

# How to Calculate Indirect Costs Guidance of New Supercircular

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  - \* **Certified Public Accountant (CPA)**
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- \* **Over 25 years of Experience in Governmental Accounting, Auditing, Financial Reporting, Audits under OMB Circular A-133 and the Single Audit Act Amendments of 1996**
- \* **Recurring instructor for these topics in various locations**

# Basic Considerations

- \* **Total cost of a federal award is composed of its:**
  - \* **Allowable direct costs**
  - \* **Allocable indirect costs**
  - \* **Less any applicable credits**
  
- \* **Costs must be allowable**

# Allowability of Costs

- \* **Necessary and reasonable for performance of federal awards**
  - \* **Allowable thereto under these principles**
- \* **Conform to any limitations or exclusions set forth by 2 CFR Part 200 as to types or amounts**
- \* **Be consistent with policies and procedures that apply uniformly to federally-financed and non-federally financed activities**

# Allowability of Costs

- \* A cost may not be assigned as Direct if any other costs for the same purpose has been allocated as Indirect.
- \* Be determined in accordance with GAAP
  - \* Except for state, local governments
- \* Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period.
- \* Be adequately documented.

# Reasonable Costs

- \* In its nature and amount, does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

# Considerations Regarding Reasonability

- \* Generally recognized as ordinary and necessary for the operation of the non- Federal entity or the proper and efficient performance of the Federal award.
- \* Sound business practices; arm's-length bargaining; Federal, state and other laws and regulations; and terms and conditions of the Federal award.

# Considerations Regarding Reasonability

- \* **Market prices for comparable goods or services**
  - \* **Consider the geographic area.**
- \* **Individuals acted with prudence in the circumstances.**
- \* **Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which *may unjustifiably increase* the Federal award's cost.**



# Allocable Costs

- \* A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.**

# Allocable Costs

- \* Is incurred specifically for the Federal award;
- \* Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- \* Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

# Allocable Costs

- \* All activities which benefit from the non-Federal entity's indirect cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.
- \* Any cost allocable to a particular Federal may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons.

# Direct Costs Allocation Principles

- \* If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit.
- \* If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

# Direct Costs Allocation Principles

- \* Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal award
- \* Regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required.

# Applicable Credits

- \* **Receipts or reduction-of-expenditure type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect.**
- \* **Purchase discounts, rebates or allowances**
- \* **Recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges.**
- \* **To the extent that such credits accruing to or received relate to allowable costs, they must be credited to the Federal award.**

# Prior Written Approval

- \* The reasonableness and allocability of certain items of costs may be difficult to determine.
- \* To avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the consider asking for prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs.

# Prior Written Approval

- \* Prior written approval should include the timeframe or scope of the agreement.
- \* The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element,
- \* Unless prior approval *is specifically required* for allowability as described under certain circumstances



# Prior Written Approval – Specific Requirements

- \* § 200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, Paragraph (b)(5);
- \* § 200.306 Cost sharing or matching;
- \* § 200.307 Program income;
- \* § 200.308 Revision of budget and program plans;
- \* § 200.332 Fixed amount subawards;
- \* § 200.413 Direct costs, paragraph
- \* § 200.430 Compensation—personal services, paragraph (h);
- \* § 200.431 Compensation—fringe benefits;
- \* § 200.438 Entertainment costs;
- \* § 200.439 Equipment and other capital expenditures;

# Prior Written Approval – Specific Requirements

- \* § 200.440 Exchange rates;
- \* § 200.441 Fines, penalties, damages and other settlements;
- \* § 200.442 Fund raising and investment management costs;
- \* § 200.445 Goods or services for personal use;
- \* § 200.447 Insurance and indemnification;
- \* § 200.454 Memberships, subscriptions, and professional activity costs
- \* § 200.455 Organization costs;
- \* § 200.456 Participant support costs;
- \* § 200.458 Pre-award costs;
- \* § 200.462 Rearrangement and reconversion costs;
- \* § 200.467 Selling and marketing costs; and
- \* § 200.474 Travel costs

