



Indirect Costs and Indirect Cost Rates



What are indirect costs? (It's easier if we identify direct costs first.) Direct costs...



- Those costs that can be readily identified with a particular cost objective. Examples: (program specific)
 - Salaries – grant **program staff**
 - Space – sq. ft. occupied by **direct staff**
 - Supplies – used by **direct staff**
 - Communications – used by **direct staff**

What are indirect costs?



- Those costs which are not readily identifiable with a particular cost objective.
Examples:
 - Salaries – Executive Director, Accountant, etc.
 - Space – sq. ft. occupied by **indirect staff**
 - Supplies – used by **indirect staff**
 - Communications – used by **indirect staff**

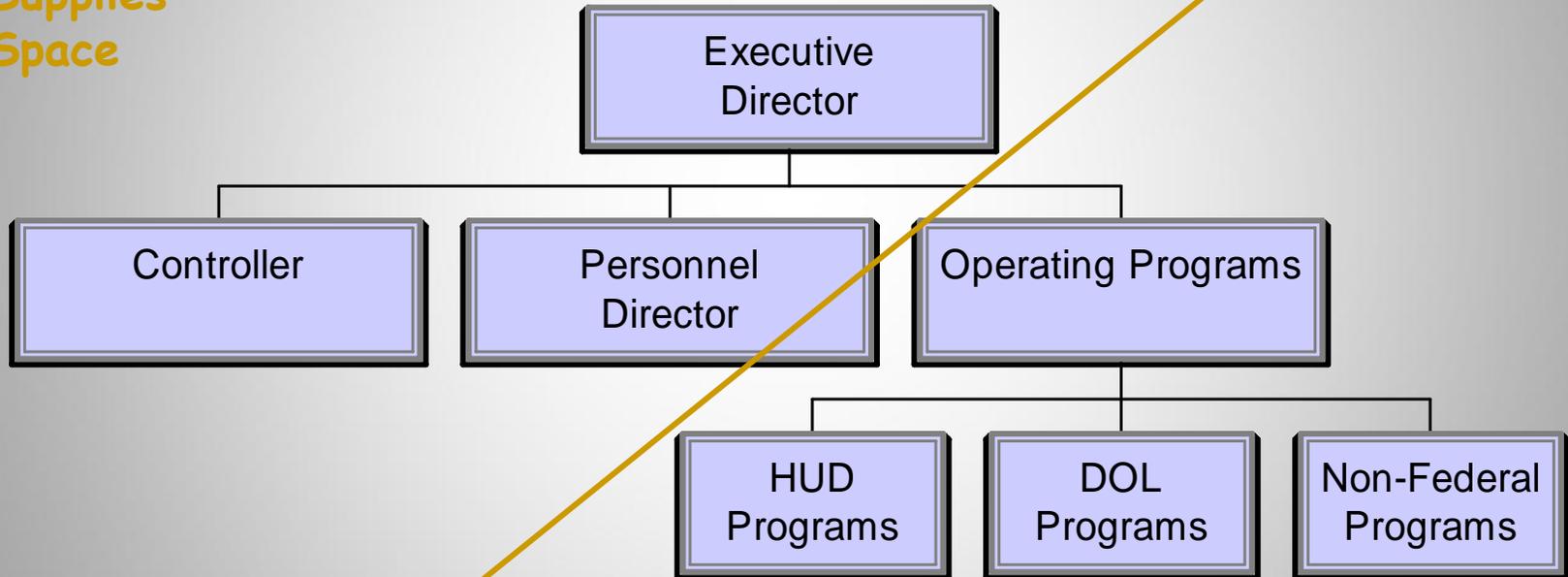
So what are Indirect Costs?

- Organization's Overhead
- Costs of doing business
- Costs that benefit entire organization

Direct vs. Indirect Costs

Typical Nonprofit Corporation, Inc.

Ind S/W
Supplies
Space



Program S/W
Supplies
Space

So who has Indirect Costs?

- **All organizations!!**
 - Except those few which have only:
 - One fund source
 - One program
 - One activity

How are Indirect Costs Distributed?

