Indirect Costs and Indirect Cost Plans
To ensure recipients and subrecipients:

• Charge indirect costs only with an approved indirect cost rate (ICR) or cost allocation plan for certain entities

• Charge what would be allowable indirect costs

• Know how to obtain an approved indirect cost rate

• Know what to include in the indirect cost plan

• Know about de minimis indirect cost rate if it is available to your organization
To ensure pass-through entities confirm:
Subrecipients have Federally approved indirect cost rates when needed
Negotiating indirect cost rate plan with subrecipient when needed (200.331(a)(4))
Use or approval of a de minimis rate if appropriate
Monitoring indirect cost charges of subrecipients
After completing this module, you will be able to:

- Define indirect cost terms
- Identify who needs to have an indirect cost rate
- Distinguish between the different types of indirect cost rates
- Understand where to get more information about an indirect cost rate plan and where to find submission requirements
- Understand how to apply indirect cost rates
INDIRECT COST BASICS
Direct Costs can be readily identified with a particular cost objective (2 CFR 200.413).

Examples are costs that are specific to a single program:

- Salaries for a case manager who only works with dislocated workers
- Square footage of space occupied by the case manager above
- Supplies used by the case manager
- Communications devices, such as a cellphone used by the case manager
Indirect Costs Defined

200.56 Indirect (facilities & administrative) costs

Indirect (F&A) costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.
What are Indirect Costs?

Those costs which are **not readily identifiable** with a particular cost objective. Examples:

- Salaries for Executive Director, Accountant, etc.
- Square footage of space occupied by indirect staff
- Supplies used by indirect staff
- Communications devices used by indirect staff
An indirect cost rate is simply a method used to determine the amount of indirect costs each program (funding source) should pay.

Multiply the approved indirect cost rate by the approved base specified in the indirect cost agreement.
Recipient makes a decision on merits of collecting or not collecting indirect costs associated with grant(s)

Allow recipients and subrecipients to recover facilities and administrative (F&A) costs

Why Charge Indirect Costs?
Why I Would Need a Rate

Rate not needed
- Only one funding source
- Have no indirect costs in budget
- Elect not to charge indirect costs

Rate is necessary
- Have a direct Federal cost reimbursable grant
- More than one funding source
- Request reimbursement
- To ensure equitable and relative allocation of costs among all funding streams
• ALL funding, Federal and non-Federal, must be included in rate calculations
• Reimbursement of indirect costs is between the organization and funding source
  • Indirect cost rate allocates pooled expenses to all activities, including fundraising and non-Federal activities
  • Once costs are allocated to all activities, reimbursement of indirect costs is between the organization and the non-Federal funding source
**Charging Indirect Costs**

**Direct DOL Recipient**
- Obtain approved indirect cost rate from DOL’s Division of Cost Determination (DCD) or Federal indirect cost cognizant agency
- Use de minimis rate

**Pass-Through Entity**
- Negotiate indirect cost rates for your subrecipients
- Obtain approved indirect cost rate, or
- Use de minimis rate

**Subrecipient**
- Negotiate indirect cost rate with your pass-through entity or obtain approved indirect cost rate from a Federal indirect cost cognizant agency if you have direct Federal awards
- Use de minimis rate
Recipients without directly-awarded Federal grants

- Cannot get an approved indirect cost rate from DCD or Federal indirect cost cognizant agency
- Must negotiate rate with the pass-through entity that awarded funds to your organization, or opt for de minimis rate
**De Minimis Rate**

**De minimis**
- Defined in Uniform Guidance at 2 CFR 200.414(f)
- Means “at a minimal rate”

**Eligibility**
- Never received/currently do not have an indirect cost rate
- May charge 10% of modified total direct costs (MTDC) for an indefinite period

**Non-Eligibility**
- Governmental units with more than $35 million in direct Federal funding
Modified Total Direct Costs (MTDC)

- Actual salaries, wages, fringe benefits, materials and supplies, services, and travel
- Subawards up to the first $25,000 of each subaward

MTDC Exclusions

- Equipment, capital expenditures, patient care, rental costs, tuition and participant support costs
- Portion of subawards in excess of 25,000
- Other items may be excluded by Federal cognizant agency
True or False?

