



STATE OF MICHIGAN  
DEPARTMENT OF HUMAN SERVICES  
LANSING



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GOVERNOR

**MICHIGAN IV-D ACTION TRANSMITTAL 2007-012**

**TO:** All Prosecuting Attorney (PA) Staff  
All Friend of the Court (FOC) Staff  
All Office of Child Support (OCS) Staff  
Attorney General Staff

**FROM:** Marilyn F. Stephen, Director  
Office of Child Support

**DATE:** March 23, 2007

**SUBJECT:** Requirement to Report Billed Central Services, Including Internal Service Funds (ISFs) Information, in Indirect Cost Allocation Plans (CAPs) and Timelines for Submitting Indirect Cost Plans

**PURPOSE:**

This Action Transmittal (AT) provides guidelines for the new requirement to report billed central services, including ISFs information, in county CAPs and prescribes timelines for submitting indirect cost plans.

**DEFINITIONS:**

For purposes of this AT, the following definitions will be used:

**Carry-forward** – A request to use a prior fiscal year (FY) indirect cost plan in a contract year in which it would not normally be used because the indirect cost plan for the current FY has not been completed.

**Roll-forward** – The amount in CAPs that is added or subtracted to the total actual costs for the FY. The roll-forward is calculated by comparing billed costs for the FY to the actual costs for the FY. If actual costs are greater than the billed costs, the roll-forward will be an addition. If billed costs are greater than the actual costs, the roll-forward will be a subtraction.

**BACKGROUND:**

The Office of Management and Budget (OMB) Circular A-87, Attachment C requires billed central services, including ISFs, self-insurance and fringe-benefit funds, to be reported in the CAP. ISFs are often used to account for the costs and distribution of the

costs of services/goods provided by one department or agency to another department or agency of the same governmental entity. Although identified separately in Circular A-87, in practice, self-insurance and fringe-benefit funds are often identified as ISFs in financial reports. On occasion, although there is an intra-governmental billing, ISFs will not be used to account for the costs and distribution of the costs of services/goods provided by one department or agency to another department or agency of the same governmental entity. These arrangements must be included in the CAP.

Indirect cost plans must be submitted and approved the month prior to the time they will be used for billing purposes.

## **PROGRAM ACTIONS AND POLICY INFORMATION:**

### **A. Reporting billed central services, including ISFs:**

1. Beginning with all 2006 CAPs, all financial statement information pertaining to the ISFs that bill/charge any costs to the Cooperative Reimbursement Program (CRP) must be included in the central service CAP. The same profit or loss and balance information that must be included in the central service CAP for all ISFs must also be included for all billed central services that do not use an ISF.

Note: All ISFs must be included, even if they have an operating budget of less than \$5 million.

2. The annual audited financial report contains the required ISF information that consists of descriptions, balance sheets, and operating results. To meet the requirements of this AT, county staff must copy the same information and include those pages in their CAP. The information for billed central services that are not accounted for in an ISF may be available from supplementary information contained in the annual audited financial report. However, often the information is not presented in an operating results format. The provider of the indirect cost plan must provide a schedule that shows the relationship between the amounts billed and the actual cost.
3. For either an ISF or a billed central service that does not use an ISF, the following additional information must be provided if the ISF working capital reserve balance requirements of OMB Circular A-87, Attachment C are not met or the amounts billed for a billed central service that does not use an ISF exceed the costs:
  - a. An explanation of why the ISF working capital reserve balance exceeds the limits identified in Circular A-87 and how the amounts billed to the CRP will be adjusted to remove its share of the excess; and

- b. An explanation of why the amounts billed for a billed central service that does not use an ISF exceed the cost of the service and how the amounts billed to the CRP will be adjusted to actual cost.<sup>1</sup>
4. For reporting purposes, the CAP must allocate indirect costs and report on ISFs used for the same fiscal period. For example, if a FY 2005 CAP is being prepared, a summary of the FY 2005 ISFs and billed central service activity must be included in the plan.

B. CAP timelines:

1. Indirect cost plans must be submitted prior to the beginning of the contract year in which they will be used. For example:
  - a. FY – The CAP for FY 2006 (10/01/2005 – 9/30/2006) to be used for the contract year FY 2008 (10/01/2007 – 9/30/2008) must be received the month prior to 10/01/2007 to be reimbursed using those CAP amounts for any billings for that contract year.
  - b. Calendar year – The CAP for the calendar year 01/01/2005 – 12/31/2005 to be used for the contract years 10/01/2006 – 9/30/2007 and 10/01/2007 – 9/30/2008 must be received the month prior to 01/01/2007 to be reimbursed using those CAP amounts for any billings for those contract years.
2. The basic requirement is that CAPs are due no later than one year after the year end closes.

C. Carrying forward CAPs:

1. No indirect costs can be claimed unless the required CAP is submitted.
2. If an indirect cost plan cannot be submitted in a timely manner, county staff may ask their OCS contract manager to carry forward the prior year CAP. The carry-forward request must be submitted in writing prior to the beginning of the first billing month for which the CAP will be carried forward. For example, the request must be received in December if the carry-forward CAP will be used to bill for January, regardless of when the January bill is submitted for payment. A request to carry forward the prior year CAP will not be allowed unless:
  - a. The prior year methods for allocating costs are still valid; and
  - b. There have been no changes that would make the allocated costs unrepresentative of the actual costs of the FY for which the CAP will be used.

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<sup>1</sup> For more detailed guidance, refer to OMB Circular A-87, Attachment C (of particular interest are E.3 and G.1, 2, 4) and the U.S. Department of Health and Human Services publication, *A Guide for State, Local, and Indian Tribal Governments, Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Governments*.

3. A statement that the prior year methods are still valid and that the costs are still representative of the actual costs of the FY must be included in the request to carry forward the prior year CAP, or the carry forward will not be allowed. If the request to use the prior year CAP is approved, the roll-forward amount must be deducted from the CAP amount and cannot be billed.
4. If a request to carry forward a CAP is made and a new CAP for the current FY is completed, the new CAP can only be applied prospectively for the billing months after the date it was received. Prior months' bills that used a prior-year CAP under a carry-forward request cannot be amended.
  - a. If billable costs from the new CAP are less than the carry-forward CAP amount being billed, an adjustment will be made; and
  - b. When the roll-forward for the FY discussed in item #4 above is calculated in a subsequent FY, only the billing months for which an actual plan was provided may be used in the calculation. For example, if a carry-forward request was used for three months of FY 2004, and an actual plan was used for the remaining nine months when the roll-forward for FY 2004 is calculated in FY 2006, only nine-twelfths of the total roll-forward will be allowed.

**LEGAL REFERENCES:**

Federal  
OMB Circular A-87

State  
None

**POLICY REFERENCES:**

None

**AT MAINTENANCE:**

Retain AT until further notice.

**EFFECTIVE DATE:**

Upon receipt.

**REVIEW PARTICIPANTS:**

Program Leadership Group

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**CC:**

None

**ATTACHMENTS:**

None

**MFS/DN/KS**