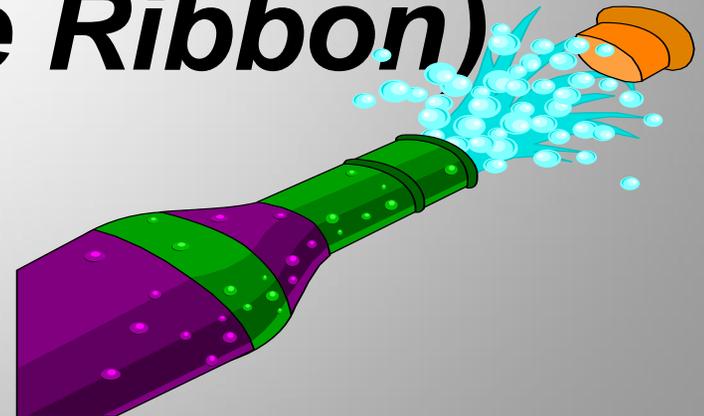
- Direct Cost Allocation
 - Not usually efficient
- Cost Allocation Plan
 - Typical of those w/o direct federal awards
- Indirect Cost Rate
 - Involves least time and effort

What is an Indirect Cost Rate?

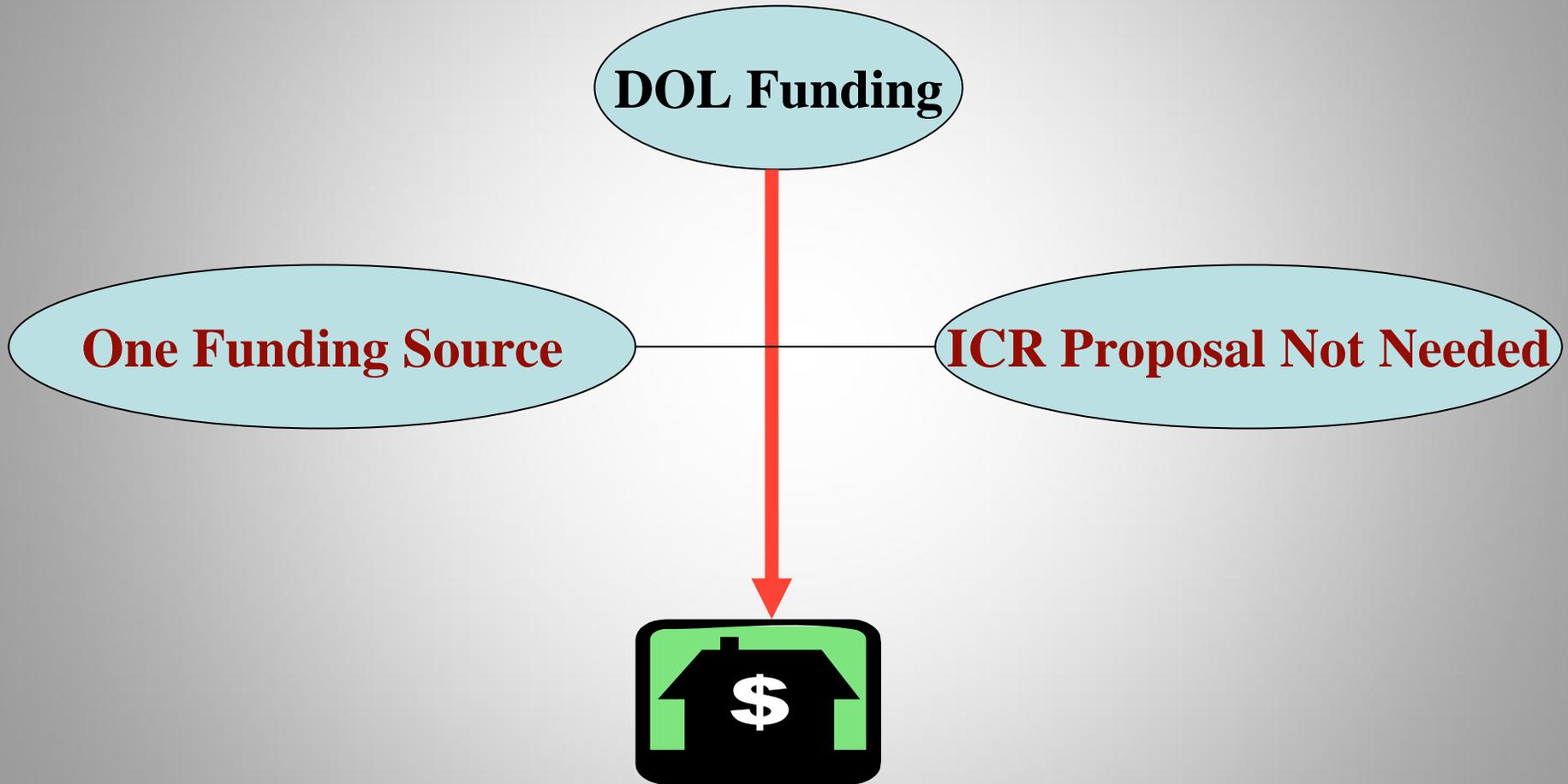
The ratio, expressed as a percentage, of an indirect cost pool and some direct cost base. Some might say it's:

