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## Indirect Costs and Cost Allocation for Indian Tribes

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 What is your role in your indirect costs process?

- A. **Statewide Cost Allocation Plan (SWCAP)** – I am involved in the review, development or submission of the SWCAP issued by the office overseeing all agencies within my State.
- B. **Indirect cost proposal** – I am involved in the development, review and/or reconciliation of my agency issued indirect cost rate (ICR) proposal or cost allocation plan (CAP).
- C. **Both** – I am involved in the calculation and reporting of indirect costs from a SWCAP and my agency issued ICR proposals or CAP.
- D. **Ancillary** – I am a State auditor or employee that may be involved in assisting or approving of an indirect cost rate for an agency.
- E. **None** – I am not involved in the State or local governmental indirect cost process, I am hear to learn more about it.

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 **Workshop Objectives**

1. DCD's website
2. Why does a State need to have a Federally approved indirect cost rate (ICR) or cost allocation plan (CAP)?
3. Which rules does a State/Local government follow for indirect costs?
4. What are the methodologies to charge indirect costs for State/Local government?
5. How often are indirect cost proposals due? Who approves them?
6. What is the difference between total, indirect, direct, and shared direct costs?
7. What is an ICR, common allocation bases, and examples of distribution bases for indirect costs?
8. What are the types of indirect cost rates? What should be included in proposals?
9. What is involved in the DCD negotiation process and sample rate agreement
10. Who approves indirect costs when receiving a Federal award as a subrecipient?
11. What are the requirements of the State in reviewing and approving indirect costs of its subrecipients such as local areas?

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# Applicability

## UNIFORM GUIDANCE

**IMPLEMENTATION**

**US DEPARTMENT OF LABOR - ETA GRANT RECIPIENTS** **AFTER December 26, 2014**


Administrative Requirements	Audit Requirements	Cost Principles
Governmental Organizations Indian Tribes Nonprofits Organizations Institutions of Higher Education Commercial For-Profit Organizations *	2 CFR Part 200 and 2 CFR Part 2900*	

\* 2 CFR 200.2 supports the addition of "non-federal entity" to mean commercial for-profit entities and foreign entities. This amendment for-profit entities and foreign entities that are eligible or subsidiaries of a DOD award must adhere to the uniform guidance.

**US DEPARTMENT OF LABOR - ETA GRANT RECIPIENTS** **BEFORE December 26, 2014**

Administrative Requirements	Audit Requirements	Cost Principles
Governmental Organizations Nonprofits Organizations Institutions of Higher Education Commercial For-Profit Organizations **	29 CFR Part 97 (A-102) 29 CFR Part 95 (A-110) 29 CFR Part 95 (A-110) 29 CFR Part 95 (A-110)	29 CFR Part 96 (A-130) 29 CFR Part 96 (A-130) 29 CFR Part 96 (A-130) 29 CFR Part 96 (A-130)

2 CFR 200 and 2 CFR Part 2900 may be found at [www.ecfr.gov](http://www.ecfr.gov).

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# Update

- COFAR issued a new set of FAQs (dated July 2017) for the Uniform Guidance
  - <https://cfo.gov/wp-content/uploads/2017/08/July2017-UniformGuidanceFrequentlyAskedQuestions.pdf>
- Final task before handing over responsibilities to the Chief Financial Officer at [www.cfo.gov](http://www.cfo.gov)

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# DOL Exceptions

- 2900.17 Adjustment of negotiated IDC rates
  - Indirect Costs Rates may need to be renegotiated

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### Why do you need to have a Federally approved ICR or CAP?

- Compliance with Federal regulations and cost principles
- Required in Federal Awards to support claimed indirect costs, when the organization receives more than one Federal grant/contract during a given FY.
- Management information
- Documentation for auditors
- Close-out purposes



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### Which regulations must I follow for indirect cost proposals?

- 2 CFR Part 200, and Appendix V, for *central service* or *public assistance* cost allocation plans with FYs starting on or after December 26, 2014
- 2 CFR Part 200, and Appendix VII, for proposals with FYs starting on or after December 26, 2014
  - Example, a State with a FY starting July 1<sup>st</sup> would be required to submit a proposal in accordance with 2 CFR Part 200 on or after July 1, 2015.

