

A GUIDE FOR INDIRECT COST DETERMINATION

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A Guide for Indirect Cost Rate Determination

Based on the Cost Principles and Procedures
Required by 2 CFR Part 200, Subpart E & Appendix IV
for Non-profit Organizations
and by the Federal Acquisition Regulation -
Parts 31.2 and 42.7 for Commercial Organizations



U.S. Department of Labor
Office of Cost Determination
Office of the Chief Procurement Officer/Business Operations Center
OASAM

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PREFACE

This Guide has been prepared by the Office of Cost Determination (OCD), to assist non-profit and commercial organizations (non-Federal entities) in understanding the requirements for the determination of indirect costs on **cost reimbursable** grants, contracts, and other agreements awarded by the U.S. Department of Labor (DOL).

An indirect cost rate is established on the basis of a Federally approved indirect cost rate proposal and supporting documentation submitted by organizations. Indirect costs allocable to DOL programs should be reimbursed if an organization has a Federally approved rate. Reimbursement, however, is subject to any administrative limitations established in the grants and/or contracts.

The formats provided in this guide are the preferred formats of OCD, but are not strictly required, as some other format may be acceptable. The actual content of the exhibits and samples may vary between organizations.

An indirect cost rate is simply a device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each program should bear. Note that indirect costs are incurred for common or joint objectives and cannot be readily identified with a particular grant, contract or other activity of the organization. An indirect cost rate is the ratio between the total indirect expenses and some direct cost base. The indirect cost allocation methods used by each organization depend on its own structure, program functions, and accounting system.

Prior to the preparation of an indirect cost rate proposal and supporting documentation; and, to be in accordance with the procedures described in this Guide, the applicable cost principles should be reviewed.

2 CFR Part 200, Subpart E & Appendix IV, establish the Federal requirements for the determination of allowable and unallowable direct and indirect costs for nonprofit organizations. This regulation is effective on December 26, 2014. Prior to December 26, 2014, nonprofit organizations must follow the cost principles established by OMB Circular A-122. For more information, see Section I of this guide. 2 CFR Part 200 and OMB Circular A-122 are available at: <http://www.dol.gov/oasam/boc/dcd/extrelatedlinks.htm>

The Federal Acquisition Regulations (FAR), Part 31.2, "Contracts with Commercial Organizations", establishes the Federal requirements for the determination of allowable and unallowable direct and indirect costs, and is available at the following website: <https://www.acquisition.gov/Far/>. FAR Part 42.7 "Indirect Cost rates" provides guidance on cognizance for indirect rate determination among other relevant topics. Commercial entities must follow these regulations.

The Office of Inspector General randomly audits indirect cost rate proposals. The results of their audits have indicated a need for better controls and procedures on charging indirect costs to Federal awards. Section IV of this Guide, provides examples of problems disclosed during such audits which are presented here to help avoid future problems.

All inquiries for additional information should be directed to OCD. The addresses and telephone numbers of the OCD national office and regional cost negotiators can be found in Appendix III of this Guide.

VICTOR M. LOPEZ
Director
Office of Cost Determination

Section I

General Information

This section includes the following information:

- A. Definition of Indirect Costs
- B. Types of Indirect Rates
- C. Determination of Indirect Cost Rates and Cost Allocation
- D. Submissions of Indirect Cost Proposals
- E. Approval of Indirect Cost Proposals
- F. Negotiated Indirect Cost Rate Agreement (NICRA)
- G. Disputes
- H. Reimbursement of Indirect Costs
- I. Retention of Records

A. Definition of Indirect Costs

According to §2 CFR Part 200.56, indirect costs or otherwise indirect F&A costs are define as:

§200.56 Indirect (facilities & administrative (F&A)) costs.

Indirect (F&A) costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

B. Definition and types of Indirect Rates

An indirect cost rate is simply a device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each program should bear. An indirect cost rate is the ratio between the total indirect expenses and some direct cost base.

The OCD typically negotiates provisional and final indirect cost rates. There are also predetermined and fixed rates which may be suitable for certain negotiation scenarios and organizations. All of these types of rates are described in §2 CFR, Appendix IV, C.1. See also below:

1. Provisional rate or billing rate means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on awards pending the establishment of a final rate for the period.
2. Final rate means an indirect cost rate applicable to a specified past period which is based on the actual costs of the period. A final rate is not subject to adjustment.

Note that a final indirect cost rate is established after an organization's actual costs are known, typically a fiscal year. Once established, a final indirect cost rate is used to adjust the indirect costs claimed.

The use of provisional and final rates will likely result in final audited expenditures being higher or lower than those reported for awards, which are

terminated during the organization's fiscal year. A final rate may be issued as a provisional rate in the ensuing year, adjusted for anticipated changes in funding levels or costs.

3. Predetermined Rate: Means an indirect cost rate, applicable to a specified current or future period, usually the organization's fiscal year. The rate is based on an estimate of the costs to be incurred during the period. A predetermined rate is not subject to adjustment. A predetermined rate may be used on awards where there is reasonable assurance that the rate is not likely to exceed a rate based on the organization's actual costs,
4. Fixed Rates with carry-forward: Means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

Provisional and final rates are preferred by most nonprofit organizations for the following reasons:

- a) Actual indirect costs are allocated to program objectives in the year incurred, creating accurate cost information;
- b) There are no prior year indirect costs carried into a future year to burden new or continuing funding;
- c) All indirect costs are properly funded in the fiscal year incurred, creating no profit or loss for the organization;
- d) The organization's accounting system must determine actual costs each year, a capability that ultimately must exist to synchronize accounting, budgeting, and cost allocation; and
- e) The actual cost of services or programs is determined annually and is therefore available for purposes of internal management and informed budgeting.

10% De minimis rate – §2 CFR 200.414(f) provides for this type of rate, see description below. It is noted that this office does not approve this type of rate. It is up to the grant officer approval.

(f) In addition to the procedures outlined in the appendices in paragraph (e) of this section, any non-Federal entity that has never received a negotiated indirect cost rate, (except for those non-Federal entities described in Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals, paragraph (d)(1)(B)) may elect to charge a de minimis rate of) 10% of modified total direct costs (MTDC) which may be used indefinitely. As described in §200.403 Factors affecting allowability of costs, costs must be consistently charged as either indirect or direct costs, but may not be double charged or inconsistently charged as both. If chosen, this methodology once elected must be used consistently for all Federal awards until such time as a non-Federal entity chooses to negotiate for a rate, which the non-Federal entity may apply to do at any time.

According to §200.68, MTDC is composed of the following:

MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward and subcontract in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity

in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

Possible 4-year extension of previously negotiated rates - §2 CFR 200.414(g), states the following:

(g) Any non-Federal entity that has a federally negotiated indirect cost rate may apply for a one-time extension of a current negotiated indirect cost rates for a period of up to four years. This extension will be subject to the review and approval of the cognizant agency for indirect costs. If an extension is granted the non-Federal entity may not request a rate review until the extension period ends. At the end of the 4-year extension, the non-Federal entity must re-apply to negotiate a rate.

OCD's policy – We will consider non-Federal entities requests for these extensions on a case by case basis. Note – we will need to issue final rates for fiscal years that begin prior to 12/26/2014 using OMB Circular A-122 before considering these extensions.

C. Determination of Indirect Cost Rates and Cost Allocation

Non – Profits - The three basic methods for calculating indirect cost rates are explained under §2 CFR, Appendix IV, B2 through B4. These methods are:

- Simplified,
- Multiple Rate, and
- Direct Allocation methods..

Examples of the Simplified and Direct Allocation methods are shown on Exhibits D and E in Section III of this Guide.

§2 CFR, Appendix IV, B.5., also provides for the use of Special Indirect Cost Rates. A single indirect cost rate for all activities of the organization may not be appropriate when work under the Federal program is conducted in an offsite location and the level of administrative support is different than other programs.

For an organization that receives more than \$10 million in Federal funding of direct costs in a fiscal year, a breakout of the indirect costs into two components; **Facilities and Administration**, as defined below, is required. The rate shall be stated as a percentage which the amount of **Facilities and Administration** is, of the applicable distribution base used for each component. Each indirect cost rate negotiation agreement shall identify the development of each indirect cost pool component as well as the overall indirect cost rate.

1. **"Facilities"** is defined as depreciation and use allowances on buildings, equipment and capital improvements; interest on debt associated with certain buildings, equipment and capital improvements; and operations and maintenance expenses.
2. **"Administration"** is defined as general administration and general expenses such as the director's office, accounting, personnel, library expenses and all other types of expenditures not listed specifically under one of the subcategories of "Facilities", (including cross allocations from other pools, where applicable).

Commercial Organizations – The above requirement is not applicable to commercial organizations.

D. Submissions of Indirect Cost Proposals

Prior to the preparation of an indirect cost rate proposal and supporting documentation, the following cost principles should be review to determine if the costs proposed are reasonable, allowable, and allocable to the Federal government:

Non-profit Organizations	OMB Circular A-122 (2 CFR Part 230) for final indirect cost proposals for fiscal years that <u>begin before 12/26/2014</u> . §2 CFR Part 200, Subpart E & Appendix IV for final indirect cost proposals for fiscal years that <u>begin on or after 12/26/2014</u> .
Commercial Organizations	Federal Acquisition Regulation (Part 31.2 & 42.7)

An incurred cost, or final indirect cost rate proposal, together with the supporting documentation listed in Section II.C., must be developed and submitted on an annual basis to the OCD no later than six months after the close of the organization's fiscal year, unless an exception is approved by the OCD. For organizations with no prior approved indirect cost rate, a budget (or provisional) proposal must be submitted no later than three months after the effective date of the DOL award.

Most of the indirect cost rate proposals are to be submitted to the OCD national office or otherwise noted in Appendix III of this guide.

E. Approval of Indirect Cost Proposals

Unless different arrangements are agreed to by the agencies concerned, the Federal agency with the largest dollar value of awards with an organization will be designated as the cognizant agency for the negotiation and approval of the indirect cost rates.

The OCD will negotiate and approve indirect cost rates when the DOL is the cognizant Federal agency. Indirect costs can only be charged to a grant or contract based on a Negotiated Indirect Cost Rate Agreement (NICRA) approved by the OCD. However, the approval of indirect costs by the OCD is not intended to identify the circumstances or dictate the extent of Federal participation in the financing of particular grants or contracts.

F. Negotiated Indirect Cost Rate Agreement (NICRA)

The approval will be formalized by a rate agreement signed by the Director, OCD (or its designee) and an authorized representative of the organization. Each agreement will include:

1. The approved rate(s) and information directly related to the use of the rates, e.g., type of rate, effective period, and distribution base;
2. The treatment of fringe benefits as either direct and/or indirect costs
3. General terms and conditions; and
4. Special remarks, e.g., composition of the indirect cost pool.

Sample copies of agreements used by the OCD are shown in Appendix I and II of this Guide.

G. Disputes

When the OCD and the non-Federal entity cannot reach an agreement on an acceptable indirect cost rate, the OCD will make a unilateral determination of the rate(s) and will notify the organization. The OCD or the grant/contract officer will advise the organization of its right to appeal the determination and will provide information about the appeal procedures to follow upon request.

H. Reimbursement of Indirect Costs

Reimbursement of indirect cost is subject to the submission of an indirect cost rate proposal (see part D of this Section), availability of funds, statutory and administrative restrictions, and the approval of the DOL Grant/Contract Officer or authorized representative.

Certain DOL grants and contracts include ceilings for reimbursement of indirect costs and/or administrative costs. When the amount otherwise allocable as indirect costs exceeds the amount allowable under the terms and conditions of the grant/contract agreement, the excess amount may be used to satisfy cost-sharing or matching requirements. However, the differences may not be shifted to another Federal grant or contract unless specifically authorized by legislation.

I. Retention of Records

If the indirect cost rate proposal, cost allocation plan, or other computation is to be submitted to the Federal Government (or to the grantee) to form the basis for negotiation of a rate(s), there is the 3-year retention requirement from the date of such submission.

If the indirect cost rate proposal, cost allocation plan, or other computation is not required to be submitted to the Federal Government for negotiation purposes, then the 3-year retention period for its supporting records starts from the end of the fiscal year (or other accounting period) covered by the indirect cost rate proposal, cost allocation plan, or other computation.

For regulatory basis on “retention of records” for non-profits, see §2 CFR 200.333(f)(1)(2).

For regulatory basis on “retention of records” for commercial organizations, see the Federal Acquisition Regulation Part 4 – Administrative Matters, Subpart 4.703 Policy.

If any litigation, claim or audit is started before the expiration of the 3-year period, the records shall be retained until all litigations, claims or audit findings involving the records have been resolved.

