

**U.S. Department of Health & Human Services (HHS)  
Program Support Center/Financial Management Services  
Division of Cost Allocation (DCA)**

**American Recovery and Reinvestment Act (ARRA)  
Frequently Asked Questions  
For State Governments**

**A. General**

**A-1 What type of administrative costs are covered by the Office of Management and Budget (OMB) Memorandum M-09-18, dated May 11, 2009?**

The OMB memorandum relates to recovering administrative costs associated with ARRA oversight, reporting and auditing requirements. Examples include the costs for data collection requirements, auditing, contract and grant planning and management, and investigations of waste, fraud, and abuse. These costs could be incurred at a central level (e.g., Economic Recovery and/or Stimulus offices, State auditors) or at the department or agency level (e.g., program specific reporting requirements for ARRA funding). The State governments must separately identify and account for these supplemental ARRA administrative costs. Such costs do not include existing general administrative costs or other program specific administrative costs.

**Questions about the Half Percent Limitation**

**A-2 How is the half percent cost limitation calculated? Will it be based on the total dollars received by the State or will it be calculated for each award?**

According to OMB, the limitation is 0.5 percent of the total ARRA dollars received by the State. It is a limitation on the total ARRA oversight costs reimbursed, rather than a limitation on individual awards or individual indirect cost rates.

**A-3 When audited, will the administrative cost limitation be applied in total for the State or by individual award?**

Per OMB's guidance, the 0.5 percent limitation will be applied in total for the State.

NOTE: The State is responsible for ensuring compliance with this requirement. The DCA is only responsible for reviewing Statewide Cost Allocation Plans (SWCAPs) and those State department indirect cost rates for which HHS is cognizant. However, Federal and/or State auditors may perform reviews to

verify compliance with this limitation, and compliance with this limitation may be verified during the annual OMB Circular A-133 Single Audit.

**A-4 Is the half percent limitation only for the additional costs related to reporting or does it apply to the normal administration of the Federal award?**

OMB has stated that the 0.5 percent limitation only applies to additional administrative costs that are incurred solely to comply with ARRA oversight requirements.

**A-5 Will the additional ARRA administrative costs incurred by the individual departments responsible for administering the affected grants also have to be included in the half percent limitation?**

Yes. According to OMB, the 0.5 percent limitation covers all State oversight costs incurred to comply with ARRA requirements, whether incurred by the central service agencies or individual operating departments.

**A-6 Is there a mechanism for additional recoveries if the 0.5 percent is insufficient to perform the required oversight, reporting and auditing in association with these grants?**

According to OMB, the answer is no. The 0.5 percent of total ARRA funds received by the State is the limit for ARRA oversight costs.

**B. ARRA Central Service Costs**

Questions on ARRA Central Service Costs

**B-1 If the State central service agencies incur costs related to ARRA, how can the State recover these costs?**

As set forth in the OMB Memorandum M-09-18, the costs for ARRA oversight can be allocated or billed to State departments in accordance with a supplemental ARRA State-wide Cost Allocation Plan (SWCAP) agreement with the DCA. These supplemental SWCAP agreements will include costs incurred for oversight, reporting and auditing to prevent and detect waste, fraud and abuse of ARRA funding, and should not include general administrative costs regularly incurred by the State. The regular central service costs that are incurred would be allocated to ARRA programs through the normal SWCAP process and are not subject to the 0.5 percent limitation. However, individual ARRA awards may have administrative cost restrictions which prohibit or limit reimbursement of these central service costs.

Per OMB, the State should submit a supplemental ARRA SWCAP proposal

that identifies how the central costs incurred for ARRA oversight will be charged to the departments, i.e., allocated through Section I cost centers, or billed through Section II cost centers, or a combination of both. See specific requirements related to Section I and Section II below.

**B-2 What happens if a State does not submit a supplemental ARRA SWCAP proposal?**

The State would not be able to recover central service costs that are incurred to meet the unique reporting and oversight requirements of the ARRA programs. However, the State must identify these ARRA oversight costs and ensure that they are not allocated through the regular SWCAP to non-ARRA awards.