PBR (Pabst Blue Ribbon)

Pool/Base=Rate



Who has to submit a proposal?



Who has to submit a proposal?

HHS Funding

DOL Funding

State Funding

Multiple Funding Sources

ICR Proposal Needed



What is the process for submitting?



State/local grantee cost principles in Attachment C of OMB Circular A-87, briefly address the subject of cost allocation for state/local entities, referring the reader to ASMB C-10, an HHS publication, for additional details on cost allocation plans. Attachment E provides guidance on ICR proposals.

What is the process for submitting?



Nonprofit grantees are governed by OMB Circular A-122 which is virtually silent on cost allocation and preparation of a cost allocation plan but provides details as to indirect costs and indirect cost rate development.

What is the process for submitting?



Commercial organizations must follow the principles of 48 CFR 31.2, 42.7 and 52.216.7. These principles provide details related to indirect costs and indirect cost rate development but are silent as to cost allocation plans.

To whom is proposal submitted?

- If necessary, an indirect cost rate proposal must be submitted to the organization's **cognizant Federal agency**.
- For most organizations, the largest dollar volume of **direct** Federal funding is normally used to determine the cognizant Federal agency. (Cognizance may be negotiated between Federal agencies.) The cognizant agency concept flows down logically to state, local, or other levels of funding.

If DOL is Cognizant

- Find the contact to whom your proposal should be submitted in Appendix III of the DOL's "Guide for Indirect Cost Rate Determination" booklet.
- Optionally, visit the following link on the internet:

<http://www.dol.gov/oasam/programs/boc/costdeterminationguide/main.htm>

When do you submit proposal?

- Our organization has never had a Federally-approved indirect cost rate.
 - Proposal must be submitted no later than three months after the effective date of the DOL award.
- Our organization has a Federally-approved indirect cost rate.
 - Proposal must be submitted no later than six months after the close of the organization's fiscal year.
- Extensions of time may be granted.

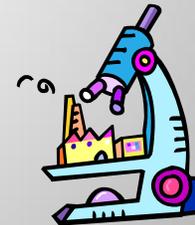
When does it get reviewed/approved?



- DCD standards call for a maximum of 120 days turn around for proposals received.
- Exceptions are allowed for extenuating circumstances such as negotiation problems, audit problems, or workload priorities.

Why do you need an approved indirect cost rate?

- Management Information
- Compliance with Federal regulations; e.g., OMB Circulars A-122, A-87 & A-21
- Documentation for auditors



How do you prepare an indirect cost rate proposal and reach the goal of having a Federally-approved rate?

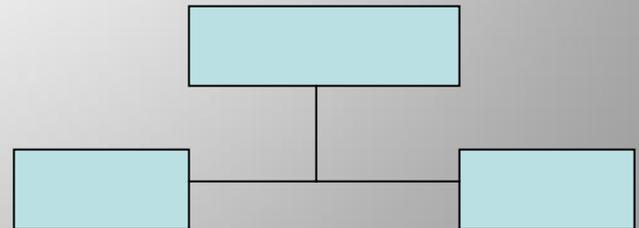


- Basic procedures and guidelines are in the DOL Guide. At the risk of being redundant, see page II-4 of the DOL Guide.
- The next set of slides will show the basic documents which must be submitted in the indirect cost rate proposal.