SECTION II

Guidelines for Preparing Indirect Cost Rate Proposals

Note: Non Federal entities (Grantees/Contractors) must have an established accounting system prior to being awarded a grant or contract from DOL or any other agency in the Federal government. The accounting system must provide adequate internal controls to safeguard assets, insure fund accountability by cost category, assure accounting data accuracy and reliability, promote operating efficiency, and comply with Government requirements and accounting procedures.

For reference purposes, see the Standards for Financial Management in §2 CFR.302 for nonprofit organizations. Also, see evaluation of accounting systems referenced in [FAR Part 9.106](#) and the [Standard Form 1408](#) applicable to contractors.

- - -

This section includes the following information:

- A. Preliminary Steps
- B. Indirect Cost Allocation Bases
- C. Indirect Cost Rate Proposal “Checklist”, and Notes to “Checklist”
- D. Indirect Cost Proposal – Review Procedures
- E. Administration Limits and Indirect Cost Claims

A. Preliminary Steps

Prior to the preparation of an indirect cost rate proposal and supporting documentation, the applicable cost principles should be thoroughly reviewed.

Nonprofit organizations must follow the cost principles at OMB Circular A-122 for fiscal year proposals that begin prior to 12/26/2014. For fiscal year proposals that begin on or after 12/26/2014, §2 CFR Part 200, Subpart E & Appendix IV, must be followed

Commercial organizations must follow the Federal Acquisition Regulation Parts 31.2 and 42.7.

If indirect costs are allowed in the grant or contract award, the entity will then be ready to prepare an indirect cost rate proposal based on the following steps:

1. Organization Review

- If one does not already exist, prepare a formal organizational chart(s), or a rough draft version, and provide any information or material explaining the various services and/or functions for each unit.
- Determine which units are indirect (administrative) functions of the organization.
- Determine the services that are allowable and allocable to Federal grants and contracts per the applicable cost principles.

2. Review Federal and Non-Federal Funding

- Review the Federal and non-Federal outlays to determine programs being funded; verify with the appropriate staff.
- Prepare a list of all funded programs in detail as to the amount or percent of reimbursement of direct and indirect cost and any restrictions or references to statutes or regulations.

- Determine at what organizational level the various funded programs apply. Illustrate the list of funded programs on a copy of the organization chart.
- Contact the Federal agency which provides the most funds regarding the procedures for the submission, review and approval of indirect cost rates.

3. Review the Accounting Structure

- Obtain a chart of accounts, or some other list of accounts for your organization, in which the actual dollars expended can be related to various programs and/or organization structure.
- Reconcile the accounting structure to the organization chart.
- If necessary, determine changes to implement an indirect cost rate system of billing.

4. Prepare a Cost Policy Statement

- Develop a written policy that outlines the costs considered as direct, the costs considered to be indirect, and the rationale to support those costs. A sample cost policy statement is available in Section III.

5. Prepare an Indirect Cost Rate Proposal

- Determine which method is best for the organization, i.e., direct cost allocation or simplified, and whether special indirect cost rates are required, i.e. on-site, off-site, fringe benefit rate for full-time vs. part-time. In selecting the appropriate method, the organization should consider the following:
 - a. Organizational structure
 - b. Level of Federal funding
 - c. Reports generated from their accounting system
 - d. Availability of data on square footage, number of transactions, employees, purchase orders, etc.
 - e. Additional effort and cost required to achieve a greater degree of accuracy.
- Prepare the indirect cost rate proposal following the examples shown in Section III.
- Prepare a Certificate of Indirect Costs and have signed by the Executive Director, or other designated official with organization's signature authority (see Section III for a sample).
- Compile all remaining documentation required by the cognizant Federal agency. Non-federal entities that need submit proposals to OCD should follow the checklist on page II-4.
- Reconcile the indirect cost rate proposal to the audited (if applicable) financial statements.

6. Obtain Cognizant Agency Approval

- Submit proposal to cognizant agency;
- Cognizant agency may follow up after review with questions, and/or concerns – and may request additional documentation, and/or narrative responses, in support of the proposal.
- Document meeting and/or telephone conversations, e-mails and faxes.
- Make any agreed upon changes, and submit any revised, and/or supporting documentation requested by cognizant agency.
- Receive Negotiated Indirect Cost Rate Agreement.

7. Implementation

- Prepare claims using the lower of either the approved rate, or the ceiling rate for your grant or contract.
- Use final rate(s) included in indirect cost rate agreement for close-out purposes.
- Maintain documentation for audit purposes – see page I-4 for Retention of Records.

B. Indirect Cost Rate Allocation Bases

The following allocation bases are acceptable examples for use when indirect costs are allocated to benefiting cost objectives by means of an indirect cost rate. (Also see Exhibit E Suggested Allocation Bases – pages III-13 & III-14)

1. Direct salaries and wages including (or excluding) all fringe benefits.
2. Direct salaries and wages including vacation, holiday, sick pay, and other paid absences but excluding all other fringe benefits.
3. According to 2 CFR §200.68, Modified Total Direct Costs (MTDC). It means:

All direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward and subcontract in excess of \$25,000.

4. For commercial entities, total costs less G&A expenses.

The selection of an appropriate allocation method should be based upon the commonality of costs to all cost objectives. In general, a correlation exists between the incurrence of administrative effort with the expenditures for direct labor. In most cases, a direct labor base will produce an equitable distribution of indirect costs. However, where the ratio of direct labor to total direct costs varies significantly from program to program, an "adjusted" total direct cost base should be used in allocating costs to benefiting programs.

The proposed allocation base(s) is subject to negotiation and approval by OCD. Any modifications to the "approved" base require prior written approval. Failure to obtain such written approval may result in cost disallowances.

C. Indirect Cost Rate Proposal Checklist – non-profit and commercial organizations.¹

Indirect Cost Proposal Checklist¹
Non-Profits and Commercial Organizations

1. Submit once unless changes are observed:
 - ___ 1a. Organizational chart,
 - ___ 1b. Nonprofits - Narrative explaining compliance with 2 CFR §200.430(a)(1)(2) & (3) and the standards for documentation of personnel expenses. Commercial - Narrative explaining the standards for documentation of personnel expenses in compliance with FAR 9.106-4 and [SF-1408](#). For both entities, an example of an employee time record for a pay period, providing for distribution of hours to direct/indirect functions.
 - ___ 1c. Signed Cost Policy Statement.

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. 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 prepared in a manner consistent with the applicable cost principles set forth in 2 CFR Part 200, Subpart E & Appendix IV for non-profits, or the Federal Acquisition Regulation (Part 31) for commercial organizations. The certifications should be signed by the President/Executive Director, or Comptroller/ CFO.

5. ___ A listing of grants and contracts by Federal agency, subagency, program office funding source, award 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 must be supported with copies of the approved federal grants or contracts notification awards (1st page).

Note: For organizations receiving funding from DOL's Employment and Training Administration (ETA), please ensure that the proposed individual compensation (salary and bonus) complies with the salary limitations established in ETA's TEGl 5-06. This document can be accessed in ETA's website: <http://wdr.doleta.gov/directives/attach/TEGL/TEGL05-06.pdf>. The Office of Job Corps has similar salary limitations. Two additional proposal worksheets (see 2b. and 2d. above) may be needed to show ETA and/or Job Corps rates reflecting unallowable compensation and prorated amounts. If you have any questions, contact OCD.

¹ Refer to Section III of this guide to obtain examples of indirect cost proposal exhibits, employee timesheet, certification and cost policy statement.

Notes to “Checklist”, as applicable

1a. Not applicable.

1b. Employee time record or Personnel Activity Report (PAR)

An acceptable employee time record or PAR sample is available in Section III of this Guide.

1c. Cost Policy Statement (CPS)

An example of a CPS is shown in Section III of this Guide.

The CPS is a disclosure of the organization’s accounting practices, policies, and procedures for allocating direct and indirect costs. It is required documentation upon an organization’s first indirect cost rate proposal submission and requires a signature.

OCD requires its’ Cost Negotiators to review an up-to-date CPS as part of the review process upon submission of an indirect cost rate proposal. If applicable, for subsequent proposals, organizations need only identify changes made from the original CPS.

If the contractor/grantee is not proposing any changes, the following suggested language should be included in the transmittal letter when a proposal is submitted:

[ABC Non-Profit/Commercial Organization] hereby confirms that no changes to its accounting policies and practices as set forth in its Cost Policy Statement dated [September 13, 201X] have been made.

2a. Personnel Cost Worksheet

An example of a personnel cost worksheet is presented as Exhibit A in Section III of this Guide.

When preparing a Provisional Indirect Cost Rate Proposal, current approved budget figures should be used in the preparation of the personnel costs worksheet. When a Final Indirect Cost Rate Proposal is prepared, actual personnel costs should be used in preparation of this Exhibit.

2b. Allocation of Personnel Worksheet

An example of an Allocation of Personnel Worksheet is shown in Section III, Exhibit B of this Guide.

This document reflects the estimated or actual salary costs for each Federal and Non-Federal cost objective. The percentage of time per position should be entered under the appropriate cost objective, making sure that 100 percent is allocated for each position.

The grantee/contractor must maintain a time distribution system for use by employees whose time is charged to more than one cost objective. Payroll documentation should be maintained to support the charging of salaries and wages as direct or indirect.

2c. Statement of Employee Benefits

An example of a Statement of Employee Benefits is shown in Section III of this Guide.

This document should contain the estimated or actual costs of the items in the employee fringe benefit pool. Employee (fringe) benefits should follow the salary of the individual and are a consideration in the determination of the reasonableness of the compensation. Fringe benefits should be accrued in the period incurred, including accrued leave if employees have an irrevocable right to be compensated during employment or upon termination of employment.

Generally, the cost of annual leave is recognized when it is earned by the employee, and holiday and other types of leave are considered a cost to the extent of actual compensation to employees.

2d. Statement of Total Costs

Examples of the Statement of Total Costs (STC) are shown in Section III of this Guide; Exhibits D or E, for the simplified method or direct allocation method, respectively (see top portion in yellow).

This document should contain all line items of costs included in the entities' chart of accounts (and CPS) with applicable columns for direct costs (by cost center), indirect costs, (overhead, G&A, etc.) and unallowable costs (if applicable).

The total costs should reconcile to the entities' financial statements. If it does not reconcile, the entity should provide a separate schedule supporting all differences.

2e. Statement of Indirect Costs

Examples of the Statement of Indirect Costs (as part of the STC) are shown in Exhibits D or E, for the simplified method or direct allocation method, respectively (see bottom portion of spreadsheets shown in blue and green).

This document should contain all line items of costs included in the indirect cost "pool(s)", the applicable allocation base(s), and the resulting indirect cost rate(s).

The allocation base should be traceable to the statement of total costs. If it is not clearly traceable, an additional schedule should be provided to supporting the reconciliation.

Note: There are two (2) proposed ways to allocate indirect costs in this Exhibit, using direct salaries and wages and modified total direct costs. The purpose of having two allocation bases is to initially consider which allocation base distributes indirect costs in a fair manner based on the "benefits received" concept. The non-Federal entity should propose the preferred allocation base. This applies only to the 1st proposal submitted to this office. After review and approval of the proposed base, subsequent proposals should only present the approved base in this schedule.

4. Certificate of Indirect Costs

The required certificate is shown in Section III of this Guide.

A "Certificate of Indirect Costs" must be signed on behalf of the organization, by an individual at a level no lower than executive director or chief financial officer of the organization that submits the proposal.

5. List of Grants and Contracts

An example spreadsheet showing a list of grants and contracts is available in Section III of this Guide.

D. Indirect Cost Proposal – OCD's Review Procedures

Some issues that may be raised by a OCD negotiator during, or after, the review of an indirect cost rate proposal, usually result from the following procedures. Knowing these procedures while preparing an indirect cost rate proposal, organizations may enable us to avoid such issues from occurring.

- Determine that the applicable cost principles (stated in the Circulars or the FAR) were followed.
- Review the organization chart for a visual picture of the flow of responsibility, identification of areas of common costs, and the location of those areas in which federally-funded activity exists
- Perform a mathematical verification of the proposal.
- Determine that the proposal reconciles with the supporting audit, official budget or financial statements.
- Review the financial statements and audit report for any indication of activities which may have been omitted from the indirect cost proposal, i.e., the omission of restricted fund costs or the existence of an affiliated organization receiving supportive service from the parent organization.
- Determine that the itemized costs in the indirect cost pool pertain to functions that are supportive of all direct activity.
- Determine that costs that are statutorily unallowable, or for reasons of non-allocability, have been eliminated from the indirect cost pool. Determine whether these unallowable or non-allocable items should be added to the distribution/allocation base.
- Determine that "pass-through" funds have been excluded from the base.
- Review and analyze direct costs for the determination of:
 - a. Consistency in charging specific items of cost.
 - b. The selection of an appropriate base for allocating indirect costs.
- Review the contract/grant budget and payments, or contractor/grantee records, for a determination of: (if deemed feasible under the circumstances)
 - a. The direct funding of indirect costs.

