

HANDOUT PACK

Developing the Independent Government Cost Estimate



MANAGEMENT
CONCEPTS

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Developing the Independent Government Cost Estimate

Course #1125

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TABLE OF CONTENTS

Exercise Solution Supplements

- Exercise Solution: Corrected Requirements Document
- Exercise Solution: Preparing a Work Breakdown Structure
- Exercise Solution: Preparing a Detailed Estimate
- Exercise Solution: Parametric Analysis
- Exercise Solution: Trend Analysis
- Exercise Solution: Preparing IGCE

Handout Supplements

- Typical Fringe Benefits



EXERCISE SOLUTION SUPPLEMENTS

EXERCISE SOLUTION: CORRECTED REQUIREMENTS DOCUMENT

Background

The Department has been maintaining the lawn in front of its satellite headquarters building in Beltsville, Maryland using government employees. These employees are being assigned other duties and will not be available for lawn care and maintenance after September 30 of this year. In order to maintain and improve the appearance of the headquarters facility for the visiting public and to enhance the morale of employees, the Department wishes to contract for nursery and lawn care services.

Scope

The contractor shall plant and maintain a flower garden and maintain the rectangular lawn located in front of the Department's building at 3600 Dixon Road, Beltsville, Maryland.

Requirements

The contractor shall accomplish the following:

1. Garden

1.1 Initial Planting – Within five (5) days after 1 October:

1.1.1 Lay out a thirty (30) foot diameter circle directly in front of the entrance of the building referred to above. The circle shall be centered on a line perpendicular to the face of the building at a distance of 35 feet from the face of the building.

CHECKPOINT: Notify the government representative after layout of the circle.

1.1.2 Remove grass cover from the circle.

1.1.3 Turn and break up the soil to a depth of twelve inches. Prepare the soil for planting chrysanthemums.

1.1.4 Plant twenty (20) fully flowering Hardy Royal, Daisy Red, or Allure chrysanthemum plants in accordance with suppliers instructions for local conditions. The plants shall be eighteen (18) to twenty (20) inches in height after planting and shall be uniformly distributed in the circle.

1.1.5 Cover open ground in the circle and ground between the plants with a layer of pine bark mulch to a depth of eight (8) inches.

1.2 Winter Planting — Within five (5) days after 15 November:

1.2.1 Remove all chrysanthemum plants and mulch from the circular area.

1.2.2 Turn and breakup the soil to a depth of twelve (12) inches. Prepare the soil for planting crocus, tulip, daffodil, and liliium bulbs and holly bushes.

1.2.3 Plant thirty (30) each of crocus, tulip, daffodil, and liliium bulbs in accordance with supplier's instructions for local conditions. Each bulb shall be 1.5 to 2 inches in vertical diameter. The bulbs shall be placed no less than six (6) inches apart and shall be uniformly distributed in the circle, along with the holly bushes specified in the following paragraph.

1.2.4 Plant ten (10) holly bushes of at least a twenty-four (24) inch diameter, and no taller than thirty-six (36) inches after planting. The holly bushes shall be uniformly distributed in the circle along with the bulbs specified in the previous paragraph.

1.2.5 Cover open ground in the circle and ground between the plants with a layer of pine bark mulch to a depth of eight (8) inches.

1.3 Summer Planting — Within five (5) days after 1 June:

1.3.1 Remove holly bushes, bulbs, and mulch from the circular area. Break bulb clusters into separate bulbs and store for potential replanting in the fall.

1.3.2 Turn and breakup the soil to a depth of twelve (12) inches. Prepare the soil for planting annual bedding plants

1.3.3 Plant forty (40) each of flowering impatiens, petunias, and geranium plants in accordance with supplier's instructions for local conditions. The plants shall be distributed uniformly in the circle.

1.3.4 Cover open ground in the circle and ground between the plants with a layer of pine bark mulch to a depth of eight (8) inches.

1.4 Fall Planting — Within five (5) days after 1 September:

1.4.1 Remove annual plants and mulch from circular area.

1.4.2 Turn and break up the soil to a depth of twelve inches. Prepare the soil for planting chrysanthemums.

1.4.3 Plant twenty (20) fully flowering Hardy Royal, Daisy Red, or Allure chrysanthemum plants in accordance with suppliers instructions for local conditions. The plants shall be eighteen (18) to twenty (20) inches in height after planting and shall be uniformly distributed in the circle.

1.4.4 Cover open ground in the circle and ground between the plants with a layer of pine bark mulch to a depth of eight (8) inches.

2. Lawn Care

2.1 Mowing

2.1.1 Mow the ten thousand (10,000) square foot lawn area in front of the headquarters building to a uniform height of two (2) inches. After the initial mowing, mow the grass when the height exceeds three (3) inches.

2.1.2 Trim the edges of the lawn after each mowing.

2.1.3 Weed the lawn by removing weeds by hand and maintain the lawn weed free by treatment with organic herbicides and hand weeding.

2.2 Thatching and Fertilizing — Within five (5) days after 15 November:

2.2.1 Thatch the lawn area by hand raking accumulated (thatched) grass clippings to break up hardened thatch around the roots of the grass. Rake and remove loosened thatch from the site.

2.2.2 Test the lawn soil in ten (10) uniformly distributed locations to determine soil pH. Soil samples shall be a core sample two (2) inches in diameter to a depth of twelve (12) inches. Apply powdered lime in accordance with supplier's recommendations to adjust the soil pH to be between 6.8 and 7.3.

2.2.3 Fertilize the lawn with dehydrated cow manure. Break the fertilizer into small pieces and distribute it uniformly over the entire lawn area. Rake the fertilizer into the grass so that it cannot be seen after the fertilizing operation is complete. Water the lawn after application to wash fertilizer residue down to the roots of the grass.

