Section 1: Background – The State Budget Agency annually prepares the “Statewide Cost Allocation Plan” which accumulates the General Fund’s statewide central service costs, allocating them across all State agencies in accordance with Federal Cost Principles (OMB Circular A-87). The non-General Fund share (Federal and Dedicated funding sources) of the statewide indirect costs are recovered by the State Budget Agency to reimburse the State’s General Fund for expenses incurred by statewide central service agencies.

Section 2: Purpose – To appropriately allocate expenditures incurred by statewide central service agencies to Federal grants and Dedicated funding sources, and to outline the process necessary to ensure that recoveries are used to properly reimburse the General Fund.

Section 3: Eligible and Exempt Funds – If an agency receives Federal or Dedicated funds, either directly or as pass-through from other State agencies, it shall be the Proposed Costs from the Summary of Allocated Costs (“Proposed Costs”) of that fiscal year’s SWCAP as indirect cost recovery owed the State. The Proposed Costs should be allocated to Federal and Dedicated funding sources using the agency’s federally approved Cost Allocation Plan or some other agency-developed allocation methodology.

If the Proposed Cost number is negative, it may be used to offset future costs. Approval to use this offset must be obtained from the Controller of the State Budget Agency. If an agency administers only General Fund programs and receives no Federal or Dedicated funds, neither directly nor as a “pass-through,” it is exempt from cost recovery.

An eligible agency may request an exemption from Indirect Cost recovery on a program. An agency shall submit exemption requests in writing to the Controller of the State Budget Agency. All exemption approvals will be made in writing. The following are examples of possible exemptions from Indirect Cost recovery:
- Recovery of administrative indirect costs is prohibited by federal law/regulation (please cite authority)
- Federal or Dedicated funds pass-through the agency and the agency incurs no administrative costs.
- The indirect cost recovery contributes towards the program's mandatory State match requirement for which other funds are not available.
- The recovery of indirect costs will decrease program effectiveness.

Section 4: Process – In order to accurately and appropriately reimburse the General Fund for SWCAP expenses, please adhere to the following process:

- For Federal funds, debit Federal funds to be charged using account 759900 and credit Agency 00057, Fund 10520, Account 749900, Program 05700, and Department 051000.
- When federal revenue is drawn to reimburse these costs, credit Account 446000.
- In the Long Description of the Journal Header, indicate that the reason for the journal entry is SWCAP and indicate the program period to be charged.
- If an agency is funded entirely by Federal sources, divide the proposed costs by four and process quarterly journal entries.
- If an agency has a mixture of funding sources, the proposed costs should be allocated, either through an agency's internal, federally approved Cost Allocation Plan (CAP) or through a direct allocation formula. The proposed cost or its allocation should be processed through a GL Journal Entry in ENCOMPASS and routed to the Budget Agency on a quarterly basis. (As part of GL workflow, the journal entry will be routed to the State Budget Agency's accounting department for approval.)
- Dedicated funds will be charged directly by the State Budget Agency in June of each year. Amounts and chart fields will be available to the agencies for review prior to the journal being processed.

This Circular rescinds FMC #2011-1.

Approved:

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Director, State Budget Agency

Date: 4/4/2013