- b. Any limitations placed upon the full recovery of indirect costs, i.e. ceiling rates or amounts.
 - c. Total Federal funds involved.
- Check with the appropriate Federal Program Manager for any problems he/she may be aware of relating to the charging of costs.

E. Administration Limits and Indirect Cost Claims

Various DOL funding instruments have statutory or regulatory limitations on the costs of "administration". These costs can be both personnel and non-personnel and both direct and indirect. The costs of administration are those portions of reasonable, necessary and allowable costs associated with the overall program management and administration and which are not directly related to the provision of services to participants or otherwise allocable to the program cost objectives/categories

Based on the above information, the statutory or regulatory limitation affects the combined claims for indirect costs and direct administration costs. Generally, direct administration costs differ from indirect charges in that the latter are considered organization-wide costs.

Examples of functions that are classified as direct "administration" are as follows:

- Overall **program** management, program coordination, and office management functions, including the salaries and related costs of the executive director, project director, and project evaluator **when directly allocated**.
- Preparing **program** plans, budgets schedules, and related amendments.
- Monitoring of programs, projects, sub-recipients and related systems and processes.
- Developing systems and procedures, including management information systems, for assuring compliance with program requirements.
- Preparing reports and other documents related to the **program** requirements.
- Evaluating program results against stated objectives; and
- Performing administration services such as **program specific** payroll, accounting, auditing or legal activities.

Examples of non-labor costs for direct administration include:

- Costs for goods and services required for administration of the **program**, including such goods and services as the rental or purchase of equipment, utilities, office supplies, postage, and rental and maintenance of office space.
- Travel costs incurred for official business in carrying out **program** management and administrative activities.

SECTION II

Guidelines for Preparing Indirect Cost Rate Proposals

Note: Non Federal entities (Grantees/Contractors) must have an established accounting system prior to being awarded a grant or contract from DOL or any other agency in the Federal government. The accounting system must provide adequate internal controls to safeguard assets, insure fund accountability by cost category, assure accounting data accuracy and reliability, promote operating efficiency, and comply with Government requirements and accounting procedures.

For reference purposes, see the Standards for Financial Management in §2 CFR.302 for nonprofit organizations. Also, see evaluation of accounting systems referenced in [FAR Part 9.106](#) and the [Standard Form 1408](#) applicable to contractors.

- - -

This section includes the following information:

- A. Preliminary Steps
- B. Indirect Cost Allocation Bases
- C. Indirect Cost Rate Proposal “Checklist”, and Notes to “Checklist”
- D. Indirect Cost Proposal – Review Procedures
- E. Administration Limits and Indirect Cost Claims

A. Preliminary Steps

Prior to the preparation of an indirect cost rate proposal and supporting documentation, the applicable cost principles should be thoroughly reviewed.

Nonprofit organizations must follow the cost principles at OMB Circular A-122 for fiscal year proposals that begin prior to 12/26/2014. For fiscal year proposals that begin on or after 12/26/2014, §2 CFR Part 200, Subpart E & Appendix IV, must be followed

Commercial organizations must follow the Federal Acquisition Regulation Parts 31.2 and 42.7.

If indirect costs are allowed in the grant or contract award, the entity will then be ready to prepare an indirect cost rate proposal based on the following steps:

1. Organization Review

- If one does not already exist, prepare a formal organizational chart(s), or a rough draft version, and provide any information or material explaining the various services and/or functions for each unit.
- Determine which units are indirect (administrative) functions of the organization.
- Determine the services that are allowable and allocable to Federal grants and contracts per the applicable cost principles.

2. Review Federal and Non-Federal Funding

- Review the Federal and non-Federal outlays to determine programs being funded; verify with the appropriate staff.
- Prepare a list of all funded programs in detail as to the amount or percent of reimbursement of direct and indirect cost and any restrictions or references to statutes or regulations.

- Determine at what organizational level the various funded programs apply. Illustrate the list of funded programs on a copy of the organization chart.
- Contact the Federal agency which provides the most funds regarding the procedures for the submission, review and approval of indirect cost rates.

3. Review the Accounting Structure

- Obtain a chart of accounts, or some other list of accounts for your organization, in which the actual dollars expended can be related to various programs and/or organization structure.
- Reconcile the accounting structure to the organization chart.
- If necessary, determine changes to implement an indirect cost rate system of billing.

4. Prepare a Cost Policy Statement

- Develop a written policy that outlines the costs considered as direct, the costs considered to be indirect, and the rationale to support those costs. A sample cost policy statement is available in Section III.

5. Prepare an Indirect Cost Rate Proposal

- Determine which method is best for the organization, i.e., direct cost allocation or simplified, and whether special indirect cost rates are required, i.e. on-site, off-site, fringe benefit rate for full-time vs. part-time. In selecting the appropriate method, the organization should consider the following:
 - a. Organizational structure
 - b. Level of Federal funding
 - c. Reports generated from their accounting system
 - d. Availability of data on square footage, number of transactions, employees, purchase orders, etc.
 - e. Additional effort and cost required to achieve a greater degree of accuracy.
- Prepare the indirect cost rate proposal following the examples shown in Section III.
- Prepare a Certificate of Indirect Costs and have signed by the Executive Director, or other designated official with organization's signature authority (see Section III for a sample).
- Compile all remaining documentation required by the cognizant Federal agency. Non-federal entities that need submit proposals to OCD should follow the checklist on page II-4.
- Reconcile the indirect cost rate proposal to the audited (if applicable) financial statements.

6. Obtain Cognizant Agency Approval

- Submit proposal to cognizant agency;
- Cognizant agency may follow up after review with questions, and/or concerns – and may request additional documentation, and/or narrative responses, in support of the proposal.
- Document meeting and/or telephone conversations, e-mails and faxes.
- Make any agreed upon changes, and submit any revised, and/or supporting documentation requested by cognizant agency.
- Receive Negotiated Indirect Cost Rate Agreement.

7. Implementation

- Prepare claims using the lower of either the approved rate, or the ceiling rate for your grant or contract.
- Use final rate(s) included in indirect cost rate agreement for close-out purposes.
- Maintain documentation for audit purposes – see page I-4 for Retention of Records.

B. Indirect Cost Rate Allocation Bases

The following allocation bases are acceptable examples for use when indirect costs are allocated to benefiting cost objectives by means of an indirect cost rate. (Also see Exhibit E Suggested Allocation Bases – pages III-13 & III-14)

1. Direct salaries and wages including (or excluding) all fringe benefits.
2. Direct salaries and wages including vacation, holiday, sick pay, and other paid absences but excluding all other fringe benefits.
3. According to 2 CFR §200.68, Modified Total Direct Costs (MTDC). It means:

All direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward and subcontract in excess of \$25,000.

4. For commercial entities, total costs less G&A expenses.

The selection of an appropriate allocation method should be based upon the commonality of costs to all cost objectives. In general, a correlation exists between the incurrence of administrative effort with the expenditures for direct labor. In most cases, a direct labor base will produce an equitable distribution of indirect costs. However, where the ratio of direct labor to total direct costs varies significantly from program to program, an "adjusted" total direct cost base should be used in allocating costs to benefiting programs.

The proposed allocation base(s) is subject to negotiation and approval by OCD. Any modifications to the "approved" base require prior written approval. Failure to obtain such written approval may result in cost disallowances.

C. Indirect Cost Rate Proposal Checklist – non-profit and commercial organizations¹

Indirect Cost Proposal Checklist¹ Non-Profits and Commercial Organizations

1. Submit once unless changes are observed:
 - ___ 1a. Organizational chart,
 - ___ 1b. Nonprofits - Narrative explaining compliance with 2 CFR §200.430(a)(1)(2) & (3) and the standards for documentation of personnel expenses. Commercial - Narrative explaining the standards for documentation of personnel expenses in compliance with FAR 9.106-4 and [SF-1408](#). For both entities, an example of an employee time record for a pay period, providing for distribution of hours to direct/indirect functions.
 - ___ 1c. Signed Cost Policy Statement.

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. 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 prepared in a manner consistent with the applicable cost principles set forth in 2 CFR Part 200, Subpart E & Appendix IV for non-profits, or the Federal Acquisition Regulation (Part 31) for commercial organizations. The certifications should be signed by the President/Executive Director, or Comptroller/ CFO.

5. ___ A listing of grants and contracts by Federal agency, subagency, program office funding source, award 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 must be supported with copies of the approved federal grants or contracts notification awards (1st page).

Note: For organizations receiving funding from DOL's Employment and Training Administration (ETA), please ensure that the proposed individual compensation (salary and bonus) complies with the salary limitations established in ETA's TEGL 5-06. The Office of Job Corps has similar salary limitations. Both of these documents are accessible at: <https://www.dol.gov/oasam/boc/dcd/extrelatedlinks.htm>. Two additional proposal worksheets (see 2b. and 2d above) may be needed to show ETA and/or Job Corps rates reflecting unallowable compensation and prorated amounts. If you have any questions, contact OCD.

¹ Refer to Section III of this guide to obtain examples of indirect cost proposal exhibits, employee timesheet, certification and cost policy statement.

Notes to “Checklist”, as applicable

1a. Not applicable.

1b. Employee time record or Personnel Activity Report (PAR)

An acceptable employee time record or PAR sample is available in Section III of this Guide.

1c. Cost Policy Statement (CPS)

An example of a CPS is shown in Section III of this Guide.

The CPS is a disclosure of the organization’s accounting practices, policies, and procedures for allocating direct and indirect costs. It is required documentation upon an organization’s first indirect cost rate proposal submission and requires a signature.

OCD requires its’ Cost Negotiators to review an up-to-date CPS as part of the review process upon submission of an indirect cost rate proposal. If applicable, for subsequent proposals, organizations need only identify changes made from the original CPS.

If the contractor/grantee is not proposing any changes, the following suggested language should be included in the transmittal letter when a proposal is submitted:

[ABC Non-Profit/Commercial Organization] hereby confirms that no changes to its accounting policies and practices as set forth in its Cost Policy Statement dated [September 13, 201X] have been made.

2a. Personnel Cost Worksheet

An example of a personnel cost worksheet is presented as Exhibit A in Section III of this Guide.

When preparing a Provisional Indirect Cost Rate Proposal, current approved budget figures should be used in the preparation of the personnel costs worksheet. When a Final Indirect Cost Rate Proposal is prepared, actual personnel costs should be used in preparation of this Exhibit.

2b. Allocation of Personnel Worksheet

An example of an Allocation of Personnel Worksheet is shown in Section III, Exhibit B of this Guide.

This document reflects the estimated or actual salary costs for each Federal and Non-Federal cost objective. The percentage of time per position should be entered under the appropriate cost objective, making sure that 100 percent is allocated for each position.

The grantee/contractor must maintain a time distribution system for use by employees whose time is charged to more than one cost objective. Payroll documentation should be maintained to support the charging of salaries and wages as direct or indirect.

2c. Statement of Employee Benefits

An example of a Statement of Employee Benefits is shown in Section III of this Guide.

This document should contain the estimated or actual costs of the items in the employee fringe benefit pool. Employee (fringe) benefits should follow the salary of the individual and are a consideration in the determination of the reasonableness of the compensation. Fringe benefits should be accrued in the period incurred, including accrued leave if employees have an irrevocable right to be compensated during employment or upon termination of employment.

Generally, the cost of annual leave is recognized when it is earned by the employee, and holiday and other types of leave are considered a cost to the extent of actual compensation to employees.

2d. Statement of Total Costs

Examples of the Statement of Total Costs (STC) are shown in Section III of this Guide; Exhibits D or E, for the simplified method or direct allocation method, respectively (see top portion in yellow).

This document should contain all line items of costs included in the entities' chart of accounts (and CPS) with applicable columns for direct costs (by cost center), indirect costs, (overhead, G&A, etc.) and unallowable costs (if applicable).

The total costs should reconcile to the entities' financial statements. If it does not reconcile, the entity should provide a separate schedule supporting all differences.

2e. Statement of Indirect Costs

Examples of the Statement of Indirect Costs (as part of the STC) are shown in Exhibits D or E, for the simplified method or direct allocation method, respectively (see bottom portion of spreadsheets shown in blue and green).

This document should contain all line items of costs included in the indirect cost "pool(s)", the applicable allocation base(s), and the resulting indirect cost rate(s).

The allocation base should be traceable to the statement of total costs. If it is not clearly traceable, an additional schedule should be provided to supporting the reconciliation.