I can choose not to charge indirect costs to my Federal grant even if my organization has indirect costs that would qualify.

Select your answer. Then click Submit.

- A) True
- B) False

The correct answer is A.
Click anywhere or press Control Y to continue.
True or False?

If my organization has a Federally funded grant awarded by a pass-through entity, I must apply for a Federally approved indirect cost rate.

Select your answer. Then click Submit.

- A) True
- B) False

The correct answer is B. Click anywhere or press Control Y to continue.
True or False?

I can use a de minimis rate to charge indirect costs to a Federal grant only when I have a grant directly funded by the Federal government.

Select your answer. Then click Submit.

- A) True
- B) False

The correct answer is B. Click anywhere or press Control Y to continue.
APPLYING FOR A FEDERALLY APPROVED INDIRECT COST RATE
Applicable Uniform Guidance References

- Institutions of Higher Education
  - New: Uniform Guidance Appendix III
- Non-Profit Organizations
  - New: Uniform Guidance Appendix IV
- State/Local Governments and Indian Tribes
  - New: Uniform Guidance Appendix VII
- Commercial organizations FAR 48 CFR 31.2, 42.7 and 52.216.7
- HHS publication ASMB C-10, Attachment E provides guidance on ICR proposals
Simple Example:

Total Grant Costs = $1.6 million

Indirect Costs (Pool) = $ 20,000

Direct Costs (Base) = $100,000

(e.g., Direct Salaries & Benefits)

Indirect Cost Rate = 20%
**Direct salaries** - Approved rate is applied to the amount of direct salaries in the grant.

**Rate** 25%

Direct Salaries $400,000

Direct Salaries Charged $100,000

**Direct salaries and fringe benefits** - Approved rate is applied to the amount of direct salaries plus direct fringe benefits in the grant.

**Rate** 20%

Direct Salaries /Fringe Benefits $600,000

Indirect Costs $120,000
**Total direct costs** - Approved rate is applied to the amount of direct costs.

- Rate: 15%
- Direct Costs: $1,000,000
- Direct Costs Charged: $150,000

**Modified total direct costs (MTDC)** - Approved rate applied to the amount of grant salaries, wages, fringe benefits, materials and supplies, services, travel; sub-awards up to first $25,000 of each (other costs excluded).

- Rate: 20%
- Salaries, etc. sub-awards to $25K: $800,000
- MTDC Charged: $160,000
Not all indirect costs are necessarily classified as administrative costs

- Indirect cost proposal distinguishes which salaries are program or administrative costs
- Approved rate applied separately to program and administrative costs
- Indirect program costs charged as program costs
- Indirect administrative costs charged as administrative costs
  - Remember that amount chargeable may be limited
Never had a Federally-approved indirect cost rate
  • New proposal must be submitted no later than three months after effective date of DOL award
Have a Federally-approved indirect cost rate
  • Next proposal must be submitted no later than six months after close of organization’s fiscal year
Extensions may be granted
120 days to turn-around from receipt. Exceptions allowed for extenuating circumstances
What calculation is used to compute the indirect cost rate?

Select your answer. Then click Submit.

- A) Amount of direct costs in the pool divided by the amount of indirect costs in the base
- B) Amount of indirect costs in the pool divided by the amount of direct costs in the base

The correct answer is B. Click anywhere or press Control Y to continue.
When is my new indirect cost proposal due if I have never had a Federally-approved rate?

Select your answer. Then click Submit.

- A) No later than six months after the effective date of the DOL award
- B) No later than three months after the effective date of the DOL award

The correct answer is B. Click anywhere or press Control Y to continue.
When is my next proposal due if I currently have a Federally-approved indirect cost rate?

Select your answer. Then click Submit.

