

## EXECUTIVE DIGEST

# STATEWIDE INDIRECT COST ALLOCATION PLAN

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### **INTRODUCTION**

This report contains the results of our financial related audit of the Statewide Indirect Cost Allocation Plan (SWICAP), Department of Management and Budget for the period October 1, 1990 through June 30, 1994.

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### **AUDIT PURPOSE**

This financial related audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial related audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements. Also, this audit complements our departmentwide financial audits, including the provisions of the Single Audit Act of 1984, which are conducted pursuant to Act 251, P.A. 1986.

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### **BACKGROUND**

A SWICAP is the mechanism by which a state identifies, summarizes, and allocates indirect costs in a logical and systematic manner. Indirect costs are costs incurred within an organizational unit for services that benefit more than one program or function. The State prepares a proposed SWICAP based on estimated costs, and it prepares a final SWICAP based on actual costs. The U.S. Department of

Health and Human Services (HHS) is the cognizant agency which approves the State's SWICAP on a fixed cost basis with a carry-forward agreement. This agreement allows the State to base its proposed SWICAP on estimated costs. The difference between the estimated costs in the proposed SWICAP and actual costs in the final SWICAP for each fiscal year is included as an adjustment in the subsequent year's proposed SWICAP. Because of the nature of this process and the timing of it, the SWICAP for fiscal year 1991-92 was the most current SWICAP with final approval at the time of our review.

A SWICAP is necessary to obtain reimbursement from the federal government for the costs of central support services provided to operating departments by the Department of Civil Rights, Department of Civil Service, Department of Management and Budget (DMB), Department of Treasury, and Office of the Auditor General.

The DMB Office of Financial Management is responsible for the State's SWICAP. Since 1986, DMB has contracted with a private consultant to prepare the SWICAP.

For fiscal year 1991-92, the State received \$6 billion in federal funds. Of this amount, \$16.7 million was recovered in indirect costs.

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**AUDIT  
OBJECTIVES  
AND  
CONCLUSIONS**

**Audit Objective:** To assess the allowability of costs (per OMB Circular A-87) included in the SWICAP.

**Conclusion:** Our assessment of costs included in the SWICAP disclosed that they were allowable, except for questioned costs in Finding 1 relative to an internal service fund's retained earnings exceeding the 60-day limit in the federal guidelines (see the last audit objective).

**Audit Objective:** To assess the reasonableness of the SWICAP methodology used to allocate central support service costs to user departments.

**Conclusion:** Our assessment of the allocation methodology disclosed that it was reasonable.

**Audit Objective:** To assess whether the SWICAP included all documentation required by HHS.

**Conclusion:** Our assessment of SWICAP documentation disclosed that all required documentation was included.

**Audit Objective:** To assess the timeliness of DMB's distribution of SWICAP costs to departments and to assess whether DMB ensured that departmental indirect cost proposals included the correct SWICAP costs.

**Conclusion:** Our assessment disclosed that DMB distributed SWICAP costs to departments in a timely manner and ensured that departmental indirect cost proposals included the correct SWICAP costs.

**Audit Objective:** To assess whether the internal service funds which were included in the SWICAP complied with the federal allowance for retained earnings.

**Conclusion:** Our assessment disclosed that the internal service funds' retained earnings at September 30, 1993 generally were in compliance with the federal allowance for retained earnings. However, we found that DMB's billings for space rental in State buildings were not in full compliance with the federal guidelines (Finding 1).

Also, we found that the billed costs for one internal service fund included unallowable costs for federal programs. As of September 30, 1992, the total amount of these questioned costs was \$1,924,000 (see schedule of questioned costs). DMB and HHS were negotiating the federal share of the costs that should be reimbursed but, as of July 1994, they had not reached an agreement.

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**AUDIT SCOPE**

Our audit scope was to examine the State's Statewide Indirect Cost Allocation Plans which were completed in our audit period. Our audit scope was mainly to examine the final SWICAP for fiscal year 1991-92. We also examined the proposed SWICAP's for fiscal years 1991-92, 1992-93, and 1993-94. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

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**AGENCY  
RESPONSE  
AND PRIOR AUDIT  
FOLLOW-UP**

Our audit report includes one finding and one corresponding recommendation. DMB's preliminary response indicated that it agreed with this recommendation and intended to implement it.

DMB had complied with all three of the prior audit recommendations.