



# Georgia Department of Audits and Accounts

## Performance Audit Division

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### Why we did this review

Federal grants represent a significant portion of state agency spending. State agencies expended a total of \$13.1 billion in federal funds out of \$44.1 billion in overall expenditures (30%) in fiscal year 2015.

Depending on grant terms, federal funds may be used for program administrative costs and central service costs such as budgeting, accounting, and audits. These costs are referred to as indirect costs. The federal government allows for recovery of federal programs' fair share of indirect costs to ensure effective and efficient management of the programs.

This report examines the state's efforts to recover indirect costs from federal grants, including use of the Statewide Cost Allocation Plan (SWCAP).

### About Indirect Costs

The federal government allows reimbursement of indirect costs but requires a process whereby indirect costs are assigned to the grant on a reasonable and consistent basis. Once assigned, state agencies can then recover indirect costs based on the grant's proportion of use.

Requesting payment for indirect costs is usually optional, and generally requires the creation of an indirect cost allocation plan for submission to federal authorities for approval.

## Federal Indirect Cost Allocation & Recovery

### Opportunities exist to maximize federal funds and ensure compliance

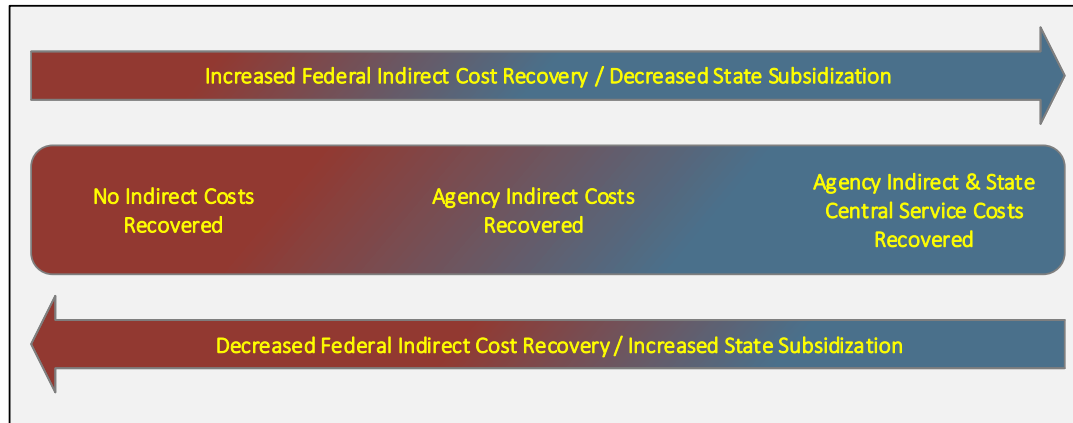
#### What we found

Each state agency is responsible for managing and determining whether to recover indirect costs from its federal grants. This approach lacks sufficient assurance that indirect cost allocation practices are appropriately employed across all state agencies and that the decisions made by agency management benefit the state as a whole.

We found that many agencies either do not recover indirect costs or do not maximize the recovery of indirect costs. In addition, some agencies are potentially non-compliant with federal requirements. We examined state indirect cost recovery practices during fiscal year 2015 and found that, of 30 state agencies managing federal grant programs during the period, 13 (43%) recovered indirect costs. In addition, of the 13 agencies that recovered indirect costs, only 3 (10% of total) recovered the costs of state central services as part of their efforts.

The federal government allows reimbursement of indirect costs from federal grants. However, state appropriations (rather than federal grant funds) are currently used to fund administrative activities in agencies that are not recovering indirect costs from their federal grants. By allowing agencies to independently determine whether to recover federal grant funds to pay for these indirect costs, the state is subsidizing federal grant programs and is missing an opportunity to have greater flexibility over how state funds are expended across state government. If federal funds were used to cover indirect costs, budget writers would have the option to shift the state funds previously used to cover these costs to other budget priorities or to maintain funding for direct services within

the same federal grant program. The level of subsidization should be an informed decision based on state budget priorities. The lack of statewide management of indirect costs limits the information available to state budget and policy staff for making informed budgetary decisions. As shown in the **Exhibit**, as federal indirect cost recovery increases, the amount of state or other funds potentially subsidizing the grant program decreases.



Georgia's Statewide Cost Allocation Plan (SWCAP) is not widely utilized by state agencies that are recovering indirect costs. As a result, the opportunity to recover central service costs is diminished. While maximizing the use of the SWCAP by state agencies may not result in additional federal funds from every grant, additional federal funds could be recovered from some grants.

To compare Georgia's efforts to those of other states, we examined the efforts of 12 states noted for strong statewide indirect cost recovery systems. These states take an enterprise-wide approach to indirect cost recovery, which includes establishing specific requirements for recovering indirect costs and statewide policies and procedures. In addition, they provide technical support to maximize indirect costs to ensure the greatest statewide benefit and that agencies are in compliance with federal regulations. For example, of these 12 states:

- 10 states require state agencies, unless exempted, to recover all indirect costs, including both agency indirect costs and central service indirect costs.
- 8 states have a designated state entity tasked with supporting agency cost recovery efforts and authorized to review all agency cost allocation plans prior to submission.
- 7 states monitor and report the dollar amount of recoveries regularly for use by decision makers.

There are multiple advantages associated with managing indirect cost recovery using an enterprise-wide approach, similar to the one the state already uses for many state-level administrative functions such as budgeting, accounting, financial reporting, travel, and purchasing. An enterprise-wide approach provides the state with the ability to leverage indirect cost recovery and enhance budgetary flexibility. State budget and policy staff can make more informed budgetary decisions with access to the true cost of operating federal programs in the state. This leads to more efficient and effective use of state revenues. Further, state budget and policy staff are empowered to mitigate or limit the risks associated with agency over-recoveries and the financial penalties that occur as a result.

## What we recommend

To maximize the benefits of federal indirect cost recovery, the state should consider:

- Requiring all state entities, through policy or statute, to maximize indirect cost recovery from all federal grants (unless otherwise exempted). This should include use of the state's SWCAP in all indirect cost allocation plans and agreements. The state should also ensure that the SWCAP includes all central service costs and all central service entities should be required to participate.
- Making a single state entity responsible for governance and coordination of state indirect cost recovery efforts, including developing policies and procedures, providing technical assistance and support, monitoring the amount of recoveries, and evaluating the effectiveness of indirect cost allocation plans. State policies and procedures should emphasize federal grant compliance.
- Implementing a statewide grants management system to ensure federal funds for indirect costs are properly accounted for and monitored.