# Adjustment of Previously Negotiated Indirect Cost Rates Containing Unallowable Costs

- \* **Indirect cost rates based on a proposal later found to have included costs that are unallowable**
- \* **Must be adjusted, or a refund must be made.**
- \* **These adjustments or refunds are designed to correct the proposals used to establish the rates and**
- \* **Do not constitute a reopening of the rate negotiation.**

# Adjustments

- \* The adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).
- \* For rates covering a future fiscal year of the non-Federal entity, the unallowable costs will be removed from the indirect (F&A) cost pools and the rates appropriately adjusted.
- \* For rates covering a past period, the Federal share of the unallowable costs will be computed for each year involved and a cash refund (including interest chargeable in accordance with applicable regulations) will be made to the Federal government.

# Adjustments

- \* If cash refunds are made for past periods covered by provisional or fixed rates, appropriate adjustments will be made when the rates are finalized to avoid duplicate recovery of the unallowable costs by the Federal government.**
- \* For rates covering the current period, either a rate adjustment or a refund must be required by the cognizant agency for indirect costs.**

# Adjustments

- \* **The choice of method must be at the discretion of the cognizant agency for indirect costs, based on its judgment as to which method would be most practical.**
- \* **The amount or proportion of unallowable costs included in each year's rate will be assumed to be the same as the amount or proportion of unallowable costs included in the base**
- \* **year proposal used to establish the rate.**

# Classification of Costs

- \* **There is no universal rule for classifying costs as either direct or indirect**
- \* **May be direct for a specific service/function**
  - \* **But indirect to a federal program or other cost objective**
- \* **Each item of costs for the same purpose should be treated consistently in like circumstances**
  - \* **Either as direct or indirect**

# Direct Costs

- \* **Costs that can be identified specifically with a particular cost objective**
- \* **Cost objective**
  - \* **A federal award**
  - \* **Other internally or externally funded activity**
- \* **Can be directly assigned to such activities relatively easily**
- \* **Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.**



# Direct Costs

- \* Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect costs of Federal awards.
- \* Typical costs charged directly to a Federal award are the compensation of employees who work on that award, their related fringe benefit costs, the costs of materials and other items of expense incurred for the Federal award.

# Direct Costs

- \* If directly related to a specific award, certain costs that otherwise would be treated as indirect costs *may also include* extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations.
- \* The salaries of administrative and clerical staff should normally be treated as indirect costs.

# Direct Costs – Administrative & Clerical

- \* **Administrative or clerical services are integral to a project or activity;**
- \* **Individuals involved can be specifically identified with the project or activity;**
- \* **Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and**
- \* **The costs are not also recovered as indirect costs.**

# Direct Costs

- \* **Minor items.** Any direct cost of minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost **is consistently applied** to all Federal and non-Federal cost objectives.
- \* The costs of certain activities are not allowable as charges to Federal awards.

# Direct Costs

- \* However, even though these costs are unallowable for purposes of computing charges to Federal awards, they nonetheless must be treated as direct costs for purposes of determining indirect cost rates
- \* And be allocated their equitable share of the non-Federal entity's indirect costs if they represent activities which:
  - \* Include the salaries of personnel,
  - \* Occupy space, and
  - \* Benefit from the non-Federal entity's indirect costs.

# Indirect Costs

- \* **Specific rules apply to Major Institutions of Higher Education (IHE) and other nonprofit organizations**
- \* **Major IHEs are defined as those required to use the Standard Format for Submission as noted in Appendix III to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs) paragraph C. 11.**
- \* **Major nonprofit organizations are those which receive more than \$10 million dollars in direct Federal funding.**

# Indirect Costs – Federal Agency Acceptance of Negotiated Indirect Cost Rates

- \* The negotiated rates must be accepted by all Federal awarding agencies.
- \* A Federal awarding agency may use a rate different from the negotiated rate for a class of Federal awards or a single Federal award only when
  - \* Required by Federal statute or regulation, or
  - \* When approved by a Federal awarding agency head or delegate based on documented justification