3. Reseeding — Within five (5) days after 1 April:
 - 3.1 Reseed the lawn using Kentucky Bluegrass seed in accordance with supplier's instructions.
 - 3.2 Hand roll the lawn area with a fifty (50) gallon water-filled lawn roller.
4. General
 - 4.1 Lawn mowing shall be performed using a reel type lawn mower with a cutting width between eighteen (18) and twenty (24) inches. The mowing shall be accomplished by double mowing in straight lines to create a cross hatched pattern on the finished lawn. The mowing directions shall be at angles within five (5) degrees each of sixty (60) degrees and one-hundred and twenty (120) degrees from the face of the building. Mow the grass to a uniform height of two (2) inches and mow as frequently as necessary to maintain the height of the grass between two (2) and three (3) inches. To meet this standard in the past five years, the grass has been mowed no more than twice each month and on the average 1.5 times each month during the months of October, November, and March. The grass is normally dormant during the months of December through February and mowing will be necessary only if the grass height exceeds three (3) inches. In the past five years the grass has been mowed no more than once weekly and on the average three (3) times every four weeks during the months of April through September.
 - 4.2 Lawn edging shall be accomplished for all lawn edges adjacent to the concrete walkways and driveway bordering the lawn. The lawn edging shall leave an area between the concrete and lawn clear of grass, uniform in appearance, and between 3/4 and 1 1/4 inches wide.
 - 4.3 The lawn shall be treated with organic herbicides and pesticides to maintain the lawn free of weeds and damage from insects or other organisms. Apply treatments as specified by manufacturers and to maintain the lawn uniform in color. In the past five years four (4) treatments annually have been sufficient to maintain the lawn properly.
 - 4.4. The garden shall be maintained weed free by hand weeding.
 - 4.5 Water the garden and lawn area covered by this contract to maintain the health and beauty of the plant life. Water is available from two connections in the lawn area. During the last five years, watering accomplished three (3) to five (5) times a week during the growing season, April through September, has been adequate to support the health and beauty of the plant life.
 - 4.6 All plants acquired for use under this contract shall remain the property of the government and shall be stored and cared for by the contractor for future use by the government. Plants that die or become unusable for the intended purpose shall be replaced by the contractor at no additional expense to the government.
 - 4.7 The soil in the garden area is soft topsoil to a depth of eighteen (18) inches. In turning and breaking the soil in the garden area, break the soil into clumps no larger than two (2) inches in any dimension. In preparing the garden area for plantings, the soil shall be tested for proper pH balance. Add alkaline or acid ingredients as necessary to adjust the pH within the range specified by plant suppliers for plants to be planted. Water the soil for plantings as recommended by plant suppliers.
 - 4.8 Pine bark mulch shall be fine to medium grade with pieces no larger than two (2) inches in any dimension. Pine bark mulch removed from the garden may be reused only if it is not contaminated with other materials such as pests, mildew, or other plant materials.
 - 4.9 All cuttings and other refuse produced as a consequence of the work outlined above shall be removed from the premises and disposed of in a manner consistent with prevailing law.
 - 4.10 In the performance of all work, the contractor shall ensure that visitors to and employees located in the above referenced premises shall not be inconvenienced during normal working hours.

Period of Performance

All services required above shall be performed during the period beginning on October 1 and ending September 30 of the following year.

EXERCISE SOLUTION: PREPARING A WORK BREAKDOWN STRUCTURE

1 Grounds Maintenance

1.1 GARDEN

1.1.1 INITIAL PLANTING

- 1.1.1.1 Lay Out Garden Area
- 1.1.1.2 Remove Grass Cover
- 1.1.1.3 Turn and Break Up Soil
- 1.1.1.4 Test and Adjust Soil
- 1.1.1.5 Plant Chrysanthemums
- 1.1.1.6 Apply Mulch
- 1.1.1.7 Clean Up

1.1.2 WINTER PLANTING

- 1.1.2.1 Remove Chrysanthemums and Mulch
- 1.1.2.2 Turn and Break Up Soil
- 1.1.2.3 Test and Adjust Soil
- 1.1.2.4 Plant Bulbs
- 1.1.2.5 Plant Holly Bushes
- 1.1.2.6 Apply Mulch
- 1.1.2.7 Clean Up

1.1.3 SUMMER PLANTING

- 1.1.3.1 Remove Plants, Bulbs, and Mulch
- 1.1.3.2 Separate Bulb Clusters
- 1.1.3.3 Turn and Break Up Soil
- 1.1.3.4 Test and Adjust Soil
- 1.1.3.5 Plant Annuals
- 1.1.3.6 Apply Mulch
- 1.1.3.7 Clean Up

1.1.4 FALL PLANTING

- 1.1.4.1 Remove Annuals and Mulch
- 1.1.4.2 Turn and Break Up Soil
- 1.1.4.3 Test and Adjust Soil
- 1.1.4.4 Plant Chrysanthemums
- 1.1.4.5 Apply Mulch
- 1.1.4.6 Clean Up