**Office of Planning and Budget (OPB) & State Accounting Office (SAO) Response:** *Regarding the recommendation that all state agencies be required to maximize indirect cost recovery from federal grants through either policy or statute, OPB indicated that it interprets the state's current spending order policy and the state Constitution as requiring agencies to recover indirect costs (if allowed by the grant), though neither explicitly references "indirect costs." OPB and SAO indicated, however, that they would "work to ensure agencies are aware of financial policies and their fiduciary responsibility of adhering to all grant compliance requirements, to include the proper allocation of indirect costs where applicable." OPB and SAO also stated that they "agree that a statewide grants management system could be a useful tool in managing the life cycle of a grant and provide additional data that is not currently collected in the TeamWorks financial system."*

**Agencies' Responses:** *We requested responses to the report from OPB, SAO, and eight state agencies who were part of our sample. OPB directed the state agencies to submit their responses to OPB rather than to DOAA. Of the eight, we only received a response from Department of Behavioral Health and Developmental Disabilities (DBHDD). The remaining agencies indicated to us that they had no further response. The extent to which OPB and SAO's response reflects the perspective of the agencies is unclear.*

*DBHDD's response indicated that implementation of the report's recommendations requires a statewide coordinated effort with all state entities.*

**Auditor's response:** *The spending order policy and the state Constitution address the requirement that federal funds be spent before state funds. Neither explicitly mentions indirect cost recovery or the state's preference to use federal grant funds on indirect costs. Further, with a few exceptions, federal grant guidance does not require agencies to use grant funds for indirect costs associated with the grant. It is optional. As a result, agencies could interpret these directives in numerous ways. For example, an agency could conclude that indirect cost recovery is not necessary or that it should spend federal funds before state funds on direct services. If OPB wishes to require agencies to use federal grant funds to recover the cost of indirect services (if allowed by a grant), we recommend that it issue a specific indirect cost policy that provides clear guidance to agencies.*



## Table of Contents

Purpose of the Audit	1
Background	1
Findings and Recommendations	7
Georgia's decentralized approach has limited the efficiency and effectiveness of the state's management and recovery of indirect costs from federal grants.	7
The state could increase control and flexibility over state appropriations by improving indirect cost allocation and recovery.	10
The state should ensure the maximum amount of federal funds is recovered through the use of the Statewide Cost Allocation Plan (SWCAP).	13
Some state agencies may be using noncompliant methods for allocating indirect costs to their federal grants.	14
Appendix A: Table of Recommendations	17
Appendix B: Objectives, Scope, and Methodology	18
Appendix C: State Agency Indirect Cost Recovery & Number of Grants / Dollar Amount of Federal Expenditures, Fiscal Year 2015 & 2014	21



## Purpose of the Audit

This report examines the state's efforts at recovering indirect costs from federal grants, including use of the Statewide Cost Allocation Plan (SWCAP). Specifically, the audit addressed the following objectives:

1. Does the state have an enterprise-wide strategy for the recovery of federal funds for indirect costs?
2. Are state agencies recovering indirect costs from federal grants?
3. Are state agencies utilizing the Statewide Cost Allocation Plan (SWCAP)?
4. Are state agencies that directly receive federal grant funds in compliance with federal requirements regarding the use of their grant funds for indirect costs?

A description of the objectives, scope, and methodology used in this review is included in [Appendix B](#). A draft of the report was provided for comment to the Governor's Office of Planning and Budget (OPB), the State Accounting Office (SAO), and state agencies whose indirect cost allocation practices were reviewed. Pertinent responses were incorporated into the report.

## Background

The federal government provides monetary assistance in the form of federal awards to state governments to further national objectives related to a wide variety of issues, including social services, health care, natural resources, and public safety.<sup>1</sup> Federal grants typically provide assistance in the form of payments used to supplement the efforts of state governments, rather than supplant them. Most grants include requirements that states partially pay for programs from nonfederal revenues.

### Federal Funds in Georgia

Federal grant funds represent a significant portion of state agency spending. In fiscal year 2015, state agencies expended a total of \$13.1 billion in federal funds out of \$44.1 billion in overall expenditures (30%). These funds were provided through 330 different federal grant programs managed by 36 federal agencies. The state does not track the matching requirement to receive these funds.

In fiscal year 2015, 30 of 50 state agencies expended funds from federal grants.<sup>2</sup> Five agencies were responsible for 91% (\$11.9 billion) of all agency federal expenditures.<sup>3</sup> **Exhibit 1** shows a breakdown of the top five agencies by expenditures, including their largest grant programs (see [Appendix C](#) for a complete list of all 30 state agencies and their federal expenditures for fiscal year 2015 and 2014).

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<sup>1</sup> Financial assistance in the form of grants, cooperative agreements, and fixed amount awards. Does not include direct payments to individuals.

<sup>2</sup> Three agencies and their federal expenditures were excluded: Board of Regents (BOR), Technical College System (TCSG), and Office of the Governor. BOR and TCSG were excluded as higher education entities were not part of this review. Office of the Governor was excluded as the grants received were all expended by attached agencies or on behalf of other state agencies. These agencies' expenditures were not included in the total.

<sup>3</sup> \$11.9 billion out of \$13.1 billion expended by all state agencies.

**Exhibit 1****Five State Agencies and Grant Programs with the Largest Federal Expenditures, Fiscal Year 2015<sup>1</sup>**

Agency	CFDA	Grant Program	Expenditures
Department of Community Health (DCH)	93.778	Medical Assistance Program (Medicaid)	\$6,888,439,711
	93.767	Children's Health Insurance Program (CHIP)	\$312,240,369
Department of Education (GaDOE)	84.010	Title I Grants to Local Educational Agencies	\$518,738,408
	10.555	National School Lunch Program	\$503,246,123
	84.027	Special Education Grants to States	\$328,824,331
Department of Transportation (GDOT)	20.205	Highway Planning and Construction	\$1,275,613,112
Department of Human Services (DHS)	93.558	Temporary Assistance for Needy Families (TANF)	\$1,012,056,676
Department of Labor (DOL)	17.225	Unemployment Insurance	\$523,392,202
All other grants for these five agencies:			\$549,217,123
<b>Total:</b>			<b>\$11,911,768,056</b>
<sup>1</sup> Higher education entities and grant programs excluded.			
Source: 2015 Schedule of Expenditures of Federal Awards (SEFA) & Catalog of Federal Domestic Assistance (CFDA) website			

**Federal Grant Requirements**

The federal government has developed extensive policies and procedures to ensure that grants are managed properly and that federal dollars are spent as intended. The majority of these requirements are included in the Uniform Grant Guidance in the Code of Federal Regulations (2 CFR 200).<sup>4</sup> Uniform Grant Guidance requirements cover all aspects of grant management, including requirements for states recovering indirect costs.

**Indirect Costs**

*The cost of activities, services, or programs not directly related to a program or grant may be considered indirect costs. Examples include accounting, human resources, and building use costs.*

The federal government recognizes there are indirect costs necessary for the effective and efficient management of a grant program. Indirect costs consist of administrative activities necessary for the agency's general operation, such as accounting, budgeting, and human resource functions. The federal government allows reimbursement of the costs attributable to administering a federal program but requires a process whereby indirect costs are identified and assigned to the grant on a reasonable and consistent basis. For example, an agency's accounting department supports all agency programs, including federal programs.

Therefore, every program is responsible for a proportion (*X percent*) of the total cost of the accounting department. Using a measure of the department's activities, such as the number of accounting transactions per program, the total cost of the department may be allocated to each program based on its proportional use.

Once costs are identified and assigned, a state agency can then recover indirect costs from a federal grant program based on the grant's proportion of use. As shown in

<sup>4</sup> The term "Uniform Grant Guidance" refers to the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* under 2 CFR Part 200 (December 2014). Previously, all grant requirements were in Office of Management and Budget (OMB) circulars A-87, A-102, and A-133.



Exhibit 2, for costs to be recovered from federal grants they must meet federal cost principles and costs must be categorized as *direct* or *indirect* and must be *allowable*, *reasonable*, and *allocable*.

## Exhibit 2 Federal Cost Principles and Reimbursement Requirements

*All costs must be categorized as either:*

### **DIRECT COSTS** (2 C.F.R. § 200.413)

Costs supporting the main objectives of the grant program. Direct costs make up the majority of federal reimbursement.

### **INDIRECT COSTS** (2 C.F.R. § 200.414)

All other costs in support of operations, such as administration, accounting, human resources, etc. Reimbursement for indirect costs is optional.

