



# *Discretionary Grants Forum*

## Indirect Costs and Applying for an Indirect Cost Rate

Presented by:

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Atlanta Regional Cost Negotiator

April 2009



- This is a basic course with emphasis on OMB Circular A-122 cost principles.
- Designed for someone new to the world Federal indirect rates, or
- Someone who wants a refresher

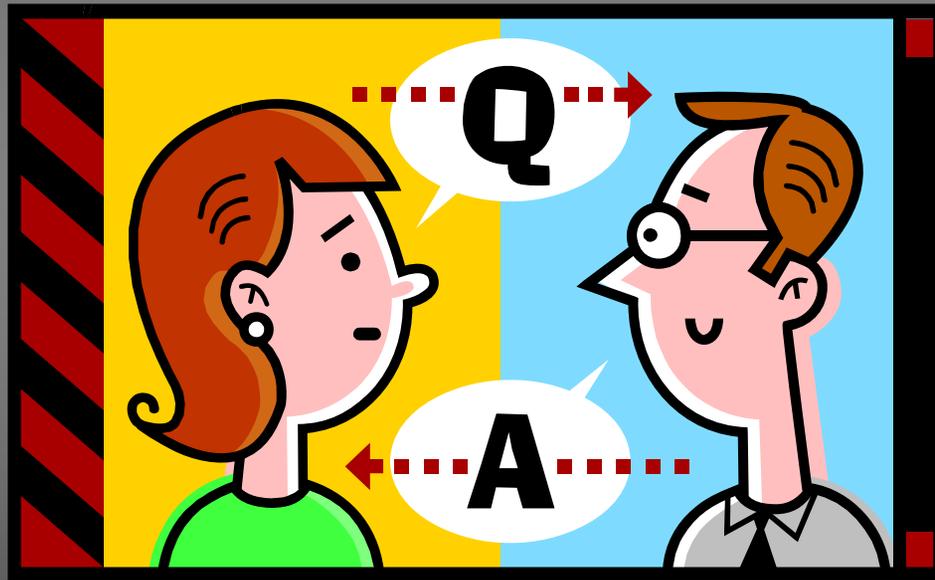
# Topics We Will Cover



- What is an indirect rate?
- How do you prepare an indirect rate proposal?
- Where do you submit the proposal, and when is it due?

# Topics We Will Cover

...and most importantly...



Answers to your questions!

# Something About the Division of Cost Determination (DCD)

- Tasked with negotiating indirect rate agreements for all DOL-grantees (when cognizant)
- Housed in OASAM, DCD is independent of ETA
- DCD NP Guide:  
<http://www.dol.gov/oasam/programs/boc/costdeterminationguide/main.htm#toc>

# Division of Cost Determination

- Across the US: About 650 agreements and pre-award reviews per year
- 90% of work for ETA
- Atlanta Office 50 to 80 agreements per year

# Cost Negotiation vs. Audit

- DCD is responsible for negotiating indirect cost rates with State and local governments, business entities, and other organizations with which the Department of Labor (DOL) conducts business.

# Cost Negotiation vs. Audit

- The OIG performs audits of indirect costs, rates, cost allocation plans, agreements, and functions, either as requested by DCD or as selected by the OIG. (See also DLMS Section 8).
- OIG can (and does) audit the ICR agreement.

# Types Of Costs



- Direct costs
- Indirect costs
- Administrative costs - separate workshop
- Program costs - separate workshop
- Allowable costs - separate workshop
- Unallowable costs - separate workshop

# Direct costs...

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

# What are Indirect Costs?



# Indirect Costs...

- Incurred for common or joint objectives
- Cannot be readily identified with a grant or project.
- The cost is necessary to the general operation of the organization. (cont...)

# Indirect Costs ...

- Allocated using an indirect cost rate
- Must be allocable and allowable

# Indirect costs...



## ■ Examples

- Salaries - Executive Director, Finance Officer, Receptionist, etc.
- Space - sq. ft. occupied by **indirect staff**
- Supplies - used by **indirect staff**

# Briefly, Indirect Costs vs. Administrative Costs

- Admin costs are generally support-type costs
  - Are defined in the federal statute or grant
  - May be either direct or indirect

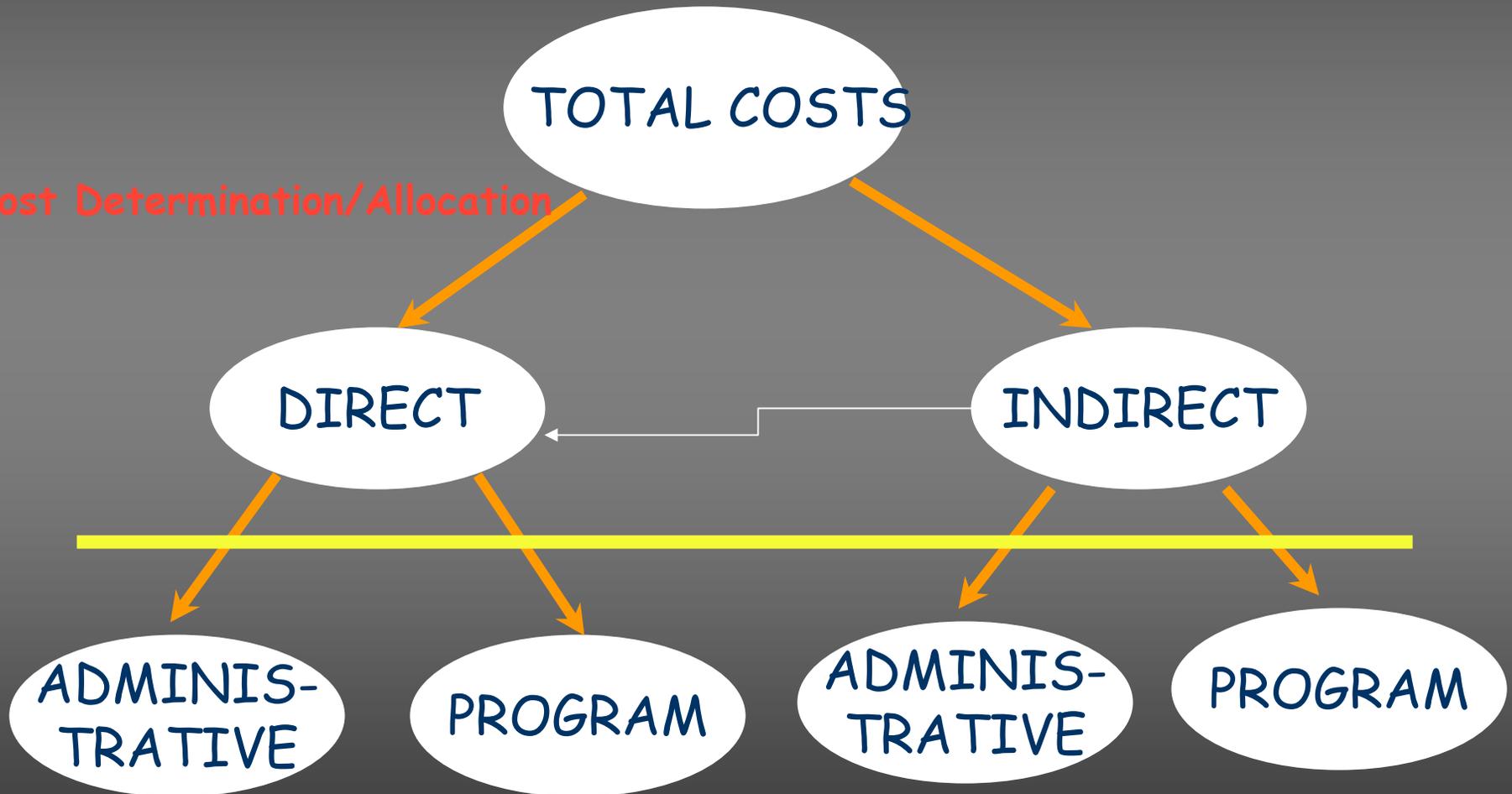
Are administrative costs and indirect costs one in the same?