# Federal Agency Acceptance of Negotiated Indirect Cost Rates

- \* **The Federal awarding agency head or delegate must notify OMB of any approved deviations.**
- \* **The Federal awarding agency must implement, and make publicly available, the policies, procedures and general decision making criteria that their programs will follow to seek and justify deviations from negotiated rates.**



# Requirements for Development and Submission of Indirect Cost Rate Proposals and Cost Allocation Plans

# Requirements

- \* **Appendix III to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for IHE;**
- \* **Appendix IV to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations;**
- \* **Appendix V to Part 200—State/Local Government and Indian Tribe-Wide Central Service Cost Allocation Plans;**

# Requirements

- \* **Appendix VI to Part 200—Public Assistance Cost Allocation Plans; and**
- \* **Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals.**

# Requirements

- \* An entity *that has never received* a negotiated indirect cost rate, except for those non-Federal entities described in Appendix VII to Part (d)(1)(B) may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely.
- \* Costs must be consistently charged as either indirect or direct costs
- \* Must be used consistently for all Federal awards until such time as a entity chooses to negotiate for a rate, which may do at any time.

# Requirements

- \* Any non-Federal entity that has a federally negotiated indirect cost rate *may apply for a one-time extension* of a current negotiated indirect cost rates for a period of *up to four years*.
- \* This extension will be subject to the review and approval of the cognizant agency for indirect costs.

# Requirements

- \* If an extension is granted the non-Federal entity may not request a rate review until the extension period ends.**
- \* At the end of the 4-year extension, the non-Federal entity must re-apply to negotiate a rate.**

# Required Certifications

- \* The annual and final fiscal reports or vouchers requesting payment under the agreements must include a certification, signed by an official who is authorized to legally bind the non-Federal entity, which reads as follows:
  - \* “By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the Federal award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise. (U.S. Code Title 18, Section 1001 and Title 31, Sections 3729–3730 and 3801–3812).”

# Certification of cost allocation plan or indirect cost rate proposal.

- \* Must be certified by the non-Federal entity using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs**
- \* The certificate must be signed on behalf of the non-Federal entity by an individual at a level no lower than vice president or chief financial officer of the non-Federal entity that submits the proposal.**



# Certification of cost allocation plan or indirect cost rate proposal.

- \* Federal government may either disallow all indirect costs or unilaterally establish such a plan or rate when the non-Federal entity fails to submit a certified proposal for establishing such a plan or rate in accordance with the requirements.
- \* Such a plan or rate may be based upon audited historical data or such other data that have been furnished to the cognizant agency for indirect costs and for which it can be demonstrated that all unallowable costs have been excluded.

# Certification of cost allocation plan or indirect cost rate proposal.

- \* When a cost allocation plan or indirect cost rate is unilaterally established by the Federal government because the non-Federal entity failed to submit a certified proposal,**
- \* The plan or rate established will be set to ensure that potentially unallowable costs will not be reimbursed.**

# States, Local Governments and Indian Tribes

- \* **Certain services, such as motor pools, computer centers, purchasing, accounting, etc., are provided to operating agencies on a centralized basis.**
- \* **Since Federal awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis.**
- \* **The central service cost allocation plan provides that process.**

# Individual operating agencies

- \* Normally charge indirect costs through an indirect cost rate.
- \* A separate indirect cost rate(s) proposal for each operating agency is usually necessary to claim indirect costs under Federal awards.
- \* Indirect costs include:
  - \* The indirect costs originating in each department or agency
  - \* The costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs.

# General Provisions for Selected Cost Items

- \* **There are principles to be applied in establishing the allowability of certain items involved in determining cost.**
- \* **These principles apply whether or not a particular item of cost is properly treated as direct cost or indirect cost.**
- \* **Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost**

# General Provisions for Selected Cost Items

- \* In case of a discrepancy between the provisions of a specific Federal award and the provisions of the general provisions, the Federal award governs.
- \* Criteria outlined in § 200.403 Factors affecting allowability of costs
- \* must be applied in determining allowability.