### **UNALLOWABLE COSTS** (2 C.F.R. § 200.410)

These are direct or indirect costs that federal or grant-specific regulations have deemed ineligible for reimbursement. These costs must be removed from all requests for reimbursement.

*And meet the following three conditions:*

### **ALLOWABLE** (2 C.F.R. § 200.403)

- necessary and reasonable for the performance of the grant
- accorded consistent treatment – a cost may not be assigned as a direct cost if any other cost incurred for the same purpose has been allocated as indirect
- adequately documented

### **REASONABLE** (2 C.F.R. § 200.404)

- generally recognized as necessary for the operation of the agency
- conform to sound business practices, federal and state laws, and agency policies and practices
- market prices for comparable goods and services in the area

### **ALLOCABLE** (2 C.F.R. § 200.405)

- the cost of goods or services are in accordance with the relative and proportional benefits received by all activities of the agency, both federal and non-federal
- costs must be applied consistently to both federal and non-federal activities
- costs to federal grants must be applied net of any applicable credits, such as rebates, discounts, or other incentives

Source: 2 C.F.R. 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

## Agency Indirect Costs

To recover indirect costs associated with administering a federal grant program, state agencies must, in most circumstances, create a cost allocation plan approved by their federal cognizant agency, which is typically the agency providing the largest dollar amount of federal grants. The plan includes an inventory of all agency administrative functions, their costs (indirect costs), and a distribution of these costs to agency activities and programs, including federal grant programs. A plan must be submitted for every year indirect costs are recovered. Once in effect, agencies may then recover the indirect costs incurred on behalf of their federal grant programs.

State agencies may receive multiple federal grants from different federal agencies. Cost allocation plans distribute agency indirect costs to all grants in a single plan. Depending on the type of grants received and the activities of the agency, one of three types of plans may be used:

- **Indirect Cost Proposal / Indirect Cost Rate:** The most common type of cost allocation plan used by state agencies, this plan includes the formulation of an indirect cost “rate” (percentage) by dividing the agency’s total indirect costs by total direct costs minus unallowable costs. Agencies then use the calculated percentage rate as a multiplier for future recoveries.
- **Public Assistance Cost Allocation Plan (PACAP):** Some federal grant programs require the submission of a PACAP for agencies managing these programs. These primarily include grant programs offered under the Social Security Act.<sup>5</sup> A PACAP provides more detail than a cost rate and includes a separate indirect cost total for each administrative department. For example, the costs of an agency’s human resources division might be calculated separately as one of many cost pools and distributed to all agency divisions, federal and nonfederal, using employee timesheets or some other measure.
- **De Minimis rate:** According to recent changes to the Uniform Grant Guidance, agencies receiving less than \$35 million in federal funds per year who have never before claimed indirect costs now have the option of using a 10% indirect cost rate without having to apply or create a cost allocation plan.

Federal regulations do not typically require state agencies to create indirect cost allocation plans unless the agency intends to recover indirect costs. Agencies may elect not to recover indirect costs and rely on federal funds solely for direct costs. However, as noted above, there are certain specific grant programs that must have a public assistance cost allocation plan (PACAP).

### Statewide Indirect Costs

In addition to the recovery of indirect costs occurring within a state agency, federal regulations allow states to recover indirect costs related to various state-level central service costs, such as agency budget preparation (Office of Planning and Budget), state purchasing (Department of Administrative Services), accounting (State Accounting Office), and audits (Department of Audits and Accounts). Exhibit 3 lists the state’s central services during fiscal year 2015.

### Exhibit 3

#### State Central Services in the Georgia SWCAP, Fiscal Year 2015

<i>Office of State Administrative Hearings</i>	<i>Georgia Technology Authority</i>
<i>Office of Planning and Budget</i>	<i>Department of Administrative Services</i>
<i>State Accounting Office</i>	<i>DOAS - State Purchasing</i>
<i>Department of Audits and Accounts</i>	<i>DOAS - Human Resources Administration</i>
<i>Secretary of State - Archives</i>	<i>DOAS - Fleet Management</i>
<i>Secretary of State - Administration</i>	<i>Georgia Aviation Authority</i>
<i>State Health Benefit Plan</i>	<i>Unemployment &amp; Workers' Compensation</i>
<i>Insurance: Liability, Property, &amp; State Indemnification</i>	<i>Employee's &amp; Teachers' Retirement Systems</i>
<i>Georgia Building Authority</i>	

Source: Georgia SWCAP, Fiscal Year 2015

<sup>5</sup> Including Medicaid, Temporary Assistance for Needy Families (TANF), and Child Welfare among others. Agencies managing these programs as of fiscal year 2015: the Department of Community Health (DCH), Department of Human Services (DHS), and Department of Early Care and Learning (DECAL).

The Uniform Grant Guidance includes regulations for states seeking to recover the costs of central service agencies. To recover central service costs, states must develop a statewide central service cost allocation plan (SWCAP) for review and approval by the U.S. Department of Health and Human Services (HHS).<sup>6</sup> This plan provides an inventory of central service costs distributed on a proportional basis to all state agencies. The amount of the SWCAP distributed to an agency may be added to the agency's indirect cost recovery.

### Calculating Indirect Costs

Exhibit 4 shows the breakdown of costs between direct, agency indirect, and central service costs for a sample federal grant.

**Exhibit 4**  
**Breakdown of Fixed Costs within a Federal Program<sup>1</sup>**

Cost Levels	Proportion of Cost <sup>2</sup>	Direct Program Costs <sup>3</sup>	Agency Indirect Costs	Central Service Indirect Costs	Total
<b>1. Program Operations</b>					
7 Full-Time Field Personnel		\$675,000			\$675,000
Testing Supplies and Materials		\$30,000			\$30,000
Program Equipment		\$400,000			\$400,000
Shipping and Handling Costs		\$5,000			\$5,000
Fuel		\$25,000			\$25,000
Training & Certification		\$100,000			\$100,000
Other Supplies & Materials		\$15,000			\$15,000
<b>2. Department Administration</b>					
Department Management	20%		\$25,000		\$25,000
Department Clerical	15%		\$10,000		\$10,000
Copy and Print	5%		\$5,000		\$5,000
IT Services	3%		\$13,500		\$13,500
Other Supplies:	3%		\$5,000		\$5,000
<b>3. Agency Administration</b>					
Agency Leadership	2%		\$5,000		\$5,000
Finance Dept.	5%		\$3,000		\$3,000
Budget Dept.	5%		\$3,000		\$3,000
Human Services	5%		\$3,000		\$3,000
Legal	5%		\$3,000		\$3,000
<b>4. State Central Service</b>					
Budget Preparation	0.02%			\$10,000	\$10,000
Accounting	0.02%			\$6,000	\$6,000
Financial/Performance Audits	0.07%			\$15,000	\$15,000
Personnel Mgmt	0.02%			\$7,000	\$7,000
Other	0.01%			\$4,000	\$4,000
<b>Total:</b>		<b>\$1,250,000</b>	<b>\$75,500</b>	<b>\$42,000</b>	<b>\$1,367,500</b>
<sup>1</sup> The costs listed are for a hypothetical federal program. <sup>2</sup> Column includes the percentage of total administrative support attributable to this grant program. <sup>3</sup> Direct costs include \$1 million in federal funds and \$250,000 in state (match requirement).					
<b>\$1,250,000</b>			<b>\$75,500</b>	<b>\$42,000</b>	
<b>Direct Program Costs</b>			<b>Agency Indirect Costs</b>	<b>Central Service Indirect Costs</b>	

Source: DOAA example

<sup>6</sup> Per federal regulations, HHS Cost Allocation Services administers and approves all state statewide cost allocation plans.

