# Colorado Department of Transportation Indirect Cost Allocation Plan

The Colorado Department of Transportation (CDOT) Indirect Cost Allocation system is an automated process that allows the Department to define and accumulate costs for activities chargeable to highway projects but not attributable to a single project. These costs are considered project indirect costs and are included as project costs.

The Department incurs these indirect costs in indirect cost centers. Cost recoveries come from charging a fixed percentage of the Construction Engineering rate to the project, with the offset charged to the Indirect Cost Clearing Cost Center. This allows the Department to recover its costs and allocate them back to benefiting projects.

The system has three distinct processes:

* Indirect Cost accumulation
* Indirect Cost distribution
* Indirect Rate calculation

This document presents the design of the system that will perform these processes.

## Indirect Cost Accumulation

A number of CDOT costs centers have been established to accumulate eligible indirect costs. These cost centers will only accept eligible charges by screening GL accounts.

The accounting organization associated with the Indirect Allocation Plan consists of the following:

* + Indirect Cost Accumulation Cost Centers – individual, budget relevant, cost accumulating cost centers, established to capture project indirect allocable costs for compilation, analysis and specific single item validation.(see Exhibit A)
  + Indirect cost clearing Cost Center – a statewide single, non-budget relevant, Indirect Cost allocation balancing account, established to capture off-setting entries associated with project indirect cost allocation transaction. Offsets duplicate recording of expenses in Indirect Accumulating Cost Centers and Project Indirect allocation expenses.

## Indirect Cost Distribution

Payments made to contractors generate Indirect Cost Distribution on the project. The Indirect Distribution charges have both participating and non-participating components. Under guidelines established by CDOT’s Chief Financial Officer’s office in accordance with FHWA, project types identified below are categorically excluded from receiving indirect cost allocation. These categorically exempted projects are flagged as ineligible for Indirect Cost Allocation on the Accounting Custom Tab, in the CJ20N Transaction of SAP.

Indirect costs will be allocated to eligible projects through the systematic application of the current approved Indirect Cost Allocation rate against **all charges.** These expenditure postings will take place against the specific project in conjunction with the project level direct posting of Contractor Payment Estimates, direct personal service charges, benefit allocation charges, or consultant invoice postings and will be balanced by allocation against a single Indirect Cost Clearing Cost Center. Specifically, identified projects are systematically exempted from the indirect cost allocation process, as detailed latter in this plan. The Indirect Cost Allocation Rate and methodology in effect on the date of project Construction Phase award is applied to the construction phase for the life of the project. In the case of Non-construction phases of work each specific phase of work will have the Indirect Cost Allocation Rate effective at the time of first expenditure applied to qualifying expenditures and the rate and methodology will not change for the life of that project phase.

Expenditure control is maintained by the establishment of an appropriated budget level Indirect Cost Accumulation Cost Center for each CDOT Region Program Engineering Unit. This same organizational budget approach is applied to CDOT Headquarters Engineering Staff Units; Equal Employment Unit, Staff Bridge, Staff Materials, Project Development, Staff Traffic & Safety, and several other CDOT organizations. (See Exhibit B for full listing)

The Indirect Cost Clearing Cost Center account is used to offset the indirect allocation at the project level and when balanced against the combined Indirect Cost Accumulator accounts provides rapid over /under allocation analysis and Indirect Cost rate determination.

Indirect Allocation Eligible Projects have an encumbrance established for anticipated Indirect Cost expenses based upon the project Financial Statements estimated contractor total expenditure. This encumbrance is the total of the participating and non-participating Indirect cost estimate shown on the Project Financial Statement. This Indirect Cost encumbrance is liquidated on an posting by posting basis, based on the Indirect Pool allocations as qualifying expenditures generate cost allocations to the project on an as occurring basis.

## Indirect Rate Calculation

The Indirect Rate Allocation Plan is recalculated annually, based on a rolling 12 month average ending on 30 June, for approval in September, with an effective date of 01 October. The Indirect Rate Calculation process requires CDOT to systematically compare all eligible charges made to the Indirect Cost Accumulation Cost Centers, and analyze these expenditures against the Indirect Costs allocated to projects, to determine the actual experienced allocation rate for further comparison to the planned rate. Based on this analysis, the existing rate will be adjusted up or down as necessary in an attempt to fully allocate all indirect costs accumulated over the planned period of allocation.

As detailed below, the Indirect Cost rate applied to Project Construction CE charges and direct to project personal service related expenditures is developed and implemented annually. Each year the total actual costs incurred for indirect activities will be used in conjunction with the same years total Indirect costs allocated to projects to establish a new Fixed Indirect Allocation Rate for the next Fiscal Year’s awarded projects. This annual calculation will take into account any over/under applied indirect charges from the prior closed Fiscal Year.

The Fixed Annual Rate is a calculated ratio of Total Indirect Costs accumulated in Indirect Cost Centers for the 12 month period beginning on 01 July of previous year and ending on 30 June of the current calendar year, and actual total Indirect Eligible **Expenditures (qualifying Contractor Payment Estimate Expenditure and eligible direct project charged personal service, benefit allocations, consultant costs, Design Costs, ROW Costs and other miscellaneous charges)** for participating projects from the same 12 month period. (Total Indirect Cost Center Costs / Total Direct Project Indirect Eligible Expenses X 100% = Indirect Allocation Percentage Rate).

Any unallocated or over allocated, indirect costs are carried forward at the fiscal year end by closing them to the Indirect Pool Cost Clearing Cost Center for distribution in future periods by adjustment of the annually established fixed rates. Calculation of the annual Fixed Indirect Allocation Rate will include these under /over allocations and current period actual accumulated, indirect costs.

All CDOT projects participate in the Indirect Allocation Plan Process unless categorically exempted by project type as specified below in this Indirect Cost Allocation Plan.

**Indirect Exemptions and Exemption Process** - The Indirect allocation process applies to all projects unless categorically exempted by specific dictate in this document.

Exempted Projects - The following projects are categorically exempted from participating in the Indirect Cost Allocation process:

1) Projects not administered by CDOT are exempt.

2) DTD planning projects are exempt.

3) Maintenance Projects (MP's, MTCE) and Property Projects (P) are exempted.

4) Enhancement (STE) projects funded from SAFETEA-LU and prior authorization acts, until fully expended, are exempted from the Indirect Cost allocation process. A Statewide Enhancement Pool Project exists for capture and reimbursement of enhancement program related administrative costs.

In cases where CDOT and a Local Entity have negotiated a fixed rate or maximum amount of CDOT Indirect Cost allocations, the overall rate as approved by this plan will apply to the project and CDOT will be responsible for funding the non-participating delta between the negotiated rate and the approved rate per this plan.

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