

**NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION
OFFICE OF NATIONAL MARINE SANCTUARIES**

**OFFICE OF GENERAL COUNSEL FOR NATURAL RESOURCES
FISCAL YEAR 2009 INDIRECT COST RATE**

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Cotton & Company LLP is under contract with the National Oceanic and Atmospheric Administration (NOAA) to develop an indirect cost rate for recovering Office of General Counsel for Natural Resources (GCNR) indirect costs incurred for restoration of injured natural resources.

The purpose of this report is to provide GCNR with the results of Cotton & Company's review of Fiscal Year (FY) 2009 costs and development of an Office of National Marine Sanctuaries (ONMS) indirect cost rate. This document presents GCNR's FY 2009 indirect cost rate and explains the methodology we used. The rate is presented in the Exhibit, with supporting schedules detailing costs by task and by object class. This rate will be used to determine indirect damage assessment and restoration costs allocable to specific ONMS cases for cost-recovery purposes.

BACKGROUND

NOAA has statutory authority to protect and restore the nation's coastal and marine resources. This authority includes the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA); Oil Pollution Act of 1990; Federal Water Pollution Control Act; and National Marine Sanctuaries Act (NMSA). These laws provide for recovery of costs to restore natural resources and their services injured by potentially responsible parties.

Section 312 of NMSA directs NOAA to pursue National Resource Damage Assessment (NRDA) actions when marine sanctuary resources are injured. These actions include assessing the extent of the injury, recovering response and damage assessment costs, and implementing primary and compensatory restoration to make the environment and public whole as a result of the injury. GCNR assists the ONMS in its NRDA actions.

FINANCIAL MANAGEMENT SYSTEM

GCNR costs reside in the NOAA financial management system, Commerce Business Systems (CBS). CBS identifies costs by financial management centers (FMC), task codes, and object classification codes. FMCs are groups of organizations that control funding activities. GCNR's FY 2009 costs were accumulated under FMC 102 (Office of General Counsel).

GCNR assigns each NRDA case, as well as other projects and activities, with one or more unique task codes. GCNR tracks both labor and nonlabor costs by task code. Object classification codes identify the type of cost (such as salaries, travel, and contracts).

GCNR uses task codes to accumulate its indirect costs. These are costs for general and administrative activities that support, sustain, or enhance its mission. Examples of such activities include:

- Employee recruiting and training.
- General budget formulation, monitoring, analysis, and reporting.
- Non-case-specific management and staff meetings on administrative matters.
- General cost accounting, computer support, and secretarial support.
- General records management and database support.
- General program policy and development.
- Spill response readiness.

- Techniques and methods development.

NOAA applies internal burden (overhead) rates to labor costs in CBS to recover agency overhead from each FMC for leave, benefits, and management and support costs. NOAA overhead rate components and bases of application follow:

- **Leave Surcharge** is applied to labor costs and includes costs for administrative, annual, and sick leave.
- **Personnel Benefits** is applied to labor and leave costs. This includes payroll taxes, civil service retirement, health benefits, life insurance, regular employer retirement contributions, Federal Insurance Contributions Act payments, and Federal Retirement Service thrift savings plan basic and matching contributions.
- **NOAA Administrative Support** is applied to labor and leave costs. It includes costs incurred by NOAA's executive, line, and other supporting offices. These costs are associated with administrative functions such as personnel, training, procurement, telecommunications, operations, storage, mail, housekeeping, and other common services.

INDIRECT COST ALLOCATION METHODOLOGY

We developed the indirect cost rate methodology using generally accepted accounting principles, Cost Accounting Standards, and Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government. The following principles are inherent in this allocation method:

- The costing methodology for identifying and allocating costs as direct or indirect is consistently applied.
- The allocation base that best approximates benefits accruing to cost objectives is selected.
- All items properly included in the allocation base are included and receive their share of indirect costs.
- Indirect costs are assigned to cost objectives on a cause-and-effect basis or by allocating on a reasonable and consistent basis.

To develop the indirect cost rate, we:

- Obtained an understanding of GCNR procedures for documenting costs, including its financial management system and business practices.
- Obtained downloads of FY 2009 GCNR cost transactions and performed tests to verify the completeness and accuracy of these downloads.
- Identified costs incurred on ONMS tasks with the assistance of GCNR personnel.
- Identified ONMS task codes as either direct or indirect and accumulated related costs in these categories.

In addition, we adjusted costs as necessary to ensure the accuracy and completeness of the indirect cost pool and base. Adjustments to GCNR costs are described below:

- Labor cost downloads did not include NOAA internal burden charges. We applied applicable NOAA leave and benefit rates to both direct and indirect labor costs. We applied NOAA support and General Services Administration (GSA) rent rates to indirect labor for inclusion in the indirect cost pool.
- We analyzed GCNR indirect costs that were not specifically incurred for ONMS. We identified those that benefited all GCNR programs. Based on direct labor costs for each program, we calculated the amount of these costs allocable to ONMS, and added these costs to the indirect cost pool.

SFFAS No. 4, Paragraph 124, states that costs should be allocated using one of the following three methods:

1. Directly tracing costs (wherever economically feasible).
2. Assigning costs on a cause-and-effect basis.
3. Allocating costs on a reasonable and consistent basis.

It is not practical or feasible to directly assign ONMS indirect costs to final cost objectives. We consider direct labor costs an appropriate base for allocating ONMS indirect costs to benefiting activities. We calculated the FY 2009 indirect cost rate with direct labor costs as a base.