### Entity Roles in Federal Grant Management

State agencies are directly responsible for applying for federal grant funds, accounting for their use, and meeting federal grant compliance requirements and regulations, in most cases.<sup>7</sup> Per the Georgia Constitution, federal funds are continually appropriated to state agencies. Several entities assist in monitoring and accounting for federal grants:

- **Governor's Office of Planning and Budget (OPB)** reviews annual agency budgets, including the use of federal funds and state matching funds. In addition, O.C.G.A. §§ 45-12-110 and 45-12-171 through 45-12-176 require that OPB has the following responsibilities related to federal grant management:
  - State agencies are required to notify OPB prior to applying for any new federal grants.
  - OPB serves as the state's single clearinghouse for federal grants.
  - OPB reviews applications for federal assistance and their effects on state planning.
  - OPB serves as a liaison between federal and state government.
  - OPB works with agencies to "study and review plans and programs filed with the federal government."
- **State Accounting Office (SAO)** sets accounting policy and procedures for the recording of federal fund transactions in the state accounting system. SAO also creates the state's SWCAP with the assistance of a consultant and publishes it on the SAO website.
- **Department of Audits and Accounts (DOAA)** produces the annual Single Audit in compliance with federal audit regulations.
- **Senate Budget and Evaluation Office (SBEO)** and **House Budget and Research Office (HBRO)** provide state budget analysis to the members of the General Assembly, including the state's appropriations committees. O.C.G.A. §§ 45-12-110 and 45-12-111 require that the offices be notified by state agencies applying for any new federal grant programs, analyze the impact of new federal programs, and report the results to state leaders.

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<sup>7</sup> In limited circumstances, the Governor's Office of Planning and Budget (OPB) has received federal funds on behalf of state agencies, such as with the distribution of *Race to the Top* federal education funds.

## Findings and Recommendations

Georgia's decentralized approach has limited the efficiency and effectiveness of the state's management and recovery of indirect costs from federal grants.

Each state agency is responsible for managing and determining whether to recover indirect costs from its federal grants.<sup>8</sup> This approach lacks sufficient assurance that appropriate actions are employed across all state agencies and that the decisions made by agency management benefit the state as a whole.

We identified a number of issues with the state's approach that limit the efficiency and effectiveness of the state's efforts. These include:

- State budget writers and lawmakers have limited management information regarding federal grants and indirect cost recoveries. Adequate management information should include an assessment of all the state's grants, including grant allowances for indirect costs and an assessment of the potential to increase federal funds by recovering indirect costs. Additional information may include an analysis as to the degree the state may be subsidizing federal grants (discussed in detail starting on page 10) in agencies not recovering indirect costs and a cost benefit analysis regarding the effect of recovering vs. not recovering indirect costs.
- Each agency must independently develop an understanding of complex indirect cost recovery requirements. This is made more difficult when responsibility for a federal grant is moved from an agency with expertise to an agency without it. We observed situations where state reorganization resulted in federal grant programs being moved to newly created agencies while staff knowledgeable of federal indirect cost recovery remained at a previous agency. Because of these issues, we found agencies that were not recovering available indirect costs due to a lack of expertise, not utilizing the SWCAP and thereby not recovering the maximum amount of indirect costs from their federal grants, and potentially noncompliant with federal grant requirements related to indirect costs.
- Without allocating indirect costs to each grant, the state lacks information on the actual cost of each program. The cost to operate federal grant programs is not limited to direct costs, but includes all direct and indirect costs attributable to operating the program.
- We identified state agencies independently purchasing / developing grant management systems.

We examined the practices of 12 other states identified as having strong practices for managing federal grants and indirect costs. These 12 states have placed an emphasis on managing indirect costs using an enterprise-wide approach. Exhibit 5 shows the relative strength of these states' efforts compared to Georgia's practices.

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<sup>8</sup> With the exception of agencies managing grant programs requiring the creation of public assistance cost allocation plans (see pg 4). These include DCH, DHS, and DECAL.

## Exhibit 5

### Comparison of State Indirect Cost Recovery Efforts

	Statutes / Regulations	Policies & Procedures	Technical Support	Monitoring & Reporting	Evaluation & Assessment
Georgia	★	★	★	★	★
Arizona	★★★	★★★	★★★	★★★	★★★
Arkansas	★★★	★★★	★★★	★★★	★★★
California	★★★	★★★	★★★	★★★	★★★
Colorado	★★★	★★	★★★	★★	★★
Connecticut	★★★	★★★	★★★	★★	★★★
Florida	★★	★	★	★★	★
Michigan	★★★	★	★	★★	★
N. Carolina	★★★	★★	★	★	★
S. Carolina	★★★	★★★	★★	★★	★★★
Texas	★★★	★★★	★★★	★★★	★
Virginia	★★★	★★★	★★★	★★★	★
Washington	★★★	★★	★★	★	★

Scale:	Extensive: ★★★	Limited: ★★	None: ★
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Agencies required to recover indirect costs from federal awards unless otherwise exempted:	Agencies required to include the state's SWCAP in all indirect cost allocation plans and agreements:	State entity charged with assisting agencies in the creation of indirect cost allocation plans:	Agency and statewide indirect cost recovery amounts monitored and reported regularly:
AR - CA - CO - CT - MI - NC - SC - TX - VA - WA	AZ - AR - CA - CO - CT - FL - MI - NC - SC - TX - VA - WA	AZ - AR - CA - CO - CT - SC - TX - VA	AZ - CA - CO - FL - SC - TX - VA

Source: State Finance & Budget websites

There are multiple advantages associated with an enterprise-wide approach to indirect cost recovery. An enterprise-wide approach to indirect cost allocation and recovery is similar to the one the state already uses for many state-level administrative functions such as budgeting, accounting, financial reporting, travel, and purchasing. Implementation of an enterprise approach does not alleviate the need for agencies to understand and manage indirect cost allocation. State agencies should be required to

understand and process transactions related to indirect cost allocation, but a single state agency works with state agencies to minimize the risk of noncompliance and maximize federal recoveries. A single state agency provides detailed policies and procedures, has a centralized technical capacity to support state agencies as needed, provides oversight, requires reporting, and has developed enterprise-wide data solution. We found two states that provide the guidance, support, and oversight with 2-3 FTE.

An enterprise-wide approach provides the ability to leverage indirect cost recovery and enhance budgetary flexibility. State financial managers can make more informed budgetary decisions with access to the true cost of operating federal programs in the state. This leads to more efficient and effective use of state revenues. Further, state financial managers are empowered to mitigate or limit the risks associated with agency over-recoveries and the financial penalties that occur as a result.

## RECOMMENDATIONS

To maximize the benefits of federal indirect cost recovery, the state should consider:

1. Identifying a single entity responsible for the governance and coordination of the state's recovery of federal funds for indirect costs and assist with negotiation or engagement with federal regulators.
2. Developing a centralized technical capacity or support for agencies implementing indirect cost allocation plans, including assurances that plans are effective, compliant, and provide the largest recovery possible.
3. Developing a centralized monitoring and reporting function regarding indirect cost recovery efforts.
4. Developing a statewide system for managing grants and grant accounting information.
5. Developing policies & procedures directing state agencies in the effective and coordinated use of federal funds for indirect costs.
6. Routinely evaluating state cost allocation plans to ensure that plans are updated as the structure of the state and agencies change, and that maximum statewide recovery is achieved while limiting the risks of noncompliance and over-recovery.