NO!

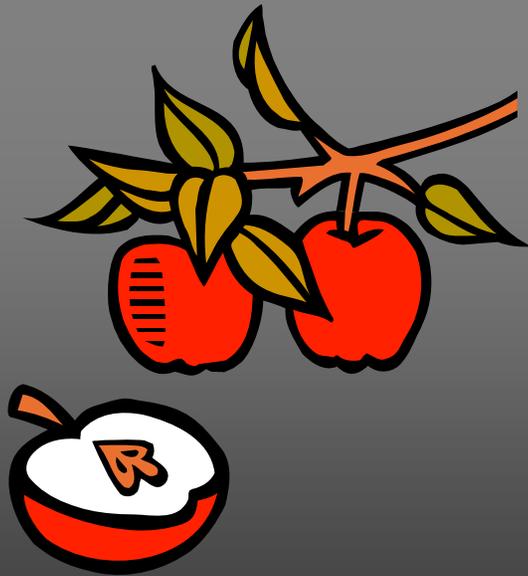
# Allocation versus Classification

- ① Allocation involves assigning costs to the benefiting objective(s) equitably. This process is covered by A-87, A-122 and other cost principles.
- ② Classification of costs involves placing costs into some category such as administration, program, or some other category as prescribed by statute.

# Types of Costs



# Cost Allocation versus Cost Reimbursement Two Separate Concepts...



# Cost Allocation

- Cost allocation is the measurement of allowable costs that are then allocated based on benefits received by each program/agency.
- Use A-122, A-87, A-21 guidelines in the cost allocation process.
- The cost principles provide the guidance for determining a Federal program's share of both direct and indirect costs. They have no authority over the actual payment of the costs. The payment is governed by the terms of the grant document or the legislation authorizing the program.

# Cost Reimbursement

- Cost reimbursement is the process where Federal dollars are used to reimburse grantee organizations for allowable costs.
- Use grant language/cost limitations and legislative constraints as guidelines in the payment process.

# ICR and "Admin"

- Div. of Cost Determination (DCD) negotiates an ICR based on the appropriate cost principles (e.g., A-122)
- DCD does not negotiate an admin rate (e.g., WIA admin)

# ICR and "Admin" (cont.)

- ETA determines compliance with WIA admin limits
- Grantees should work with their FPO and/or their regional ETA fiscal officer to determine how to support compliance with WIA admin limits

# ALLOWABLE COST...

- Must be reasonable
- Must be treated consistently (direct is direct is direct)
- Must comply with GAAP
- Must be allocable to the federal program (i.e., provide a benefit)
- Must be adequately documented



# Importance of Documentation

- Woman without her man has no reason to live.
- Woman without her man, has no reason to live.
- Woman, without her, man has no reason to live.

# UNALLOWABLE COST...

- Specifically identified in the grant/contract as being unallowable
- Specifically identified in the cost principles as being unallowable (OMB Circular A-122)
- Unnecessary, unreasonable, etc

# Indirect Cost Rate...

An indirect cost *rate* is simply a method used to determine what proportion of indirect *costs* each program (funding source) should pay.



# HOW IS AN INDIRECT RATE CALCULATED?

**Indirect Costs (POOL)**

----- == **RATE**

**Direct Costs (BASE)**

# Example: Indirect Cost Rate

- Example:

Indirect Cost Pool = \$ 10,000

Distribution Base = \$100,000

(Salaries & Benefits)

Indirect Cost Rate = 10%

# Indirect Cost Rate

## Most Common Allocation Bases

- Direct Salaries/Wages, including Fringes
- Direct S/W including release time, but excluding all other fringes
- 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**

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

<b>Indirect Costs</b>	\$150,000				\$63,295 b	\$86,705
<b>Total Direct Salaries</b>	\$519,000					
<b>Indirect Rate</b>	28.9%					

<b>Total Costs per Cost Center</b>					\$387,995 a+b	\$538,705
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# Indirect Cost Rate Calculation/Distribution Using "Total Direct Costs" as the Allocation Base

	Total Costs	Unallowable Costs	Indirect Costs	Total Direct	ETA	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
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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.