1.2 LAWN CARE

1.2.1 MOWING OCT, NOV, AND MAR

- 1.2.1.1 Mow
- 1.2.1.2 Trim
- 1.2.1.3 Weed
- 1.2.1.4 Clean Up

1.2.2 MOWING APR TO SEP

- 1.2.2.1 Mow
- 1.2.2.2 Trim
- 1.2.2.3 Weed
- 1.2.2.4 Clean Up

1.2.3 THATCHING AND FERTILIZING

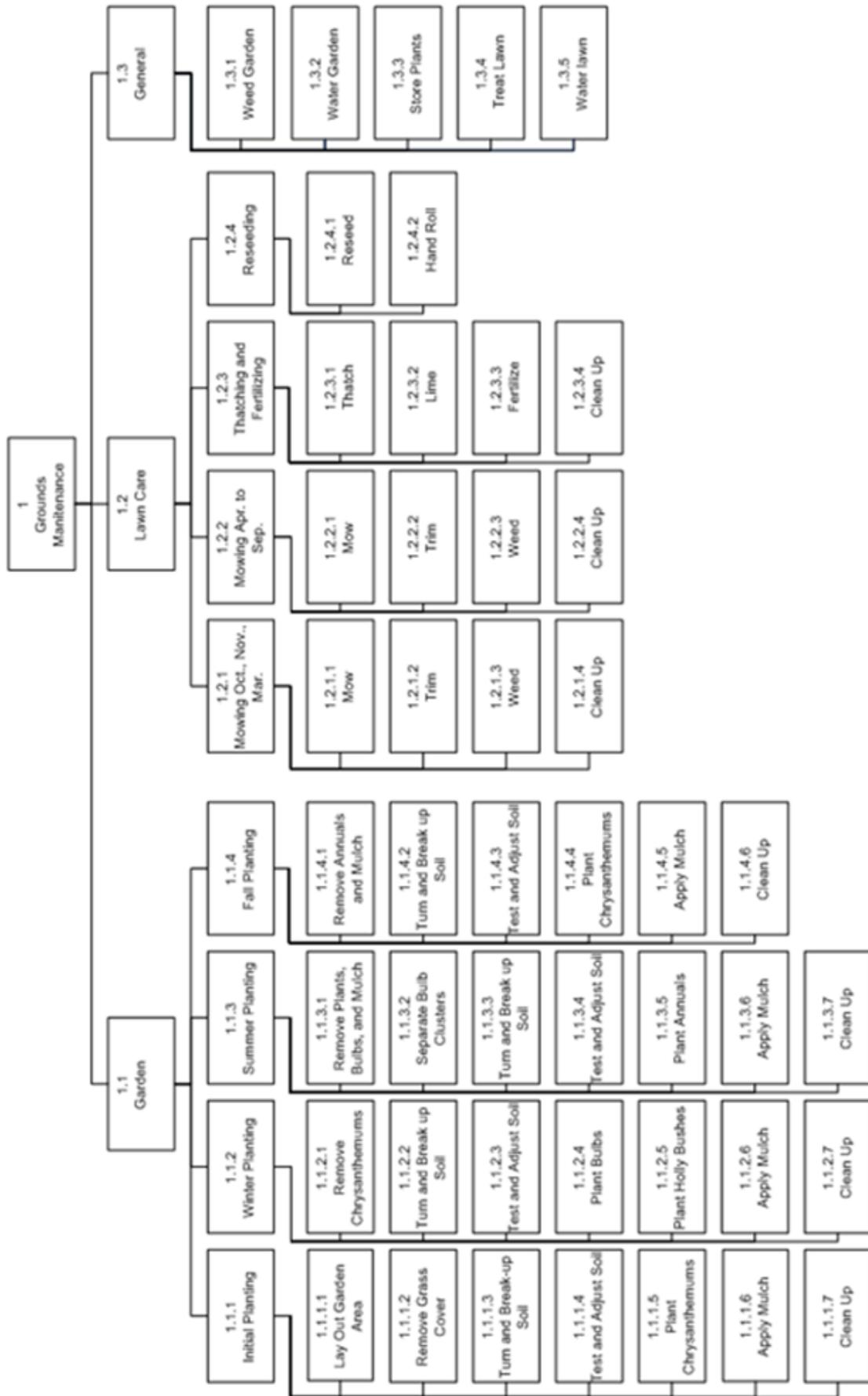
- 1.2.3.1 Thatch
- 1.2.3.2 Lime
- 1.2.3.3 Fertilize
- 1.2.3.4 Clean Up

1.2.4 RESEEDING

- 1.2.4.1 Reseed
- 1.2.4.2 Hand Roll

1.3 GENERAL

- 1.3.1 Weed Garden
- 1.3.2 Water Garden
- 1.3.3 Store Plants
- 1.3.4 Treat Lawn
- 1.3.5 Water Lawn