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### Methodologies to charge Indirect Costs

Indirect Cost Rate (ICR)*	Cost Allocation Plan (CAPs)
<ul style="list-style-type: none"> <li>■ Allocates indirect costs to the grant(s) through an approved rate.</li> <li>■ Allocation base examples: direct salaries &amp; Wages, MTDCs, etc.</li> <li>■ Typically adjusted on a <b>yearly</b> basis to account for actual costs incurred when using provisional/ final rates.</li> <li>■ Rate agreement completes negotiation.</li> </ul>	<ul style="list-style-type: none"> <li>■ Allocates indirect costs the grant(s) through an approved cost allocation methodology.</li> <li>■ Allocation base examples: direct hours paid, direct FTEs, etc.</li> <li>■ Typically adjusted and charged to grants on a <b>monthly</b> basis based on actual costs.</li> <li>■ CAP letter with supplemental schedule of allocated indirect costs completes negotiation.</li> </ul>

**Similarities between ICRs and CAPs:**  
Both methods achieve the same result when allocating indirect costs; require similar documentation for indirect cost proposal including: narratives explaining how all costs are allocated, financial schedules, and certifications of compliance with cost principles.

\* Preferred method by Federal funding agencies.

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**2 CFR Part 200, Appendix VII, Guidance on CAPs**

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

**A. General**


3. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate...

**F. Other Policies**

**3. Indirect Cost Allocations Not Using Rates**

In certain situations, governmental departments or agencies (components of the governmental unit), because of the nature of their Federal awards, may be required to develop a cost allocation plan that distributes indirect (and, in some cases, direct) costs to the specific funding sources. In these cases, a narrative cost allocation methodology should be developed, documented, maintained for audit, or submitted, as appropriate, to the cognizant agency for indirect costs for review, negotiation, and approval.

**Note:** In addition to narrative, DCD also requires cost schedules supporting the allocation of indirect costs.

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**How often are indirect cost proposals due? (1 of 3)**

**2 CFR Part 200, Appendix IV for nonprofit states:**

- b. Except as otherwise provided in §200.414 Indirect (F&A) costs paragraph (f) of this Part, a nonprofit organization which has not previously established an indirect cost rate with a Federal agency must submit its initial indirect cost proposal immediately after the organization is advised that a Federal award will be made and, **in no event, later than three months after the effective date of the Federal award**

**Note:** DCD also uses the above guidance for state/ local governments, noting that 2 CFR Part 200, Appendix VII for state/locals is "silent" on that topic. This is consistent with grant documentation requirements in DOL to submit a proposal within 90 days of award.

Initial Proposal after receiving award!

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**How often are indirect cost proposals due? (2 of 3)**

**2 CFR Part 200, Appendix VII for state/locals, states:**

**D. Submission and Documentation of Proposals**

**1. Submission of Indirect Cost Rate Proposals**

a. 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...**

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### How often are indirect cost proposals due? (3 of 3)

**D. Submission and Documentation of Proposals**

**1. Submission of Indirect Cost Rate Proposals**

b. 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.

*Agency's Authority for Indirect Cost Rate*

Other governmental department or agency must develop an indirect cost proposal in accordance with the requirements of this Part and maintain the proposal and related supporting documentation for audit. These governmental departments or agencies **are not** required to submit their proposals unless they are specifically requested to do so by the cognizant agency for indirect costs. ...

d. 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. ...

**Note:** If DOL is the Federal cognizant agency, these state governmental agencies are required to submit **all** proposals to DCD.

Annual proposal based on **actual costs!**

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### Who approves indirect costs rates for direct Federal Awardees?

The Federal agency providing the largest dollar volume of **direct** funding is normally used to determine the cognizant Federal agency (responsible for negotiating/approving indirect costs).

See DCD website for partial list of Federal cognizant agencies:  
<http://www.dol.gov/oasam/boc/dcd/dcd-agency-list.htm>

**DOL** **Education** **Interior**

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### To be chargeable to a Federal grant/contract, direct & indirect costs must be:

Allowable

Reasonable ← → Allocable

Necessary

See: 2 CFR Part 200.403-405

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### Unallowable Costs

Specifically identified in the grant/contract as being unallowable, or identified in 2 CFR Part 200.

Examples of expressly unallowable indirect costs are:

- Advertising and Public Relations
- Bad Debts
- Contributions
- Entertainment Costs
- Fundraising and Lobbying

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### What are total costs according to the Federal Cost Principles?