Note: There are two (2) proposed ways to allocate indirect costs in this Exhibit, using direct salaries and wages and modified total direct costs. The purpose of having two allocation bases is to initially consider which allocation base distributes indirect costs in a fair manner based on the "benefits received" concept. The non-Federal entity should propose the preferred allocation base. This applies only to the 1st proposal submitted to this office. After review and approval of the proposed base, subsequent proposals should only present the approved base in this schedule.

4. Certificate of Indirect Costs

The required certificate is shown in Section III of this Guide.

A "Certificate of Indirect Costs" must be signed on behalf of the organization, by an individual at a level no lower than executive director or chief financial officer of the organization that submits the proposal.

5. List of Grants and Contracts

An example spreadsheet showing a list of grants and contracts is available in Section III of this Guide.

D. Indirect Cost Proposal – OCD's Review Procedures

Some issues that may be raised by a OCD negotiator during, or after, the review of an indirect cost rate proposal, usually result from the following procedures. Knowing these procedures while preparing an indirect cost rate proposal, organizations may enable us to avoid such issues from occurring.

- Determine that the applicable cost principles (stated in the Circulars or the FAR) were followed.
- Review the organization chart for a visual picture of the flow of responsibility, identification of areas of common costs, and the location of those areas in which federally-funded activity exists
- Perform a mathematical verification of the proposal.
- Determine that the proposal reconciles with the supporting audit, official budget or financial statements.
- Review the financial statements and audit report for any indication of activities which may have been omitted from the indirect cost proposal, i.e., the omission of restricted fund costs or the existence of an affiliated organization receiving supportive service from the parent organization.
- Determine that the itemized costs in the indirect cost pool pertain to functions that are supportive of all direct activity.
- Determine that costs that are statutorily unallowable, or for reasons of non-allocability, have been eliminated from the indirect cost pool. Determine whether these unallowable or non-allocable items should be added to the distribution/allocation base.
- Determine that "pass-through" funds have been excluded from the base.
- Review and analyze direct costs for the determination of:
 - a. Consistency in charging specific items of cost.
 - b. The selection of an appropriate base for allocating indirect costs.
- Review the contract/grant budget and payments, or contractor/grantee records, for a determination of: (if deemed feasible under the circumstances)
 - a. The direct funding of indirect costs.

- b. Any limitations placed upon the full recovery of indirect costs, i.e. ceiling rates or amounts.
 - c. Total Federal funds involved.
- Check with the appropriate Federal Program Manager for any problems he/she may be aware of relating to the charging of costs.

E. Administration Limits and Indirect Cost Claims

Various DOL funding instruments have statutory or regulatory limitations on the costs of "administration". These costs can be both personnel and non-personnel and both direct and indirect. The costs of administration are those portions of reasonable, necessary and allowable costs associated with the overall program management and administration and which are not directly related to the provision of services to participants or otherwise allocable to the program cost objectives/categories

Based on the above information, the statutory or regulatory limitation affects the combined claims for indirect costs and direct administration costs. Generally, direct administration costs differ from indirect charges in that the latter are considered organization-wide costs.

Examples of functions that are classified as direct "administration" are as follows:

- Overall **program** management, program coordination, and office management functions, including the salaries and related costs of the executive director, project director, and project evaluator **when directly allocated**.
- Preparing **program** plans, budgets schedules, and related amendments.
- Monitoring of programs, projects, sub-recipients and related systems and processes.
- Developing systems and procedures, including management information systems, for assuring compliance with program requirements.
- Preparing reports and other documents related to the **program** requirements.
- Evaluating program results against stated objectives; and
- Performing administration services such as **program specific** payroll, accounting, auditing or legal activities.

Examples of non-labor costs for direct administration include:

- Costs for goods and services required for administration of the **program**, including such goods and services as the rental or purchase of equipment, utilities, office supplies, postage, and rental and maintenance of office space.
- Travel costs incurred for official business in carrying out **program** management and administrative activities.

SECTION III
Examples of Exhibits to Support
Indirect Cost Rate Proposals

Index

<u>Exhibits</u>	<u>Description</u>	<u>Page Numbers</u>
Exhibit A	Personnel Cost Worksheet	III-2
Exhibit B	Allocation of Personnel Worksheet	III-4
Exhibit B-1	Time Distribution Report	III-5
Exhibit C	Statement of Employee Benefits	III-6
Exhibit D or E *	Statement of Total Costs, Indirect Rate Calculation and Distribution of Indirect Costs	III-7 or III-9
Exhibit E-1	Supplemental Statement of Total Costs - Required for <u>nonprofit</u> organizations receiving \$10 million or more annually in direct federal awards	III-11
Exhibit F	Cost Policy Statement	III-15
Exhibit G	Certificate of Indirect Costs – Nonprofit Organizations	III-20
Exhibit G-1	Certificate of Indirect Costs – Commercial Organizations	III-21
Exhibit H	Listing of Federal Grants and Contracts	III-22

* Examples of the Statement of Total Costs (STC) are shown in this Section, as applicable, for the simplified method or direct allocation method. Organizations may select either method (Exhibit D or E) based on their cost allocation methodology.

Exhibit A
Example - Personnel Cost Worksheet
Fill in: Final or Provisional & Organization's Fiscal year

Position	Annual Salary (A)	FICA (B)	State UI (C)	Worker's Comp. (D)	Health Insurance (E)	Retirement (F)	Total Benefits	Total Personnel Costs
	a						b	(a+b)
Executive Director	\$ 60,000	\$ 4,311	\$ 240	\$ 600	\$ 2,400	\$ 4,800	\$ 12,351	\$ 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 (3)	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 (2)	25,000	1,913	480	250	4,800	2,000	9,443	34,443
Personnel Director	40,000	3,060	240	400	2,400	3,200	9,300	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	7,000	120,000	56,000	248,550	948,550
TOTAL	\$ 1,314,000	\$ 100,245	\$ 17,040	\$ 13,140	\$ 168,200	\$ 105,120	\$ 403,745	\$ 1,717,745

(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% (\$8,000 x 71 x 3% = \$17,040)

(D) Worker's compensation was estimated at 1% of salaries (1% x \$1,314,000 = \$13,140).

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

(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.

Note: Salaries and fringes included in this exhibit are for illustrative purposes only.

Exhibit A-1

<u>Heading from Exhibit A</u>	<u>Explanation</u>
Position	All staff salaries.
Annual Salary	Actual or estimated salary amount for the year depending on type of proposal (final or provisional).
FICA	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Should be computed in accordance with the applicable rates This is the organization's share.
State Unemployment Compensation	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Should be computed in accordance with the applicable rates This is the organization's share.
Worker's Compensation	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Cost should be obtainable from the insurance policy or agent.
Health Insurance	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Cost should be obtainable from the insurance policy or agent.
Retirement	Actual or estimated amount for the year depending on type of proposal. (final or provisional). Cost should be based on the organization's retirement plan.

Exhibit B
Example - Allocation of Personnel Worksheet
Fill in: Final or Provisional & Organization's Fiscal year

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

* 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.

Exhibit B-1

Example - Employee Time Distribution Report for Work/Non-Work Hours

USA Company 1776 Democracy Boulevard Washington, D.C. 20099								Employee Name: _____							
1st Week								2nd Week							
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total
Summary of Work Hours															
Direct Program/Grant/Contract Activities*															
Project # 1															0
Project # 2															0
Project # 3															0
Project # 4															0
Indirect Activities**															0
Subtotal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Summary of Non-Work Hours - Release Time															
Annual Leave															0
Sick Leave															0
Holiday															0
Other***															0
Subtotal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Employee Signature	Date: _____						Supervisor Signature						Date: _____		
<p>General Note on this Exhibit: - This time distribution report example is intended to show the minimum requirements that organizations need to capture to comply with applicable regulations to support the distribution and claims of salaries and wages.</p> <p>Notes:</p> <p>* "Projects" must be specifically identified to the actual program worked with name/title/code, etc. Note that "fundraising" is considered a direct activity.</p> <p>** Indirect - can be changed, or a row can be added showing G&A, Overhead Onsite/Offsite, if applicable.</p> <p>*** "Other" could include other types of leave. If so, they must be identify here or detailed in the organizations' cost policy statement.</p>															

Exhibit C

Example - Statement of Employee Benefits

Fill in: Final or Provisional & Organization's Fiscal year

	<u>Method A</u>	<u>Method B</u>
Annual Leave Earned		\$50,384
Sick Leave Taken		25,269
Holidays		<u>50,384</u>
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	<u>105,120</u>	<u>105,120</u>
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		<u>126,037</u>
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.

Introduction to Example Exhibit D Simplified Allocation Method

The **Simplified Method** is used whenever the major functions of an organization benefit from its indirect costs to approximately the same degree. The allocation of indirect costs may be accomplished by:

- (1) classifying the total cost for the base period (usually the organization's fiscal year) as either direct or indirect and
- (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base.

The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal financial assistance programs and contracts. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This method may also be used where:

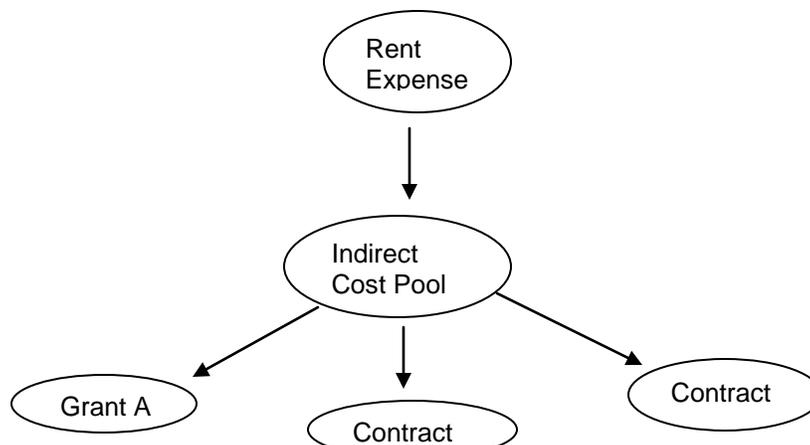
- (1) the organization has only one major function encompassing a number of individual projects or activities, and/or
- (2) where the level of Federal awards to that organization is relatively small.

Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs. However, unallowable costs must be included in the direct cost base (if they represent activities to which the indirect costs are properly allocable).

The distribution base may be:

- (1) total direct costs excluding capital expenditures and other distorting items, such as flow-through funds, the portion of each subaward in excess of \$25,000, etc.,
- (2) direct salaries and wages,
- (3) total costs less G&A expenses (commercial contractors),
- (4) another base which results in an equitable distribution.

Under the Simplified Method, for example, rent expense would be entirely classified as indirect costs and distributed to benefiting activities on one of the bases described above. A pictorial of this example is shown below:



A sample format for the computation of an indirect cost rate under the **Simplified Method** follows.

**EXHIBIT D - Example - Statement of Total Costs - All Funds - and
Distribution of Indirect Costs to the Cost Centers using two Sample Methods of Allocation ⁽⁶⁾ (3 STEPS)
Simplified Allocation Method**