EXERCISE SOLUTION: PREPARING A DETAILED ESTIMATE

EXERCISE SOLUTION: PREPARING A DETAILED ESTIMATE

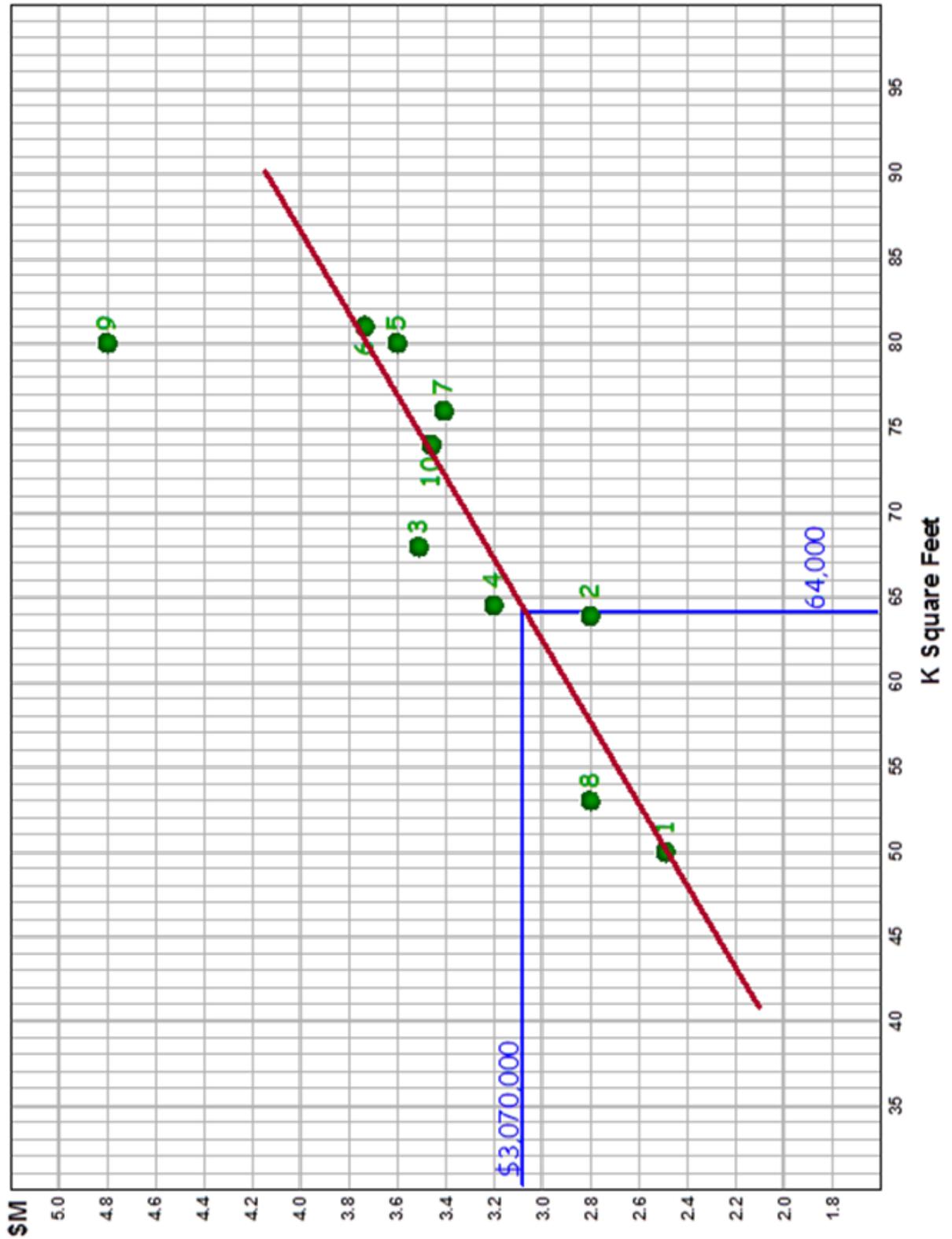
		Superv. Hours	Laborer Hours	Material	Equipment
1.1	GARDEN				
1.1.1	INITIAL PLANTING				
1.1.1.1	Lay Out Garden Area	0.5	0.5	lime to mark circle	tape measure,
1.1.1.2	Remove Grass Cover	2	6		stake, twine,
1.1.1.3	Turn and Break Up Soil	1	3		shovel, hoe,
1.1.1.4	Test and Adjust Soil	0.5	0.5	5 # lime or acidic compost	pick, rake, pH
1.1.1.5	Plant Chrysanthemums	1	3	20 chrysanthemums (18 to 20 in. after planting)	meter, wheel
1.1.1.6	Apply Mulch	2	6		barrow, truck
1.1.1.7	Clean Up	0.5	1	18 cubic yards to medium pine bark mulch 2 trash bags	
	total labor hours	7.5	20		
1.1.2	WINTER PLANTING				
1.1.2.1	Remove Chrysanthemums &	2	6	20 trash bags	shovel, stake,
1.1.2.2	Mulch	1	3		wheel barrow,
1.1.2.3	Turn and Break Up Soil	0.5	0.5	5 # lime or acidic compost	hoe, pick, rake,
1.1.2.4	Test and Adjust Soil	1	3	120 bulbs	pH meter,
1.1.2.5	Plant Bulbs	1	3	10 holly bushes (24x36 planted)	bulb diggers,
1.1.2.6	Plant Holly Bushes	1	3	10 cubic yards fine to medium pine bark mulch	truck
1.1.2.7	Apply Mulch	1	3		
	Clean Up			2 trash bags	
	total labor hours	7.5	21.5		
1.1.3	SUMMER PLANTING				
1.1.3.1	Remove Plants, Bulbs, and	2	6		shovel, stake,
1.1.3.2	Mulch	1	3	250 bulb bags	wheel barrow,
1.1.3.3	Separate Bulb Clusters	1	3		hoe, pick, rake,
1.1.3.4	Turn and Break Up Soil	0.5	0.5	5 # lime or acidic compost	pH meter,
1.1.3.5	Test and Adjust Soil	1	3	120 flowering annuals	bulb diggers
1.1.3.6	Plant Annuals	1	3	10 cubic yards fine to medium pine bark mulch	
1.1.3.7	Apply Mulch	1	3		
	Clean Up			2 trash bags	

	Superv. Hours	Laborer Hours	Material	Equipment
total labor hours	7.5	21.5		
1.1.4 FALL PLANTING				
1.1.4.1 Remove Annuals and Mulch	2	6		shovel, stake,
1.1.4.2 Turn and Break Up Soil	1	3		wheel barrow,
1.1.4.3 Test and Adjust Soil	0.5	0.5	5 # lime or acidic compost	hoe, pick, rake,
1.1.4.4 Plant Chrysanthemums	1	3	20 chrysanthemums (18 to 20 in. after planting)	pH meter,
1.1.4.5 Apply Mulch	1	3		bulb diggers,
1.1.4.6 Clean Up	1	3	10 cubic yards fine to medium pine bark mulch 2 trash bags	truck
total labor hours	6.5	18.5		
1.2 LAWN CARE				
1.2.1 MOWING OCT, NOV, & MAR				
1.2.1.1 Mow	1	3		shovel, rake,
1.2.1.2 Trim	0.5	1		wheel barrow,
1.2.1.3 Weed		0.5		hoe, pick, pH
1.2.1.4 Clean Up	1	1	3 trash bags (x5)	meter, bulb diggers, truck
total labor hours	2.5	5.5		
performed 5 times	12.5	27.5		
1.2.2 MOWING APR TO SEP				
1.2.2.1 Mow	1	3		lawn mower,
1.2.2.2 Trim	0.5	1		edger, rake,
1.2.2.3 Weed		0.5		truck
1.2.2.4 Cleanup	1	1	5 trash bags (x18)	
total labor hours	2.5	5.5		
performed 18 times	45	99		