# Do I Even Need a Rate?

- No rate is needed if an organization has only one funding source
- No rate is needed if all funding consists of fixed price awards
- A rate is required if the organization has more than one funding source and indirect costs are to be charged against a Federal program

# Multiple funding sources

**HHS Funding**

**DOL Funding**

**State Funding**

**Multiple Funding Sources**

**ICR Proposal Needed**



# Multiple funding sources

- Caution: Fundraising activities are a funding source
  - Included in the base to absorb its share of indirect costs
  - Even if not reimbursed

So, a rate is needed. Where do I submit it?

- An indirect cost rate proposal should be submitted to the organization's cognizant Federal agency.

# Cognizant Agency Concept

- The Federal agency with the most funding directly with the grantee
- Cognizant agency negotiates a rate on behalf of all Federal agencies

# To whom is the rate submitted?

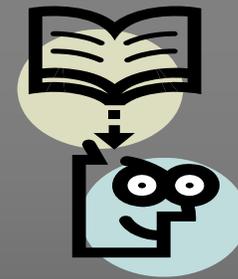
- If DOL is your cognizant agency, submit your proposal to office in Appendix III of the DOL's "Guide for Indirect Cost Rate Determination" booklet.

# Why do you need an approved indirect cost rate?

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



- Management Information



- Documentation for auditors



# Types of Rates

- 90-day Billing (initial grant award)
- Provisional/Final (most common)
- Fixed with carry forward (mainly gov't)
- Predetermined (rare)

# Billing Rate

- Rate stated in the award to allow recovery of indirect costs until an indirect cost proposal is completed and submitted.
- Typically valid for 90 days.

# Provisional Rate

- A budgetary rate based on projected information, historical information, or a combination of the two for the organization's current and future fiscal years
- This rate allows for recovery of indirect costs during the contract/grant period until the rate can be finalized

# Final Rate

- The experienced indirect cost rate based on actual data for the organization's fiscal year
- All provisional indirect cost rates must eventually be "finalized"

# Methods of Calculation

- Simplified Method
  - Federal awards are not material
  - Organization has only a single function
  - All programs benefit from indirect costs to about the same degree

# Methods of Calculation (cont'd)

- Multiple Allocation Base
  - All programs do not benefit to the same degree
  - Indirect costs are pooled and allocated to direct cost objectives based on various distribution bases (for example, # of transactions, # of purchase orders, # of FTE's)
  - Primarily used by large organizations, commercial, or governmental agencies

# Methods of Calculation (cont'd)

- Direct Allocation Method
  - All costs are charged directly to programs to except for general administration
  - Used by a majority of nonprofit organizations
  - Various bases are selected to “directly allocate” costs to programs(for example, space allocated based on square footage occupied)
  - See Page [III-12](#) of the Guide

# Group Mini Quiz

Did you get it?



Let's see if you did!

# 1-1. Indirect costs are...

- a. No different than direct costs
- b. Similar to participant stipends
- c. Not easily identifiable
- d. Really fun

# 1-2. Direct costs would usually include

- a. Program staff salaries
- b. Utility costs
- c. Costs of common space
- d. Gifts to the cost negotiator

# 1-3. Your “cognizant” Federal agency is usually defined as...

- a. The Federal agency that provides your organization with the most indirect funding
- b. The Federal agency that provides your organization with the most direct funding
- c. The Federal agency that provides your organization with the direct and pass-through funding
- d. The Federal agency you trust the most

# 1-4. Costs must be allocated based on...

- a. Program budgets
- b. Availability of funds
- c. Benefits received
- d. Your ability to operate a computer

1-5. A good example of an unallowable cost would be...

- a. The Executive Director's salary
- b. Lobbying costs
- c. Common space costs
- d. Costs related to dissemination of technical information

# 1-6. If a cost is unallowable under a Federal grant, it may be...

- a. Allocated as an indirect cost
- b. Charged to another Federal grant
- c. Funded from unrestricted sources
- d. Hidden in the pool

# 1-7. A Federally-approved indirect rate is properly applied to...

- a. The base upon which it was developed
- b. Program salaries
- c. Staff salaries less fringe benefits
- d. The maximum base

# 1-8. Unallowable costs that generate substantial quantities of indirect costs must be...

- a. Only removed from the indirect cost pool
- b. Offset against salaries
- c. Only added to the indirect cost base
- d. Removed from the indirect cost pool and added to the base

# Proposal Submission



# How do you prepare an indirect cost rate proposal and obtain a Federally-approved rate?



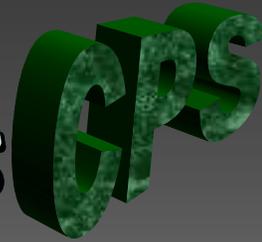
- Basic procedures and guidelines are in the DOL Guide. Start with the checklist on page [II-4](#) of the DOL Guide.
- The next set of slides will show the basic documents which must be submitted in the indirect cost rate proposal.

# ICR Proposal Documentation

- Background information
  - Organization chart (Checklist 1a)
    - Should reconcile with the accounting structure

