



# Indirect Costs and Applying for an Indirect Cost Rate

Presented by:  
USDOL's Division of Cost  
Determination



# Topics We Will Cover



- What are indirect costs?
- Why do you need an approved indirect cost rate?
- Who is required to submit a proposal and to whom is it submitted?
- When do you submit a proposal and when does it get reviewed/approved?
- How do you prepare an indirect cost rate proposal and reach the goal of having a Federally-approved rate?

# 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 – LWIB **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:

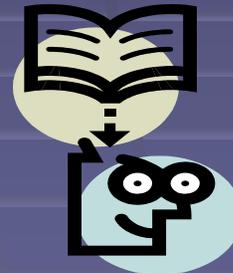
- Salaries – Executive Director, Accountant, etc.
- Space – sq. ft. occupied by **indirect staff**
- Supplies – used by **indirect staff**
- Communications – used by **indirect staff**

# Why do you need an approved indirect cost rate?

- Compliance with Federal regulations; e.g., OMB Circulars A-122, A-87 & A-21



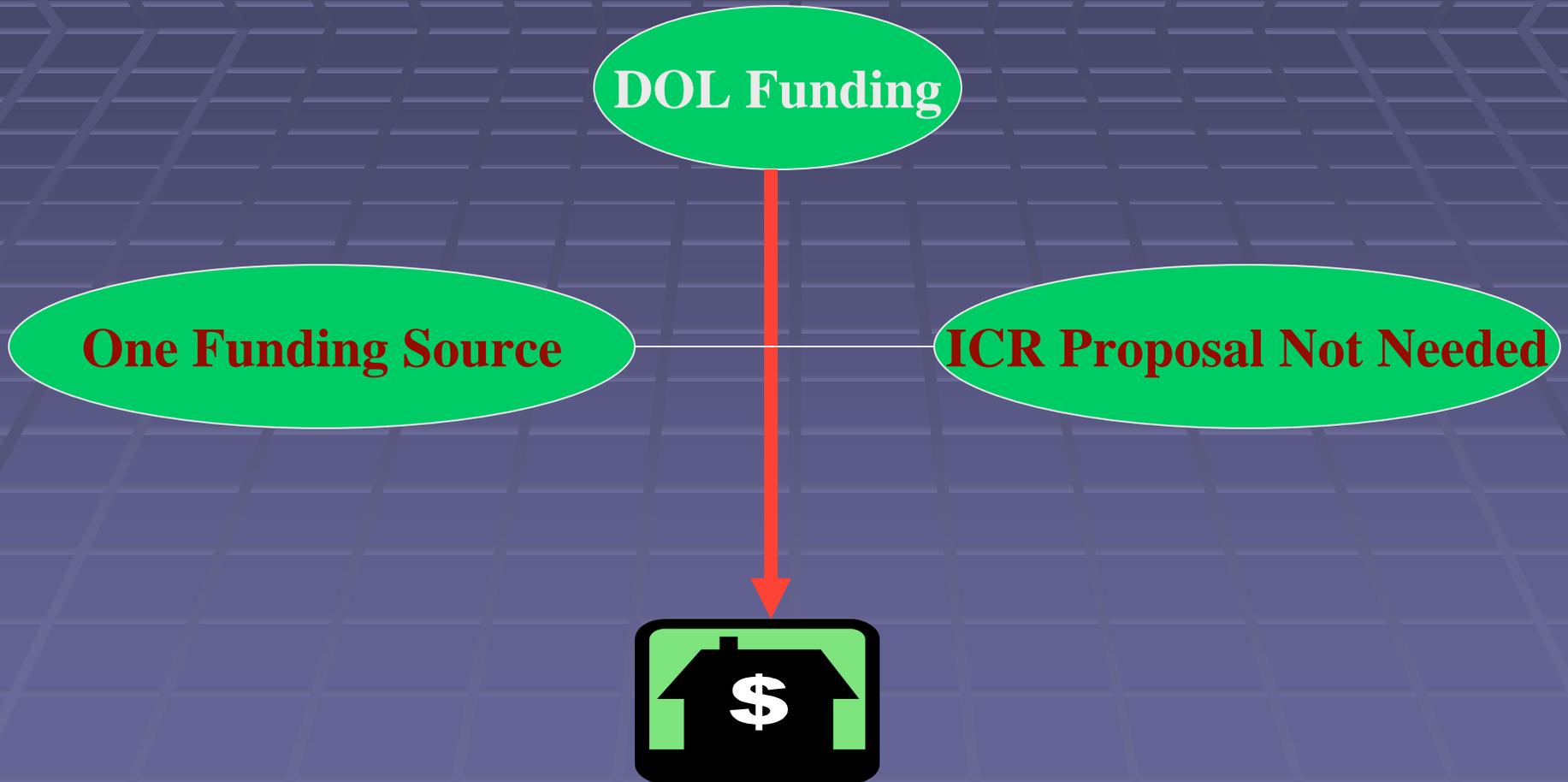
- Management Information



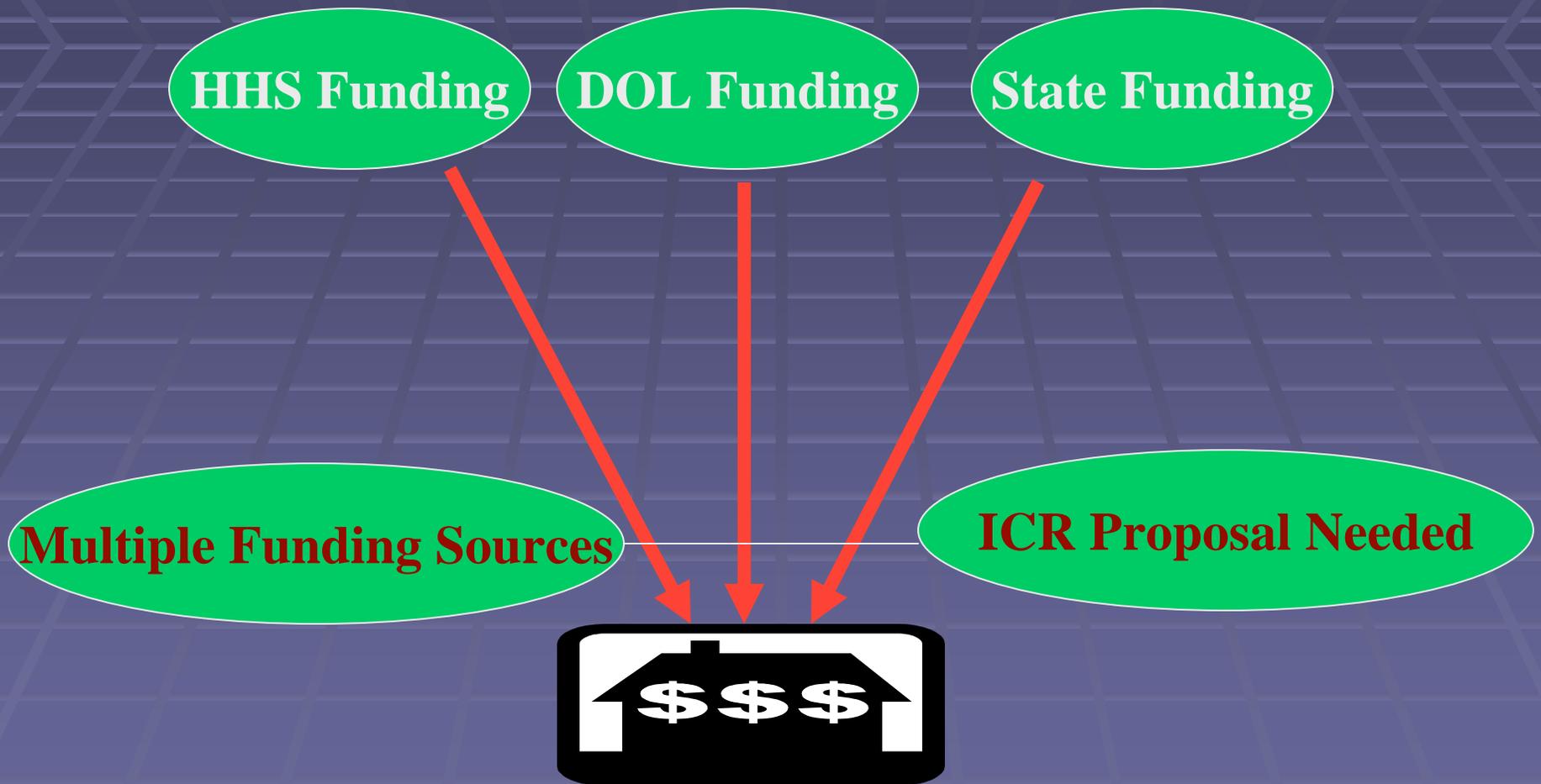
- Documentation for auditors



# Who is required to submit a proposal and to whom is it submitted?



# Who is required to submit a proposal and to whom is it submitted?



# The IC Rate Negotiation Process

- Grantee is awarded grant(s) from the USDOL
  - WIA
  - ES-UI
  - Discretionary
  - Other Grant Programs



- Grantee makes a decision on the merits of collecting or not collecting indirect costs associated with the grant(s)
  - Do we need the money to support the program? (some DOL grantees have large amounts of unrestricted funds)