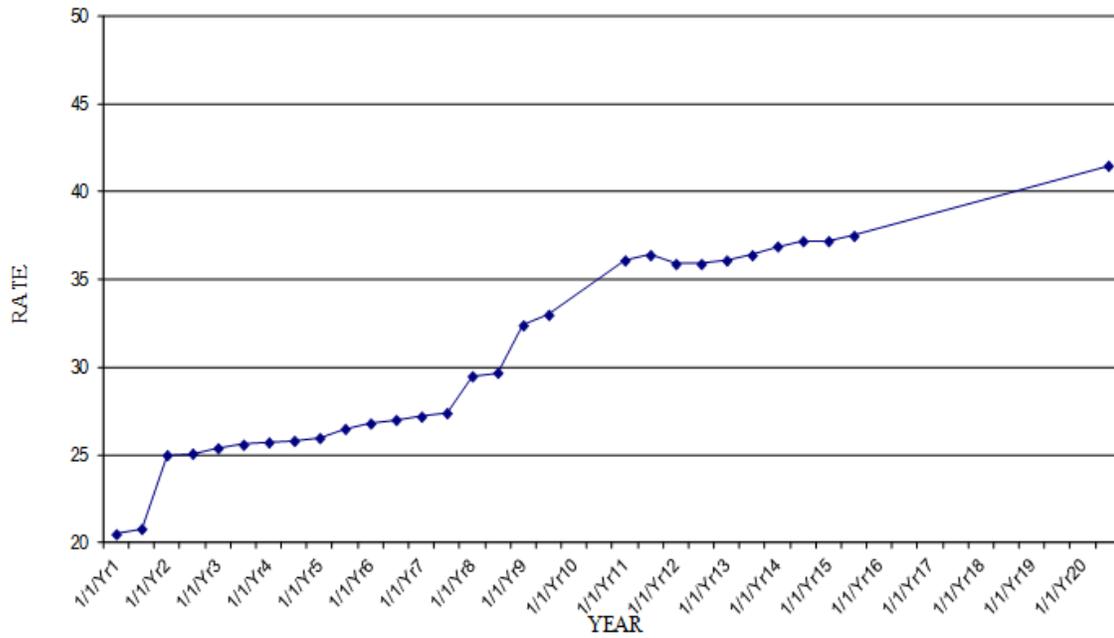
EXERCISE SOLUTION: PREPARING A DETAILED ESTIMATE

		Superv. Hours	Laborer Hours	Material	Equipment
1.2.3	THATCHING AND				
1.2.3.1	FERTILIZING	2.5	6		rake, hose,
1.2.3.2	Thatch	0.5	1	40 # lime	spreader,
1.2.3.3	Lime	4	12	15 cubic yards dehydrated cow manure	pH meter,
1.2.3.4	Fertilize	1	3	5 trash bags	wheel barrow,
	Clean Up				truck
	total labor hours	8	22		
1.2.4	RESEEDING				
1.2.4.1	Reseed	0.5	2	15 # Kentucky Bluegrass	spreader,
1.2.4.2	Hand Roll	1	3		50 gal drum roller
	total labor hours	1.5	5		
1.3	GENERAL				
1.3.1	Weed Garden x 100	50	100	trash bags	hose,
1.3.2	Water Garden x 100	50	100		greenhouse,
1.3.3	Store Plants				tank truck
1.3.4	Treat Lawn x 4	4	12	treatment chemicals, herbicide (x4)	
1.3.5	Water Lawn x 100	50	200		
	total labor hours	154	412		

EXERCISE SOLUTION: PARAMETRIC ANALYSIS



EXERCISE SOLUTION: TREND ANALYSIS



EXERCISE SOLUTION: PREPARING IGCE

		Superv. Hours	Laborer Hours	Material	Equipment
1.1	GARDEN				
1.1.1	INITIAL PLANTING				
1.1.1.1	Lay Out Garden Area	0.5	0.5	lime to mark circle	na
1.1.1.2	Remove Grass Cover	2	6		
1.1.1.3	Turn and Break Up Soil	1	3		
1.1.1.4	Test and Adjust Soil	0.5	0.5	5 # lime or acidic compost	\$2
1.1.1.5	Plant Chrysanthemums	1	3	20 chrysanthemums (18 to 20 in. after planting)	\$240
1.1.1.6	Apply Mulch	2	6	18 cubic yards to medium pine bark mulch	\$144
1.1.1.7	Clean Up	0.5	1	2 trash bags	\$1
	total labor hours	7.5	20		total material \$387
	labor rates, \$/hr	\$20	\$12		
	extended price	\$150	\$240		
	total direct labor \$	\$390			
1.1.2	WINTER PLANTING				
1.1.2.1	Remove Chrysanthemums & Mulch	2	6	20 trash bags	\$10
1.1.2.2	Mulch	1	3		
1.1.2.3	Turn and Break Up Soil	0.5	0.5	5 # lime or acidic compost	\$2
1.1.2.4	Test and Adjust Soil	1	3	120 bulbs	\$630
1.1.2.5	Plant Bulbs	1	3	10 holly bushes (24x36 planted)	\$750
1.1.2.6	Plant Holly Bushes	1	3	10 cubic yards fine to medium pine bark mulch	\$80
1.1.2.7	Apply Mulch	1	3	2 trash bags	\$1
	total labor hours	7.5	21.5		total material \$1,473
	labor rates, \$/hr	\$20	\$12		
	extended price	\$150	\$258		
	total direct labor \$	\$408			

