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Date: JUL 13 2000

To: All One-Stop Workforce Development Lead and Satellite Agencies

From: Ann Giagni, Director
Workforce Development Division

Mae Abeleda, Director
Financial Management Division

Subject: WIA DIRECTIVE NO. 01-07
INDIRECT COSTS

The purpose of this directive is to clarify for contractors, the procedures and requirements for establishing an indirect cost rate and the review and approval process for same.

Indirect Costs are those costs that are incurred for common or joint objectives, benefiting all programs. They are costs that cannot be readily identified with a particular final cost objective such as grants, contracts, projects and other activities. An indirect cost rate is the ratio between the total indirect costs and direct costs. An indirect cost rate should be established by organizations that are multi-funded.

Before the Financial Management Division (FMD) will process payment for indirect costs, the contractor must submit a copy of an indirect cost rate agreement with its cognizant agency if there is any. If there is none, then the contractor must submit an indirect rate proposal to CDD. The indirect cost rate agreement or proposal should be submitted to your assigned Workforce Development Analyst who will in turn transmit these documents to the Financial Management Division.

When a contractor submits its own indirect cost rate proposal, the following documents are needed to support that proposal:

1. Summary of method for rate calculation.

It is recommended that the cost base be direct salaries and wages including applicable fringe benefits. WDD staff recommends not using total direct costs as a base because this could result in the exclusion of enrollee costs, capital expenditures, major subcontractors, alterations/renovations, flow-through money and any other direct costs that may distort the distribution of the indirect costs to the benefiting activities. Therefore, using total direct costs as a basis is discouraged.



2. Most recent or current audited financial statements

The direct and indirect costs shown in the proposal must be traceable and reconcilable with the costs in the audited financial statements.

The indirect cost rate proposal together with the audited financial statement must be submitted to your assigned Workforce Development Analysts who will in turn transmit these documents to the Director of Financial Management Division of CDD. A cover letter must also be submitted. This letter should include the current address of the contractor, name and position of the contractor's staff to whom the approval letter will be sent and the contact person for the contractor including the phone and fax numbers as well as e-mail address, if available.

The indirect cost rate proposal and audited financial statement will be reviewed by FMD staff. The rate to be approved is only a provisional or tentative rate because costs used in the indirect cost rate computation are "old costs", as opposed to current costs. The indirect cost rate will be approved on an annual basis.

Completion of the single audit may result in the determination of a rate higher or lower than the provisional rate. Reimbursement of indirect costs is subject to budget limitations. FMD accounting staff will apply the approved indirect cost rate up to the budget amount. If the final rate is greater than the provisional rate and there are no funds available to cover the additional costs, the contractor may not recover all indirect costs. If the final rate is less than the provisional rate, the contractor will be required to pay back the difference. There are also additional indirect cost limitations such as a ceiling on the reimbursement of indirect costs and /or administrative costs.

CDD will not reimburse indirect costs after the expiration of the period for the indirect cost rate approval. The contractor must resubmit a new rate agreement approved by its cognizant agency or an indirect cost rate proposal with supporting documents to CDD.

If you have any questions, please contact your assigned Workforce Development Analyst or Accountant.

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