- Grantee determines which Federal agency is its “cognizant” Federal agency
  - Components of state government, “governmental units”, may have a cognizant Federal agency designation. If not, the largest dollar volume of direct Federal funding is normally used to determine the cognizant Federal agency. (This may be negotiated between Federal agencies.)
  - For nonprofit organizations, the largest dollar volume of direct Federal funding is normally used to determine the cognizant Federal agency. (This may be negotiated between Federal agencies.)



- After determining DOL cognizance, grantee contacts DCD regarding required documentation submittal & technical assistance
  - N.O. or Regional Cost Negotiators
  - <http://www.dol.gov/oasam/programs/boc/costdeterminationguide/main.htm> -- DOL guidance
  - [www.whitehouse.gov](http://www.whitehouse.gov) -- OMB Circulars



# Example of an Indirect Cost Rate Agreement



(An Example)  
**INDIRECT COST NEGOTIATION AGREEMENT  
NONPROFIT ORGANIZATION**

**ORGANIZATION:**

XYZ Nonprofit Agency, Inc.  
Chico, CA 99999-9999

**DATE:** December 1, 2006

**FILE REF:** This replaces the  
negotiation agreement dated  
October 12, 2005

The indirect cost rate(s) contained herein are for use on grants and contracts with the Federal Government to which OMB Circular A-122 applies subject to the limitations contained in the Circular and Section II-A, below. The rate(s) were negotiated by XYZ Nonprofit Agency, Inc. and the U. S. Department of Labor in accordance with the authority contained in Attachment A, Section E, of the Circular.

