



**MONTANA UNIVERSITY SYSTEM**  
Office of the Commissioner of Higher Education

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TO: Pam Joehler  
Senior Fiscal Analyst

FROM: Mick Robinson  
Deputy Commissioner for Fiscal Affairs

RE: Indirect Cost Recovery Plan for OCHE Report

DATE: August 20, 2008

The Office of the Commissioner of Higher Education (OCHE) has an indirect cost rate (IDC) agreement with the U.S. Department of Education. OCHE has three federal grants that are limited to a restricted indirect cost rate and two other federal grants are limited by a fixed percentage of indirect cost recovery. The indirect cost recovery rate that has been approved for the OCHE by the federal government includes personal services and operating expenses in the base. The following table shows the personal services and operating expenses (less indirect expenses and scholarships) for the fiscal year ended June 30, 2008.

	<u>Base for IDC</u>	<u>IDC</u> <u>Restrictions</u>
Gear Up Grant (03042)	\$677,798	Restricted
Carl. D. Perkins Grant (03215)	307,024	Restricted
Tech Prep Grant (03951)	33,066	Restricted
Improving Teacher Quality (03183)	16,072	5%
Talent Search Grant (03806)	556,673	8%
Wired Grant (03160)	140,712	Unrestricted
Guaranteed Student Loan (03400/01)	<u>5,895,260</u>	Unrestricted
<b>Total 03 Funds with Indirect Costs</b>	<b><u>\$7,626,605</u></b>	

In order to fully recover the total indirect cost pool expenses, OCHE also charged the restricted IDC rate to non-general fund/non-federal funds (proprietary funds). The following table reflects the proprietary funds base for FY08:

	<u>Base for IDC</u>
MUS Group Insurance (06008)	\$4,548,705
MUS Flex Spending (06009)	131,530
OCHE Wellness (06010)	13,450
MUS Workers Comp(06082)	<u>543,013</u>
<b>Total 06 Funds with Indirect Costs</b>	<b><u>\$5,236,698</u></b>

All of the expenses that are now part of the indirect cost recovery pool were originally general fund expenses. These expenses relate to the personnel and activities that are agency-wide rather than for a specific program or activity. The positions included in the indirect pool work in accounting, payroll, purchasing, accounts payable, computer system maintenance, personnel, legal, and general secretarial. The operating expenses such as rent, SABHRS, and telephone costs related to these positions are also included in the indirect cost pool.

**The total expenditures for indirect costs for FY08 were:**

61100 Salaries	\$233,477.50
61400 Employee Benefits	75,225.91
61900 Personal Services- Other	2,902.00
62100 Other Services	79,804.21
62200 Supplies & Materials	6,461.86
62300 Communications	4,244.36
62400 Travel	369.89
62500 Rent	30,721.23
62700 Repair & Maintenance	471.34
62800 Other Expenses	11,476.63
67400 OPEB Expenses	1,173.00
<b>Grand Total</b>	<b><u><u>\$446,327.93</u></u></b>

**The expenditure split for these expenses for FY08 was:**

111IDC IDC - General Fund	\$85,110.20
113IDC IDC Federal Funds	262,671.69
116IDC IDC - Benefits Program	98,546.04
<b>Grand Total</b>	<b><u><u>\$446,327.93</u></u></b>

**For FY09, the approved indirect cost rate (restricted) is 3.3% (the same rate used in FY08) and the unrestricted rate is 4.0%.** OCHE adjusted the FY09 indirect cost plan submission based on a time and effort study of the administrative staff time. This changed the unrestricted approved rate from 15.8% for FY08 to 4% for FY09. Because OCHE planned to complete the time and effort study and because the majority of the federal grants have restrictions on the rate of recovery, OCHE applied the restricted rate to all funds in FY08. For FY09 all but restricted funds will be charged the 4% rate.

## **RECOMMENDATION FOR FUNDING IN 2011 BIENNIUM**

During the 1995 biennium, the Legislature appropriated the estimated indirect recoveries (\$20,885 for each year for the Talent Search program only) in the general fund for the administrative program and inserted the following requirement in HB2:

“Any indirect cost reimbursements received in excess of \$20,885 in fiscal year 1994 and \$20,885 in fiscal 1995 as a result of an increase in the federal Talent Search grant shall cause a like reversion of general fund [in the Administration program].”

If the Legislature took a similar approach to appropriating OCHE’s indirect cost recoveries, many of the OCHE accounting and budgeting difficulties would be eliminated. It is difficult to estimate the exact amount of indirect cost recoveries and especially difficult to estimate the split between 03 funds and 06 funds recoveries. This method would eliminate the need for the 03 and 06 indirect cost recovery funds. Utilizing the 1995 biennium approach would effectively limit the amount of expenditure allowed by OCHE and require that any excess indirect cost recoveries would cause a general fund reversion. The fund balances that currently exist in the indirect cost recovery funds would be eliminated because all recoveries would be deposited into the general fund. Additionally, this methodology would ensure that OCHE remain in compliance with state statute since all the expenses in the indirect cost pool were originally paid from general funds.

*17-1-106. Agency recovery of indirect costs.*

*(5) Except as provided for a unit of the university system under 20-25-427, indirect costs recovered by an agency to pay the agency's indirect costs under 17-1-105 must be deposited as provided in 17-1-105. All other indirect costs must be deposited in the fund from which the indirect costs were originally paid.*