# General Provisions for Selected Cost Items

- \* 200.421 Advertising and public relations.
- \* 200.422 Advisory councils.
- \* 200.423 Alcoholic beverages.
- \* 200.424 Alumni/ae activities.
- \* 200.425 Audit services.
- \* 200.426 Bad debts.
- \* 200.427 Bonding costs.
- \* 200.428 Collections of improper payments.
- \* 200.429 Commencement and convocation costs.
- \* 200.430 Compensation—personal services.
- \* 200.431 Compensation—fringe benefits.
- \* 200.432 Conferences.
- \* 200.433 Contingency provisions.
- \* 200.434 Contributions and donations

# General Provisions for Selected Cost Items

- \* 200.435 Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements.
- \* 200.436 Depreciation.
- \* 200.437 Employee health and welfare costs.
- \* 200.438 Entertainment costs.
- \* 200.439 Equipment and other capital expenditures.
- \* 200.440 Exchange rates.
- \* 200.441 Fines, penalties, damages and other settlements.
- \* 200.442 Fund raising and investment management costs.
- \* 200.443 Gains and losses on disposition of depreciable assets.



# General Provisions for Selected Cost Items

- \* 200.444 General costs of government.
- \* 200.445 Goods or services for personal use.
- \* 200.446 Idle facilities and idle capacity.
- \* 200.447 Insurance and indemnification.
- \* 200.448 Intellectual property.
- \* 200.449 Interest.
- \* 200.450 Lobbying.
- \* 200.451 Losses on other awards or contracts.
- \* 200.452 Maintenance and repair costs.
- \* 200.453 Materials and supplies costs, including costs of computing devices.
- \* 200.454 Memberships, subscriptions, and professional activity costs.

# General Provisions for Selected Cost Items

- \* 200.455 Organization costs.
- \* 200.456 Participant support costs.
- \* 200.457 Plant and security costs.
- \* 200.458 Pre-award costs.
- \* 200.459 Professional service costs.
- \* 200.460 Proposal costs.
- \* 200.461 Publication and printing costs.
- \* 200.462 Rearrangement and reconversion costs.
- \* 200.463 Recruiting costs.
- \* 200.464 Relocation costs of employees.
- \* 200.465 Rental costs of real property and equipment.

# General Provisions for Selected Cost Items

- \* **200.466 Scholarships and student aid costs.**
- \* **200.467 Selling and marketing costs.**
- \* **200.468 Specialized service facilities.**
- \* **200.469 Student activity costs.**
- \* **200.470 Taxes (including Value Added Tax).**
- \* **200.471 Termination costs.**
- \* **200.472 Training and education costs.**
- \* **200.473 Transportation costs.**
- \* **200.474 Travel costs.**
- \* **200.475 Trustees.**

# Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals

# General

- \* **Indirect costs are those incurred for common or joint purposes.**
- \* **These benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved.**
- \* **After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives.**

# General

- \* **A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.**
- \* **Indirect costs include**
  - \* **the indirect costs originating in each department or agency and**
  - \* **the costs of central governmental services distributed through the central service cost allocation plan and**
  - \* **not otherwise treated as direct costs.**

# General

- \* Indirect costs are normally charged to Federal awards by the use of an indirect cost rate.
- \* A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards.
- \* Guidelines and illustrations are provided in a brochure from DHHS
  - \* *A Guide for States and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government.*

# General

- \* Because of the diverse characteristics and accounting practices of governmental units, the types of costs which may be classified as indirect costs cannot be specified in all situations.**
- \* However, typical examples of indirect costs may include certain state/local-wide central service costs, general administration of the non-Federal entity accounting and personnel services performed within the non-Federal entity, depreciation on buildings and equipment, the costs of operating and maintaining facilities.**