Fill in: **Final or Provisional & Organization's Fiscal year**

STEP 1 - Do Statement...		Federal Programs						Non-Federal	
Budget Category	Total Costs	Less: Indirect (F&A) Unallowable Costs	Indirect Costs (3)	Total Direct Costs	Total Federal Programs	Dept. of Labor	Other Federal Programs	Total Non-Federal Programs	
	A = B+C+D	B	C	D = E+F	E			F	
Salaries	\$1,314,000		\$373,250	\$940,750	\$766,750	\$515,000	\$251,750	\$174,000	
Fringe Benefits (30.73%)	403,746		114,686	289,060	235,596	158,242	77,354	53,464	
Total Personnel Costs	1,717,746		487,936	1,229,810	1,002,346	673,242	329,104	227,464	
Consultant Services	26,000		14,000	12,000	10,300	10,300		1,700	
Staff Travel	94,000		20,000	74,000	67,300	43,600	23,700	6,700	
Bad Debts	10,000	\$10,000 (1)							
Office Rent	170,000		170,000						
Consumable Supplies	161,000		11,000	150,000	22,500	15,000	7,500	127,500	
Subawards	165,800			165,800	108,000	53,000	55,000	57,800	
Purchase, Lease of Equipment	82,000		59,900	22,100				22,100	
Telephone	109,400		55,000	54,400	8,200	6,200	2,000	46,200	
Entertainment	1,800	1,800 (1)							
Printing and Reproduction	48,000		11,000	37,000	5,500	3,500	2,000	31,500	
Insurance and Bonding	42,000		42,000						
Postage and Delivery	34,000		5,100	28,900	4,300	2,300	2,000	24,600	
Depreciation	8,800		8,800						
Emergency Assistance	54,000			54,000	54,000	54,000			
Training Materials	82,000			82,000	12,300	10,000	2,300	69,700	
Participant Support Costs	184,000			184,000	184,000		184,000		
Total Non-Personnel Costs	\$1,272,800	\$11,800	\$396,800	\$864,200	\$476,400	\$197,900	\$278,500	\$387,800	
TOTAL	\$2,990,546 (4)	\$11,800	\$884,736	\$2,094,010	\$1,478,746	\$871,142	\$607,604	\$615,264	
MTDC Allocation Base: Direct Cost Exclusions (2)									
Subawards in excess of \$25,000				(90,800)	(\$58,000)	(\$28,000)	(\$30,000)	(\$32,800)	
Purchase, Lease of Equipment				(22,100)				(\$22,100)	
Emergency Assistance				(\$54,000)	(\$54,000)	(\$54,000)			
Participant Support Costs				(184,000)	(\$184,000)		(\$184,000)		
Total Direct Exclusions				(\$350,900)	(\$296,000)	(\$82,000)	(\$214,000)	(\$54,900)	
Total - MTDC Allocation Base				\$1,743,110	\$1,182,746	\$789,142	\$393,604	\$560,364	
STEP 2 - Rate Calculation...(7)		STEP 3 - Distribution to Cost Centers (5)							
Indirect Costs	\$884,736	Method A (6)	Allocation Base		1,002,346	673,242	329,104	227,464	1,229,810
Method A - Total Direct Salaries & Benefits	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	Method B (6)	Allocation Base		1,182,746	\$789,142	\$393,604	560,364	1,743,110
Method B - MTDCs	\$1,743,110		Times Indirect Rate		50.76%	50.76%	50.76%	50.76%	
Indirect Rate	50.76%		Equals Allocable Share of ICs		\$600,317	\$400,538	\$199,778	\$284,419	\$884,736
			Difference between A & B (A-B)		\$120,780	\$83,798	\$36,982	(\$120,780)	

(1) and (2) - Refer to notes of Exhibit E for explanations.

(3) This column must be split 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 example purposes only. Other allocation methods may be proposed as long as it provides and equitable and rational distribution of indirect costs. Contact OCD for more details.

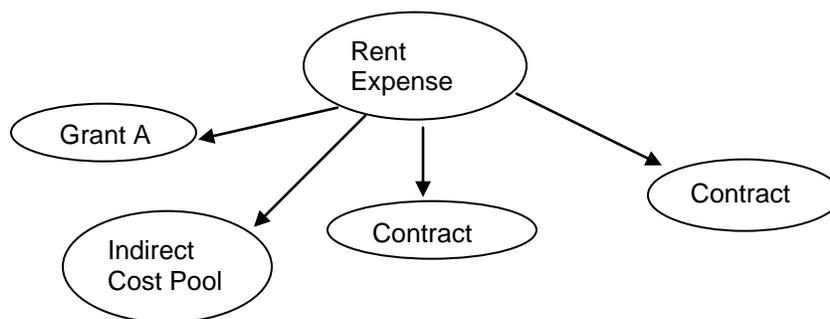
(7) Present two methods only for 1st year of negotiations. Propose selected method for consideration. After approval, subsequent proposals should only present approved method. See page II-6 for details.

Introduction to Example Exhibit E Direct Allocation Method

The **Direct Allocation Method** is used by organizations that treat all costs as direct costs except general administration and expenses. These organizations generally separate their costs into three (3) basic categories:

- (1) general administration and expenses,
- (2) fund raising, and
- (3) other direct functions (including projects performed under Federal awards).

Joint costs, such as depreciation, rental expense, operation and maintenance facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each award or other activity using a base most appropriate to the particular cost being prorated. A pictorial example of the proration of rental expense is shown below:



*** Note that the only rent expense allocated to the indirect pool is the indirect portion of rent expense as a whole.**

Under this method, indirect costs consist exclusively of general administration and general expenses. In all other respects, the organization's indirect cost rates shall be computed in the same manner as demonstrated in Exhibit D.

This method is acceptable provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or other activity. A listing of suggested allocation bases is included in Exhibit E – Suggested Allocation Bases.

A sample format for the computation of an indirect cost rate under the **Direct Allocation Method** follows.

**EXHIBIT E - Example - Statement of Total Costs - All Funds - and
Distribution of Indirect Costs to the Cost Centers using two Sample Methods of Allocation ⁽⁶⁾ (3 STEPS)
Direct Allocation Method**

Fill in: Final or Provisional & Organization's Fiscal year

Budget Category	Total Costs	Less: Indirect Unallowables Costs	Indirect Costs (3)	Total Direct Costs	Federal Programs				Non-Federal Programs		
					Total Federal Programs	Dept. of Labor	Dept. of HHS	Dept. of Education	Total Non-Federal Programs	Private Foundation	Fund-raising
	A = B+C+D	B	C	D = E+F	E				F		
Salaries	\$1,314,000		\$373,250	\$940,750	\$766,750	\$398,750	\$163,250	\$204,750	\$174,000	\$168,000	\$6,000
Fringe Benefits (30.73%)	403,746		114,686	289,060	235,596	122,522	50,161	62,913	53,464	51,620	1,844
Total Personnel Costs	1,717,746		487,936	1,229,810	1,002,346	521,272	213,411	267,663	227,464	219,620	7,844
Consultant Services	26,000		14,000	12,000	10,300	7,000		3,300	1,700	1,700	
Staff Travel	94,000		20,000	74,000	67,300	28,100	12,600	26,600	6,700	6,700	
Bad Debts	10,000	10,000 ⁽¹⁾									
Office Rent	170,000		32,000	138,000	113,200	46,900	27,600	38,700	24,800	22,000	2,800
Consumable Supplies	161,000		11,000	150,000	132,000	36,000	43,500	52,500	18,000	18,000	
Subcontracts	175,000			175,000	157,000			157,000	18,000	18,000	
Purchase, Lease of Equipment	82,000		10,700	71,300	62,000	38,800	8,400	14,800	9,300	9,300	
Telephone	109,400		18,600	90,800	73,600	30,900	15,400	27,300	17,200	13,600	3,600
Entertainment	1,800	1,800 ⁽¹⁾									
Printing and Reproduction	45,800		11,000	34,800	32,100	11,800	4,800	15,500	2,700	1,900	800
Insurance and Bonding	41,800		8,400	33,400	29,200	9,100	8,700	11,400	4,200	4,200	
Postage and Delivery	35,500		5,100	30,400	24,500	12,100	4,900	7,500	5,900	2,400	3,500
Depreciation	8,800		8,800								
Emergency Assistance	54,000			54,000	54,000		54,000				
Training Materials	82,000			82,000	76,300	36,100		40,200	5,700	5,700	
Participant Support Costs	184,000			184,000	184,000	184,000					
Total Non-Personnel Costs	1,281,100	11,800	139,600	1,129,700	1,015,500	440,800	179,900	394,800	114,200	103,500	10,700
TOTAL	\$2,998,846	(4)	\$11,800	\$627,536	\$2,017,846	\$962,072	\$393,311	\$662,463	\$341,664	\$323,120	\$18,544
MTDC Allocation Base: Direct Exclusions (2)											
Subawards in excess of \$25,000				(107,000)	(107,000)			(107,000)			
Purchase, Lease of Equipment				(22,100)	(22,100)	(22,100)					
Emergency Assistance				(54,000)	(54,000)		(54,000)				
Participant Support Costs				(184,000)	(184,000)	(184,000)					
Total Direct Exclusions				(367,100)	(367,100)	(206,100)	(54,000)	(107,000)			
Total - MTDC Allocation Base				\$1,992,410	\$1,650,746	\$755,972	\$339,311	\$555,463	\$341,664	\$323,120	\$18,544

STEP 2 - Rate Calculation... (7)		STEP 3 - Distribution to the Cost Centers										
Indirect Cost Rate Calculation		Distribution of Indirect Costs (ICs) - (5)										
		Method A (6)				Method B (6)				Difference between A & B (A-B)**		Total a+b
		Allocation Base	Times Indirect Rate	Equals Allocable Share of ICs	Allocation Base	Times Indirect Rate	Equals Allocable Share of ICs					
Indirect Costs	\$627,536	1,002,346	51.03%	\$511,468	1,650,746	31.50%	\$519,924					1,229,810
Method A - Total Direct Salaries & Benefits	1,229,810											
Indirect Rate	51.03%											
Indirect Costs	\$627,536	1,650,746	31.50%	\$519,924	1,992,410	31.50%	\$627,536					627,536
Method B - MTDCs	\$1,992,410											
Indirect Rate	31.50%											

(1) and (2) - Refer to notes of Exhibit E for explanations.
(3) This column must be split 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 example purposes only. Other allocation methods may be proposed as long as it provides and equitable and rational distribution of indirect costs. Contact OCD for more details.
(7) Present two methods only for 1st year of negotiations. Propose selected method for consideration. After approval, subsequent proposals should only present approved method. See page II-6 for details.

EXHIBIT E-1 - Supplemental Statement of Total Costs - Required for nonprofit organizations receiving \$10 million or more annually in direct federal awards*

Direct Allocation Method

Fill in: Final or Provisional & Organization's Fiscal year

STEP 1 - Do Statement...						
Budget Category	Total Costs	Less: Indirect (F&A) Unallowable Costs	Indirect (Facilities) Costs	Indirect (Admin) Costs	Total Indirect (F&A) Costs (3)	Total Direct Costs
	A = B+C+D	B			C	D
Salaries	\$14,451,640			\$1,050,000	\$1,050,000	\$13,401,640
Fringe Benefits (30.73%)	4,440,989			569,000	569,000	3,871,989
Total Personnel Costs	18,892,629			1,619,000	1,619,000	17,273,629
Consultant Services	\$899,300			820,000	820,000	79,300
Staff Travel	\$277,052			105,962	105,962	171,090
Bad Debts	\$500,000	\$500,000 (1)				
Office Rent/Building Mortgage	\$450,000		450,000		450,000	
Consumable Supplies	\$425,869			75,869	75,869	350,000
Subawards	\$465,000					465,000
Purchase, Lease of Equipment	\$528,800		459,000		459,000	69,800
Telephone	\$609,000			355,000	355,000	254,000
Entertainment	\$189,000	189,000 (1)				
Printing and Reproduction	\$242,000			102,000	102,000	140,000
Insurance and Bonding	\$205,000			205,000	205,000	
Postage and Delivery	\$474,568			324,568	324,568	150,000
Depreciation (Building & Equipment)	\$189,000		189,000		189,000	
Building Security	\$27,800		27,800		27,800	
Emergency Assistance	\$260,000					260,000
Training Materials	\$96,000					96,000
Participant Support Costs	\$390,000					390,000
Total Non-Personnel Costs	\$6,228,389	\$689,000	\$1,125,800	\$1,988,399	\$3,114,199	\$2,425,190
TOTAL	\$25,121,018 (4)	\$689,000	\$1,125,800	\$3,607,399	\$4,733,199	\$19,698,819
MTDC Allocation Base: Direct Exclusions (2)						
Subawards in excess of \$25,000						(383,570)
Purchase, Lease of Equipment+B75						(22,100)
Emergency Assistance						(54,000)
Participant Support Costs						(184,000)
Total Direct Exclusions						(643,670)
Total - MTDC Allocation Base						\$19,055,149

STEP 2 - Rates Calculation...(5)			
	Breakdown of Indirect (F&A) Costs		
	Facilities Costs	Administration Costs	Total Indirect (F&A) Costs
	x	y	(x+y)
	\$3,607,399	\$1,125,800	\$4,733,199
Allocation Bases			
Method A - Total Direct Salaries & Benefits	\$17,273,629	\$17,273,629	\$17,273,629
Rates	20.88%	6.52%	27.40%
Method B - Modified Total Direct Costs (MTDCs)	19,055,149	19,055,149	19,055,149
Rates	18.93%	5.91%	24.84%

- (1) and (2) - Refer to notes of Exhibit E for explanations.
 (3) This column must be split to show multiple rate structures (G&A, onsite, offsite, if applicable).
 (4) Must reconcile to the Financial Statements.
 (5) Present two methods only for 1st year of negotiations. Propose selected method for consideration. After approval, subsequent proposals should only present approved method. See page II-6 for details.

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

* Per §2 CFR 200.414: Indirect (F&A) costs

(a) Facilities and Administration Classification. For major IHEs and major nonprofit organizations, indirect (F&A) costs must be classified within two broad categories: "Facilities" and "Administration."

"Facilities" is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.

"Administration" is defined as general administration and general expenses such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of "Facilities" (including cross allocations from other pools, where applicable)...

Major nonprofit organizations are those which receive more than \$10 million dollars in direct Federal funding.

