

EXECUTIVE DIGEST

STATEWIDE FEDERAL INDIRECT COST RECOVERY AND USAGE

INTRODUCTION

This report, issued in June 2000, contains the results of our performance audit* of Statewide Federal Indirect Cost Recovery and Usage.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

Federal regulations allow grant recipients to recover indirect costs* from the federal grant funds received. Section 18.1460 of the *Michigan Compiled Laws* requires State agencies to determine an indirect cost rate or percentage and to recover indirect costs from federal grants they administer.

Agency indirect cost plans must include both the agency's indirect costs and Statewide indirect costs. Indirect costs are costs for central support services, such as accounting, purchasing, budgeting, payroll, and information systems, that are not readily assignable to any one program or function. Statewide indirect costs include the costs of central support services provided by the Department of

Management and Budget (DMB), Department of Treasury, Department of Civil Service, and Department of Civil Rights.

DMB contracts with a private consultant to prepare an annual Statewide Cost Allocation Plan (SWCAP), which is approved by the federal government. The SWCAP contains an allocation of the Statewide indirect costs to State agencies. DMB provides the approved SWCAP indirect costs to State agencies for allocation to their federal assistance programs.

For fiscal year 1997-98, State agencies recovered indirect costs totaling over \$25 million from federal grants.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To determine if the State charges appropriate indirect costs for the federal grants it administers.

Conclusion: We concluded that the State was generally effective in charging appropriate indirect costs for federal grants. However, we noted reportable conditions* related to agencies without indirect cost plans and the updating of indirect cost rates (Findings 1 and 2).

Audit Objective: To determine if the State appropriately distributes the federal grant indirect cost reimbursements it collects.

Conclusion: We concluded that the State was moderately effective in appropriately distributing the federal grant indirect cost reimbursements it collects. We noted a reportable condition related to the distribution of indirect cost revenue (Finding 3).

Audit Objective: To assess the State's efficiency in developing its federal indirect cost allocation plans.

Conclusion: We concluded that the State was efficient in developing its federal indirect cost allocation plans.

AUDIT SCOPE AND
METHODOLOGY

Our audit scope was to examine the practices followed by selected State agencies for federal indirect cost recovery and usage. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our methodology included an examination of procedures and records related to indirect cost recoveries and usage for selected State agencies for fiscal year 1997-98.

To accomplish our first objective, we reviewed the methodologies of State agencies for charging indirect costs to federal grants. Also, we analyzed the agencies' indirect cost plans to determine whether the indirect cost rates and charges to federal programs were proper.

To accomplish our second objective, we reviewed the procedures followed by State agencies for distributing the revenue for indirect cost charges for federal grants. Also, we analyzed the funding sources for indirect costs used for the indirect cost rates of three agencies and the distributions of the related revenue.

To accomplish our third objective, we reviewed and analyzed the costs incurred by State agencies for preparing indirect cost plans.

AGENCY RESPONSES

Our audit report contains 3 findings and 4 corresponding recommendations. The Department of Corrections disagrees with the finding that applied to it. The Judiciary, Michigan Department of Transportation, Michigan Department of State Police, Department of Natural Resources, Department of Environmental Quality, and Department of Consumer and Industry Services agree with the finding that applied to them. DMB agrees with both findings that applied to it.