ICR Proposal Documentation

- **Organizational Profile**

- Chart showing the organizational structure during the applicable proposal period reconciled with the accounting structure
- Functional statement of duties and responsibilities as necessary
- A listing of directly awarded grants and contacts by Federal agency, total dollar amount, period of performance and cost limitations, if applicable



ICR Proposal Documentation

- **Cost Policy Statement**
 - See example at Page III-14 of the DOL Guide
- **Personnel Costs Worksheet**
 - See example at Page III-2 of the DOL Guide
- **Allocation of Personnel Worksheet**
 - See example at Page III-4 of the DOL Guide
- **Statement of Employee Benefits**
 - See example at Page III-6 of the DOL Guide

ICR Proposal Documentation

- **Statement of Total Costs**

- See examples at Pages III-7&9 of the DOL Guide (These include indirect costs)
- Audited financial statements, if available. If audited financial statements are not available, IRS Form 990 (non-profits) or compilation/review financial statements (for-profits) for the final rate proposal. Approved budget for provisional proposal, if needed. OMB A-133 supplemental information, if available.
Note: The Statement of Total Costs (2d. above) must reconcile to Financial Statements.

ICR Proposal Documentation

- **Certificate of Indirect Costs**
 - This must be signed and dated per OMB edict or the proposal will be rendered unacceptable
 - See example at Page III-19 of the DOL Guide

What goes in the Indirect Pool?

- Executive Director's office [all or part]
- Personnel unit
- Accounting unit
- Procurement unit
- Audit cost
- Space costs [all or part]
- Equipment depreciation
- Insurance

What are common Indirect Cost Rate Allocation Bases?

- **Direct Salaries & Benefits including or excluding fringe benefits,**
- **Total Direct Costs**
- **Modified Total Direct Cost (various)**
 - **Example: Total Direct Costs excluding capital expenditures, flow-through funding, participant support costs, and subcontracts/subgrants over \$25,000.**

Sample Statement of Total Costs
including Indirect Cost Rate
Calculations using two (2) different
allocation bases:

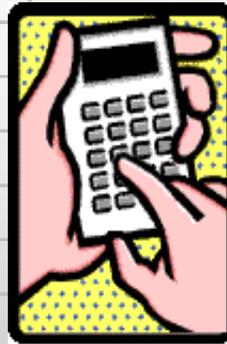
- **Total Direct Salaries**
- **Total Direct Costs**

Indirect Cost Rate Calculation/Distribution Using "Total Direct Costs" as the Allocation Base

	Total Costs	Unallowable Costs	Indirect Costs	Total Direct	VETS	All Other Funding Sources
	A=(B+C+D)	B	C	D=E+F	E	F
Salaries	\$589,000		\$70,000	\$519,000	\$219,000	\$300,000
Benefits	\$176,700		\$21,000	\$155,700	\$65,700	\$90,000
Other Costs	\$171,000	\$10,000	\$59,000	\$102,000	\$40,000	\$62,000
Total	\$936,700 *	\$10,000	\$150,000	\$776,700	\$324,700 a	\$452,000

Indirect Costs	\$150,000
Total Direct Costs	\$776,700
Indirect Rate	19.3%

Total Costs per Cost Center	\$387,408 a+b	\$539,292
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* Must reconcile to the Financial Statements.

Indirect Cost Rate Calculation/Distribution Using "Total Direct Salaries" as the Allocation Base

	Total Costs	Unallowable Costs	Indirect Costs	Total Direct	VETS	All Other Funding Sources
	A=(B+C+D)	B	C	D=E+F	E	F
Salaries	\$589,000		\$70,000	\$519,000	\$219,000	\$300,000
Benefits	\$176,700		\$21,000	\$155,700	\$65,700	\$90,000
Other Costs	\$171,000	\$10,000	\$59,000	\$102,000	\$40,000	\$62,000
Total	\$936,700 *	\$10,000	\$150,000	\$776,700	\$324,700 a	\$452,000
Indirect Costs	\$150,000				\$63,295 b	\$86,705
Total Direct Salaries	\$519,000					
Indirect Rate	28.9%					
Total Costs per Cost Center					\$387,995 a+b	\$538,705

