United States Department of the Interior

FISH AND WILDLIFE SERVICE
Washington, D.C. 20240

In Reply Refer To:
FWS/DFM

SEP 24 2004

Memorandum

To: Service Directorate

From: Acting Director

Subject: Changes to Cost Recovery Rates and Policy for Fiscal Years 2005 and 2006

This memorandum establishes the indirect cost recovery rates that will be effective on October 1, 2004. In accordance with the Fish and Wildlife Service Manual, Part 264, the Service analyzes their cost recovery rates every 2 years. The Service's Cost Recovery Team, consisting of representatives from the Division of Financial Management, the Regional Offices, and Washington Program Offices, reviewed current financial information and practices to assess the changes in the Service's rate structure and policy.

In keeping with the current efforts of the Cost Allocation Methodology (CAM) Review Team, the Cost Recovery Team reviewed whether full administrative costs were included in the Service's indirect cost rate. In the past, only certain costs from the Servicewide Operation Support (1664) subactivity were included in the rate calculation. However, in considering the total administrative costs of the Service, all costs in 1664 are captured as part of the cost recovery formula. In addition, the cost recovery calculation was updated to include the Service's administrative costs funded by CAM. As a result, the Servicewide and Regional costs included in CAM are reflected in the Service's FY 2005 indirect cost rates. The standard rate increased from 18 to 22 percent.

The standard rate covers the Service's overhead items, such as leased space, telecommunications, unemployment and workers compensation, Washington and Regional Office cost, DOI and FWS pay and financial systems, Information Technology support costs, FWS financial operations and DOI initiatives such as Activity Based Costing and the Financial and Business Management System (FBMS). The rate also covers the Washington and Regional Program Office administrative costs.

The pass-through rate increased from 4.5 to 6 percent. The rate increase reflects the Service's increased acquisition and financial operation costs in the past 2 years.

Indirect cost recovery is an important component within the CAM process. The cost recovered from the Service's reimbursable activities has a direct effect on the CAM amount assessed to each Service Program. If applicable Service indirect rates are understated or not applied on a consistent basis, the Service's Regional and Washington Program Offices will pay a higher amount into CAM. Therefore, it is the responsibility of each Directorate member to ensure that reimbursable activities under their purview are recovering costs to the fullest extent possible.

Attached is a table of the Service's indirect cost rates and a summary of the cost recovery policy changes effective October 1, 2004. As part of the policy changes, the Service's delegation of authority is amended to provide Assistant Directors, Regional Directors, and California / Nevada Operations Manager authority to enter into reimbursable agreements with private entities up to $50,000. This is an increase from $10,000. An updated policy to replace 264 FW1-2 and 267 FW 1 will be developed that will provide specific guidance on the cost recovery revisions.

The new rates will apply to all reimbursable agreements in FY 2005, except for those that bring forward only the previous fiscal year's available balance. Therefore, carryover balances with new funding will receive the new rate; carryover with no new funding maintains its previous rate.

If you have any questions, please contact Paul Henne, Assistant Director - Business Management and Operations and Chief Financial Officer.

Attachment 1

INDIRECT COST RECOVERY RATE STRUCTURE EFFECTIVE OCTOBER 1, 2004			
TYPE OF RATE	**CODE**	**DESCRIPTION**	**RATE**
Standard Rate	S	The standard rate applies to reimbursable agreements in which the activities are performed by Service personnel in leased facilities. The rate covers costs for leased space, payroll / personnel/ finance systems, phones, Regional office support, contracting/procurement activities and information system infrastructure.	22%
Standard Rate for Service-owned Facilities and USGS/BRD	d-1	This rate applies to reimbursable agreements in which the activities performed by the Service personnel located in Service-owned facilities or in cases where a hosting agency or partner provides space for staff. This rate covers costs for payroll/ personnel/finance systems, phones, Regional office support, contracting /procurement activities, and information system infrastructure.	17%
Pass-through	d-2	A pass-through agreement is a funding mechanism utilized to direct funding or payment to external entities. Funds are received from one party and passed onto another party. Agreements should reflect obligation activity within Budget Object Classes (BOCs) 25 (Contracts), 32 (Construction), and 41 (Financial Assistance). Costs outside of these BOCs may not exceed 5 percent of the agreement's fiscal year expenditures. If these costs exceed 5 percent, agreement must be separated into two FFS project numbers with a pass-through component and a component receiving the standard rate.	6%
Pass-through initiated by the DOI Office of the Secretary	d-3	These agreements receive the same pass-through rate, unless otherwise stated by the Secretary or prohibited by legislation.	6%
International Agreements	d-4	These agreements receive the standard rate, but allow for exceptions, in accordance with OMB A-25.	22%