- A) No later than six months after the close of the organization’s fiscal year
- B) No later than three months after the close of the organization’s fiscal year

The correct answer is A. Click anywhere or press Control Y to continue.
TYPES OF INDIRECT COST RATES
**Types of Indirect Cost Rates**

**Predetermined Rate**
- Estimate not exceeding rate based on actual costs

**Fixed Rate**
- Difference between estimate and actual carried forward as adjustment to rate for next period

**Final Rate**
- Determined after base period has passed
**Provisional Rate (or Billing Rate)**

- Temporary, adjusted when final rate determined

**10 Percent De Minimis Rate**

- Any non-Federal entity that has never received a negotiated indirect cost rate [with exceptions] … may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely (200.414(f))
Approved Rate Applies to All Grants

- All Federal agencies will accept the rate as Federally approved for their grants
- Also applies when the organization is a subrecipient of another grant
- Actual allowable charges may be limited by:
  - Grant budget
  - Cost limitations
  - Federal regulations
  - Available funds
RESOURCES
ICR Checklist

- 1a. Organization Chart
- 1b. Compliance with documentation of personnel expenses
- 1c. Signed cost policy statement
- ICR proposal
  - Personnel costs worksheet
  - Allocation of personnel worksheet
  - Fringe benefits worksheet
  - Statement of total costs
  - Statement of Indirect costs
- Audited financial statements
- Certification

The Indirect Cost Proposal Checklist located at WorkforceGPS on the Indirect Costs and Cost Allocation page. This guide was prepared by the DOL Division of Cost Determination. It summarizes the required documentation you need for your ICR proposal. It also provides you with a handy checklist to guide your preparation of the proposal.
Examples

- Signed cost policy statement – III-14-18
- Personnel costs worksheet – III-2
- Allocation of personnel worksheet – III-4
- Statement of total costs and distribution of indirect costs to cost centers – III-8/10
- Certification – III-19

A PDF document entitled “Examples_ICR_Exhibits,” is also located at WorkforceGPS at the Indirect Costs and Cost Allocation page. It provides examples of information and documentation that are typically included in an indirect cost rate proposal.
200.19 Cognizant agency for indirect costs

- The Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals on behalf of all Federal agencies
- ICR proposal submitted to the cognizant Federal agency.
- Largest dollar volume of direct Federal funding (normally) to determine the cognizant agency. Concept flows down to state, local, or other levels of funding.
- All States have HHS for their Statewide Indirect Cost Allocation Plan (SWICAP)
- If DOL recipient, visit Division of Cost Determination (DCD) link for info: [http://www.dol.gov/oasam/boc/dcd/](http://www.dol.gov/oasam/boc/dcd/)
Guides to Developing Cost Allocation Plans and Indirect Cost Rate Agreements

- “A Guide for Indirect Cost Determination”
  - Issued by DOL–OASAM January 2015
  - For non-profits and commercial organizations
  - Requirements and sample work papers
    - Section II: Indirect cost Proposal Checklist
    - Section III: Exhibits

ASMB C-10 Guide

- Issued by HHS
- For state and local governments
- Includes a Q&A section
  [Link](https://rates.psc.gov/fms/dca/ASMBc-10.pdf)
SUMMARY
Module Summary

Section 1: Indirect Cost Basics
- Charging indirect costs to Federal grants
- Reasons for needing an indirect cost rate

Section 2: Applying for a Federally Approved Indirect Cost Rate
- Indirect rate calculations

Section 3: Types of Indirect Cost Rates
- Methods of communicating policies and procedures
- Examples of consequences associated with non-compliance

Section 4: Resources
• It is up to each entity receiving grant funds to decide whether to charge indirect costs to Federal grants.
• De minimis rates (10% of MTDC) can be charged by entities meeting certain conditions (200.414(f))
• An indirect cost rate proposal requires the recipient to provide specific documentation and meet certain timeframes (200.416 and Appendices)
• Pass-through entities have responsibilities to their subrecipients regarding indirect costs (200.331)
• Guidance is available from a number of sources
This presentation is complete.