We performed our work in accordance with *Statements on Standards for Consulting Services* promulgated by the American Institute of Certified Public Accountants. We did not review or evaluate NOAA's internal burden rates. Because the indirect cost allocation methodology used to develop the indirect cost rate does not constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion on GCNR's financial statements or its indirect cost rate. This report relates only to the accounts and items specified in the attached exhibit and schedules and does not extend to any financial statement of NOAA.

The information contained in this report is intended solely for the purposes described in the first section of this report and should not be used for any other purpose.

COTTON & COMPANY LLP



Colette Y. Wilson, CPA
Partner

**OFFICE OF GENERAL COUNSEL FOR NATURAL RESOURCES
FISCAL YEAR 2009 ONMS INDIRECT COST RATE**

Indirect Costs	\$48,597
Plus: GCNR Management and Support Cost Allocation	(3,608)
Total Indirect Costs (ONMS)	<u>\$52,205</u>
Direct Labor Costs (ONMS)	<u>\$70,539</u>
Indirect Cost Rate	<u>74.01%</u>

SCHEDULE 1

OFFICE OF GENERAL COUNSEL FOR NATURAL RESOURCES
FISCAL YEAR 2009 ONMS COSTS BY TASK CODE

Task Code	Task Code Description	Direct Labor Costs	Other Direct Costs	Indirect Costs	Total
1CK3J01P00	Sanctuaries General NRDA & Response			<u>\$48,597</u>	\$48,597
1CK3JLSP9	Special Case Litigation Support	\$18,636	\$3,199		21,835
1CK3JLSPN8	Non-Compete Litigation Support	11,470	4,631		16,101
1CK3J75PD7	Rebel Yell	6,798	1,149		7,947
1CK3J80PA8	Operation Freezer Burn	6,039	2,282		8,321
1CK3J75PA4	Easy Going	5,400	913		6,313
1CK3J75PA2	Lady Luck	2,624	444		3,068
1CK3J76PA6	Mar Vida	2,196	371		2,567
1CK3JLSPQ2	Sea Train Litigation Support	2,099	357		2,456
1CK3J45P00	Sanctuaries E-307 (non-case specific)	2,002	340		2,342
1CK3J76PB2	Why Not	1,484	251		1,735
1CK3J75PA6	Fat N Sassy (aka DO 1107468) (NMS), FL	1,205	204		1,409
1CK3J76PB6	Monkey Business	1,080	182		1,262
1CK3J76PA8	Global Warming	1,004	169		1,173
1CK3J75PD8	Freedom	947	161		1,108
1CK3J45PB6	E307 Cases - D16236X	913	154		1,067
1CK3J76PA5	FL3457MC	786	133		919
1CK3J74PA1	Snake Creek Anchor	736	124		860
1CK3J75PA7	Seagrass Groundings – Dani	634	107		741
1CK3J03PN8	Non Compete	614	104		718
1CK3J78PA2	Hurricane Wilma	485	81		566
1CK3J78PA1	Legacy	355	60		415
1CK3H36P00	Luckenbach Restoration Planning	342	58		400
1CK3J75PB7	Limitless Dream	286	48		334
1CK3J75PA5	Chey Dee	284	48		332
1CK3J03PP2	FL7808CT	254	43		297
1CK3J67P00	Bubba	248	42		290
1CK3J75PB5	Marone Houseboat	200	34		234
1CK3J75PA1	Miss Ellen	181	31		212
1CK3J76PB9	Island Diver	181	31		212
1CK3J03PQ2	Mini-323 Damage Assessment - Sea Train	172	29		201
1CK3J75PD1	Whitby	166	28		194
1CK3J03P00	Mini-312 Damage Assessment	153	26		179
1CK3J75PD4	Santa Lucia	141	24		165
1CK3J45PB8	E307 Cases - Baer Shart	134	23		157
1CK3J03PP9	Mini-312 Damage Assessment - Special K	86	14		100
1CK3J76PB1	Tarpon	71	12		83
1CK3J76PB4	Miss Olga	53	9		62
1CK3J76PA9	Grazi	38	7		45
1CK3J75PA9	OH9744DK (NMS), FL	24	4		28
1CK3H05P00	Great Lakes Planning	<u>18</u>	<u>3</u>		<u>21</u>
	Total	<u>\$70,539</u>	<u>\$15,930</u>	<u>\$48,597</u>	<u>\$135,066</u>

SCHEDULE 2

OFFICE OF GENERAL COUNSEL FOR NATURAL RESOURCES
FISCAL YEAR 2009 NSMP COSTS BY OBJECT CLASS

Object Class	Object Class Description	Direct Labor Costs	Other Direct Costs	Indirect Costs	Total
1112	General Schedule, General Merit, Senior Executive Service and Presidential Appointees	\$44,080		\$26,315	\$70,395
1160	Leave Surcharge Full-Time Permanent Appointments	9,725		6,016	15,741
1180	Credit Hours Earned	1,577		612	2,189
1182	Compensatory Leave Earned	844			844
1210	Employer's Contribution Surcharge	14,313		8,600	22,913
2140	Expenses Related to Domestic Travel - Paid to Traveler		\$2,802		2,802
2143	Expenses Related to Domestic Travel - Paid to Vendors		1,275		1,275
2213	All Other Transportation of Things			5	5
2319	Rental Payments to GSA		4,984	2,965	7,949
9876	General Support (NOAA)		6,869	4,084	10,953
Total		<u>\$70,539</u>	<u>\$15,930</u>	<u>\$48,597</u>	<u>\$135,066</u>