Fish & Wildlife Coordination Act (FWCA) - Service Personnel	d-5a	This rate is used for Service work, performed by Service personnel, with the U.S. Army Corps of Engineers (COE) and Bureau of Reclamation agreements while carrying out the provisions of the Act. This rate was established by an Memorandum of Understanding (MOU) between the COE and the Service dated January 22, 2003.	38%
Fish & Wildlife Coordination Act (FWCA) - Subcontracted	d-5b	This rate is used for Service work, subcontracted to a third party, with the U.S. Army Corps of Engineers (COE) and Bureau of Reclamation agreements while carrying out the provisions of the Act. This rate was established by an MOU between the COE and the Service dated January 22, 2003.	15%
NRDAR	d-6	This rate will be incorporated in settlement agreements when developing estimates for submission to Department of Justice for assessment /restoration work.	6% - 22%
EPA Superfund	d-7	No rate is assessed for EPA Superfund projects only.	0%
Grants Received	d-8	Effective FY 2005, grant funds received by the Service will be assessed an indirect cost rate. To receive reduced rate of 6 percent, the office awarded the grant must have submitted a proposal and competed for the funding along with other competing entities. If grant was not competitive, then standard indirect cost rates apply. Service office has option in assessing a reduced or zero percent rate to grantor. However, program will be charged the difference between applicable indirect cost rate and the reduced rate.	6% - 22%
Contributed Funds	z	Contributed funds must be deposited in Contributed Funds account or another applicable donation account.	n/a
Fees Collected (Revenue)	z	Service fee revenue is assessed through the Cost Allocation Methodology process.	n/a
Intra-agency Personnel Agreements	z	A 0 percent rate is used when personnel are detailed to other bureaus and/or agencies where there are no additional costs incurred for space, phones, etc. An SF-50 must document the agreement.	0%
Emergency Supplemental	z	This 0 percent rate may only be used with emergency subactivities.	0%

Attachment 2

Changes to Cost Recovery Policy

The following policy changes to the Service's Cost Recovery Policy (Service Manual 264) and Reimbursable Agreements (Service Manual 267) are effective on October 1, 2004, and apply to reimbursable agreements with new funding in FY 2005 or later. These policy changes are not applicable to reimbursable agreements dated before October 1, 2004, and with no new funding in FY 2005 or later. These policy changes will be incorporated in an updated policy to replace 264 FW1-2 and 267 FW 1.

- **Recovered Indirect Cost Distribution for FY 2005 and FY 2006**

Based on the traditional distribution method, the Servicewide account will receive 12.5 percent, Regional Offices 6 percent, and Regional or Washington Program offices 3.5 percent of the 22 percent. However, if the Service implements a user-pay system for paying space costs, the rent portion (calculated at 5 percent of the 22 percent rate) will be distributed to the Regional or Washington Program Office. Therefore, the Servicewide account would receive 7.5 percent, Regional Offices 6 percent, and the Regional or Washington Program offices 8.5 percent.

On the pass-through rate, the Servicewide account will receive 2 percent and the Regional Office will receive 4 percent.