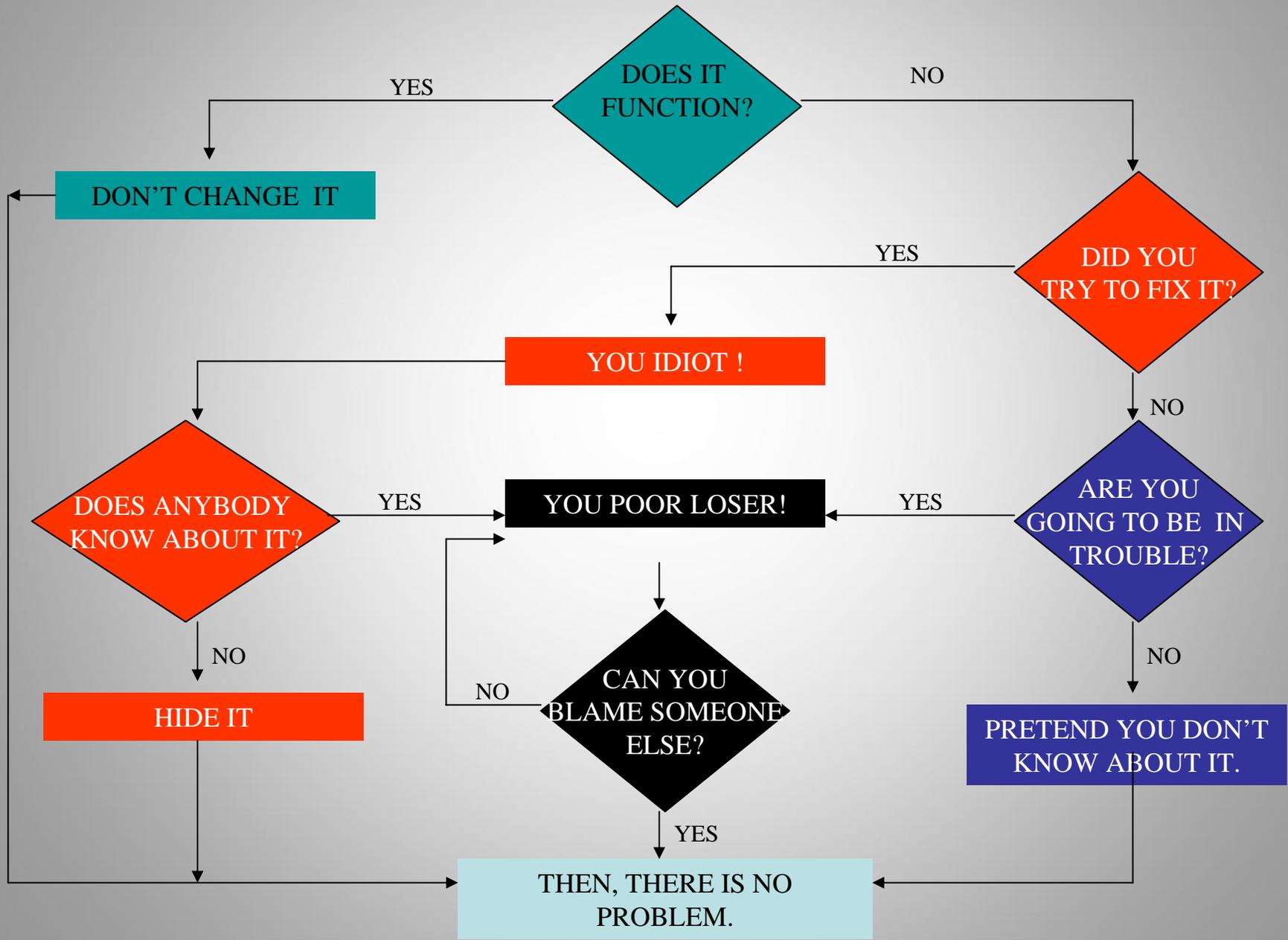


* Must reconcile to the Financial Statements.

So...you've completed your
indirect cost rate proposal



Our Federally-approved Indirect Cost Rate



Questions?

