifically with a particular final cost objective. Direct cost categories include expenditures that have specific reimbursement rates such as operations personnel, prevention, aviation etc. The direct categories identified below are slightly different from the general definition in that they include activities for which reimbursement is not sought because the expense or activity is not related to the agreement under which the services are provided. Fleet maintenance is categorized as a direct cost because the costs associated with fleet are covered by the FEMA equipment rate and therefore are already being reimbursed through that methodology. Facility maintenance and Community Education costs have been categorized as direct costs because these costs are not expended for the purpose of the agreement.

#### Indirect Costs

Indirect costs (also referred to as Administrative costs) are usually those expenses that *cannot* be identified specifically with an agency's direct operations but rather are supporting activities. Under this particular methodology, some categories have specifically been classified as indirect so jurisdictions/agencies can be reimbursed for reasonable incident related expenditures not identified already as a direct reimbursement. *For example, minor equipment, PPE, and hose are used on an incident but are not directly reimbursed by the incident for the wear and tear and use of these items.* These items are used on a wildland fire and as a result, the useful life of that item is reduced. Including these items in the indirect cost pool allows for the recovery of a portion of these costs through the indirect rate.

Administrative Costs – If a person's regular non-emergency responsibility is an administrative function then the costs associated with that person would be placed in the indirect category. Conversely, if the person's regular responsibility is field/operations/line then the costs shall be included in the direct operations category. *Lobbyist expenses and city council, board of director or board of supervisors' costs are unallowable per Title 2 in the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225 (A-87.)*

### RESOURCES

For state, local and Indian tribal governments additional information is available at:

FEDERAL COST PRINCIPAL: OMB Super Circular Title 2 in the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225 (A-87) [http://www.whitehouse.gov/omb/circulars\\_a087\\_2004#eb](http://www.whitehouse.gov/omb/circulars_a087_2004#eb)

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**COST CATEGORIES – DIRECT & INDIRECT**

The table below provides department cost categories and their classification into Direct and Indirect categories. See below for additional information pertaining to select categories.

<b>Cost Categories *</b>	<b>Indirect</b>	<b>Direct</b>	<b>Unallowable</b>
Emergency Medical Services	x	x	
General Administration	x		Costs of Lobbyists, City Council Members, Board of Supervisors, Board of Director
Information Technology	x		
Logistics/Procurement/Supply/Minor Fire Equipment	x		
Public Information Office	x		
Telecommunications	x		
Arson Investigation		x	
Community Education		x	
Facilities		x	
Fire Communication Center/Dispatch/Command and Control Center		x	
Fire Hazard Reduction Program		x	
Fleet		x	Costs of Fixed Asset Purchases, Replacements and Depreciation.
Hazardous Materials Response Program		x	
Mapping		x	
Operations		x	
Prevention		x	
Training		x	
Urban Search and Rescue		x	

\* Cost categories include salaries and benefits, services and supplies and minor equipment.

**Indirect Cost Categories**

**Emergency Medical Services** – Indirect costs include supplies, minor equipment and administration of the program including certification, and EMT. *NOTE: EMT/paramedic training and salaries and benefits for paramedics are included in direct costs (see below).*

**General Administration** – Includes costs of general administration staff, fiscal functions, cost allocation or central city/county administrative costs (legal counsel, human resources, auditor/finance, city manager/CEO/CAO); public records, analyses and general overhead costs that support the entire department. *NOTE: Costs for lobbyists, members of the city council, board of supervisors or a board of director are unallowable per OMB Super Circular Title 2 in the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225 (A-87).*

**Information Technology** – Includes costs of computers, laptops, servers, hardware, software, programming, network administration, services and repairs, CAD support and other related expenditures.

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**Logistics/Procurement/Supply/Minor Fire Equipment**– Indirect costs include purchasing and warehousing of all non-incident related supplies. This includes all supplies including, PPE (personal protective equipment), and minor equipment but excludes vehicle parts, oil and fuel. Incident related costs such as food, lodging and travel costs are either billed directly or included as direct costs.

**Public Information Office** – Includes expenditures related to the public information office.

**Telecommunications** – Includes costs of telephones, cell phones, pagers, radios, radio communications and telephone infrastructure, servicing and repair of equipment, telephone lines, radios towers and other related expenditures.

### **Direct Cost Categories**

**Arson Investigation** – Includes arson investigation related costs.

**Community Education \*** – Includes costs of education programs for the general public.

**Emergency Medical Services** – Direct costs include EMT/paramedic training and salaries and benefits for EMTs and paramedics. *NOTE: Costs for supplies, minor equipment and administration of program are included in indirect costs (see above).*

**Facilities \***– Includes all facility related costs for maintenance of department owned and leased fire stations and support buildings.

**Fire Communication Center/Dispatch/ Command and Control Center** – Includes costs of dispatching fire resources and all other related services.

