

# Indirect Cost Rate Requirements

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# Objectives

- Indirect Cost Rate (ICR) Requirements.
  - What is an ICR
  - Why is an ICR required?
  - Who needs an ICR?
  - When is an ICR negotiation or election due?
  - Where does an organization get an ICR?
- Direct Federal Funding Rules
- ICR election options
  - Changes in the tax law
  - ICR restrictions or limitations
- Roles and responsibilities
- Making an election in the Grantee Portal

# What is an Indirect Cost Rate (ICR)?

- Indirect costs are those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective
- An ICR is a device used to fairly determine the proportion of indirect costs each program should bear
- An ICR is the ratio between the total indirect costs and a direct cost base
- $$\frac{\text{Indirect Costs - unallowable costs}}{\text{Direct Cost Base}} = \text{ICR \%}$$

# Why is an ICR required?

- All organizations desiring to claim indirect costs under state or federal awards must prepare an indirect cost rate proposal and related documentation to support those costs
- Required under federal Uniform Guidance (2 CFR 200.414)
  - Requires annual submission of an indirect cost rate proposal or election
  - Illinois Administrative Code Part 7000-Grant Accountability and Transparency Act (44 Illinois Administrative Code Part 7000.420)
    - GATA requires an annual election through the State of Illinois centralized ICR system
    - No indirect cost may be charge without an annual election
    - Annual election requirement includes non-Federal entities that have a Federally Negotiated Rate and those who elect the De Minimis Rate

# Who needs an ICR?

- Non-federal entities that want indirect cost reimbursement from a federal, federal pass-through or state award must have an ICR including:
  - Nonprofits
  - For profits
  - Institutions of higher education
  - Local governments
  - Hospitals
- One exception, the US Department of Education has an agreement with the State Board of Education to establish the ICR for Local Education Agency (LEA)-School Districts

# When is an ICR proposal or election due?

- Organizations that have not previously established an ICR must submit an initial indirect cost proposal or rate election. Upon notice of award, the indirect cost rate proposal or rate election must be submitted no later than 90 days (3 months) after the effective date of the State award
- Organizations that have previously established ICR or made another election, are required to submit a new indirect cost proposal or rate election within six (6) months after the grantee's fiscal year end or nine (9) months if subject to the single audit

# Where does an organization get an ICR?

- Determine if the organization receives direct federal funding
- If yes, engage with the federal cognizant agency for indirect costs
  - Federal rate can be used on all federal and state programs, subject to statutory limitations
  - Grantee is required to record federal rate election and upload required documents in the State of Illinois centralized ICR system
- If no, required to make an indirect cost rate election or negotiate an indirect cost rate with the state through the State of Illinois centralized ICR system

# Organizations receiving direct federal funding

- Entities other than local governments that receive any direct federal funding must:
  - Negotiate with their federal cognizant agency;
  - Elect the de minimis rate (if eligible); or
  - Elect no rate in the State of Illinois centralized ICR system
- If an organization receives direct federal funding, the State of Illinois is not allowed to negotiate except under extenuating circumstances



# Local Government receiving direct federal funding

- Local government departments or agencies that receive \$35 million or more in direct federal funding must negotiate with their federal cognizant agency
- Local government departments or agencies that receive less than \$35 million in direct federal funding must make an indirect cost rate election in the State of Illinois centralized ICR system
  - Must develop an indirect cost rate proposal and central services cost allocation plan (if applicable) with related supporting documentation.
  - GATA requires the indirect cost rate proposal and the CSCAP is submitted to the State of Illinois centralized ICR system for review and required monitoring purposes
  - The indirect cost rate proposal and CSCAP must be maintained and available for audit purposes

# What if the Federal cognizant agency refuses to negotiate?

- If a federal cognizant agency refuses to negotiate an indirect cost rate:
  - Written documentation from your Federal cognizant agency is required in order to negotiate a rate with the State of Illinois that includes:
    - Federal cognizant agency name, title and contact information
    - The question posed along with the answer
    - If verbal, the conversation must be memorialized in writing and agreed upon by both parties

GATA has been instructed to follow these requirements and notify the Federal Office of Management and Budget

# Indirect Cost Rate Election Options

Illinois grantees must elect one of the following indirect cost rate options in the State of Illinois centralized ICR system

- Federal Negotiated Indirect Cost Rate Agreement (NICRA)
- State NICRA
- De minimis
- No Rate

# Federal NICRA

- Approved by Federal Cognizant Agency and accepted by all state awarding agencies subject to any statutory limitations
- A copy of the current, fully executed federal approval letter required
  - Effective dates of the agreement
  - Rate and distribution base
  - A copy of the Cost Policy Statement used to negotiate the federal rate