	Superv. Hours	Laborer Hours	Material	Equipment
1.1.3 SUMMER PLANTING				
1.1.3.1 Remove Plants, Bulbs, and	2	6		
1.1.3.2 Mulch	1	3	250 bulb bags	\$4
1.1.3.3 Separate Bulb Clusters	1	3		
1.1.3.4 Turn and Break Up Soil	0.5	0.5	5 # lime or acidic compost	\$2
1.1.3.5 Test and Adjust Soil	1	3	120 flowering annuals	\$260
1.1.3.6 Plant Annuals	1	3	10 cubic yards fine to medium pine bark	\$80
1.1.3.7 Apply Mulch	1	3	mulch	\$1
Clean Up			2 trash bags	
total labor hours	7.5	21.5		total material \$347
labor rates, \$/hr	\$20	\$12		
extended price	\$150	\$258		
total direct labor \$	\$408			
1.1.4 FALL PLANTING				
1.1.4.1 Remove Annuals and Mulch	2	6		
1.1.4.2 Turn and Break Up Soil	1	3		
1.1.4.3 Test and Adjust Soil	0.5	0.5	5 # lime or acidic compost	\$2
1.1.4.4 Plant Chrysanthemums	1	3	20 chrysanthemums (18 to 20 in. after	\$240
1.1.4.5 Apply Mulch	1	3	planting)	\$80
1.1.4.6 Clean Up	1	3	10 cubic yards fine to medium pine bark	\$1
			mulch	
			2 trash bags	
total labor hours	6.5	18.5		total material \$402
labor rates, \$/hr	\$20	\$12		
extended price	\$130	\$222		
total direct labor \$	\$352			
1.2 LAWN CARE				
1.2.1 MOWING OCT, NOV, & MAR				
1.2.1.1 Mow	1	3		
1.2.1.2 Trim	0.5	1		
1.2.1.3 Weed		0.5		
1.2.1.4 Clean Up	1	1	3 trash bags (x5)	\$1

EXERCISE SOLUTION: PREPARING IGCE

	Superv. Hours	Laborer Hours	Material	Equipment
total labor hours	2.5	5.5		total material \$5
performed 5 times	12.5	27.5		
labor rates, \$/hr	\$20	\$12		
extended price	\$250	\$330		
total direct labor \$	\$580			
1.2.2 MOWING APR TO SEP				
1.2.2.1 Mow	1	3		
1.2.2.2 Trim	0.5	1		
1.2.2.3 Weed		0.5		
1.2.2.4 Cleanup	1	1	5 trash bags (x18)	\$2
total labor hours	2.5	5.5		total material \$27
performed 18 times	45	99		
labor rates, \$/hr	\$20	\$12		
extended price	\$900	\$1,188		
total direct labor \$	\$2,088			
1.2.3 THATCHING AND FERTILIZING				
1.2.3.1 Thatch	2.5	6		
1.2.3.2 Lime	0.5	1	40 # lime	\$8
1.2.3.3 Fertilize	4	12	15 cubic yards dehydrated cow manure	\$180
1.2.3.4 Clean Up	1	3	5 trash bags	\$2
total labor hours	8	22		total material \$190
labor rates, \$/hr	\$20	\$12		
extended price	\$160	\$264		
total direct labor \$	\$424			
1.2.4 RESEEDING				
1.2.4.1 Reseed	0.5	2	15 # Kentucky Bluegrass	\$105
1.2.4.2 Hand Roll	1	3		

		Superv. Hours	Laborer Hours	Material	Equipment
	total labor hours	1.5	5		total material \$105
	labor rates, \$/hr	\$20	\$12		
	extended price	\$30	\$60		
	total direct labor \$	\$90			
1.3	GENERAL				
1.3.1	Weed Garden x 100	50	100	trash bags	\$30
1.3.2	Water Garden x 100	50	100		
1.3.3	Store Plants				
1.3.4	Treat Lawn x 4	4	12	treatment chemicals, herbicide (x4)	na
1.3.5	Water Lawn x 100	50	200		
	total labor hours	154	412		total material \$30
	labor rates, \$/hr	\$20	\$12		
	extended price	\$3,080	\$4,944		
	total direct labor \$	\$8,024			

	Superv. Hours	Laborer Hours	Total Direct Material
SUMMARY			
1.1.1 INITIAL PLANNING	\$150	\$240	\$387
1.1.2 WINTER PLANNING	\$150	\$258	\$1,473
1.1.3 SUMMER PLANNING	\$150	\$258	\$347
1.1.4 FALL PLANTING	\$130	\$222	\$402
1.2.1 MOWING OCT, NOV, & MAR	\$250	\$330	\$5
1.2.2 MOWING APR to SEP	\$900	\$1,188	\$27
1.2.3 THATCHING AND FERTILIZING	\$160	\$264	\$190
1.2.4 RESEEDING	\$30	\$60	\$105
1.3 GENERAL	\$3,080	\$4,944	\$30
total of all lines	\$5,000	\$7,764	\$2,966
TOTAL COST ESTIMATE			
Direct Labor Cost	\$12,764		
Labor Overhead @ 50%	\$6,382		
Direct Material Cost	\$2,966		
Total Direct & Overhead	\$22,112	General &	
Administrative @ 20%	\$4,422		
SubTotal	\$26,534		
Profit @ 10%	\$2,653		
Total Cost Estimate	\$29,187		



HANDOUT SUPPLEMENTS

TYPICAL FRINGE BENEFITS

Fringe benefits are allowances and services provided by the organization to its employees as compensation in addition to regular wages and salaries. Fringe benefits are appropriate charges to the extent such benefits are:

- in accordance with established policy of the organization;
- required by employer/employee agreement;
- treated consistently; and
- required by law.