Notes to Exhibit D & E

- (1) Examples of expressly unallowable costs in this exhibit include entertainment expense and bad debts. Other indirect unallowable costs include lobbying costs, bad debts or allowances for doubtful accounts, fines and penalties, losses on Federal or non-Federal projects, provisions for contingencies, and charitable contributions.

Note: the costs included in the indirect cost pool (as well as direct costs) shall be net of applicable credits (2 CFR, Part 200, Subpart E, §200.402).

- (2) Examples of direct costs exclusions using the Modified Total Direct Cost (MTDC) allocation base MTDCs in this exhibit include amounts over the first \$25,000 of each subaward, purchase and lease of equipment, emergency assistance and participant support costs. See MTDC definition in 2 CFR, Part 200, Subpart A, §200.68. Details of the direct costs exclusions are as follows:
- a. The portion of subaward costs in excess of \$25,000 each. As a general rule, the organization and OCD agrees that only the first \$25,000 of each subcontract, subgrant and professional service agreement should be included in the distribution base. This recognizes that grantees/contractors expend a minimal amount of indirect costs overseeing these subawards or subcontracts.
 - b. Equipment and other capital expenditures, such as major renovations, alterations and improvements.
 - c. Participant support costs. This represents payments for stipends, travel allowances and registration fees paid to participants (but not employees) in connection with training projects.
 - d. Payments to participating agencies, e.g. OJT contractors, (flow-through- funds). If the organization is significantly involved in the administration or oversight of the participating agencies, a special rate might be necessary for that activity.

Other information

Exclusions of direct costs for the MTDC base are only presented in this exhibit for allocation purposes; it is not related to direct costs reimbursement.

Note that if the organization's unallowable activities (lobbying, fundraising, membership) include salaries, occupy space, and benefit from the organization's indirect cost, they should be included in the direct cost allocation base for the purpose of determining the indirect cost rate and be allocated their share of the organization's indirect costs. See 2 CFR, Part 200, Subpart E, §200.413(f). This sample exhibit includes these types of costs in the base.

From the examples provided on Exhibit D or E, the data can be used to compute either an indirect cost rate based on direct salaries and wages including applicable fringe benefits, or an indirect cost rate based on modified total direct costs (MTDCs). As stated in 2 CFR, Part 200, B.2.c., the distribution base may be direct salaries and wages, or another base which results in an equitable distribution to all activities that receive benefit from the indirect cost pool.

Since most organizations receiving grants are labor intensive, using a distribution base of direct salaries and wages including applicable fringe benefits is most often recommended by OCD.

Exhibit E Suggested Allocation Bases

The allocation base selected by the non-profit organization or commercial organization must be:

- (1) reasonable and consistently applied to direct costs,
- (2) supported by accurate and current data,
- (3) appropriate to the particular cost being distributed, and
- (4) one which results in an accurate measure of the benefits provided to each activity of the organization.

The following are suggested allocation bases:

<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.
Procurement service	Number of transactions processed.
Local telephone	Number of telephone instruments.
Health services	Number of employees.
Fidelity bonding program	Employees subject to bond or penalty amounts.

NOTE: Any method of allocation can be used which will produce an equitable and rational distribution of costs.

Exhibit F

EXAMPLE: Cost Policy Statement (CPS) for Indirect Cost Rate Proposal

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 CPS should have a detailed description of **all the cost elements** in the indirect cost proposal. It should also include the cost element allocation methodology.

COST POLICY STATEMENT ABC ORGANIZATION/ADDRESS/PHONE

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 described 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

The distinction between direct and indirect is primarily based on functions performed. For example, when the positions shown are performing functions that are necessary and beneficial to all programs they are indirect. When functions are specific to one or more programs they are direct because they do not benefit all programs.

Auditable labor distribution records which reflect the actual activities of employees are maintained to support the mix of direct/indirect charges. The time records are certified by the Executive Director or designee.

B. Fringe Benefits

ABC contributes to the following fringe benefits for its employees:

1. unemployment insurance,
2. worker's compensation,
3. F.I.C.A., health insurance and
4. 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:

1. Direct Costs - The cost of space occupied by staff whose salaries are directly charged is charged directly.
2. Indirect Costs - The cost of space occupied by staff whose salaries are indirectly charged is charged indirectly. The cost of space for staff whose salaries are charged on a mixed basis will be allocated on a mixed basis in the same ratio as their salaries are allocated.

The cost of space required for common areas (hallways, restrooms, and ABC's conference room) will be accounted for as an indirect cost.

ABC has developed a floor plan which identifies what areas are designated as direct and indirect charge space (based on square footage).

G. Utilities

ABC's lease includes the cost of all utilities except electricity. The cost of electricity is charged directly and indirectly in the same ratio as its space costs are charged.

H. Communications

1. A log is maintained of all fax transmissions. The cost of fax services is charged either directly or indirectly based upon whether a direct or indirect activity benefits from the transmission.
2. Long distance telephone calls are charged either directly or indirectly based upon whether a direct or indirect activity benefits from the transmission.
3. Local telephone service costs are prorated to direct and indirect charges based upon the number of telephone instruments assigned to ABC. Each telephone instrument is identified to either an indirect or a direct activity. For example:

ABC has 50 telephone instruments assigned to it:

- (1) Nine (9) of the 50 instruments are assigned to the program funded by HHS. Therefore, 9/50ths of the monthly local service telephone charges are direct charged to the HHS grant.
- (2) Five (5) of the instruments are assigned to indirect staff. Therefore, 5/50ths of the monthly local service charges are charged indirectly.

No telephone instruments are charged on a mixed basis since the costs incurred on that basis are immaterial in amount.

4. ABC uses a meter system for postage charges. The postage meter has been programmed to identify the specific program or activity to charge costs against. Express mail costs are also specifically identified to the program or activity incurring the cost.

I. Photocopying and Printing

ABC maintains a photocopy activity log. From this log, ABC is able to prorate its photocopy expenses to each program based on the specific volume of copies made for each program.

Administrative personnel will record copies made to the benefiting program to the maximum extent practical. In situations where the photocopies being made by administrative personnel cannot be identified to a specific program and the matter being copied relates to the activities of ABC in general, the cost of such copies will be charged to the "Indirect Cost-Expense" account.

Printing expenses are charged to the benefiting activity.

J. Outside Services

ABC incurs outside services costs for its annual audit, legal fees, and for staff development specialists.

1. The cost of the annual audit is charged indirectly.
2. In general, legal fees are charged directly to the benefiting program or activity.
3. Legal fees that are not identifiable to specific direct programs are charged indirectly.

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 \$5,000.

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.

The cost of capital items purchased with direct Federal funds cannot be depreciated for indirect cost recovery purposes.

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 unallowable costs, as defined in 2 CFR Part 200, Subpart E, or the FAR (Subpart 31.205), cannot be charged to Federal awards and has internal controls in place to insure that this is followed. Examples of unallowable costs are:

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

Signature

Date

Title

ABC Organization
1111 Main Street
City, USA 12345

Exhibit G

CERTIFICATE OF INDIRECT (F&A) COSTS – NONPROFIT ORGANIZATIONS
§2 CFR 200, Appendix IV, D

This is to certify that to the best of my knowledge and belief:

- (1) I have reviewed the indirect (F&A) cost proposal submitted herewith;
- (2) All costs included in this proposal [identify date] to establish billing or final indirect (F&A) costs rate for [identify period covered by rate] are allowable in accordance with the requirements of the Federal awards to which they apply and with Subpart E—Cost Principles of Part 200.
- (3) This proposal does not include any costs which are unallowable under Subpart E—Cost Principles of Part 200 such as (without limitation): public relations costs, contributions and donations, entertainment costs, fines and penalties, lobbying costs, and defense of fraud proceedings; and
- (4) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the Federal awards to which they are allocated in accordance with applicable requirements.
- (5) The requirements and standards on lobbying costs (stated in §2 CFR Part 200.450) have been complied with for the fiscal year ending_____.

I declare that the foregoing is true and correct.

Nonprofit Organization: _____.

Signature: _____.

Name of Official: _____.

Title: _____.

Date of Execution: _____.

Exhibit G-1

CERTIFICATE OF FINAL INDIRECT COSTS – COMMERCIAL ORGANIZATIONS
Federal Acquisition Regulation, Subpart 52.242-4

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in this proposal (identify proposal and date) to establish final indirect cost rates for (identify period covered by rate) are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: _____

Signature: _____

Name of Certifying Official: _____

Title: _____

Date of Execution: _____

Organization ABC
Federal Listing of Grants and Contracts
Provisional (or Final) Indirect Cost Proposal for 12/31/XX

Grantor	DOL SubAgency	Funding Source	Grant/Contract Amount	Period of Performance	Indirect Cost Limitations or CAP Limitations*	Grant/Contract Award Notice Provided as part of proposal	For Federal Contracts Only - Identify Type of Contracts Awarded **
U.S. Dept. of Labor	ETA	Youth Build	\$5,000,000	1/1/2010-12/31/2013	None	Yes	
U.S. Dept. of Labor	ILAB	Child Labor	\$300,000	1/1/2011-6/30/2012	None	Yes	
U.S. Dept of HHS		Head Start	\$3,500,000	7/1/11-6/30/2014	5% of Total Award	Yes	
U.S. Dept of Labor	ETA	Job Corps	\$1,000,000	1/1/2011-12/31/2012	None	Yes	Cost Reimbursable

* If applicable.

** For example: Cost Reimbursable, Time & Materials, Labor Hours, Fixed Price, etc. See Federal Acquisition Regulation, Subpart 16, for additional details.

SECTION IV

Common Indirect Cost Proposal Problems

A. Introduction

This section presents examples of some common problems with organizations. Many of these items have been disclosed in OIG audits. The problems are summarized below under the following categories:

1. Incomplete indirect cost proposals.
2. Problems with timekeeping practices
3. Consistent Treatment and Specific Identification of Costs
4. Costs of "Unallowable Activities"
5. Credits
6. Indirect Cost Allocation Base
7. Expressly Unallowable Costs
8. Inter-organizational Transfers and Related-party Transactions
9. Budget Limitations
10. Unsupported costs

B. Examples of Problems

1. Incomplete indirect cost proposals – Processing delays could be attributable to receiving incomplete proposals. We recommend using the checklist available in page II-4 of this guide to obtain the required documentation.

2. Timekeeping Practices

To be allowable, labor costs, whether charged directly or indirectly to DOL grants/contracts, must be based on accurate time records reflecting the actual activities of all employees. These records must account for the "total activity" for which employees are compensated and which are required in fulfillment of their obligations to the organization. In many cases, a timekeeping system was either not used at all or was used for payroll purposes only (time and attendance and not for labor distribution purposes). For more information, see §200.430 Compensation—personal services (a)(i), Standards for Documentation of Personnel Expenses.

3. Consistent Treatment and Specific Identification of Costs

To be allowable under DOL grants/contracts, costs must be treated consistently on all programs of the organization. OIG audits have disclosed numerous instances in which non-profit organizations have charged DOL grants and/or contracts, either directly or indirectly, for

- (1) costs specifically identifiable with programs and activities other than its DOL awards,
- (2) costs which were not treated consistently with other costs incurred for the same purpose in like circumstances.

4. Costs of "Unallowable Activities"

Problems disclosed by OIG audits which related to so-called "unallowable activities" can usually be categorized in two areas.

- (1) First, not all costs associated with "unallowable activities" were properly charged as costs to the final cost objectives for such activities.
- (2) Second, because not all such costs were direct charged to "unallowable activities" cost objectives, an appropriate share of indirect costs was not allocated to these "unallowable

activities." As a result, DOL and other Federal grants and contracts were allocated a disproportionate share of the organization's indirect costs.

See 2 CFR, Part 200, Subpart E, §200.413(f) provides that the costs of certain "unallowable activities" must be treated as direct costs (e.g., charged to separate final cost objectives) and allocated an equitable share of the organization's indirect costs.

Examples of unallowable activities include: services to members, maintenance of membership rolls, public relations, lobbying, and fund raising.

Even if an organization's own activities, non-DOL/non-government grants and/or contracts provide for little or no reimbursement of indirect costs, the full share of indirect costs must be allocated to such grants/contracts in accordance with 2 CFR, Part 200, Subpart E, §200.405 Allocable costs (c), which states:

(c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards

5. Credits

OIG audits have disclosed that a number of non-profit organizations failed to reduce the total costs claimed under DOL grants/contracts by the amount of credits applicable to costs charged either directly or indirectly to the DOL grants/contracts. These credits were generated through various transactions, including fees for conferences held for the benefit of DOL programs, building rental operations, insurance credits or adjustments, data processing and office services performed for others, etc.