The indirect cost rate(s) contained herein are for use on grants and contracts with the Federal Government to which OMB Circular A-122 applies subject to the limitations contained in the Circular and Section II-A, below. The rate(s) were negotiated by XYZ Nonprofit Agency, Inc. and the U. S. Department of Labor in accordance with the authority contained in Attachment A, Section E, of the Circular.

<u>Type</u>	<u>Effective Period</u>		<u>Rate</u>	<u>Location</u>	<u>Applicable to</u>
	<u>From</u>	<u>To</u>			
Final	7/1/04	6/30/05	14.25%	All	All Programs
Final	7/1/05	6/30/06	15.25%	All	All Programs
Provisional	7/1/06	6/30/07	17.17%	All	All Programs
Provisional	7/1/07	6/30/08	16.43%	All	All Programs
			<small>usdol/dcd</small>		
					<i>(See Special Remarks)</i>

## **BASE\*:**

Total direct salaries and wages including vacation, holiday and sick pay but excluding all other fringe benefits.

## **TREATMENT OF FRINGE BENEFITS:**

Fringe benefits are specifically identified to each employee and are charged individually as direct costs. The directly claimed fringe benefits are listed in the Special Remarks Section of this Agreement.

## **TREATMENT OF PAID ABSENCES:**

Vacation, holiday, sick leave and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims for these absences are not made.

**A. LIMITATIONS:** Use of the rate(s) contained in this Agreement is subject to any statutory or administrative limitations and is applicable to a given grant or contract only to the extent that funds are available.