**B-3 To whom should the State submit its supplemental ARRA SWCAP proposal?**

The State should submit the proposal to the same DCA Field Office that normally reviews the State's SWCAP.

**B-4 When is the proposal due?**

The State must receive approval from the DCA before allocating or billing these ARRA oversight central service costs to ARRA awards. Therefore, the State should submit its initial supplemental ARRA SWCAP proposal as soon as possible. In subsequent years during the ARRA performance period, the proposals will be due at the same time as the regular SWCAP proposal.

**B-5 How long will DCA take to issue an agreement approving the supplemental ARRA SWCAP?**

For the initial reviews, if an adequate proposal is received and the State provides adequate and timely support to the DCA, the DCA will try to complete its review within 60 days from proposal receipt.

Questions on Alternative 1 (Section I Allocated Costs)

**B-6 What should the State submit to DCA to claim supplemental allocated central service costs (commonly known as SWCAP Section I costs)?**

The SWCAP should include for each proposed allocated central service: a brief description of the service, the basis for the budgeted or estimated amounts, the types of expenses in the service, the allocation methods of the service costs to the benefiting departments and a summary schedule showing the allocation of each service costs to the specific benefiting departments receiving ARRA

funds. The States should also submit any supporting budgetary documents or financial statements supporting the proposed amounts.

In order to expedite the review, the State should submit as much detail as possible for each proposed central service cost, including a justification as to why the costs are necessary solely for complying with ARRA requirements. These costs will only be allocated to ARRA awards and should not include costs benefiting other non-ARRA programs or awards. The costs should be limited to those incurred for oversight, reporting and auditing to prevent and detect waste, fraud and abuse of ARRA funding. In addition, all proposed costs must be allowable in accordance with Title 2 of the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225 – Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87).

As part of the supplemental ARRA SWCAP submission, the State must submit the signed Certificate of Supplemental ARRA Cost Allocation Plan (see Attachment 1).

**B-7 Once the supplemental ARRA SWCAP agreement is issued and approved, how does the State recover these supplemental ARRA Section I central service costs?**

Each State department receiving ARRA awards will need to submit a supplemental ARRA indirect cost rate proposal to its cognizant Federal agency (unless they use a Public Assistance Cost Allocation Plan to allocate costs). For those departments that are HHS cognizant, DCA will negotiate an overall department rate applicable to all Federal awards and a supplemental department ARRA indirect cost rate add-on for that department's ARRA grants and contracts. The supplemental ARRA SWCAP Section I costs will be included in the supplemental ARRA add-on rate. However, individual ARRA programs may have administrative cost limitations. The supplemental ARRA SWCAP agreement and indirect cost rate agreements will not supersede those program specific regulations and limitations.

For those departments that allocate SWCAP costs via a Public Assistance Cost Allocation Plan (PACAP), please see section D below.

**B-8 If the State decides to use existing central service personnel already included in the current proposed SWCAP Section I costs (e.g., the SWCAP proposal currently under review by DCA to fix 2010) to perform these supplemental ARRA oversight and reporting activities, how will it affect their proposal?**

The State will need to amend the proposal currently under review to remove the ARRA-specific oversight and reporting activities from the general SWCAP Section I proposal and include them in the supplemental ARRA SWCAP

proposal. If individual personnel are going to perform both ARRA-required supplemental activities and general SWCAP Section I activities, then personnel activity reports segregating ARRA-required time and effort from general duties will need to be maintained. This is necessary to ensure that there is no duplication of costs between general SWCAP Section I and supplemental ARRA Section I.

Questions on Alternative 2 (Section II Billed Costs)

**B-9 What should the State submit to DCA to claim supplemental billed central service costs (commonly known as SWCAP Section II costs)?**

The SWCAP must include for each proposed billed central service: a brief description of each billed service, the budgeted or estimated expenses statement, a description of the procedures (methodology) used to charge the costs of each service to users (including how billing rates are determined), a schedule of developed rates and an explanation on how variances between actual and billed rates will be handled. The State should describe how the billed costs will be recovered by the departments (e.g., direct charged or supplemental indirect cost rates).