All receipts, refunds and adjustments applicable to direct costs charged to DOL grants/contracts must be credited to the DOL grants/contracts and those applicable to indirect costs must be credited to the appropriate indirect cost pools.

6. Indirect Cost Allocation Base

To meet the benefits received test, the allocation base must allocate indirect costs to all programs equitably. To ensure that this test is met, organizations must continuously evaluate whether the allocation base elements among all of its programs is proportionate to the benefits to be received from the indirect costs.

Many organizations use total direct personnel costs (salaries/wages, plus fringe benefit costs) as the allocation base to allocate indirect costs to their grants/contracts and other programs. Another cost allocation base commonly used is modified total direct costs (see definition at 2 CFR, Part 200, Subpart A, §200.68).

In most instances, one of the above bases may allocate indirect costs in reasonable proportion to relative benefits received by the various cost objectives. In some cases, they may result in allocating a disproportionate share of the organizations' indirect costs to DOL grants. Use of an inappropriate base which does not allocate indirect costs on the basis of relative benefits received could result in substantial questioned costs.

7. Expressly Unallowable Costs

Indirect costs that are unallowable are found in 2 CFR, Part 200, Subpart E, §200.420 General Provisions for Selected Items of Cost. Common examples of expressly unallowable indirect costs include: Alcoholic beverage, Bad debts, Contributions, Entertainment costs, Fund raising, and Lobbying.

8. Inter-Organizational Transfers and Related-Party Transactions

Supplies and services acquired from affiliates, related parties, and organizations under common control, must be based on the actual costs of the organizations providing the supplies and services. No profit should be included.

OIG audits disclosed that some organizations charged directly or indirectly to DOL grants/contracts, the "costs" of supplies and services which included "profits" and/or other mark-ups added by the affiliates, related parties and/or organizations under common control.

9. Budget Limitations

Non-profit organizations must adhere to any budget limitations incorporated into their grants/contracts. DOL grants/contracts limit reimbursements to grantees/contractors by incorporating a special clause titled "Budget Line Item Flexibility." This clause provides that no single line item of direct cost shall be increased or decreased in excess of 20 percent of the budget provided the total estimated cost of the grant/contract is not exceeded. The clause further provides that no increase in wages, salaries, and fringe benefits line items (including the mixture, number of hours or wages of personnel paid under the grant/contract) is permitted without the prior review and approval of the DOL Grant/Contracting Officer.

If a contract/grant specifically includes a ceiling rate(s), the indirect cost rate(s) or amount(s) which are indicated in the organization's indirect rate cost agreement, will be subject to the ceilings stipulated in the contract/grant agreement. The ceiling rate or the rate(s) cited in the organization's indirect rate cost agreement whichever is lower, will be used to determine the maximum allowable indirect cost on the contract or grant agreement.

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.

10. Unsupported Costs

To be allowable, all direct costs and indirect costs must be adequately supported by source documentation which clearly shows the purposes and circumstance of the cost incurred. For example, canceled checks, credit card invoices and travel agents' invoices alone are not sufficient to determine whether the costs are chargeable as direct costs or indirect costs, and whether DOL grants/contracts received the benefit of the cost incurred.

In order to determine whether a cost is allowable under or allocable to a DOL grant/contract, the purpose and circumstance of the cost incurrence must be established. OIG audits disclosed that a large number of non-profit organizations did not have adequate documentation to support the allowability/allocability of the costs claimed or proposed.

Also, verbal approval from a Contracting/Grant Officer is insufficient documentation for supporting costs under a contract/grant. Any modifications to a contract/grant must be in writing and signed by both the Contracting/Grant Officer and the contractor/grantee.

SECTION V

Typical Questions and Answers (Q&As)

1. How do we get a copy of the Indirect Cost Guide?

“A Guide to Indirect Cost Rate Determination” is available in the DOL website:
<http://www.dol.gov/oasam/boc/dcd/>

2. Who needs an indirect cost rate?

Any organization being awarded cost reimbursable grants and contracts, also having more than one source of funding (including direct Federal funding), needs an indirect cost rate.

3. Why do I need an indirect cost rate?

Your organization needs an indirect cost rate for: management information, to be in compliance with Federal regulations, 2 CFR Part 200, Subpart E & Appendix IV, or the FAR (whichever applies), close-out purposes, and for audit documentation.

4. Where can I find information on the applicable cost principles?

Available website links for the cost principles are available in the OCD's website:
<http://www.dol.gov/oasam/boc/dcd/extrelatedlinks.htm>

5. What is an indirect cost rate?

An indirect cost rate is a percentage (indirect cost pool/direct cost base) used to distribute indirect costs to all cost centers benefiting from those costs.

6. Which agency should approve my indirect cost rate(s) and issue a Negotiation Agreement?

Your cognizant agency is responsible for negotiating your indirect cost rate and issuing the appropriate Negotiation Agreement. Unless specifically assigned by OMB, the Federal agency with the preponderance of direct funding is normally your cognizant agency.

7. What documentation is required as part of the provisional (based on budgetary costs) or final (based on incurred costs) indirect cost rate proposal?

Please refer to our website's "checklist". Also available in Section II (Page II-4) of our indirect cost guide.

8. How many days do we have to submit a provisional (based on budgetary information) indirect cost rate proposal - 1st time?

All organizations must submit their initial indirect cost rate proposal to their cognizant agency within 90 days of receiving a cost reimbursable grant/contract award. For example, 2 CFR, Part 200, Appendix IV, C.2.b., states:

“b. Except as otherwise provided in §200.414 Indirect (F&A) costs paragraph (e) 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.”

9. How many days do we have to submit a final (based on incurred costs) indirect cost rate proposal?

All organizations must submit their final indirect cost rate proposals within 180 days of the end of your organization’s fiscal year. For example: For example, 2 CFR, Part 200, Appendix IV, C.2.c., states:

“c. Unless approved by the cognizant agency for indirect costs in accordance with §200.414 Indirect (F&A) costs paragraph (f) of this Part, organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency for indirect costs within six months after the close of each fiscal year.”

10. For how long do we need to submit annual indirect cost rate proposals based on incurred costs?

For the life of the cost reimbursable contract/grant period. For example: You receive a three-year grant award (July 1, 2012 through July 1, 2015). Your fiscal year ends on December 31st.

Based on the above example, your organization would need to submit final incurred cost proposals for the organizations’ fiscal year ending (FYE):

12/31/2012, 12/31/2013, 12/31/2014, and 12/31/2015.

11. How many days does it takes my Federal cognizant agency to process my indirect cost rate proposal?

The DOL’s Office of Cost Determination (OCD) typically issues indirect cost rate agreements within 120 days of proposal receipt pending no unforeseen negotiation issues.

12. What is the correct DOL address for submission of an indirect cost proposal?

Most of the proposals received are handled out of Office of Cost Determination's National Office in Washington D.C. Refer to our directory listing of this guide for more information.

13. What can the submitting organizations do to help the Federal Cognizant Agency facilitate their review of an indirect cost rate proposal?

To avoid delays, organizations should submit complete proposals. If proposals are based on actual costs, they must reconcile to financial statements. If there are any questions concerning any aspect of the proposal, contact OCD to resolve the issue prior to formal submission. Also, if during a prior negotiation you agreed to take corrective action(s) on any issues, you must disclose the status of your action(s). Finally, you must inform OCD about all significant organizational or accounting changes and their impact. If these actions are taken, it could save time in getting the proposal negotiated.

14. When a grantee/contractor is required by DOL to submit a closeout package prior to negotiating a final indirect cost rate, what is the procedure?

The grantee/contractor should prepare the closeout package using the approved provisional indirect cost rate and include a statement indicating that a provisional indirect cost rate was used pending negotiations of a final indirect cost rate. Upon receipt of a final indirect cost rate, the grantee/contractor must notify the applicable Federal funding agency of the final rate issued and request an amended final closeout adjustment. Refer to 2 CFR, Part 200, Subpart D, §200.343 and §200.344 for information on closeout and post-closeout adjustments and continuing responsibilities.

15. What do we do if some grants/contracts do not provide for any indirect costs or provide for indirect cost rates that are lower than those established, provisional or final?

All indirect costs, using the approved rate, must be allocated to all grants/contracts regardless of any restrictions or funding limitations. Any allocable indirect costs that exceed any administrative or statutory restrictions on a specific Federal grant/contract may not be shifted to other Federal grants/contracts, unless specifically authorized by legislation. Non-Federal revenue sources must be used to pay for these unrecovered costs.

2 CFR Part 200, Subpart E, §200.414(c), states, however:

(c) Federal Agency Acceptance of Negotiated Indirect Cost Rates. (See also §200.306 Cost sharing or matching.)

(1) The negotiated rates must be accepted by all Federal awarding agencies. A Federal awarding agency may use a rate different from the negotiated rate for a class of Federal awards or a single Federal award only when required by Federal statute or regulation, or when approved by a Federal awarding agency head or delegate based on documented justification as described in paragraph (c)(3) of this section.

(2) The Federal awarding agency head or delegate must notify OMB of any approved deviations.

(3) The Federal awarding agency must implement, and make publicly available, the policies, procedures and general decision making criteria that their programs will follow to seek and justify deviations from negotiated rates.

(4) As required under §200.203 Notices of funding opportunities, the Federal awarding agency must include in the notice of funding opportunity the policies relating to indirect cost rate reimbursement, matching, or cost share as approved under paragraph (e)(1) of this section. As appropriate, the Federal agency should incorporate discussion of these policies into Federal awarding agency outreach activities with non-Federal entities prior to the posting of a notice of funding opportunity.

16. Will DOL provide technical assistance to grantees/contractors in obtaining proper approval of the indirect cost rate from other Federal agencies and State and local units of Government?

Yes. Note that OCD has a weblink to contact information from other Federal cognizant agencies (FCAs) available at: <https://www.dol.gov/oasam/boc/dcd/dcd-agency-list.htm>. Reiterating a prior Q&A, the Federal agency providing most of the direct Federal funding is the FCA for the grantee/contractor and they should negotiate and approve indirect costs for non-Federal entities. See also Q&A # 15 above citing information from 2 CFR Part 200, Subpart E, §200.414(c), Federal Agency Acceptance of Negotiated Indirect Cost Rates.

Regarding subawards and responsibilities of pass-through entities, it is important to highlight that 2 CFR Part 200, Appendix VII, D.1., states: "...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." On that regard, pass-through entities must also follow guidance from 2 CFR Part §200.331 Requirements for pass-through entities, stating:

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. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

... (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 a de minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f);..."

17. Our grant with DOL totals \$500,000 and includes a provisional indirect cost rate of 10%. Our actual, final indirect cost rate is 13%. Will DOL provide us with additional grant funds due to our higher indirect cost rate?

DOL could provide your organization with additional grant funds due to a higher final indirect cost rate than the established provisional rate subject to funds available. Also, a grant modification may be allowed to transfer budgeted direct costs to the indirect cost category due to the increased indirect costs. This would be subject to the terms and conditions of the grant agreement, e.g. approval of grant officer, indirect cost ceilings, and administrative cost limitations. Contact your grant officer or grant officer technical representative for additional questions on this topic.

18. In the event that a grantee/contractor does not exceed the total grant/contract but exceeds the ceiling placed on the indirect cost by DOL, can the excess indirect cost be recovered?

No. The ceiling on the indirect cost was included in the agreement to limit the amount of grant/contract funds used for indirect cost purposes by the grantee/contractor. This condition was known by the grantee/contractor before any grant/contract funds were expended.

19. Can our indirect cost rate proposal be based only on Federal funds since it only represents 15% of our total revenue?

No. Your indirect cost rate proposal must be accompanied by a schedule of costs incurred for all projects, Federal and non-Federal, and the amount of the proposed allocation base must tie-in with the applicable direct cost base for all projects.

20. Accrued annual leave cost – Is it allowable under 2 CFR Part 200?

2 CFR Part 200, Subpart E, §200.403 Factors affecting allowability of costs, details that allowable costs must be determined in accordance with Generally Accepted Accounting Principles.

The Financial Accounting Standards Board issued Financial Accounting Standard Number 43 "Accounting for Compensated Absences" to establish uniformity in the accounting for annual leave pay. This standard requires employers to accrue during each accounting period the liability for compensated absences earned by employees during that period provided that all of the following conditions are met:

1. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employee's services already rendered;
2. The obligation relates to rights that vest or accumulate;

3. Payment of compensation is probable; and
4. The amount can be reasonably estimated.

The accrual of annual leave does not result in increased costs, but allows recognizing the cost in the proper accounting period to improve actual cost determination. In general, compensated absences are to be accrued in the period in which they are earned rather than when they are paid. In order for accrued leave to be an allowable cost, the personnel policies of the organization must comply with the Financial Standard Number 43.