Acceptance of the rate(s) agreed to herein is predicated upon the following conditions:

- (1) that no costs other than those incurred by the grantee/contractor or allocated to the grantee/contractor via an approved central service cost allocation plan were included in its indirect cost pool as finally accepted and that such incurred costs are legal obligations of the grantee/contractor and allowable under the governing cost principles,
- (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs,
- (3) that similar types of costs have been accorded consistent treatment, and
- (4) that the information provided by the grantee/contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially inaccurate.

The elements of indirect cost and the type of distribution base(s) used in computing provisional rates are subject to revision when final rates are negotiated. Also, the rates cited in this Agreement are subject to audit.

**B. CHANGES:** The grantee/contractor is required to provide written notification to the indirect cost negotiator prior to implementing any changes which could affect the applicability of the approved rates. Changes in the indirect cost recovery plan, which may result from changes such as the method of accounting or organizational structure, require the prior written approval of the Division of Cost Determination (DCD). Failure to obtain such approval may result in subsequent cost disallowance.

**C. NOTIFICATION TO FEDERAL AGENCIES:** A copy of this document is to be provided by this organization to other Federal funding sources as a means of notifying them of the Agreement contained herein.

**D. PROVISIONAL-FINAL RATES:** The grantee/contractor must submit a proposal to establish a final rate within six months after their fiscal year end. Billings and charges to Federal awards must be adjusted if the final rate varies from the provisional rate. If the final rate is greater than the provisional rate and there are no funds available to cover the additional indirect costs, the organization may not recover all indirect costs. Conversely, if the final rate is less than the provisional rate, the organization will be required to pay back the difference to the funding agency.

Indirect costs allocable to a particular award or other cost objective may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

## E. SPECIAL REMARKS:

1. Indirect costs charged to Federal grants/contracts by means other than the rate(s) cited in this Agreement should be adjusted to the applicable rate cited herein and applied to the appropriate base to identify the proper amount of indirect costs allocable to the program.

2. Grants/contracts providing for ceilings as to the indirect cost rates(s) or amount(s) which are indicated in Section I above, will be subject to the ceilings stipulated in the contract or grant agreements. The ceiling rate or the rate(s) cited in this Agreement, whichever is lower, will be used to determine the maximum allowable indirect cost on the grant or contract agreement.

3. Fringe benefits other than paid absences consist of:
- |                           |              |
|---------------------------|--------------|
| Worker's Compensation     | FICA         |
| Health Insurance          | Pension Plan |
| Unemployment Compensation |              |
4. XYZ Nonprofit Agency, Inc. staff maintain 100% time distribution records. The indirect cost pool consists of:
- a) Salaries and fringe benefits of the following positions:
- |                    |                    |
|--------------------|--------------------|
| Executive Director | Dir of Fiscal Svcs |
| Account Tech II    | Admin Secretary    |
- b) Support costs of the above positions as follows:
- |                       |                       |
|-----------------------|-----------------------|
| Professional Services | Travel                |
| Space                 | Supplies              |
| Equipment Leases      | Insurance & Bonding   |
| Publications & Dues   | Repairs & Maintenance |
| Communications        | Postage               |
| Miscellaneous         |                       |

# ACCEPTANCE

**BY THE COGNIZANT AGENCY  
ON BEHALF OF THE FED GOV:**

**BY THE ORGANIZATION:**

**U. S. Department of Labor**

(Agency)

(Signature)

Victor M. Lopez

(Name)

Chief, Division of Cost Determination

(Title)

December 1, 2006

(Date)

USDOL Negotiator: Ann Nonymous

usdol/dcl  
Telephone No.: (555) 555-5555

**XYZ Nonprofit Agency, Inc.**

(Organization)

(Signature)

Jane Doe

(Name)

Executive Director

(Title)

December 1, 2006

(Date)

# 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**



How to compute an  
indirect cost rate

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

# Indirect Cost Rate

- Example:

Indirect Cost Pool = \$ 150,000

Distribution Base = \$ 529,000

(Salaries and Wages )