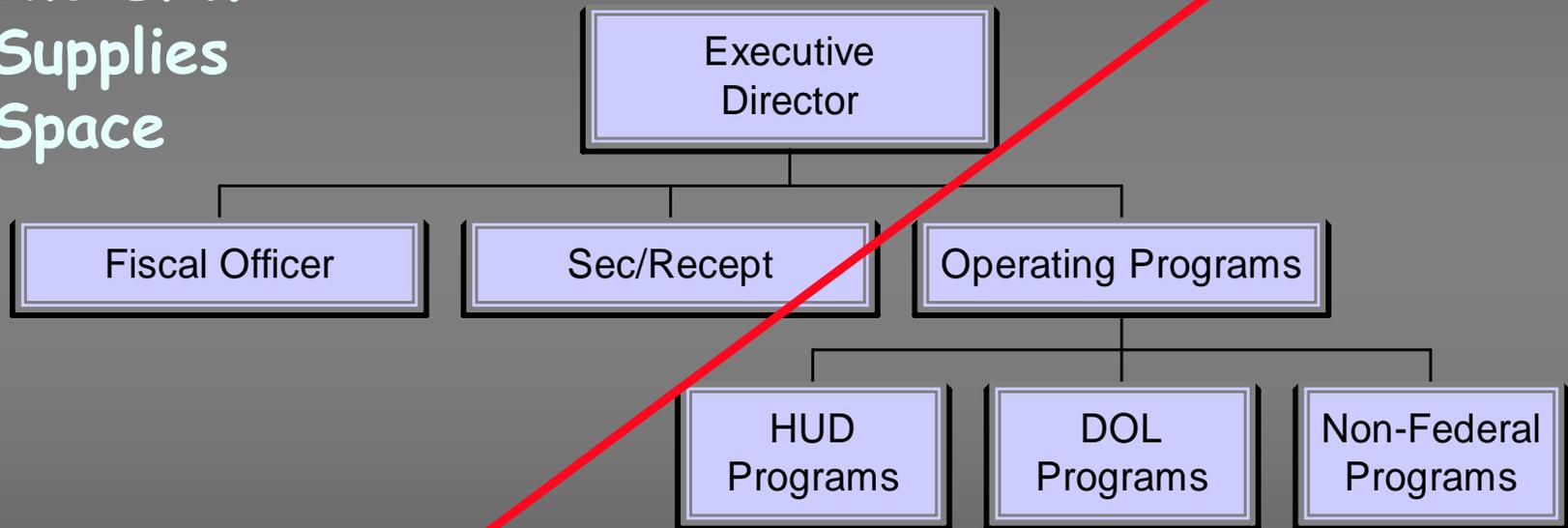


# Direct vs. Indirect Costs



Typical Nonprofit Corporation, Inc.

Ind S/W  
Supplies  
Space



Program S/W  
Supplies  
Space

# ICR Proposal Documentation

- Background information
  - A listing of awarded grants and contacts by Federal agency, total dollar amount, period of performance and cost limitations, if applicable (Checklist 5)

# ICR Proposal Documentation

- **Cost Policy Statement**
  - See example at Page [III-14](#) (Checklist 1c)
- **Personnel Costs Worksheet**
  - See example at Page [III-2](#) (Checklist 2a)

# ICR Proposal Documentation

- Allocation of Personnel Worksheet
  - See example at Page [III-4](#) (Checklist 2b)
- Statement of Employee Benefits
  - See example at Page [III-6](#) (Checklist 2c)

# ICR Proposal Documentation

- **Statement of Total Costs**
  - See examples at Pages [III-7&9](#) (Checklist 2d)
- **Statement of Indirect Costs**
  - See left-hand corner of [III-7&9](#) (Checklist 2e)

# ICR Proposal Documentation

- Audited financial statements (Checklist 3)
  - IRS Form 990 (non-profits) if audited financial statements not required.
  - OMB A-133 supplemental information

# ICR Proposal Documentation

- Note: The Statement of Total Costs (2d. above) must reconcile to Financial Statements.

# ICR Proposal Documentation

- Certificate of Indirect Costs
  - See Page [III-19](#) (Checklist 4a and 4b)
  - This must be signed and dated or the proposal will be rendered unacceptable

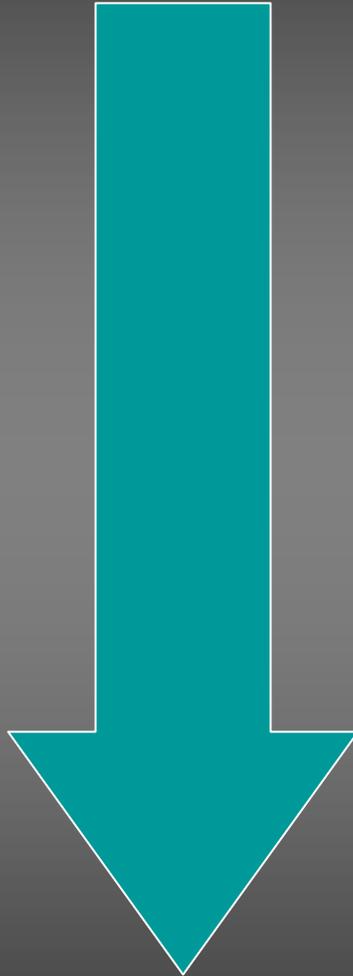
A black and white illustration of a hand holding a checkered flag on a pole. The flag is waving and has a black and white checkerboard pattern. The hand is positioned at the bottom of the pole, and the flag is at the top. The text is overlaid on the flag and pole.

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

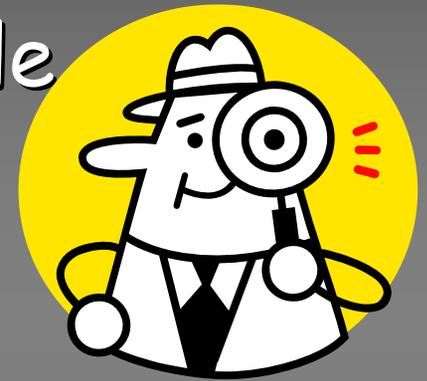
# So when is this proposal due?

- Our organization has never had a Federally-approved indirect cost rate.
  - Proposal due three months after the effective date of the DOL award.
- Our organization has a Federally-approved indirect cost rate.
  - Proposal due six months after the close of the organization's fiscal year.
- Extensions of time may be granted.

# The IC Rate Negotiation Process



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





- DCD prepares rate agreement and sends to grantee for countersigning
- DCD signs three originals of its indirect cost rate agreements and sends them to the grantee for countersigning - two are returned
- Any agreement which is not signed and returned is void

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



# Example of an Indirect Cost Rate Agreement



**(An Example)**  
**NEGOTIATED INDIRECT COST RATE 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 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
	<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 rate(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, 2007

(Date)

USDOL Negotiator: Ann Nonymous

Telephone No.: (555) 555-5555

**XYZ Nonprofit Agency, Inc.**

(Organization)

(Signature)

Jane Doe

(Name)

Executive Director

(Title)

December 1, 2007

(Date)

OK, I finally have an agreement. I don't have to talk to you again, right?