In subsequent years, a reconciliation schedule comparing revenues to allowable expenses will be required for each billed service. In order to document the transparent expenditure of ARRA funds, the States should also submit a summary of billings by department for the year.

As part of the supplemental ARRA SWCAP submission, the State must submit the signed Certificate of Supplemental ARRA Cost Allocation Plan (see Attachment 1).

**B-10 Once the supplemental SWCAP agreement is issued and approved, how does the State recover these supplemental Section II billed central service costs?**

At the department levels, the billed costs will either be charged direct to ARRA awards, included in supplemental ARRA indirect cost rates or allocated through a PACAP. For indirect cost rates, see Section C below. For PACAPs, see Section D.

**B-11 What if the State elects to use existing billed Section II personnel (e.g, State auditors) to perform ARRA-required reporting and oversight activities?**

The State should determine whether existing billing rates can equitably be used to bill for these activities. If necessary, the State should amend its usual billing rates to exclude ARRA-required reporting and oversight activities and should

establish special billing rates for ARRA activities. If individual personnel will be billed both through supplemental ARRA billing rates and general billing rates, then personnel activity reports should be maintained for those personnel to document the time spent on ARRA vs. non-ARRA activities. Also, the billings for the ARRA activities should be separately tracked and accounted for, regardless of whether there are special ARRA billing rates. For example, computer usage for ARRA data collections and reporting should be separately tracked and billed to benefiting ARRA awards.

## **C. State Agencies Indirect Cost Rate Proposals (ICRPs)**

NOTE: The guidance in this section only applies to those State departments and agencies where HHS is the cognizant Federal agency for reviewing and negotiating the indirect cost rate proposal (ICRP).

### **C-1 Once the supplemental ARRA SWCAP is approved by HHS, how does the State recover these costs?**

If the State only incurs Section II Billed Costs and is able to direct bill the costs to the benefiting ARRA awards, then the State agency does not have to submit an ICRP. The ARRA oversight costs may be claimed directly, if there are no program limitations or restrictions.

If the State has Section I Allocated Costs and/or Section II Billed Costs charged to the State department and not directly charged to its ARRA awards, then these costs must be included in a supplemental ARRA indirect cost rate. The State department must submit an ICRP and receive DCA's approval before it can claim these costs for reimbursement. Reimbursement may be affected by the prevailing program administrative caps or restrictions.

### **C-2 If a State agency is incurring costs related to the program specific reporting requirements for ARRA funding, can these costs be reimbursed with ARRA funds?**

According to OMB, the 0.5 percent limitation covers all administrative costs incurred to comply with the ARRA oversight, reporting and auditing requirements, including those incurred by State departments or agencies.

The State department can either direct charge and/or allocate these costs through the supplemental ARRA indirect cost rate.

NOTE: If the State department elects to direct charge these costs, it must comply with OMB Circular A-87 and program regulations. While the DCA is responsible for approving the ICRP, it is not responsible for determining the allowability of direct charges to the Federal awards. However, these direct

charges may be audited during the OMB Circular A-133 Single Audit. The State must separately identify and track these direct charges.

**C-3 Why does a State agency need to prepare a supplemental ARRA indirect cost rate?**

It is not equitable to charge ARRA oversight costs to other Federal awards that do not have ARRA funding and, therefore, do not receive any benefits from these costs.

**C-4 What should be included in the ICRP submission?**

The State department should submit an ICRP which supports an overall department indirect cost rate applicable to all Federal awards (including ARRA awards) and a supplemental department ARRA indirect cost rate add-on to be applied to that department's ARRA awards. The ICRP should include: the rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the supporting financial data. For the initial rate, the State department may need to use supporting budgetary documents.

The supplemental department ARRA indirect cost rate add-on may include: the approved supplemental ARRA SWCAP costs that were allocated or charged to the department, and the department's ARRA reporting and oversight costs. The pool should not include general administrative costs that are already included in the overall department rate. The base for the ARRA add-on rate should only include the appropriate direct costs for ARRA awards.