Total Costs = Direct Costs + Indirect Costs - Applicable Credits

See: 2 CFR Part 200.402

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### What are Direct Costs?

Costs that are readily identified to a particular cost objective.

Examples (program specific):

- Salaries – ETA program staff
- Space – sq. ft. occupied by direct staff
- Supplies – used by direct staff
- Communications – used by direct staff

See: 2 CFR 200.413

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### What are examples of Direct Shared\* Costs?

Costs that benefit **more than one** program:

-  Salaries for a case manager who only works with adult, dislocated workers, and youth participants
-  Square footage of space occupied by the case manager
-  Communications devices, such as a cellphone used by the case manager
-  Supplies used by the case manager

\* These are not to be confused with typical indirect costs such as Executive Direction, Accounting & Fiscal, HR, Payroll etc.

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### Direct vs. Indirect Costs

**Consistency** must be observed considering allowability of costs when allocating direct or indirect costs (2 CFR Part 200.403(c)).

- The Cost Policy Statement (CPS) (which should be submitted with a proposal) must explain how the grantee treats all costs within the accounting system.

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### What is an Indirect Cost Rate?

A ratio (whereby an indirect cost pool is divided by a direct cost base), which is then expressed as a percentage.  
Example:

$$\frac{\text{Pool}}{\text{Base}} = \text{Rate}$$


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### What are common indirect cost rate allocation bases?

- Direct salaries **including** or excluding fringe benefits
- Total direct costs
- Modified total direct costs - MTDC (various)
  - Example: total direct costs excluding capital expenditures, flow-through funding, participant support costs, and the first \$25,000 of each subaward.

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### Examples of Allocation Bases for Indirect Costs

- ICR – Using Total Direct Salaries
- ICR – Using Total Direct Costs
- CAP – Using Total Direct Hours

*Common mistake - Applying ICR to Total Grant Award or Total Expenditures*

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### Total Direct Salaries


Indirect Cost Rate Calculation/Distribution Using "Total Direct Salaries" as the Allocation Base  
FYE 12/30/2015

	Total Costs		Indirect Costs	Total Direct		ETA	All Other Funding Sources
	A+B=C=D	B		D+E=F	E		
Salaries	\$208,000		\$70,000	\$138,000	\$218,000	\$300,000	
Benefits	\$176,700		\$21,000	\$155,700	\$65,700	\$30,000	
Other Costs	\$171,000	\$10,000	\$9,000	\$162,000	\$40,000	\$62,000	
<b>Total</b>	<b>\$555,700</b>	<b>\$10,000</b>	<b>\$100,000</b>	<b>\$276,700</b>	<b>\$324,700</b>	<b>\$452,000</b>	

Indirect Costs	\$100,000	\$63,295	\$36,705
Total Direct Salaries	\$150,000		
Indirect Rate	26.9%		
Total Costs per Cost Center		\$387,995	\$538,705

\* Must reconcile to the Financial Statements.

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**Billing Rate**

- Rate stated in the award (subject to negotiation by grant/contract officer) to allow recovery of indirect costs until an indirect cost proposal is completed and submitted.
- Valid for 90 days.

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**Budgetary Rate**

Rate stated in the CAP approval letters issued by DCD, if requested by grantee. It is provided for planning purposes only, such as using it when applying for a grant.

**Note:** It should not be used for billing the grant on a monthly basis, as the organization would use the approved CAP methodology to do that.

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**Ceiling Rate**

- Set by grant agreement, program statute or by Contract/Grant Officer.
- The maximum rate at which indirect costs may be recovered under a particular award

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### 10% 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 \(f\)](#)).
- Subject to review/approval by grant officer.
- Not a likely rate to be used considering many state/local governments have Federally approved rates and/or CAPs, and considering that is not applicable if getting over \$35 million of Federal funds.

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### Final Rate

- Set by the Federal cognizant agency.
- The experienced indirect cost rate based on actual data for the organization's fiscal year
- After issuance of final rates, adjustments for under/over collections of indirect costs should be reflected:
  - > In the organizations' accounting records,
  - > In indirect costs billings to the Federal funding agencies (under collections of indirect costs are subject funds available)\*
  - > During the grant close-out process, or post-close-out.

See: 2 CFR Part 200, Appendix IV, C.1.