- **Grants received by the Service**

(1) A grant received to the Service is an award based on open competition. The grant agreement generally specifies the uses of the award and any required deliverables such as reports. It differs from a restricted donation by requiring a competitive application and selection process. To meet the criteria, the office awarded the grant must have submitted a proposal and competed for the funding along with other competing entities. If the criteria are met, then the grant received will be assessed indirect costs at the pass-through rate. Standard rates will apply to all other grants received.

(2) Since certain granting organizations may limit or not pay the indirect cost assessed, Service organizations may request, through a written memorandum, a lower or zero percent rate from the Service's Chief Financial Officer (CFO). However, the receiving Service organization must compensate the applicable reimbursable income accounts between using an indirect cost rate lower than the required rate of the agreement. As with any agreement, the Service organization may seek an exception to Service cost recovery policy by receiving Director approval in accordance with Service Manual 264 FW 5.

- **Pass-through Rate Redefined**

(1) A funding mechanism to direct funding to an external third-party entity (such as a State, local or tribal government; an institution of higher education; or a nonprofit organization) where there is little or no Service administrative oversight. These agreements involve strictly acquisition or financial processing services and obligation activity that falls into budget object class (BOC) 25, 32, or 41.

(2) Pass-through agreements may have both a pass-through component and a component where we have staff participation. If the labor is strictly for oversight of the project and the costs outside of BOC 25, 32, or 41 (labor, labor benefits, travel costs, and other non-contractor or non-financial assistance costs) do not exceed 5 percent of the expended costs for the fiscal year, then the pass-through rate may be used. If these costs will exceed the 5 percent threshold, the agreements must be separated and assessed both a pass-through rate and the standard rate. All Service salaries associated with that project must receive the standard rate.

(3) The Pass-through rate for reimbursable agreements under the Fish and Wildlife Coordination Act is 15 percent. This rate was established by an Memorandum of Understanding between the U.S. Army Corp of Engineers and the Service dated January 22, 2003. This rate must be used for agreements under the FWCA.

- **Penalty for using Improper Indirect Cost Rate**

(1) Unless approved by the Director, Service organizations must compensate the applicable reimbursable income accounts for using an indirect cost rate lower than the required rate of the agreement.

(2) Pass-through Agreements. If the labor, benefits, and travel costs exceed the 5 percent threshold and the agreement can not be modified with the external party to increase the rate for the non-pass through costs, the responsible Service organization will be required to make up the difference between the cost recovered on pass-through rate and the cost recovered on the standard rate.

(3) Expired Exception to Policy. Service organizations must update their exception in accordance with Fish and Wildlife Service Manual 264 FW 5. If the exception is not updated and approved by the Director, the Service organization must modify their agreement with the external party at the applicable rate. If the agreement can not be modified, the responsible Service organization will be required to make up the difference between the actual cost recovered and the cost recovered on the standard rate.

- **Delegations of Authority Increased for Reimbursable Agreements with Private Entities**

(1) Assistant Directors, Regional Directors, or the California/Nevada Operations Manager may approve reimbursable agreements with private entities when the agreement does not exceed $50,000. Draft a memorandum for the Assistant Director's, Regional Director's or the California / Nevada Operations Manager signature and provide a copy to the Assistant Director - Business Management and Operations.

(2) Assistant Directors, Regional Directors, or the California /Nevada Operations Manager (or Authorized Officials) may approve reimbursable agreements in excess of $50,000 during the initial phase of a spill response action.

(3) When the agreement exceeds $50,000, the Assistant Director, Regional Director or the California/Nevada Operations Manager must forward a memorandum to the Director through the Assistant Director - Business Management and Operations. The Assistant Director - Business Management and Operations will forward the memorandum to appropriate offices for review and approval.

(4) Include the following information in the transmittal memorandum:

> **(a)** How this agreement will benefit the national mission of the Service.
>
> **(b)** Why the private entity needs the Service's expertise.
>
> **(c)** Summary of scope of work and cost of agreement.
>
> **(d)** Assurance that the private entity is not a prohibited source.