**Office of Planning and Budget (OPB) & State Accounting Office (SAO) Response:** OPB and SAO indicated that they believe elements of an enterprise approach already exist. However, OPB and SAO stated that they “will work to ensure agencies are aware of financial policies and their fiduciary responsibility of adhering to all grant compliance requirements, to include the proper allocation of indirect costs where applicable.” They also agree that a “statewide grants management system could be a useful tool in managing the life cycle of a grant and provide additional data that is not currently collected in the TeamWorks financial system.” “OPB and SAO have been engaged in conversations about implementing a solution for more than a year and informed relevant agencies that agency level grant management projects should not be initiated since an enterprise solution is pending.”

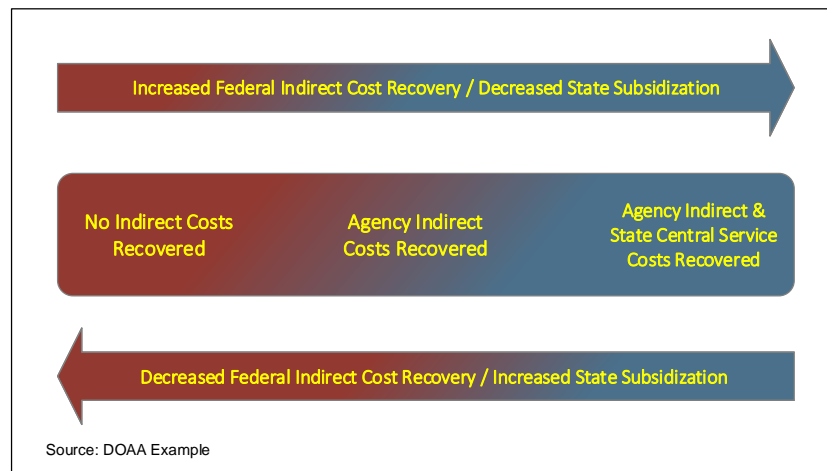


**The state could increase control and flexibility over state appropriations by improving indirect cost allocation and recovery.**

The federal government allows reimbursement of indirect costs from federal grants. However, state appropriations (rather than federal grant funds) are currently used to fund administrative activities in agencies that are not recovering indirect costs from their federal grants. By allowing agencies to independently determine whether to recover federal grant funds to pay for these indirect costs, the state is subsidizing federal grant programs and is missing an opportunity to have greater flexibility over how state funds are expended across state government. If federal funds were used to cover the indirect costs, budget writers would have the option to shift the state funds previously used to cover these costs to other budget priorities or to maintain funding for direct services within the same federal grant program. The level of subsidization should be an informed decision based on state budget priorities. The lack of statewide management of indirect costs results in limited information to allow state budget and policy staff to make such informed decisions.

Personnel from several agencies stated that spending 100% of federal grant funds on direct costs while relying on state funding for all indirect costs is an option that ensures that all federal grant funds are expended on direct services. Personnel further noted that there was no benefit to the agency in recovering indirect costs and that doing so might lead to reduced or redistributed state funds for administration.

**Exhibit 6**  
**Effects of Increasing Federal Indirect Cost Recovery on State Spending Levels in Federal Programs**



As shown in Exhibit 6 above, as federal indirect cost recovery increases, the amount of state or other funds potentially subsidizing the grant program decreases. Federal grants may allow a state to use unrecovered indirect costs as part of the grant's match requirement or simply allow the agency to recover indirect costs from the federal grant. For agencies not recovering indirect costs, the state may unknowingly be providing more resources (state or other funds) than the minimum, resulting in state appropriations subsidizing the program.



### Exhibit 7 Federal Indirect Cost Allocation Effects on State Matching Funds in a Hypothetical Program

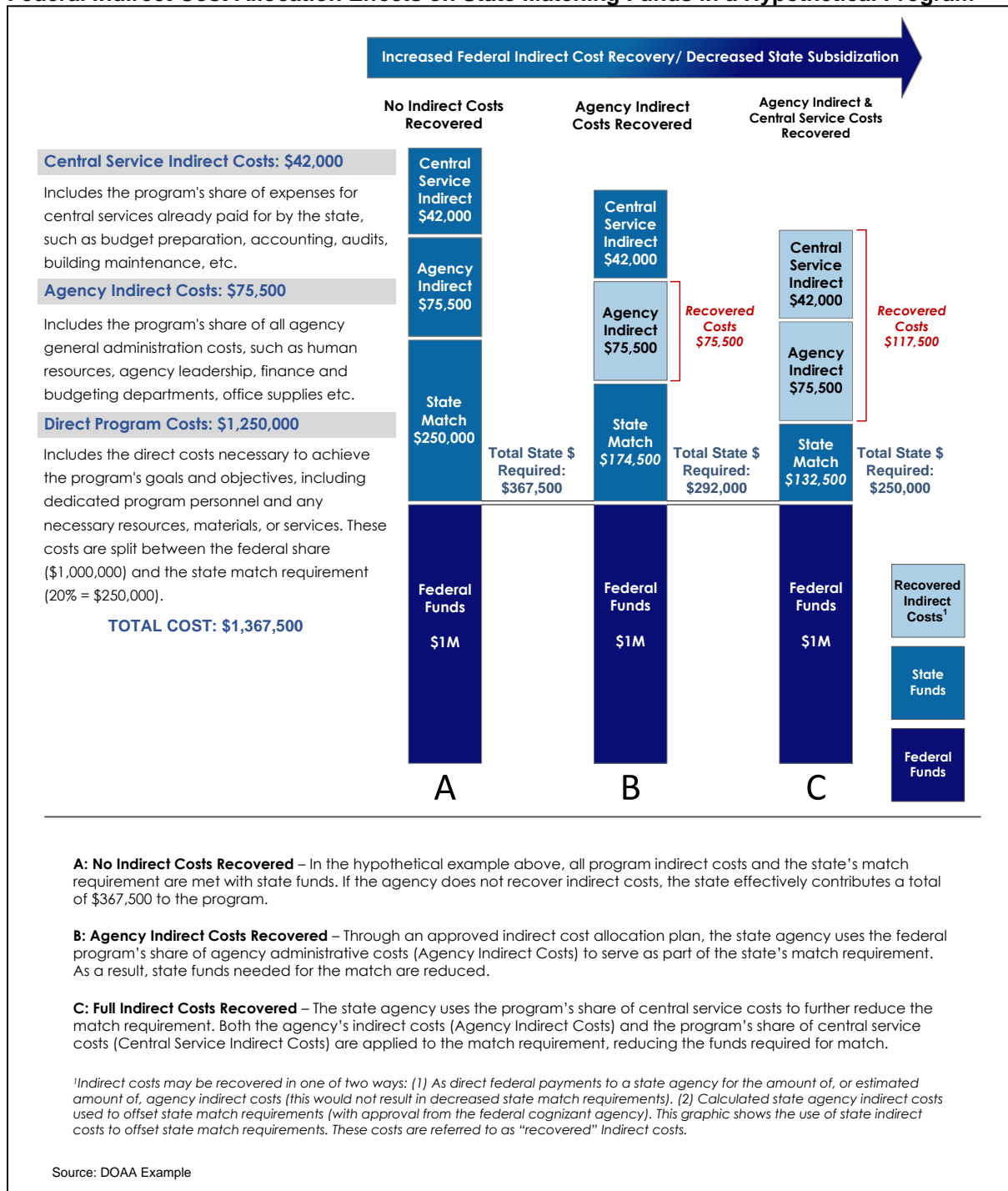


Exhibit 7 shows the potential effect of indirect cost recovery on state funds in a hypothetical program. In this example, to receive a \$1 million federal grant, a state match requirement of \$250,000 (20% match) is needed.<sup>9</sup> Based on federal regulations

<sup>9</sup> Matching requirements are calculated based on the percentage of total dollars. For example, a federal grant with a 20% matching rate provides an 80/20 split on total funds. Ex. 20% of \$1,250,000 = \$250,000.

and grant requirements, unrecovered indirect costs may be used to satisfy match requirements. The exhibit highlights three different scenarios, with each showing the effect on overall state funds by increasing the amount of indirect costs recovered from the grant. As shown, by increasing use of indirect cost allocation, the state has effectively reduced the amount of state funds expended for the same amount of federal funds.