- As long as you have an award directly with the federal government, you are required to submit a new proposal annually
  - No later than six months after the close of the organization's fiscal year
  - Even if costs incurred during only part of the year

# Question: Do the Indirect Cost Rates Apply To Non-federal Funding?

- Indirect cost rates are used to allocate pooled expenses to all activities, including fundraising and other non-federal activities
- Once the costs are allocated to all activities, the payment process is between the grantee/contractor and the funding source

# Question: Do I Have to Use the Rates in the Agreement?

- The rates represent the maximum allowable under OMB Circular A-122
  - Can bill all, some, or none
  - Subject to any grant ceilings and statutory limitations

# Question: Why do I need an indirect rate? My grant gave me 15% for admin.

- WIA 15% admin limit is NOT a useable, billable rate. It is a cap based on total grant award!
- Billable costs include all allowable, allocable, and reasonable direct costs plus indirect costs.
  - Indirect costs are determined through the application of an indirect rate.
- Admin  $\neq$  Indirect

# Group Mini Quiz

Did you get it?



Let's see if you did!

## 2-1. On submitting an indirect cost rate proposal, a general rule of thumb would be to...

- a. Submit a proposal if you feel lucky
- b. Submit a proposal if your organization has only one source of funding
- c. Submit a proposal if your organization has multiple funding sources
- d. Submit a proposal without disclosing unallowable costs.

## 2-2. For organizations that have a Federally-approved indirect rate, indirect cost proposals must be submitted...

- a. No later than April 15 of each year in sync with IRS regulations
- b. No later than six months after the end of the organization's fiscal year
- c. No later than three months after the end of the organization's fiscal year
- d. In triplicate

## 2-3. A "Certificate of Indirect Costs" is...

- a. What you get from DOL when your rate is approved
- b. Your declaration that your organization has complied with applicable Federal cost principles and guidelines
- c. Unnecessary if your accountant is a "Certified Public Accountant"
- d. What you get when you learn to hide stuff in the indirect cost pool

## 2-4. The organization chart submitted with an indirect rate proposal should...

- a. Reflect the agency's income potential
- b. Reconcile with the agency's accounting structure
- c. Not show which units are direct or indirect
- d. Be in color, and consist of squares and circles

## 2-5. The stated purpose of a Cost Policy Statement is to provide...

- a. Documentation relative to agency job descriptions
- b. Information on funding streams
- c. A clear understanding as to which costs will be treated direct and/or indirect
- d. Stability in an unstable environment

2-6. The indirect cost rate proposal is normally based on the grantee's...

- a. Grant year
- b. Program year
- c. Fiscal year
- d. Leap year

2-7. In proposing a final indirect cost rate, the "Personnel Cost Worksheet" must be based on...

- a. Budgets for personnel costs
- b. Estimates by individual employees
- c. The number of personnel in the pool
- d. Actual personnel costs documented as prescribed by the cost principles

2-8. If the indirect cost base is \$1,200,000, and the approved rate is 10%, then the pool is...

- a. \$1,200
- b. \$120,000
- c. \$12,000
- d. \$833,333

2-9. If the base is \$1,000,000, consisting of 60% Federal funding, and the indirect cost pool is \$100,000, then the non-Federal share of the indirect cost pool would be...

- a. \$60,000
- b. (100% less 60%) times the base, or \$40,000
- c. \$400,000
- d. The reciprocal of the pool divided by the square root of the Federal share

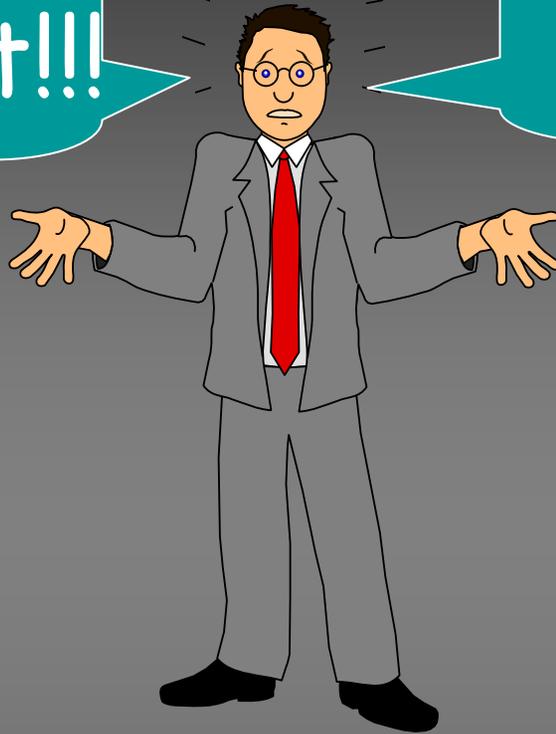
# Recap

1. Indirect costs and rates,
2. Where (what agency) should the entity submit the proposal (i.e., cognizance),
3. Required components of a proposal, and
4. Frequency of submissions.

Well done! You have all  
earned your Certificate of  
Indirect Costs!

You made it!!!

Questions?







 [Printer-Friendly Version](#)

11-4

## Non-Profits and Commercial Organizations

1. Submit once unless changes are observed:

- \_\_\_1a. Organizational chart,
- \_\_\_1b. Employee time sheet sample, providing for distribution of hours to direct/indirect functions.
- \_\_\_1c. Signed Cost Policy Statement.

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2. An Indirect cost rate proposal(s) providing the following:

- \_\_\_2a. Personnel Costs Worksheet, including fringe benefits breakdown.
- \_\_\_2b. Allocation of Personnel Worksheet, providing indirect/direct time charges.
- \_\_\_2c. Fringe Benefits Worksheet,
- \_\_\_2d. Statement of Total Costs, supporting the indirect and direct costs incurred by expense category, identified by Federal agency, specific government grant, contract, and other non-government activities.
- \_\_\_2e. Statement of Indirect Costs, including indirect cost pool(s), allocation base(s), and indirect cost rate(s) proposed.

3. \_\_\_ 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. If not, please provide a reconciliation statement.

4. \_\_\_ Certification that the indirect cost rate proposal was:

- \_\_\_4a. prepared in a manner consistent with the applicable cost principles set forth in OMB A-122 for non-profits, or the Federal Acquisition Regulations (Part 31) for commercial organizations.
- \_\_\_4b. that the non-profit grantee complied with the lobbying requirements of OMB Circular A-122, Attachment B, paragraph 25 (If applicable).