# State NICRA

- A state NICRA must be accepted by all state awarding agencies subject to any statutory limitations
- A state NICRA will not be accepted by a federal agency
- Distribution Bases
  - Modified Total Direct Costs (MTDC)
  - Salaries & Wages (S&W)
  - Salaries & Wages plus Fringe Benefits (S&W+FB)
- The required documentation must be submitted into the state of Illinois centralized ICR system for negotiation

# 10% De Minimis Rate-Modified Total Direct Costs (MTDC)

- A non-federal entity is eligible to elect the de minimis rate if it has never received a negotiated rate from the state or federal government
- Designed for organizations that lack fiscal capacity to negotiate a rate
- May be used indefinitely until grantee negotiates a ICR

# No Rate

- This election is available to all organizations regardless of funding sources
- “No rate” option certifies that the grantee will not seek indirect cost reimbursement from any State of Illinois award
- An organization needs to consider all effects of a no rate election including recent changes to the federal tax law

# Indirect Cost Restrictions or Limitations

- There may be statutory or programmatic limitations or restrictions imposed on an award
- These limitations or restrictions must be listed in the Catalog of State Financial Assistance (CSFA), the Notice of Funding Opportunity (NOFO), the Notice of State Award (NOSA) and the grant agreement by the awarding agency
- Even if a program level indirect cost rate restriction or limitation applies, a grantee is required to make an ICR election in the State of Illinois centralized ICR system in order to charge any indirect costs



# Roles and Responsibilities for completing an indirect cost rate election

# Grantee Roles and Responsibilities

- Indirect cost rate election
- An election must be made annually in the State of Illinois centralized ICR system according to timeframe requirements
- Upload all required documents
- Follow all submission requirements from 2 CFR 200, Appendices IV, V and VII
- Electronic signatures and certifications are permitted within the grantee portal

# State Awarding Agency Roles and Responsibilities

- Appoint an indirect cost rate Subject Matter Expert (SME)
  - Liaison between the grantee and Contractor as a go to expert
  - Engage in training and best practice regarding indirect cost rates
- Ensure indirect costs are applied properly within billing and reporting
- Maintain, develop and provide program exceptions, limits and restrictions regarding indirect cost reimbursement

# State Cognizant Agency Roles and Responsibilities

- Assist grantees in completing a timely indirect cost rate proposal or rate election through the State of Illinois centralized ICR system
- Assist grantees with timely follow-up requests from contractor regarding indirect cost rate proposals
- Timely acceptance of an indirect cost rate election or a negotiated state rate in the State of Illinois centralized ICR system
- Engage in appeal notices or hearings regarding indirect cost rate negotiation

# GATU Roles and Responsibilities

- Provide a centralized framework through a contractor for grantees to negotiate indirect cost rates
  - Provide a centralized system for grantees to make an indirect cost rate election
  - Manage contractor responsible for reviewing and negotiating all ICR proposals on behalf of all state agencies
- Provide technical assistance to SMEs and grantees
- Maintain official records of all grantee elections and indirect cost rates
- Assist with ICR exceptions, limits and restrictions
- Facilitate appeal hearings regarding indirect cost rate negotiation

# Making an Election in the Grantee Portal

Beginning FY19, all indirect cost rate elections will be initiated through the grantee portal, maintained by GATU

- Grantees receive a notification in the grantee portal to make an indirect cost rate election
  - Notification is sent to the point of contact determined by the grantee
  - Multiple people can receive indirect cost rate notifications
- All work is completed in the grantee portal



# Making an Election in the Grantee Portal

## Fiscal and Administrative Internal Controls Questionnaire (ICQ)

ICQ	State FY	Date Started	Date Submitted	Date Accepted
Select	2018	07-14-2017	07/17-2017	07-17-2017
Select	2017	08-08-2017		

An ICQ is required for each state fiscal year your organization does business with the State of Illinois. For example, state FY 2018 which begins on 7/1/2017 and runs through 6/30/2018 requires an FY 2018 ICQ. Notifications when changes occur to an ICQ status can be emailed to Grantee Portal Access users by clicking the "Manage" button below.

## Indirect Cost Rates (ICR)

In order to be reimbursed for indirect costs, your organization is required to make an ICR election annually. Indirect costs are those costs incurred for common or joint objectives that cannot be identified readily and specifically with a particular sponsored project.

[FY 2019 ICR Election](#)

## Notice Of State Awards (NOSA)

# Questions

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