Typical fringe benefits include:

- Vacation pay.
- Holiday pay.
- Sick leave.
- Bereavement leave.
- Military leave.
- Sabbatical leave.
- Salary continuance.
- Health insurance.
- Life insurance.
- Pension plan.
- Employee welfare and recreation.
- Severance pay.
- Jury duty.
- Tuition remission.
- Remission of hospital charges.
- Social Security taxes (FICA).
- Unemployment compensation insurance.
- Workers' compensation insurance.
- State disability insurance.
- Federal unemployment insurance.

General Description of Common Fringe Benefits

- Vacation is time-off provided to the employee. The normal allotted time is two weeks annually, but up to 20 days may be considered reasonable and appropriate.
- Sick leave is absence due to illness or other unexpected incapacity. Up to 13 days annually could be considered acceptable if in accordance with the organization's established procedures.
NOTE: The number of days considered as reasonable for vacation and sick leave is based on the standard allowances or leave time applicable to federal government employees. However, a greater number of days may also be reasonable depending on the established organizational policy, practice of other organizations of comparable size and nature, etc.
- Holidays are those days granted by the employer through established policy on which the employees are exempt from work. Normally, the number of holidays varies from six to 10 days per year. The following are examples of the most common holidays:

New Year's Day

Labor Day

Memorial Day

Thanksgiving Day

Independence Day

Christmas Day

If consistently applied, certain additional holidays may also be given according to the organization's policy, such as Martin Luther King Day, Columbus Day, Veterans Day, employee's birthday, or extra days to provide the employee with longer weekends.

- Bereavement leave of absence is usually granted due to the death or critical illness of an immediate member of the family. The normal time-off allowed is three days.
- Federal Insurance Contributions Act (FICA) taxes (Social Security contributions) are payable by the employer/employee on an equal basis.
- State unemployment compensation insurance standard rate is 2.8%. However, the contribution rate may range from 0.0% to 6.0%. The rate is applied to a portion of the employee's gross salary and fully contributed by the employer. Check with appropriate state for the applicable rate and employee's salary base.
- Workers' compensation insurance is fully contributed by the employer and varies according to the organization's claims experience.
- Federal unemployment insurance base rate is 0.7% to a maximum rate of 3.5% applicable nationwide. The rate is applied to a portion of the employee's gross salary and is fully contributed by the employer.

Fringe Benefits (Direct Vs. Indirect)

Treatment of fringe benefits is very individualized and will, therefore, vary by organization.

If fringe benefits are treated as direct costs, they are directly identifiable to a given salary or wage. If fringe benefits are treated as indirect costs, all benefits within a given class are pooled together. Consequently, the organization is receiving applicable reimbursement either through its indirect cost rate or fringe benefit rate.

However, an organization may elect to separate fringe benefits and treat one class directly and another indirectly. For example, certain costs that are not easily identifiable to given individuals — such as workers' compensation insurance and state unemployment compensation insurance — may be treated as indirect costs. The remaining benefits, which are more readily identifiable to given individuals, may be charged directly. Additionally, some organizations elect to treat certain types of fringe benefits as regular compensation paid to employees, usually in the form of authorized absences, such as vacation, holiday, sick leave, etc. In such instances, the benefits are considered to be salaries or wages and charged in a manner similar to that of labor costs. Regardless of the method of costing (e.g., direct, indirect, or combination of both), the organization must do it consistently.

Preliminary Steps in Reviewing Benefits

The primary objective of the fringe benefits review is to determine that the benefits proposed are reasonable, allowable, and applicable. This involves the following steps:

- Determine whether the organization has negotiated a currently effective fringe benefits rate.
- Ascertain that the total amount paid is commensurate and consistent with fringe benefits paid under the organization's established policy.
- Ascertain that those fringe benefits paid are comparable to those paid in the labor market in which the organization competes for employees. This is particularly necessary where an organization receives the majority of its funds from federal sources.
- Ascertain that the organization has complied with federal and state laws and regulations.

Areas of Particular Concern

The following is a list of problem areas relative to the charging of fringe benefits. The existence of any of these items on a particular project does not necessarily indicate that an award cannot be processed. It does suggest, however, that a problem may exist and that further investigation is warranted.

- Charging fringe benefits applicable to government awards directly while charging all other fringe benefits of the organization indirectly.
- Lack of a consistent, written policy regarding fringe benefits.
- Excessive fringe benefits for executives.
- Understanding and applying different federal and state requirements regarding fringe benefits.
- Where a fringe benefit rate is used, understanding its component parts, the base for application, and handling of actual overages/underages.

Detailed Review Procedures

The following procedures are intended to serve as a guide in the review and evaluation of fringe benefits.

- **Determine that sufficient data and documentation needed to evaluate fringe benefits have been submitted.** In order to adequately evaluate the proposed fringe benefits, certain background information must be provided by the organization. The following list is not intended to be all inclusive, but rather, to be used as a guide in determining the basic information needed to perform an in-depth review of fringe benefits.
 - If a fringe benefit rate is proposed, determine whether the organization is a nonprofit or profitmaking entity.
 - **Nonprofit.** Determine whether the rate is current and has been reviewed and approved (negotiated).
 - **Profitmaking.** By consultation with the applicant organization, determine whether the rate has been reviewed and approved by another awarding component of the federal government. If so, contact such office for a verification of such information. Where another government agency has not reviewed or approved the proposed rate, test its

reasonableness by comparing total fringe benefits paid in the most recently completed fiscal year with those paid by similar firms in the area doing the same type of work.