The certifications should be signed by the President/Executive Director, or Comptroller/CFO.

5. \_\_\_ A listing of grants and contracts by Federal agency, total dollar amount, period of performance, and the indirect cost (overhead) limitations (if any) applicable to each, such as, ceiling rates or amounts restricted by administrative or statutory regulations, applicable to the period(s) of the proposal(s). This listing should also be supported by the approved federal grant or contract notification award(s).

Exhibit F  
SAMPLE: Cost Policy Statement (CPS)  
for Indirect Cost Proposal

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The following CPS is intended to be used as guidance for organizations that seek reimbursement for indirect costs under Federal awards. This model assumes that ABC Organization uses

- A. the direct allocation basis to charge individual elements of costs. That is, in addition to direct costs, ABC has in place accounting procedures which enable it to direct charge some costs that would otherwise be considered indirect costs (see, for example, the description below on how the photocopy costs are charged).
- B. the direct salaries and wages including applicable fringe benefits, to allocate the indirect cost "pool".

**IMPORTANT NOTE:** The line items of costs in the CPS should reconcile with the line items of costs in the indirect cost proposal.

**COST POLICY STATEMENT  
ABC ORGANIZATION**

**I. General Accounting Policies**

- a. Basis of Accounting - Accrual Basis
- b. Fiscal Period - July 1 through June 30
- c. Allocation Basis for Individual Cost Elements - Direct Allocation Basis
- d. Indirect Cost Rate Allocation Base-Direct Salaries and Wages including applicable Fringe Benefits.
- e. If ABC Organization needed a fringe benefit rate, it would describe its fringe benefit allocation base at this point.
- f. ABC maintains adequate internal controls to insure that no cost is charged both directly and indirectly to Federal contracts or grants. A description of the accounting system software would be describe at this point.
- g. ABC accumulates all indirect costs and revenues in accounts titled, "Indirect Cost-Expense" and "Indirect Cost-Revenue" respectively.

**II. Description of Cost Allocation Methodology**

**A. Salaries and Wages**

1. Direct Costs - The majority of ABC's employees direct charge their salary costs since their work is specifically identifiable to specific grants, contracts, or other activities of the organization such as lobbying, fund raising or providing services to members. The charges are supported by auditable labor distribution reports which reflect the actual activities of employees.
2. Indirect Costs - The following staff charge 100% of their salary costs indirectly:
  - Office Business Manager
  - Secretary/Receptionist
3. Mixed Charges - The following employees may charge their salary costs to both direct and indirect activities:
  - Executive Director
  - Administrative Assistant

ABC contributes to the following fringe benefits for its employees:

1. unemployment insurance,
2. worker's compensation,
3. F.I.C.A., health insurance,
4. and matching contributions to a defined benefit pension plan.

Treatment of Fringe Benefits: ABC's accounting system tracks fringe benefit costs by individual employee and charges those costs directly or indirectly in the same manner as salary and wage costs are recorded. ABC does not need to have a fringe benefit rate established.

Treatment of Paid Absences - Release time costs (vacation leave earned, sick leave used, and holiday pay) are considered part of salary costs. Consequently, separate claims for release time costs are not made. ABC's accounting system records release time as a direct or indirect cost in the same manner that salary costs are recorded. Vacation leave earned but not used during each fiscal period is recorded as a cost in the period earned.

### C. Travel

Travel costs may be charged as either direct or indirect costs depending on the purpose of the trip.

For example:

The Executive Director of Company ABC travels to a regional office to give employees a quarterly update. This trip is indirect in nature and should be charged as an indirect cost. However, if the Executive Director of Company ABC travels to a regional office to perform a specific task for a contract, the trip would be considered a direct cost.

### D. Board Expenses

Board expenses charged on an indirect basis are for travel to/from Board meetings (limited to expenses allowed under the Federal Travel Regulations) and an annual fee of \$250 paid to each Board member.

Other Board expenses are absorbed by ABC and are not charged either directly or indirectly to Federal contracts or grants.

### E. Supplies and Material

To the maximum extent possible, office supplies and materials are direct charged to the contract/grant which uses the supplies or materials.

Supplies and materials used by staff who are engaged in indirect activities will be charged on an indirect basis.

### F. Occupancy Expenses

Rent - ABC occupies space it leases from Lessor Corporation. The lease provides for equal monthly payments during the term of the lease. Monthly lease costs are allocated, based on: square footage, directly and indirectly as follows:

## K. Capital Items

Capital expenditures are charged directly to programs only in cases where a contract or grant specifically authorizes such charges. No capital item is charged indirectly. The cost of capital items purchased with non-Federal funds are recovered through depreciation charges. ABC's capitalization threshold is \$500.

## L. Depreciation

The cost of capital items purchased with non-Federal funds which are used in a manner which benefits Federal programs is recovered through depreciation charged. ABC recovers the cost of capital items using straight line depreciation methods in accordance with generally accepted accounting principles. Depreciation is charged indirectly.

## M. Service to Members

The cost of activities performed primarily as a service to members, clients, or the general public are classified as direct costs and bear their fair share of indirect costs. These activities include:

1. maintenance of membership rolls,
2. subscriptions,
3. publications, and related functions, providing services and information to members, legislative or administrative bodies, or the public;
4. promotion, lobbying, and other forms of public relations;
5. meetings and conferences except those held to conduct the general administration of ABC Organization;
6. maintenance, protection, and investment of special funds not used in operation of ABC; and administration of group benefits on behalf of members or clients including life and hospital insurance, annuity or retirement plans, financial aid, etc.

## N. Unallowable Costs

ABC recognizes that the following costs, as defined in A-122 or the FAR, are unallowable charges to Federal awards and has internal controls in place to insure that such costs are not charged to Federal awards:

1. advertising and public relations,
2. entertainment/alcoholic beverages,
3. capital expenditures,
4. defense claims by the Federal Government,
5. interest,
6. lobbying and fund raising.