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### Fixed Rate

- Set by the Federal cognizant agency (FCA).
- A permanent rate that is billed to the grant and is not subject to change. No close-out adjustments are needed.
- Any differences between estimated and actual costs are carried forward as adjustments to rate computations in future periods and presented to the FCA in the indirect cost proposal for approval.
- Typically approved for state/local organizations.

See: 2 CFR Part 200, Appendix IV, C.1.

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### Predetermined Rate

- Set by the Federal cognizant agency.
- A rate negotiated for a certain length of time, usually several years
- Not subject to change. No close-out adjustments are needed.

See: 2 CFR Part 200, Appendix IV, C.1.

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### Provisional Rate

- Set by the Federal cognizant agency.
- A rate based on projected information, historical information, or a combination of the two for the organization's fiscal year
- This rate allows for recovery of indirect costs during the contract/grant period until the rate can be finalized.
- All provisional indirect cost rates must eventually be adjusted to final rates.

See: 2 CFR Part 200, Appendix IV, C.1.

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### DCD Indirect Cost Negotiation Process

- If you have a direct award with the federal government and DOL is the Federal Cognizant Agency, DCD:
  - Reviews the proposal for unallowable, unallocable and/or unreasonable costs
  - Reviews additional documentation if necessary
  - Performs trend analysis if needed
  - Advise of unallowable, unallocable or unreasonable items and negotiate these costs as appropriate.
  - Issues a rate agreement to formalize the negotiation results.
  - Proposals are typically reviewed within 120 days from receipt.



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**What should be included in the Indirect Cost Proposals; ICR or CAP?**

- Org. Chart, Timesheets/ Documentation supporting allocation of personnel expenses.
- **Cost Policy Statement** – Describing all costs elements line item by line item and providing how these costs are allocated. Example, 100% indirect, indirect & direct, share direct, or 100% direct, etc.
- Personnel Cost Worksheet, Allocation of Personnel Costs.
- Statement of Fringes (if applicable).
- Statement of Total Costs (including rate calculations, if applicable)
- Certificate of Indirect Costs
- Financial Statements
- Listing of Federal Grants and Contracts showing source of Funding, grant/contract amounts, relevant dates.

See: <http://www.dol.gov/oaam/hoc/dcd/state-guide.htm>; for ICR or CAP checklists

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**What are roles of HHS-Cost Allocation Services on indirect costs and DCD for state/local governments?**

HHS-Cost Allocation Services Office	DOL-Division of Cost Determination
<ul style="list-style-type: none"> <li>■ Act as FCA for grantees with predominance of direct Federal funds from HHS</li> <li>■ SWCAP – Reviews, negotiate, and approves all state proposals. Allocated indirect costs are presented in the HHS SWCAP approved letters for States. A supplemental schedule is provided presenting allocated indirect costs at the departmental agency level.</li> <li>■ <a href="https://rates.psc.gov/fms/dca/dca_swcap.html">https://rates.psc.gov/fms/dca/dca_swcap.html</a></li> </ul>	<ul style="list-style-type: none"> <li>■ Act as FCA for grantees with predominance of direct Federal funds from DOL</li> <li>■ SWCAP – Reconciles the HHS approved SWCAP amount with amount in proposal submitted by state departmental agency. That proposal also typically includes: departmental/divisional indirect costs. All of those costs are included in the proposal and are reviewed and approved by DCD.</li> </ul>

**SWCAP** – Defined as Statewide Cost Allocation Plan, approved by HHS for all states. Recovery of SWCAP costs are typically for central service type of costs, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis.

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**NICRA Rates...**

Type	Effective Period		Rate *	Location	Applicable to
	From	To			
Final	7/1/10	6/30/14	14.25%	All	All Programs
Final	7/1/11	6/30/15	15.25%	All	All Programs
Provisional	7/1/12	6/30/16	17.17%	All	All Programs
Provisional	7/1/13	6/30/17	16.43%	All	All Programs (See Special Remarks)

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**Who approves Indirect costs when receiving a Federal award as subrecipient?**

Appendix VII to Part 200—States and Local Government and **Indian Tribe** Indirect Cost Proposals  
States, in part:

D. Submission and Documentation of Proposals  
1. Submission of Indirect Cost Rate Proposals

b. 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.**

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**2 CFR Part §200.331 – Requirements for pass-through entities (1 of 2)**

See 2 CFR Part §200.331 Requirements for pass-through entities (states, in part):

**All pass-through entities must:**  
(a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification...

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**2 CFR Part §200.331 – Requirements for pass-through entities (2 of 2)**

Includes many items of information including indirect cost elements listed below:

(xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).