# General

- \* **This Appendix does not apply to state public assistance agencies.**
- \* **These agencies should refer instead to Appendix VI to Part 200 - Public Assistance Cost Allocation Plans**

# Allocation of Indirect Costs and Determination of Indirect Cost Rates

# General

- \* Where a governmental unit's department or agency has only one major function, or
- \* Where all its major functions benefit from the indirect costs to approximately the same degree,
- \* The allocation of indirect costs and the computation of an indirect cost rate may be accomplished *through simplified allocation procedures.*

# General

- \* Where a governmental unit's department or agency has several major functions which benefit from its indirect costs in varying degrees,
- \* The allocation of indirect costs may require the accumulation of such costs into separate cost groupings which then are allocated individually to benefitted functions by means of a base which best measures the relative degree of benefit.

# General

- \* **The indirect costs allocated to each function are then distributed to individual Federal awards and**
- \* **Other activities included in that function by means of an indirect cost rate(s).**

# Specific Methods for Allocating Indirect Costs and Computing Indirect Cost Rates

# Simplified Method

- \* **Where a non-Federal entity's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by**
  - \* **classifying the non-Federal entity's total costs for the base period as either direct or indirect, and**
  - \* **dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base.**
- \* **The result is an indirect cost rate which is used to distribute indirect costs to individual Federal awards.**

# Simplified Method

- \* The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected.
- \* This method should also be used where a governmental unit's department or agency *has only one major function* encompassing a number of individual projects or activities, and may be used where the level of Federal awards to that department or *agency is relatively small*.



# Simplified Method

- \* Both the direct costs and the indirect costs must exclude capital expenditures and unallowable costs.
- \* However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.
- \* The distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as passthrough funds, subcontracts in excess of \$25,000, participant support costs, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution.

# Multiple Allocation Base Method

- \* Where a non-Federal entity's indirect costs benefit its major functions in varying degrees, such costs must be accumulated into separate cost groupings.**
- \* Each grouping must then be allocated individually to benefitted functions by means of a base which best measures the relative benefits.**
- \* The cost groupings should be established so as to permit the allocation of each grouping on the basis of benefits provided to the major functions.**

# Multiple Allocation Base Method

- \* Each grouping should constitute a pool of expenses that are of like character in terms of the functions they benefit and in terms of the allocation base which best measures the relative benefits provided to each function.
- \* The number of separate groupings should be held within practical limits, taking into consideration the materiality of the amounts involved and the degree of precision needed.

# Multiple Allocation Base Method

- \* In general, any cost element or related factor associated with the governmental unit's activities is potentially adaptable for use as an allocation base provided that:
  - \* (1) it can readily be expressed in terms of dollars or other quantitative measures (total direct costs, direct salaries and wages, staff hours applied, square feet used, hours of usage, number of documents processed, population served, and the like), and
  - \* (2) it is common to the benefitted functions during the base period.

# Multiple Allocation Base Method

- \* **Except where a special indirect cost rate(s) is required, the separate groupings of indirect costs allocated to each major function must be aggregated and treated as a common pool for that function.**
- \* **The costs in the common pool must then be distributed to individual Federal awards included in that function by use of a single indirect cost rate.**

# Multiple Allocation Base Method

- \* **The distribution base used in computing the indirect cost rate for each function may be**
  - \* (1) total direct costs (excluding capital expenditures and other distorting items such as pass-through funds, subcontracts in excess of \$25,000, participant support costs, etc.),
  - \* (2) direct salaries and wages, or
  - \* (3) another base which results in an equitable distribution.
- \* **An indirect cost rate should be developed for each separate indirect cost pool developed.**

# Multiple Allocation Base Method

- \* **The rate in each case should be stated as the percentage relationship between the particular indirect cost pool and the distribution base identified with that pool.**

# Special Indirect Cost Rates

- \* In some instances, a single indirect cost rate for all activities of a non-Federal entity or for each major function of the agency may not be appropriate.**
- \* It may not take into account those different factors which may substantially affect the indirect costs applicable to a particular program or group of programs.**