The overall department indirect cost rate applicable to all programs would include the department's regular indirect costs and the base would include the appropriate direct costs of all awards, including ARRA. To the extent that individual ARRA awards allow for reimbursement of indirect costs, the combined overall department indirect cost rate plus ARRA add-on indirect cost rate would be charged to ARRA programs. However, the reimbursements from the overall department indirect cost rate will not count towards the 0.5 percent limitation.

In addition, the State department must submit the signed Certificate of Indirect Costs as required by OMB Circular A-87, Appendix E, paragraph D, 3, and in addition the Certificate of Supplemental ARRA Indirect Costs (see Attachment 2).

**C-5 How long will DCA take to issue an agreement with the supplemental ARRA indirect cost rate?**

For the initial reviews, if an adequate proposal is received and the State provides adequate and timely support to the DCA, the DCA will try to complete its review within 60 days from proposal receipt.

#### **D. State Agencies Public Assistance Cost Allocation Plans (PACAPs)**

##### **D-1 If the State public assistance agency has an approved PACAP, does an amendment have to be submitted in order to claim the ARRA oversight costs?**

An amendment to the approved PACAP is required in order to claim these administrative costs to the ARRA awards. Costs include the central service costs (which must first be approved through the SWCAP) and State public assistance agency costs incurred for ARRA oversight, reporting and auditing requirements.

The PACAP amendment is required to ensure that the State public assistance agency is separately identifying the ARRA oversight costs in order to meet the 0.5 percent limitation requirement and that the costs are only charged to the benefiting ARRA programs.

It should be noted that our approval relates only to the methods of identifying and allocating ARRA oversight costs to the programs with ARRA funding. It should not be construed that we are approving activities not otherwise authorized by approved program plans or Federal legislation and regulations, nor are we supplanting administrative and statutory limitations.

##### **D-2 When should the State submit the PACAP amendment?**

According to 45 CFR § 95.509 (a), the State agency is required to promptly amend its PACAP when the procedures in the existing PACAP become outdated. Therefore, a PACAP amendment should be submitted to address the new ARRA oversight costs after the supplemental ARRA SWCAP has been approved.

##### **D-3 How long after the PACAP amendment is submitted, will the State agency be able to claim the ARRA oversight costs? Does the State agency have to wait until the amendment is approved in order to claim these costs?**

According to 45 CFR § 95.517, if a State agency has submitted a PACAP amendment, it may, at its option, claim Federal Financial Participation based on the proposed PACAP amendment unless otherwise advised by the DCA. However, in doing so, the State may have to retroactively adjust its claims in accordance with the subsequently approved PACAP amendment.

The DCA will classify these reviews and approvals as the highest priority. Since the DCA relies on the affected Federal agencies for comments and approval, it will instruct them on the need to expedite these special reviews. The exact time frame of the approval process will depend upon the completeness of the proposed PACAP amendment and the State's timely responses to the Federal government's questions.

**D-4 What should be included in the PACAP amendment submission?**

The amendment should conform to the PACAP requirements as specified in 45 CFR §95.507. At minimum, the submission should describe the procedures used to identify, measure and allocate the ARRA oversight costs to the benefiting ARRA programs. These costs should include allocated and/or billed central service costs that were approved in the supplemental ARRA SWCAP (refer to Section B above for details). The amendment should also address the identification and allocation of State public assistance agency costs incurred for ARRA reporting and oversight activities.

In addition, the currently approved PACAP may need to be amended to include the ARRA awards in the allocation bases for regular general administrative cost pools. The regular general administrative costs allocated to the ARRA awards will not count towards the 0.5 percent limitation; however, reimbursement may be affected by program and/or ARRA award restrictions.

The submission should also include a signed certification in accordance with 45 CFR § 95.507 (b) (8), and the supplemental ARRA PACAP certificate (see Attachment 3).

NOTE: If there are program changes resulting from the ARRA which affects the validity of the approved PACAP procedures, then the State must also address these changes in an amendment.