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\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Title)

ABC Organization

**Exhibit A**  
**Sample - Personnel Cost Worksheet**  
**July 1, 20XX to June 30, 20XX**

Position	Annual Salary (A)	FICA (B)	State UI (C)	Worker's Compensation (D)	Health Insurance (E)	Retirement (F)	Total Benefits b	Total Personnel Costs (a+b)
	a							(a+b)
Executive Director	\$60,000	4,111	\$240	\$600	\$2,400	\$4,800	\$12,151	\$72,351
Administrative Assistant	22,000	1,683	240	220	2,400	1,760	\$6,303	28,303
Controller	45,000	3,443	240	450	2,400	3,600	\$10,133	55,133
Accountant	90,000	6,885	720	900	7,200	7,200	\$22,905	112,905
Program Planner (4)	120,000	9,180	960	1,200	9,600	9,600	\$30,540	150,540
Field Operations Director	35,000	2,678	240	350	2,400	2,800	\$8,468	43,468
Area Coordinator *	15,000	1,148	240	150	1,400	1,200	\$4,138	19,138
Program Specialist	25,000	1,913	480	250	4,800	2,000	\$9,443	34,443
Personnel Director	40,000	3,260	240	400	2,400	3,200	\$9,500	49,300
Personnel Clerk (3)	60,000	4,590	720	600	7,200	4,800	\$17,910	77,910
MIS Director	45,000	3,443	240	450	2,400	3,600	\$10,133	55,133
Head Start Director	45,000	3,443	240	450	2,400	3,600	\$10,133	55,133
Data Entry Clerk *	12,000	918	240	120	1,200	960	\$3,438	15,438
All Other Positions **	700,000	53,550	12,000	7000	120,000	56,000	\$248,550	948,550
<b>TOTAL</b>	<b>\$1,314,000</b>	<b>\$100,245</b>	<b>\$17,040</b>	<b>\$13,140</b>	<b>\$168,200</b>	<b>\$105,120</b>	<b>\$403,745</b>	<b>\$1,717,745</b>

(A) In this example, vacation, holiday, sick leave, and other paid absences were included in salaries and claimed on other grants, contracts, or agreements, as part of salary costs. Separate claims for these absences are not made. Refer to Exhibit C.

(B) FICA taxable wages were computed at 6.2% of \$55,500 per employee, and 1.45% based on \$130,200 per employee.

(C) State unemployment compensation taxable wages were computed on the 1st \$8,000 for 71 employees at 3% ( 71 x \$8,000 x 3% = \$17,040)

(D) Worker's compensation was estimated at 1% of salaries (1% x \$1,314,000 = \$13,040).

(E) Health insurance was computed at \$200 per month per employee.

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(F) Retirement was computed at 8% of an employee's annual salary. Example: Executive Director's annual salary: \$60,000 x 8% = \$4,800.

\* This represents employees who will work less than a twelve month period due to a grant/contract not being reviewed.

\*\* These positions have been consolidated for illustrative purposes only; all personnel positions that require charging time to more than one cost objective must be identified separately on this exhibit.

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**Exhibit B**  
**Sample - Allocation of Personnel Worksheet**  
**July 1, 20XX to June 30, 20XX**

Position	Annual Salary	Indirect Costs	Direct Costs (a+b)	Federal Programs a			Non-Federal Programs b		
				U.S. Dept. of Labor	U.S. Dept. of HHS	U.S. Dept. of Education	State Service Delivery Agency	Private Foundation Commercial	Fundraising
Executive Director	\$60,000	\$54,000	\$6,000						\$6,000
Administrative Assistant	\$22,000	22,000	\$0						
Controller	\$45,000	45,000	\$0						
Accountant	\$90,000	90,000	\$0						
Program Planner (4)	\$120,000	12,000	\$108,000	72,000	12,000	18,000	6,000		
	100%	10%	90%	60%	10%	15%	5%		
Field Operations Director	\$35,000	5,250	\$29,750	8,750	5,250	8,750	5,250		1,750
	100%	15%	85%	25%	15%	25%	15%		
Area Coordinator *	\$15,000		\$15,000				15,000		
Program Specialist	\$25,000		\$25,000	20,000	5,000				
	100%		100%	80%	20%				
Personnel Director	\$40,000	40,000	\$0						
Personnel Clerk (3)	\$60,000	60,000	\$0						
MIS Director	\$45,000	45,000	\$0						
Head Start Director	\$45,000		\$45,000	9,000	36,000				
	100%		100%	20%	80%				
Data Entry Clerk *	\$12,000		\$12,000	9,000		3,000			
All Other Positions **	\$700,000		\$700,000	280,000	105,000	175,000	105,000		35,000
<b>TOTAL</b>	<b>\$1,314,000</b>	<b>\$373,250</b>	<b>\$940,750</b>	<b>\$398,750</b>	<b>\$163,250</b>	<b>\$204,750</b>	<b>\$131,250</b>	<b>\$6,000</b>	<b>\$36,750</b>

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\* This represents an employee who will work less than a twelve month period.

\*\* These positions have been consolidated for illustrative purposes only. All personnel positions that require time to be charged to more than one cost objective must be identified separately in this worksheet.

Note: The salaries included in this exhibit are for illustrative purposes only.



Participant support Costs	\$184,000	184,000 (2)		0				
Total Non-Personnel Costs	\$1,302,000	\$378,900	\$396,800	\$526,300	\$143,600	\$101,100	\$42,500	\$382,700
TOTAL	\$3,019,746 (4)	\$378,900	\$884,736	\$1,756,110	\$1,145,946	\$774,342	\$371,604	\$610,164

STEP 2 - Rate Calculation...