We examined the requirements and indirect cost recovery policies of 12 states identified as having strong practices. We found that 10 had state laws or policies that require state agencies to recover indirect costs. Of the 10 states, most allowed for some exemption to this requirement with approval from the state's budget, finance, or accounting authority. Personnel from two of the states noted that exemptions are used sparingly for agencies with either very few grants, or few total grant dollars, or for agencies whose primary grant/s offered no allowance for indirect costs.

## RECOMMENDATIONS

To maximize state control and flexibility over state appropriations, the state should consider requiring agencies to maximize indirect cost recovery from federal grants (unless otherwise exempted) through either policy or statute.

### Office of Planning and Budget (OPB) & State Accounting Office (SAO) Response:

*"The current state spending order policy requires state entities to maximize spending on federal grants in accordance with the conditions of the grant. Our interpretation is that this policy requires agencies to recover indirect costs if it is allowed by the grant. In addition, the Constitution of the State of Georgia (Article III, Section IX, Paragraph II (d)), provides for the appropriation of state and federal funds necessary to operate all the various departments and agencies. Although the Constitution does not use the term indirect cost, it explicitly states, in part, "In those instances where the conditions under which the federal funds have been made available do not provide otherwise, federal funds shall be first used to replace state funds that were appropriated to supplant federal funds in the same state fiscal year.""*

**Auditor's response:** *The spending order policy and the state Constitution address the requirement that federal funds be spent before state funds. Neither explicitly mentions indirect cost recovery or the state's preference to use federal grant funds on indirect costs when applicable. Further, with a few exceptions, federal grant guidance does not require agencies to use grant funds for indirect costs associated with the grant. As a result, agencies could interpret these directives in numerous ways. For example, an agency could conclude that indirect cost recovery is not necessary or that it should spend federal funds before state funds on direct services. If OPB wishes to require agencies to use federal grant funds to recover the cost of indirect services (if allowed by a grant), we recommend that it issue a specific indirect cost policy that provides clear guidance to agencies.*

**The state should ensure the maximum amount of federal funds is recovered through the use of the Statewide Cost Allocation Plan (SWCAP).**

The SWCAP provides an inventory of state central service costs distributed on a proportional basis to all state agencies. The central service costs distributed to an agency managing federal grant programs, and recovering indirect costs, may be added to the agency's indirect cost allocation plan for recovery. However, as shown in Exhibit 8, Georgia's SWCAP is not widely utilized by state agencies. As a result, the opportunity to recover the costs of central services attributable to their federal programs is diminished. While maximization of the SWCAP may not result in additional federal funds from every grant, additional federal funds would be recovered from some grants.

**Exhibit 8  
Indirect Cost Recovery by State Agencies, Fiscal Year 2015**

State Agencies:	Expended Federal Grant Funds:	Recovered Agency Indirect Costs:	Recovered Central Service Indirect Costs:
50	30 <sup>1</sup>	13 <sup>2</sup>	3

<sup>1</sup>30 agencies had federal expenditures, 17 agencies did not, and 3 were excluded: Board of Regents (BOR) and Technical College System (TCSG) were excluded as higher education was not a part of this review; Office of the Governor was excluded as the majority of federal funds were managed by attached agencies

<sup>2</sup>Of 13 agencies recovering indirect costs, 10 agencies had indirect cost allocation plans, three did not. Personnel from these agencies claimed to recover some portion of agency indirect costs without an approved indirect cost allocation plan.

Source: Schedule of Expenditures of Federal Awards (SEFA), Fiscal Year 2014 & 2015, and agency surveys

As discussed below, we identified multiple reasons as to why SWCAP recoveries are not maximized.

- Agency personnel stated that the use of the SWCAP was not required or were unaware of its existence or purpose. While inclusion of these costs may not always result in their recovery, we did find examples of agencies that would benefit. For example, personnel from the Department of Behavioral Health and Developmental Disabilities (DBHDD) stated that, by including the SWCAP in their cost allocation plan, the agency could recover additional federal funds. In addition, per federal grant regulations, SWCAP costs may be used as part of the state's matching requirement, potentially replacing state or other funds used for this purpose.
- Central service agencies in Georgia are not required to participate in the SWCAP or provide the required information to SAO. Personnel from the state's SWCAP consultant stated that the central service costs have never been fully assessed to ensure all costs are being captured in the SWCAP. We found the current SWCAP does not include all potential state central services and/or costs for recovery. For example, the Office of the Attorney General (OAG) and the Office of Inspector General (OIG) are not included. Further, we found that similar entities are included in other states' SWCAP.

- SAO personnel stated that its role is to produce the SWCAP and make it available to state agencies on its website. However, no state agency is tasked with communicating the existence of the SWCAP or promoting its use or benefits. Additionally, no entity is tasked with monitoring SWCAP recoveries.

## RECOMMENDATIONS

To maximize the recovery of central service costs using the SWCAP, the state should consider:

1. Requiring all state agencies with an indirect cost allocation plan to include their agency's SWCAP costs.
2. Designating a state agency as responsible for the use, promotion, and maximization of the SWCAP.
3. Ensuring that all costs that can be allocated or billed to federal grants are identified and included in the SWCAP. All central service agencies should be required to participate by providing information to SAO.
4. Requiring all agencies to record, monitor, and report at least annually the amount of recovered funds due to the use of the SWCAP.

## Some state agencies may be using noncompliant methods for allocating indirect costs to their federal grants.

While the recovery of indirect costs is beneficial, state agencies that administer federal grants must maintain compliance with federal regulations. Our review of state agency practices found examples of agency or program personnel allocating costs to federal grants using possibly noncompliant methods. If identified by federal regulators, noncompliance may result in a wide variety of punitive actions, including the following:

- A period of special oversight or review.
- Reduction in payments or grant termination.
- Disallowed reimbursement or payment.
- Suspension or debarment.
- Corrective action plans.
- Repayment of grant funds.

We requested information regarding specific costs charged to federal grants from a sample of three state agencies, each operating without indirect cost allocation plans. We reviewed these costs to determine if agencies used compliant methods. Federal regulations require that the costs for salaries and wages are actual costs, not based on estimates unless part of an approved cost allocation plan. Specifically, these

regulations state “charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed” and “reasonably reflect the total activity for which the employee is compensated.” This requirement includes salaries reported as part of the state match. Examples of possible noncompliance are listed below:

- We found personnel in one agency were charging the complete salaries of three administrative staff as direct costs to a single grant although the personnel only spent a fraction of their time on federal work. Management noted that the three salaries represented an estimate of all administrative salaries. Personnel further noted that calculating all administrative employees’ actual time spent on federal work was not practical. Federal guidance does not make exceptions for practicality. The agency does not have an indirect cost allocation plan.
- We found multiple instances where agency personnel reported program management wages as state matching funds for a single grant even though staff managed multiple grant programs. In one instance, a program was having difficulty meeting the state match requirement for a particular grant. Salaries for some administrative personnel were charged as matching costs for a single grant, although the office managed multiple grant programs.