Indirect Cost Rate = 28.9%

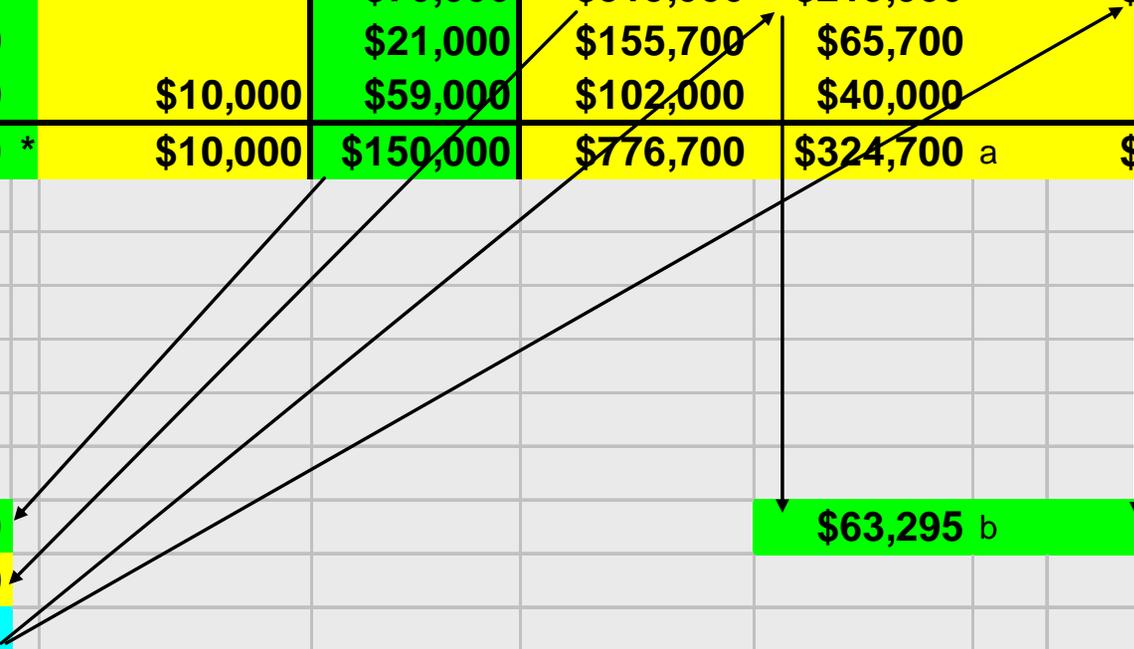
# Indirect Cost Rate

## Most Common Allocation Bases

- Direct S/W including FB
- Direct S/W including release time, but excluding all other FB
- Modified Total Direct Cost(various)
  - Total Direct Costs excluding capital expenditures and flow-through funding

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

	Total Costs	Unallowable Costs	Indirect Costs	Total Direct	USDOL	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
<b>Total</b>	<b>\$936,700 *</b>	<b>\$10,000</b>	<b>\$150,000</b>	<b>\$776,700</b>	<b>\$324,700 a</b>	<b>\$452,000</b>
<b>Indirect Costs</b>	<b>\$150,000</b>				<b>\$63,295 b</b>	<b>\$86,705</b>
<b>Total Direct Salaries</b>	<b>\$519,000</b>					
<b>Indirect Rate</b>	<b>28.9%</b>					
<b>Total Costs per Cost Center</b>					<b>\$387,995 a+b</b>	<b>\$538,705</b>



**Indirect Cost Rate Calculation/Distribution Using "Total Direct Costs"  
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	A=(B+C+D)	B	C	D=E+F	E	F
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<b>Indirect Costs</b>	<b>\$150,000</b>				<b>\$62,708 b</b>	<b>\$87,292</b>
<b>Total Direct Costs</b>	<b>\$776,700</b>					
<b>Indirect Rate</b>	<b>19.3%</b>					
<b>Total Costs per Cost Center</b>					<b>\$387,408 a+b</b>	<b>\$539,292</b>

\* Must reconcile to the Financial Statements.

# When do you submit a proposal and when does it get reviewed/approved?

- 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 do you submit a proposal and when does it get reviewed/approved?