STEP 3 - Distribution to the Cost Centers

Indirect Cost Rate Calculation\*

Distribution of Indirect Costs (ICs) - (5)

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			a		b	Total a+b		
Indirect Costs	\$884,736	<u>Method A (6)</u>	Allocation Base	1,002,346	673,242	329,104	227,464	1,229,810
<u>Method A - Total Direct Salaries &amp; Benefits</u>	1,229,810		Times Indirect Rate	71.94%	71.94%	71.94%	71.94%	
Indirect Rate	71.94%		Equals Allocable Share of ICs	\$721,096	\$484,336	\$236,760	\$163,640	\$884,736
Indirect Costs	\$884,736	<u>Method B (6)</u>	Allocation Base	1,145,946	\$774,342	\$371,604	610,164	1,756,110
<u>Method B - MTDC</u>	\$1,756,110		Times Indirect Rate	50.38%	50.38%	50.38%	50.38%	
Indirect Rate	50.38%		Equals Allocable Share of ICs	\$577,333	\$390,117	\$187,216	\$307,403	\$884,736
			Difference between A & B (A-B)	\$143,764	\$94,219	\$49,545 \$0	(\$143,764)	

(1) AND (2) REFER TO EXHIBIT E FOR EXPLANATIONS.

(3) This column must be splitted to show multiple rate structures (G&A, onsite, offsite), if applicable.

(4) Must reconcile to the Financial Statements. [←](#)

(5) Is the result of multiplying the indirect rate times the allocation base for each cost center.

(6) For sample purposes only. Other allocation methods may be proposed as long as it provides and equitable and rational distribution of indirect costs. Contact DCD for more details.

Note: The costs included in this exhibit are for illustrative purposes only.

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**Exhibit C**  
**Sample - Statement of Employee Benefits**  
**June 1, 20xx to June 30, 20xx**

	Method A	Method B
Annual Leave Earned		\$50,384
Sick Leave Taken		\$25,269
Holidays		\$50,384
Subtotal - Release Time		\$126,037 a
FICA	\$100,245	\$100,245
State Unemployment Compensation	\$17,040	\$17,040
Worker's Compensation Insurance	\$13,140	\$13,140
Medical Insurance	\$168,200	\$168,200
Pension	\$105,120	\$105,120
SubTotal	\$403,745	\$403,745 b
Total Employee Fringe Benefits	\$403,745	\$529,782 (a+b)
Allocation Base:		
Total Salaries	\$1,314,000	\$1,314,000
Less: Release Time		-\$126,037
Chargeable Salaries		\$1,187,963
<u>Employee Fringe Benefit Rate</u>		
Fringe Benefits	\$403,745	\$529,782
Allocation Base	\$1,314,000	\$1,187,963
Fringe Rate	30.73%	44.60%

**NOTE:**

Method A - For estimating purposes on budgets, grantees/contractors include release time as personnel salary costs; I.e. total salary.

Method B - The fringe benefit pool includes time for vacation, holiday, and sick leave and is distributed through a fringe benefit rate.

The decision to use either method will depend on the grantee/contractor's accounting system and time distribution system.

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**Exhibit D**  
**SAMPLE - Indirect Cost Proposal**  
**Simplified Allocation Method**

**Exhibit G  
Certificate of Indirect Costs**

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I have reviewed the indirect cost proposal dated \_\_\_\_\_ . This is to certify that:

1. All costs included in the proposal(s) submitted on \_\_\_\_\_ to establish provisional, final, or fixed indirect cost rate(s), for the period \_\_\_\_\_, through \_\_\_\_\_ are allowable in accordance with the requirements of grants/contracts to which they apply and with the Federal cost principles; i.e., (please check those applicable cost principles):

- \_\_\_\_\_ OMB Circular A-87, Cost Principles for State, Local and Federally recognized Indian Tribal Governments.
- \_\_\_\_\_ OMB Circular A-122, Cost Principles for Non-Profit Organizations
- \_\_\_\_\_ Federal Acquisition Regulation (FAR), Subpart 31.2, Cost Principles for Commercial Organizations.

2. This proposal does not include any costs which are unallowable under applicable Federal cost principles. For example:

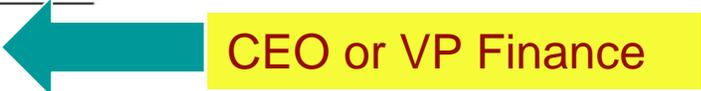
advertising, contributions and donations, bad debts, entertainment costs, fines and penalties, general government expenses, and defense of fraud proceedings;

3. The requirements standards on lobbying costs for non-profit (A-122) and commercial (FAR) organizations have been compiled with for the fiscal year ended \_\_\_\_\_, and
4. All costs included in this proposal are properly allocable to U.S. Department of Labor grants/contracts on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable Federal cost principles.

Subject to the provisions of the Program Fraud Civil Remedies Act of 1986, (31 USC 3801 et seq.), and the Department of Labor's implementing regulations, (29 CFR Part 22), the False Claims Act (18 USC 287 and 31 USC 3729); and the False Statements Act (18 USC 1001), I declare to the best of my knowledge the foregoing is true and correct.

Grantee/Contractor: \_\_\_\_\_

Signature: \_\_\_\_\_



Name of Authorized Official: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

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			(P) 202-693-4107 (F) 202-693-4099
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Most Negotiators are primarily responsible for organizations located in their regions, as follows:

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## Exhibit E Suggested Allocation Bases

The following are suggested allocation bases that might be used to direct charge joint costs to Federal awards and other activities of the organization. The allocation base selected by the non-profit organization or commercial organization must be:

reasonable and consistently applied,  
 supported by accurate and current data,  
 appropriate to the particular cost being distributed, and  
 must result in an accurate measure of the benefits provided to each activity of the organization.

<u>TYPE OF SERVICE</u>	<u>SUGGESTED BASIS FOR ALLOCATION</u>
Accounting	Number of transactions processed
Auditing	Direct audit hours
Budgeting	Direct hours of identifiable services of employees of central budget
Building lease management	Number of leases
Data processing	System usage
Disbursing service	Number of checks or warrants issued
Employees retirement system administration	Number of employees contributing
Insurance management service	Dollar value of insurance premiums
Legal services	Direct hours
Mail and messenger	Number of documents handled or service employees served
Motor pool costs including automotive management	Miles driven and/or days used
Office machines and equipment maintenance repairs	Direct hours
Office space use and related costs (heat, light, janitor service, etc.)	Sq. ft. of space occupied
Organization and management services	Number of employees
Payroll services	Number of employees
Personnel administration	Number of employees
Printing and reproduction	Direct hours, job basis, pages printed, etc.

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