In the examples discussed, these agencies have legitimate costs that could be recovered from federal grants, but the costs must be recovered in accordance with the Uniform Grant Guidance. Even if legitimate costs are recovered from a federal grant, the federal government could disallow the costs if the agency did not follow the Uniform Grant Guidance.

In addition, we found possible noncompliance issues related to the funding of central service agencies and the SWCAP that were outside of the scope of our review. These too could also pose a financial risk for the state.

The purpose of indirect cost allocation is to provide an agreed-upon method for calculating the cost of administrative support provided to an agency’s federal programs for recovery. Agencies seeking methods to apply administrative costs without approved plans are doing so at the risk of noncompliance and the associated penalties. Indirect cost allocation and recovery is a complex activity requiring a thorough knowledge of federal regulations. The risks associated with noncompliance can be substantial. Although a single agency may be found in violation of federal regulations, it is the state that is ultimately at risk and responsible for any financial penalty or repayment. Historically, there have been instances in which the state has had to appropriate funds to repay the federal government due to agencies’ noncompliance in the past.

## RECOMMENDATIONS

To ensure state agencies are complying with federal grant regulations, the state should consider:

1. Reviewing and assessing each agency’s practices related to charging costs to federal grants, especially in those agencies operating without approved indirect cost allocation plans.

2. Providing oversight of federal grant compliance and emphasizing compliance in statewide policies and procedures.

**Office of Planning and Budget (OPB) & State Accounting Office (SAO) Response:**  
*OPB and SAO stated that “[it] is our expectation that each agency is aware of all the financial and programmatic conditions of a federal grant award received” and that OPB and SAO will “continually work on strengthening financial policies to ensure compliance with all funds allocated to the state.” They also indicated that they would “work to ensure agencies are aware of financial policies and their fiduciary responsibility of adhering to all grant compliance requirements.”*

## Appendix A: Table of Recommendations

<b>Opportunities exist to maximize federal funds and ensure compliance.</b>
<b>Georgia's decentralized approach has limited the efficiency and effectiveness of the state's management and recovery of indirect costs from federal grants.</b>
To maximize the benefits of federal indirect cost recovery, the state should consider:
Identifying a single entity responsible for the governance and coordination of the state's recovery of federal funds for indirect costs and assist with negotiation or engagement with federal regulators.
Developing a centralized technical capacity or support for agencies implementing indirect cost allocation plans, including assurances that plans are effective, compliant, and provide the largest recovery possible.
Developing a centralized monitoring and reporting function regarding indirect cost recovery efforts.
Developing a statewide system for managing grants and grant accounting information.
Developing policies & procedures directing state agencies in the effective and coordinated use of federal funds for indirect costs.
Routinely evaluating state cost allocation plans to ensure that plans are updated as the structure of the state and agencies change, and that maximum statewide recovery is achieved while limiting the risks of noncompliance and over-recovery.
<b>The state could increase control and flexibility over state appropriations by improving indirect cost allocation and recovery.</b>
To maximize state control and flexibility over state appropriations, the state should consider requiring agencies to maximize indirect cost recovery from federal grants (unless otherwise exempted) through either policy or statute.
<b>The state should ensure the maximum amount of federal funds is recovered through the use of the Statewide Cost Allocation Plan (SWCAP).</b>
To maximize the recovery of central service costs using the SWCAP, the state should consider:
Requiring all state agencies with an indirect cost allocation plan to include their agency's SWCAP costs.
Designating a state agency as responsible for the use, promotion, and maximization of the SWCAP.
Ensuring that all costs that can be allocated or billed to federal grants are identified and included in the SWCAP. All central service agencies should be required to participate by providing information to SAO.
Requiring all agencies to record, monitor, and report at least annually the amount of recovered funds due to the use of the SWCAP.
<b>Some state agencies may be using noncompliant methods for allocating indirect costs to their federal grants.</b>
To ensure state agencies are complying with federal grant regulations, the state should consider:
Reviewing and assessing each agency's practices related to charging costs to federal grants, especially in those agencies operating without approved indirect cost allocation plans.
Providing oversight of federal grant compliance and emphasizing compliance in statewide policies and procedures.

## Appendix B: Objectives, Scope, and Methodology

### Objectives

The purpose of this performance audit was to examine statewide efforts at recovering indirect costs from federal grants, including use of the Statewide Cost Allocation Plan (SWCAP). Specifically, the audit addressed the following objectives:

1. Does the state have an enterprise-wide strategy for the recovery of federal funds for indirect costs?
2. Are state agencies recovering indirect costs from federal grants?
3. Are state agencies utilizing the Statewide Cost Allocation Plan (SWCAP)?
4. Are state agencies that directly receive federal grant funds in compliance with federal requirements regarding the use of their grant funds for indirect costs?

### Scope

This audit addressed statewide efforts to recover indirect costs from federal grants, including whether state agencies were using indirect cost allocation plans to recover agency indirect costs and the state's SWCAP to recover state central service costs. We reviewed relevant state and federal laws, regulations, and policies, and interviewed agency finance/accounting staff from a sample of state agencies. We also interviewed personnel from the Governor's Office of Planning and Budget (OPB) and State Accounting Office (SAO).

### Methodology

This audit focused on the indirect cost recovery practices of state agencies during fiscal years 2014 and 2015. We started with the 50 agencies included in the 2015 Governor's Budget Report:

50 State Agencies	
Georgia Senate	Office of the Governor
Georgia House of Representatives	Department of Human Services
General Assembly	Commissioner of Insurance
Department of Audits and Accounts	Georgia Bureau of Investigation
Court of Appeals	Department of Juvenile Justice
Judicial Council	Department of Labor
Juvenile Courts	Department of Law
Prosecuting Attorneys	Department of Natural Resources
Superior Courts	State Board of Pardons and Paroles
Supreme Court	State Properties Commission
State Accounting Office	Public Defender Standards Council
Department of Administrative Services	Department of Public Health
Department of Agriculture	Department of Public Safety
Department of Banking and Finance	Public Service Commission
Department of Behavioral Health and Developmental Disabilities	Board of Regents
Department of Community Affairs	Department of Revenue
Department of Community Health	Secretary of State
Department of Corrections	State Soil and Water Conservation Commission
Department of Defense	Georgia Student Finance Commission
Department of Driver Services	Teachers Retirement System
Department of Early Care and Learning	Technical College System of Georgia
Department of Economic Development	Department of Transportation
Department of Education	Department of Veterans Service
Employees' Retirement System of Georgia	State Board of Workers' Compensation
Georgia Forestry Commission	Georgia General Obligation Debt Sinking Fund

Source: Governor's Budget Report, Fiscal Year 2015



From this list, we identified the agencies with federal expenditures during fiscal years 2014 and/or 2015 using the Schedule of Expenditures of Federal Awards (SEFA) compiled by the Department of Audits and Accounts. The SEFA is compiled annually as part of federal audit requirements. We identified 33 agencies as having federal expenditures during either period. Three agencies were excluded from review.<sup>10</sup> These included higher education agencies and entities as well as attached agencies.

For the remaining 30 agencies, we requested information from agency personnel regarding the agency's indirect cost allocation and recovery practices. We also examined, on a case-by-case basis, the revenues, expenditures, and labor distribution reports of a select number of agencies using *TeamWorks*.