- Written policy on the type and makeup of fringe benefits paid by class of employee is needed. Organizational handbook issued to new employees may contain this information.
 - Names (if applicable) and job titles of those individuals who will perform on the project are needed.
 - If direct identification of individuals working on the project is possible, obtain data on most recent fringe benefits paid by items and amount.
 - If estimates are used (e.g., anticipated changes in federal or state laws, increases in pension funds), obtain data from which estimates were derived.
 - Written policy is needed of how various fringe benefits are to be treated (e.g., direct vs. indirect).
 - Any other type of information necessary to make an informed judgment should be supplied.
- **If it is a renewal or continuation application, determine whether any advance agreements were established in prior awards and if so, whether the organization complies with the agreements for the proposal under review.** In prior evaluations, advance agreements may have been established to preclude disputes or problems or to help ensure more equity in the future. Examples of such agreements applicable to fringe benefits include:
 - changes in the organization's accounting system to identify more accurately certain types of fringe benefits;
 - treatment of certain types of fringe benefits;
 - performance of special studies or analyses in connection with the development of future proposals; and
 - limitation on certain fringe benefits.
 - **Determine treatment of fringe benefits (e.g., direct or indirect).** If the organization is charging one class of fringe benefits directly to the activity, determine that this is consistent with the method used for determining the indirect cost rate (e.g., if the organization has elected to treat one class of fringe benefits as indirect costs, it cannot charge them directly to any grant or contract regardless of any other restriction placed on the award).
 - **Determine whether the organization has elected to treat some class of fringe benefits as personal compensation.** Many organizations treat the cost of authorized absences such as vacation, holidays, sick leave, and other time off as part of the personnel compensation cost category. The reviewer should ensure that such items are not duplicated in the personal compensation and fringe benefit categories so as to prevent overrecovery of these costs by supported organizations.
 - **Compare types and amounts of fringe benefits proposed on the application with those established by organizational policy.** Ensure that the organization charges similar types of fringe benefits to other areas as it does to government activities. In determining reasonable amounts, comparison to other organizations of similar size, nature, and type may be useful.
 - **If individuals who are to work on a project activity are identifiable, compare current fringe benefits with those proposed on application.** Fringe benefits each year should not differ substantially unless some change in organizational policy or federal or state law has taken place.

- **Ensure that fringe benefit plans include those prerequisites required by law.** All fringe benefit plans must, at a minimum, provide the following prerequisites:
 - Social Security contributions or a substitute state plan where permitted;
 - federal unemployment insurance contributions;
 - state unemployment compensation insurance contributions; and
 - workers, compensation insurance coverage.
- **If proposed fringe benefits are based on estimates, determine the propriety of the method used.** The organization may use one or a combination of the following methods for estimating fringe benefits:
 - past experience for a given type position;
 - fringe benefits of a comparable organization; and/or
 - anticipated organization, federal, or state regulation changes, etc.

Regardless of the method used, test reasonableness by comparing total fringe benefits paid in the most recently completed fiscal year with that of total salaries paid. This information may be contained in the organization's certified financial statements.
- **If a fringe benefit rate is used, determine whether the organization is a nonprofit or profitmaking entity.**
 - **Nonprofit.** In addition to negotiating indirect cost rates, agencies may negotiate the establishment of fringe benefit rates if the organization uses a rate to charge and bill fringe benefits.
 - **Profitmaking.** The propriety of a fringe benefit rate for a profitmaking organization may best be determined by comparing the rate proposed with the most recent historical fringe benefit rate available, or by comparing the benefit rate with that of an organization of similar nature, type, and size.
- **If only one fringe benefit rate is proposed, determine whether two or more would be more equitable.** Very often when different classes of individuals are employed (e.g., professional and clerical), two or more fringe benefit rates may be appropriate.
- **If fringe benefit costs are not being proposed by means of a rate, determine the composition of the costs (by classes of benefits), percentages used in computing the cost, and personnel to whom benefits apply.** Benefits offered should include those required by law. Percentages used in computing these costs should not exceed those required by law (e.g., private nonprofit 501(c)(3) organizations are exempt from paying federal unemployment). You may contact the local Internal Revenue Service or state income tax office for additional guidance. As for other benefits offered, reasonableness may be determined by comparing benefits available to employees of organizations of similar nature, type, and size.
- **If this is a profitmaking organization, determine whether the organization has a written policy for handling overages/underages of the fringe benefit rate.** Regardless of the method used, the organization must have a written policy consistently applied for handling overages/underages of the fringe benefit rate.

Any one of the following is acceptable:

 - incorporating overages/underages into the indirect cost pool;
 - incorporating overages/underages into the fringe benefit rate of the following year; or
 - adjusting the current fringe benefit rate to include overages/underages and then rebilling for any differences. In the case of nonprofit organizations, the appropriate audit office will evaluate the propriety of the organization's policy in this regard.

- **Determine the overall reasonableness of fringe benefit costs proposed.** Fringe benefit plans usually include:
 - medical insurance;
 - disability benefits;
 - pension plan;
 - death benefits;
 - paid absences; and
 - taxes and contributions required by law (e.g., FICA and unemployment compensation insurance).

When the time-off-with-pay benefit is treated as part of the salary cost, the remainder of the fringe benefit plan usually will not exceed 20% of salary costs when the organization offers retirement income (pension). Where no retirement income is offered, the remainder of the fringe benefit plan should be about 12% of salary costs.