# Special Indirect Cost Rates

- \* Factors may include the physical location of the work, the level administrative support required, the nature of the facilities or other resources employed, the organizational arrangements used, or any combination thereof.**
- \* When a particular Federal award is carried out in an environment which appears to generate a significantly different level of indirect costs, provisions should be made for a separate indirect cost pool applicable to that Federal award.**

# Special Indirect Cost Rates

- \* **The separate indirect cost pool should be developed during the course of the regular allocation process, and the separate indirect cost rate resulting therefrom should be used, provided that:**
  - \* **The rate differs significantly from the rate which would have been developed under normal process and**
  - \* **The Federal award to which the rate would apply is material in amount.**

# Special Indirect Cost Rates

- \* Where Federal statutes restrict the reimbursement of certain indirect costs, it may be necessary to develop a special rate for the affected Federal award.**
- \* Where a “restricted rate” is required, the same procedure for developing a non-restricted rate will be used except for the additional step of the elimination from the indirect cost pool those costs for which the law prohibits reimbursement.**

# Submission and Documentation of Proposals

- \* All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs.**
- \* The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.**

# Submission and Documentation of Proposals

- \* A governmental department or agency unit that receives more than \$35 million in direct Federal funding must submit its indirect cost rate proposal to its cognizant agency for indirect costs.
- \* Entities receiving less than \$35 million must develop an indirect cost proposal and maintain the proposal and related supporting documentation for audit.

# Submission and Documentation of Proposals

- \* Where a non-Federal entity only receives funds as a subrecipient,
- \* The pass-through entity will be responsible for negotiating and/or monitoring the subrecipient's indirect costs.

# Submission and Documentation of Proposals

- \* Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant agency for indirect costs.
- \* If the proposed central service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally approved central service cost allocation plan.

# Submission and Documentation of Proposals

- \* The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.**



# Documentation

- \* **The rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the financial data noted in subsection**
- \* **Allocated central service costs will be supported by the summary table included in the approved central service cost allocation plan.**
- \* **A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rate is based.**

# Documentation

- \* **Adjustments resulting from the use of unaudited data will be recognized, where appropriate, by the Federal cognizant agency for indirect costs in a subsequent proposal.**
- \* **The approximate amount of direct base costs incurred under Federal awards. These costs should be broken out between salaries and wages and other direct costs.**
- \* **A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency**

# Required Certification

- \* The proposal will also require a certification from the authorized officer of the entity**
- \* Covering several matters regarding the validity of the information provided**
- \* Misrepresentation of any matters noted during a subsequent audit may result in significant sanctions, questioned costs and other disciplinary actions.**

# Negotiation and Approval of Rates

- \* Indirect cost rates will be reviewed, negotiated, and approved by the cognizant agency**
- \* Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute.**
- \* Where a Federal awarding agency has reason to believe that special operating factors affecting its Federal awards necessitate special indirect cost rates, the funding agency will, prior to the time the rates are negotiated, notify the cognizant agency for indirect costs.**

# Negotiation and Approval of Rates

- \* The use of *predetermined rates*, if allowed, is encouraged where the cognizant agency for indirect costs has reasonable assurance based on past experience and
- \* Reliable projection of the non-Federal entity's costs, that the rate is not likely to exceed a rate based on actual costs.

# Negotiation and Approval of Rates

- \* **The results of each negotiation must be formalized in a written agreement**
- \* **This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute, or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate.**

# Refunds

- \* Refunds must be made if proposals are later found to have included costs that
  - \* (a) are unallowable (i) as specified by law or regulation, (ii) as identified in § 200.420 Considerations for selected items of cost, of or (iii) by the terms and conditions of Federal awards, or
  - \* (b) are unallowable because they are clearly not allocable to Federal awards.
- \* These adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

# Questions or Comments?



Thanks for your time and  
attendance!