**Fire Hazard Reduction Program** – Includes weed abatement costs, defensible space, vegetation management.

**Fleet \***– Includes costs of vehicle maintenance labor, contract, supplies and parts, minor equipment, fuel and other related expenditures. Depreciation and/or replacement costs are unallowable as these are fixed assets. *NOTE: Fleet maintenance is included in direct costs because these costs are covered by the FEMA rate and therefore are already being reimbursed through that methodology.*

**Hazardous Materials Response Program** – Includes costs of hazardous materials response unit and CUPA (Certified Unified Program Agency) expenditures.

**Mapping** – Includes costs of geographical information systems, response maps, street center lines for CAD and other related expenditures.

**Operations** – Includes all field costs including aviation, hand crews, vegetation management programs, urban search and rescue, dozer operations and other related expenditures.

**Prevention** – Includes costs of fire prevention activities, code compliance, plan review, inspections and other related expenditures.

**Training** – Includes all training costs for safety and civilian personnel and other related expenditures.

**Urban Search and Rescue** – Includes costs of urban search and rescue responses and training and other related expenditures.

\* The direct category identified may include activities for which reimbursement is not sought because the expense or activity is not related to the agreement under which the services are provided.

**INDIRECT COST RATE PLAN**  
**ALLOWABLE AND UNALLOWABLE PRINCIPLES CHART**

**OMB Super Circular 2 CFR, part 225 (A-87)**

**Appendix B - Selected Items of Cost (allowability or unallowability)**

Appendix B provides principles to be applied to establishing the allowability or unallowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards and its conformance with the general policies and principles stated in Appendix A to this part. Use Appendix B narrative for further clarification.

<b>Selected Item of Cost</b>	<b>Allowable</b>	<b>Unallowable</b>	<b>Comment</b>
1. Advertising and public relations	X	X	See 2 CFR Part 225 (A-87) appendix B for specific coverage
2. Advisory Councils	X		See 2 CFR Part 225 (A-87) appendix B direct/indirect conditions
3. Alcoholic beverages		X	
4. Audit costs and related services	X		See 2 CFR Part 225 (A-87) appendix B for specific coverage
5. Bad debts		X	
6. Bonding costs	X		See 2 CFR Part 225 (A-87) appendix B for specific coverage
7. Communication costs	X		
8. Compensation for personal services	X	X	See 2 CFR Part 225 (A-87) appendix B for conditions
9. Contingency provisions		X	
10. Defense and prosecution of criminal and civil proceedings, and claims		X	
11. Depreciation and use allowances	X	X	See 2 CFR Part 225 (A-87) appendix B for conditions
12. Donations and contributions		X	
13. Employee morale, health, and welfare costs	X		
14. Entertainment		X	
15. Equipment and other capital expenditures		X	See 2 CFR Part 225 (A-87) appendix B for exception
16. Fines and penalties		X	
17. Fund raising and investment management costs		X	
18. Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs	X	X	See 2 CFR Part 225 (A-87) appendix B for specific coverage
19. General government expenses		X	Examples include City Councils, Board of Supervisors
20. Goods or services for personal use		X	

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<b>Selected Item of Cost</b>	<b>Allowable</b>	<b>Unallowable</b>	<b>Comment</b>
21. Idle facilities and idle capacity		X	See 2 CFR Part 225 (A-87) appendix B for exception
22. Insurance and indemnification	X		See 2 CFR Part 225 (A-87) appendix B for certain conditions
23. Interest		X	See 2 CFR Part 225 (A-87) appendix B for certain conditions
24. Lobbying		X	
25. Maintenance, operations and repairs	X		
26. Materials and supplies costs	X		
27. Meetings and conferences	X		
28. Memberships, subscriptions and professional activity costs	X		Lobbying organizations are unallowable
29. Patent costs	X	X	See 2 CFR Part 225 (A-87) appendix B for conditions
30. Plant and homeland security costs	X		
31. Pre-award costs	X		
32. Professional service costs	X		See 2 CFR Part 225 (A-87) appendix B for conditions
33. Proposal costs	X		
34. Publication and printing costs	X		
35. Rearrangement and alteration costs	X		
36. Reconversion costs	X		
37. Rental costs of buildings and equipment	X		See 2 CFR Part 225 (A-87) appendix B for certain conditions
38. Royalties and other costs for the use of patents	X		See 2 CFR Part 225 (A-87) appendix B for certain conditions
39. Selling and marketing		X	
40. Taxes	X		See 2 CFR Part 225 (A-87) appendix B for exception
41. Termination costs applicable to sponsored agreements			See 2 CFR Part 225 (A-87) appendix B for criteria
42. Training costs	X		
43. Travel costs	X		
44. Federal Grant monies		X	Not listed in 2 CFR Part 225 (A-87) appendix B