Government auditing standards require that we also report the scope of our work on internal control that is significant within the context of the audit objectives. All of our objectives address certain aspects of internal controls related to the recovery of federal funds for indirect costs by state agencies. Specific information related to the scope of our internal control work is described by objective in the methodology section below.

**To determine the criteria for an effective enterprise-wide system of indirect cost allocation,** we gathered information regarding federal regulations, rules, and best practices for the efficient, effective, and compliant use of indirect costs, interviewed experts in the field of indirect cost allocation, and participated in training sessions provided by state and federal cost allocation consulting groups. We examined the structure and activities of 12 other states identified as having strong indirect cost recovery and grant management systems. Sources included the recommendations of experts and federal agency personnel, state finance and accounting industry publications, and other internet research. Experts from other states also provided additional states for review.

**To determine whether state agencies were recovering indirect costs and whether the state SWCAP was being used,** we used fiscal year 2015 and 2014 SEFA data to formulate a list of agencies with federal expenditures by CFDA (Catalog of Federal Domestic Assistance) number, federal agency, and dollar amount. We then surveyed (via email, phone, or in person) finance/budget personnel from these agencies regarding their use of an indirect cost allocation plan, recovery of agency indirect costs, use of the SWCAP, and recovery of state central service costs. During the survey and discussions with agency personnel, we noted issues related to possible noncompliance with federal grant regulations at several state agencies. Personnel from these agencies described agency efforts to recover indirect costs without the use of an indirect cost allocation plan. We further examined these issues in *Objective 4*.

**To determine whether the SWCAP was effective and complete,** we examined the Georgia SWCAP for fiscal years 2016 to 2008 and compared them to plans used in other states, including the central service entities included, dollar amount of allocated costs, and total recoveries. We also interviewed personnel from the Office of the Attorney General regarding their exclusion from the Georgia SWCAP.

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<sup>10</sup> Office of the Governor, Board of Regents (BOR), and Technical College System of Georgia (TCSG). BOR and TCSG were excluded as higher education entities were not part of this review. Office of the Governor includes multiple attached agencies and attached entities were not part of this review.

To determine whether state agencies were using compliant methods for allocating indirect costs to federal grants, we examined what appeared to be questionable practices of some state agencies and programs identified during the course of our agency survey. During this review, we discovered that some agency and/or program personnel lacked an understanding of federal regulations regarding indirect costs. We then further examined financial and accounting records in *TeamWorks* and determined that some methods used to allocate costs potentially violate federal regulations and cost principles. We reported these efforts to, and coordinated with, other divisions of the Department of Audits and Accounts to ensure our interpretation of federal compliance was accurate.

By separate correspondence, we reported risks related to potential federal noncompliance related to the use of rebates and commission fees to fund the Department of Administrative Services State Purchasing Division to the Office of Planning and Budget and State Accounting Office.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Appendix C: State Agency Indirect Cost Recovery & Number of Grants / Dollar Amount of Federal Expenditures, Fiscal Year 2015 & 2014

State Agency	Agency Indirect Costs Recovered? / Plan?	Central Service Indirect Costs Recovered? <sup>1</sup>	# of Federal Grants / Total Expenditures	
			2015↓	2014
Department of Community Health	Yes / PACAP	Yes	15 / \$7,226,463,987	20 / \$6,753,142,447
Department of Education	Yes / ICR	Yes	29 / \$1,776,563,213	38 / \$1,827,478,372
Department of Transportation	Yes / None <sup>2</sup>	No	15 / \$1,342,726,479	16 / \$1,227,722,379
Department of Human Services	Yes / PACAP	Yes	60 / \$1,012,056,676	59 / \$1,019,934,628
Department of Labor	Yes / ICR	No	14 / \$553,957,701	15 / \$1,259,812,208
Department of Public Health	Yes / ICR	No	51 / \$355,352,821	54 / \$380,515,927
Department of Early Care and Learning	Yes / PACAP	No	7 / \$338,044,476	12 / \$333,846,987
Department of Community Affairs	No	No	8 / \$151,249,999	9 / \$157,531,032
Department of Economic Development	No	No	7 / \$72,232,418	3 / \$1,330,275
Department of Behavioral Health and Dev. Dis.	Yes / CAP	No	15 / \$71,799,664	21 / \$152,784,498
Department of Natural Resources	No	No	54 / \$67,617,420	65 / \$77,333,165
Department of Defense	No	No	6 / \$57,438,652	7 / \$61,531,822
Georgia Bureau of Investigation	No	No	30 / \$38,643,232	30 / \$34,912,847
Department of Public Safety	Yes / None <sup>2</sup>	No	15 / \$19,134,395	20 / \$27,738,340
Department of Veterans Service	Yes / None <sup>2</sup>	No	4 / \$18,320,903	4 / \$16,897,858
Department of Agriculture	Yes / ICR	No	10 / \$10,651,369	8 / \$10,159,408
Georgia Forestry Commission	No / ICR <sup>3</sup>	No	12 / \$9,042,453	17 / \$6,871,508
Department of Law	No	No	1 / \$3,579,944	2 / \$3,372,099
Department of Revenue	No	No	2 / \$1,343,608	2 / \$697,465
Department of Corrections	No	No	9 / \$1,318,956	21 / \$4,495,485
Public Service Commission	Yes / ICR	No	2 / \$1,314,109	3 / \$1,274,495
Commissioner of Insurance	No	No	3 / \$1,238,981	4 / \$886,722
Judicial Council	No	No	4 / \$1,146,425	8 / \$2,174,479
Department of Driver Services	No	No	3 / \$648,044	7 / \$1,077,776
State Board of Pardons and Paroles	No	No	2 / \$388,754	3 / \$249,874
State Soil and Water Conservation Commission	No	No	4 / \$296,923	4 / \$157,442
Department of Juvenile Justice	Yes / ICR	No	3 / \$285,791	11 / \$7,637,750
Prosecuting Attorneys	No	No	1 / \$180,434	7 / \$3,522,385
Secretary of State	No	No	2 / \$39,566	2 / \$1,875,257
Georgia Student Finance Commission	No	No	1 / \$36,432	3 / \$405,486
<b>Total:</b>			<b>389 / \$13,133,113,826</b>	<b>475 / \$13,377,370,415</b>

Type of indirect cost allocation plan abbreviations:

PACAP: Public Assistance Cost Allocation Plan

CAP: Cost Allocation Plan

ICR: Indirect Cost Rate Plan or Agreement

<sup>1</sup>Central Service Indirect Costs cannot be recovered unless the agency has a cost allocation plan approved by their federal cognizant agency.

<sup>2</sup>Personnel from these three agencies responded that, while their agency had no documented and approved indirect cost allocation plan, some portion of the agencies' federal program administrative costs (indirect costs) were being recovered as direct costs. It is unclear whether these methods meet federal guidelines.

<sup>3</sup>Georgia Forestry Commission (GFC) personnel said the agency has an approved indirect cost allocation plan but chooses not to recover indirect costs.

Source: Schedule of Expenditure of Federal Awards (SEFA), Fiscal Year 2014 & 2015, and agency surveys





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The Performance Audit Division was established in 1971 to conduct in-depth reviews of state-funded programs. Our reviews determine if programs are meeting goals and objectives; measure program results and effectiveness; identify alternate methods to meet goals; evaluate efficiency of resource allocation; assess compliance with laws and regulations; and provide credible management information to decision makers. For more information, contact us at (404)657-5220 or visit our website at [www.audits.ga.gov](http://www.audits.ga.gov).