(4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government or, if no such rate exists, either a:

- rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or
- de minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f);

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### What are the requirements of the pass-through entity (prime recipient) in reviewing and approving indirect costs of its subrecipients?

- Require an indirect cost proposal from each subrecipient, every year (six months after the end of the FY), for the life of the Federal award. This is applicable to negotiation of Provisional/Final, Fixed with Carry forward rates, or predetermined rate.
- Note** - Predetermined rates for a number of years, or de minimis rate (if applicable), could also be negotiated.
- DCD published web guidelines could be followed for indirect cost proposal preparation.
- Evaluate costs proposed in terms of allowability, allocability, and reasonableness,
- Negotiate and issue a rate agreement for the applicable FY.
- Keep documentation on file.

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### Financial Reporting

- New section 13 on the ETA-9130 (L) Form for Indian and Native American Programs
- Report indirect costs on the FINAL report
- Instructions and forms may be found at:
  - [https://doleta.gov/grants/financial\\_reporting.cfm](https://doleta.gov/grants/financial_reporting.cfm)

Indirect Expenses							
a. Type of Rate	b. Rate	c. Rate Approval Date	d. Period From (MM/DD/YYYY)	e. Period To (MM/DD/YYYY)	f. Base	g. Amount Charged	h. Federal Share
g. Total							

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### Recent Q&As

- What if I have a SWCAP do I have to get an ICR now? **Response:** Either an ICR or SWCAP needs to be approved so that the state agency properly support the recovery of a share of SWCAP costs, as well as indirect costs incurred at the departmental/divisional levels.
- The budgetary rate is contained in the CAP approval letter, can it be used to apply for a predetermined or fixed rate? I am not sure if I have the lingo/terms identified correctly. Also what is a 'budgetary rate'? **Response -** Possibly, but it would change how indirect costs are allocated using the state's accounting system. Contact your cost negotiator for more details. Definition of budgetary rate is on Slide 30. A budgetary rate is only for planning purposes and can NOT be used for billing.
- If a subrecipient receives pass through funds from a state and has a direct federal award, if it has never obtain an approved indirect cost rate, can the state negotiate the rate or does the subrecipient have to negotiate with the Federal agency? **Response -** The subrecipient would need to negotiate with their Federal cognizant agency. The Federally approved rate agreement could also be applied to state funding.
- Is an agency who has more than one grant required to have an indirect cost rate? **Response:** No. The Uniform Guidance does not mandate an indirect cost rate for every grant. However, if a grant recipient or subrecipient intends to claim and charge indirect costs and receives funding from multiple sources, an indirect cost rate is needed to ensure that each grant receives its share of allowable, allocable, and reasonable indirect costs.

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## Recent Q&As

5. A local unit of government receives Title I WIA funds and one direct federal grant from DOL. If the local unit of government has an approved cost allocation plan, which includes the costs of accounting, the CEO salary, and other overhead (indirect costs) costs. Does the local unit of government need to apply for an indirect cost rate? **Response** – If they have a Federally approved CAP, they don't need to apply for a rate.
6. We are a sub-recipient. The State is the direct recipient of WIOA funds. The State is requiring use to accept the de minimis rate and they won't negotiate a rate with me. **Response** – Per 2 CFR Part 200.331, the State must approve a de minimis rate or negotiate a rate with the subrecipient if the subrecipient does not have a Federally approved rate.
7. The Federally approved indirect cost rate expired on direct grant but still receive Federal funds from the State. Would the sub-recipient negotiate a rate with the Federal agency or the state agency, or can it request the de minimis rate? **Response:** The state would need to negotiate a rate with the subrecipient. The de minimis rate is not an available option since it had a Federally approved indirect cost rate in the past.

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## Recap

1. DCD's website
2. Why does a State need to have a Federally approved indirect cost rate (ICR) or cost allocation plan (CAP)?
3. Which rules does a State/Local government follow for indirect costs?
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**Uniform Guidance  
Grants Management Training on  
WorkforceGPS**

<https://grantsapplicationandmanagement.workforcegps.org/>

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**QUESTIONS**

■ Deborah Galloway -  
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THANK YOU!

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