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

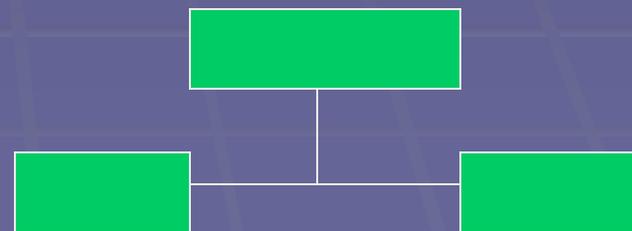
# How do you prepare an indirect cost rate proposal and reach the goal of having a Federally-approved rate?



- Basic procedures and guidelines are in the DOL Guide.
- 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 in the DOL Guide
- **Personnel Costs Worksheet**
  - See example in the DOL Guide
- **Allocation of Personnel Worksheet**
  - See example in the DOL Guide
- **Statement of Employee Benefits**
  - See example in the DOL Guide

# ICR Proposal Documentation

- **Statement of Total Costs** - See examples in 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

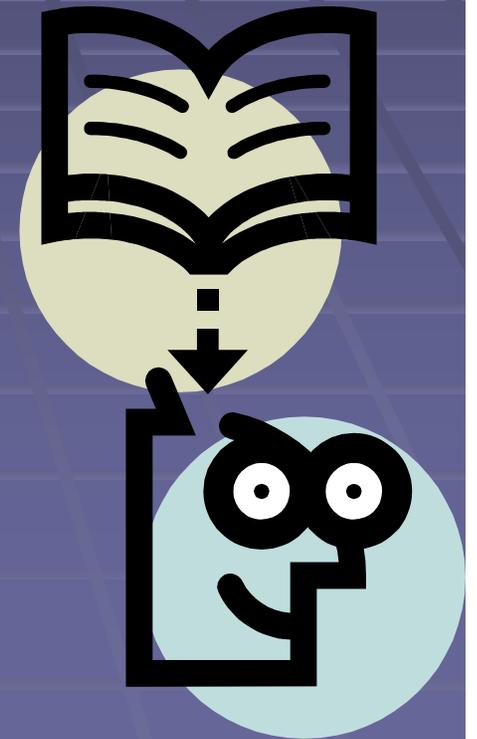
- **Certificate of Indirect Costs**

- This must be signed and dated per OMB edict or the proposal will be rendered unacceptable
- See example in the DOL Guide

A stylized black and white illustration of a hand holding a checkered racing flag on a pole. The flag is waving and has a grid of black and white squares. The hand is white with black outlines, and the pole is a simple black line.

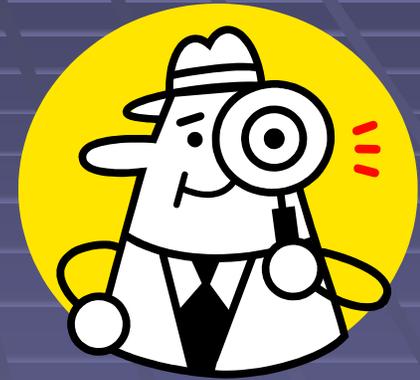
So...you've completed your  
indirect cost rate proposal

- Grantee submits required proposal documentation to DCD
  - requirements may vary depending on
    - type of grantee
    - type of rate needed
    - grantee organizational structure
    - time constraints
    - other factors



- DCD reviews proposal for possible unallowable, unallocable and/or unreasonable costs

- DCD has pro forma review procedures
- DCD negotiators may expand review and documentation submittal if deemed necessary
- Trend analyses are typically prepared in on-going reviews/negotiations



- Unless there are extenuating circumstances, proposals must be reviewed by DCD in no less than 120 days from proposal receipt
- Negotiations ensue
  - The responsible cost negotiator contacts the grantee to
    - request additional documentation on certain items
    - advise of unallowable, unallocable or unreasonable items in the proposal
    - congratulate the grantee on approval!!!





- When both parties concur DCD prepares rate agreement and sends to grantee for countersigning
  - DCD signs two originals of its indirect cost rate agreements and sends them to the grantee for countersigning with return instructions
  - An indirect cost rate agreement which is not signed and dated by both the responsible grantee official and the responsible Federal official is null and void

- Both parties keep an original of the signed negotiation agreement as documentation of the rate approval



usdol/dcd



Questions?