21. What is the difference between bid and proposal costs and fund raising costs and how does a grantee/contractor treat such costs in its indirect cost proposal?

Bid and proposal costs represent the salaries, consultant fees, printing, postage, travel, etc. associated with an organization's preparation of bids, proposals and applications to perform specific tasks for remuneration under potential Federal and non-Federal grants, contracts or other agreements. An organization should treat bid and proposal expenses as allowable indirect costs subject to any limitations imposed by the Cognizant Federal agency.

Fund raising costs represent the salaries, consultant fees, printing, postage, travel, etc. associated with an organization's requests to private institutions or individuals for donation of funds for non-specific purposes. Fund raising costs are unallowable for Federal reimbursement purposes. However, this activity (cost objective) shall be allocated an appropriate share of indirect costs. Accordingly, fund raising costs are to be included in the distribution base used to compute an organization's indirect cost rate.

22. Can the audit costs under 2 CFR Part 200, Subpart F, be recovered?

Audit costs could be recovered as either direct or indirect costs in accordance with applicable cost principles and the benefits received concept. However, there is no special appropriation for audit costs. To recover audit costs, the organization must build them into the specific grant/contract documents (if direct) or into the overhead proposal (if indirect).

For more information on this topic, see language below from 2 CFR, Part 200, Subpart F:

§200.501 Audit requirements.

(a) Audit required. A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.

(b) Single audit. A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit conducted in accordance with §200.514 Scope of audit except when it elects to have a program-specific audit conducted in accordance with paragraph (c) of this section.

(c) Program-specific audit election. When an auditee expends Federal awards under only one Federal program (excluding R&D) and the Federal program's statutes, regulations, or the terms and conditions of the Federal award do not require a financial statement audit of the auditee, the auditee may elect to have a program-specific audit conducted in accordance with §200.507 Program-specific audits. A program-specific audit may not be elected for R&D unless all of the Federal awards expended were received from the same Federal agency, or the same Federal agency and the same pass-through entity, and that

Federal agency, or pass-through entity in the case of a subrecipient, approves in advance a program-specific audit.

23. If the grantee's policy is to capitalize equipment under the \$5,000 threshold specified in 2 CFR Part 200, §200.439 (Equipment and other capital expenditures), do they need Federal approval prior to directly charging the grant with the cost of equipment?

Not from the Office of Cost Determination since no indirect costs are being charged. Instead, these direct costs would need to be reviewed and approved by the grant/contract officer.

24. A grantee has contracted to update its computer network with its affiliates for a total cost of \$50,000. Since each component; i.e., monitor, printer, personal computer, software, modem, etc., costs less than the \$5,000 per unit threshold specified in 2 CFR Part 200, §200.439, can this "equipment" be charged to the indirect cost pool?

No. The components of the computer network make it useable for the purpose for which it was acquired and therefore establishes the "system" as a capital expenditure. Accordingly, this equipment can be appropriately charged to Federal grants either as a direct or indirect cost, on the basis of depreciation and the benefits received concept.

25. A non-profit grantee purchased a building in September, 1994 and refinanced its mortgage in September, 1998. Can the grantee now charge Federal programs with the interest incurred on this mortgage?

No. The refinanced interest costs are not allowable because the building was originally purchased on September 1994. Had the building been purchased on or after September 29, 1995, these costs could have been allowed.

26. Can transactions with an affiliate affect allowable costs?

Yes. A problem may arise in transactions between parent organizations and their affiliates when the parent organization has an equity interest in the affiliate. When an equity interest exists, any profits made by the affiliate improve the equity interest of the parent. If an affiliate sells a good or service to the parent and the selling price includes a profit to the affiliate, the parent's equity interest in the affiliate has been increased. If the parent then includes the purchase price as a direct or indirect charge to a Federal award, it has violated the applicable cost principles that charges will be at cost and not include a profit factor.

For example, suppose your organization (the parent) obtains accounting services from an affiliate and the parent organization has an equity interest in the affiliate. The fee that the parent pays to the affiliate must be based on the cost incurred by the affiliate and the fee and should not include a profit to the affiliate.

If the fee does include a profit factor to the affiliate, the allowable part of the fee is limited to that portion which represents the cost to the affiliate exclusive of any profit factor.

This principle works in reverse as well. When an organization provides a good or service to an affiliate, the full cost of providing that good or service must be recovered from the affiliate and an appropriate credit must be applied to the indirect cost pool.

27. What is the period of time that an indirect cost rate agreement covers?

A provisional indirect cost rate is negotiated to cover a one year period. However, because of the time lapse between the submission and approval of a rate, provisional rates are usually established by DOL for a two year period. A final indirect cost rate agreement is negotiated to cover one fiscal year period after which a new final indirect cost rate must be negotiated for the subsequent fiscal year.

Section VI
2 CFR Part 200 – Indirect cost Q&As taken from the COFAR (Council of Financial Assistance Reform) website - <https://cfo.gov/cofar/>

September 2015

200.19

.19-1 Cognizant Agency for Indirect Cost

If the Federal awarding agency serving as the cognizant agency for indirect costs for a non-Federal entity (as described in section 200.19 Cognizant agency for indirect costs) does not allow the non-Federal entity to claim indirect costs, is this Cognizant agency still responsible for negotiating indirect cost rates?

Yes. When a Federal awarding agency is the Cognizant agency for indirect costs and does not allow recipients to recover indirect costs on their awards, it is the responsibility of the cognizant agency for indirect costs to negotiate indirect costs rates.

200.68

.68-1 Determination of Modified Total Direct Cost (MTDC) for Subaward(s)

In the definition of Modified Total Direct Cost (MTDC) base, does the "regardless of the period of performance of subawards under the award" mean that if the subaward(s) to the subrecipient is made up of several separately executed funding agreements, in the course of the period of performance does each separate subaward agreement require including up to \$25K in the MTDC base for the award segment even if the scope of the subaward(s) remains the same?

Yes. If the subaward needs to be separately negotiated or renegotiated over the period of performance, this would support including an additional \$25K in MTDC for each subaward negotiation. The allowance of \$25K is for the life of the award, or for each period of performance. Renewals of subawards may be considered, for determining the \$25K inclusion in MTDC, if they need to be formally renegotiated within the period of performance of the grant.

200.110

.110-1 Effective Dates and Indirect Cost Rates

How does the effective date apply to indirect cost rates?

Existing negotiated indirect cost rates will remain in place until they are due to be re-negotiated. The "effective date" of changes to indirect cost rates must be based upon the date that a newly re-negotiated rate goes into effect for a specific non-Federal entity's fiscal year. Therefore, for indirect cost rates and cost allocation plans, Federal awarding and indirect cost rate negotiating agencies will use the Uniform Guidance both in generating proposals for and negotiating a new rate (when the rate is due to be re-negotiated) for non-Federal entity fiscal years starting on or after December 26, 2014.

For example, the Uniform Guidance eliminates the concept of "use allowance" for depreciation. Nevertheless, for non-Federal entities with negotiated rates that are based on "use allowance", they would continue to use their existing rate, based on "use allowance", until the rate is due to be re-negotiated.

.110-2 Effective Dates and Indirect Cost Rate Proposals

When may non-Federal entities begin to submit proposals for indirect cost rates based on the Uniform Guidance?

Non-Federal entities may begin to submit actual cost proposals based on the Uniform Guidance when they are due for fiscal years that begin on or after December 26, 2014. For example, if a non-Federal entity is required to submit a rate proposal based on FY 2014 actual costs to set rates for FY 2016, the rate proposal can be developed using the provisions in the Uniform Guidance.

.320-5 Methods of Procurement and Indirect Costs

Does the Uniform Guidance procurement standards apply to procurements made for indirect costs (for example: would a non-Federal entity need to follow them when hiring a plumber to fix a broken pipe in the headquarters building?)

No. The Uniform Guidance procurement standards do not apply to procurements made in indirect cost areas. They apply to procurements for goods and services that are directly charged to a Federal award.

200.331

.331-1 Pass-through Entities, Indirect Cost Rates, and State Funds

When a pass-through entity uses Federal and non-Federal funds to make a subaward to a nonprofit as a subrecipient, is the requirement in section 200.331(a)(4) for pass-through entities to provide an indirect cost rate applicable for only for the portion of the funds from Federal award that are utilized or the total funds?

Federal Uniform Guidance including section 200.331(a)(4) applies to Federal funds as specified in the terms and conditions of the Federal award.

.331-2 Limits on layers of Subrecipients for Indirect Costs

Is there a limit on the number of layers of subrecipients at which the requirement to pay indirect costs is no longer applicable? For example, a state may pass-through Federal grant funds to a local government. The local government may then pass all or some of the funds through to a local nonprofit, which then also utilizes the services of other nonprofit providers as subrecipients.

No, there is no limit under the Uniform Guidance, but the Federal award may have a limit.

.331-3 Delayed Federal funds and Indirect Cost Rates

When the awarding of Federal funds is held up due to the delayed approval of the Federal budget or other reasons, so states must use state funds in order to provide continued services in the interim, are those dollars considered state or Federal with regard to meeting the OMB requirements? For example, if temporarily using state funds while waiting for Federal funds, is the state required to reimburse subrecipients for their indirect costs as directed in the Uniform Guidance?

Yes, any costs ultimately charged to a Federal award must comply with the terms and conditions of that Federal award, including the Uniform Guidance. Pre-award costs are governed by section 200.458, and the Cash Management Improvement Act and its implementing regulations at 31 CFR Part 205.

.331-4 Indirect Cost Rates and Blended Subawards

States often blend several Federal funding streams to pay for services performed by nonprofit organizations. Each Federal funding stream may have a different set of requirements, particularly as it relates to indirect costs — some with statutory caps on indirect costs and others without a cap and are covered by the new provision in the Uniform Guidance. How should a pass-through entity calculate the indirect cost rate it must reimburse the nonprofit?

Each Federal award is subject to its own terms and conditions, and the funding streams would be tracked accordingly. For payments of indirect cost to the subrecipients, the pass-through entity must follow any statutory caps required by the funding streams. If a non-Federal entity wishes to blend funds from multiple Federal awards and apply only one set of terms and conditions to all the funds, the terms and conditions of that arrangement must be agreed to in advance by all participating Federal awarding agencies.

[.331-5 Indirect Cost Rates and Entities Who Do Not Have Indirect Costs](#)

2 CFR 200.210(a)(15), 2 CFR 200.331(a)(1)(xiii) and (a)(4) all make reference to indirect cost rates as a requirement for recipients and subrecipients. Not all entities charge indirect cost rates. Will they now be forced to establish such rates?

No. Non-Federal entities that are able to allocate and charge 100% of their costs directly may continue to do so. Claiming reimbursement for indirect costs is never mandatory; a non-Federal entity may conclude that the amount it would recover thereby would be immaterial and not worth the effort needed to obtain it.

[.331-6 Pass-through Entities and Indirect Cost Rate Negotiation](#)

This section states that pass-through entities are expected to honor a subrecipient's negotiated F&A rate agreement, or use a 10% MTDC de minimis rate, or negotiate an F&A rate with the subrecipient. Is it acceptable to require a subrecipient to accept a rate lower than 10% MTDC via negotiation, or in lieu of their negotiated F&A rate? If a subrecipient requests to establish a rate via negotiation, does the pass-through entity have to establish the rate via negotiation?

If the subrecipient already has a negotiated F&A rate with the Federal government, the negotiated rate must be used. It also is not permissible for pass-through entities to force or entice a proposed subrecipient without a negotiated rate to accept less than the de minimis rate. The cost principles are designed to provide that the Federal awards pay their fair share of the costs recognized under these principles. (See section 200.100(c).) Pass-through entities may, but are not required, to negotiate a rate with a proposed subrecipient who asks to do so.

[.331-7 Indirect Cost Rates and non-Compliance with Guidance](#)

What should I do if my pass-through entity won't honor my entity's federally negotiated indirect cost rate agreement?

You may wish to remind your pass-through entity of their obligation under the uniform guidance in part 200.331. As with any instance where a non-Federal entity does not comply with the guidance, the pass-through entity will be vulnerable to any of the measures available in sections 200.338-200.342, Remedies for Non-Compliance, depending on the Federal awarding agencies oversight of their Federal award. The COFAR is working with a Coalition of non-Federal entities to evaluate the effectiveness of implementation and the overall impact of the guidance. For information about where to direct inquiries about the Uniform Guidance in general, please see part 200.108.

[200.414](#)

[.414-1 De Minimis Rate and Governments](#)

Is the 10 percent de minimis rate for new organizations which have never negotiated an IDC rate at 200.414 (f) available to governmental organizations or tribal government entities which have never negotiated an IDC rate?

Yes. Provision of the 10 percent de minimis indirect cost rate is conditioned on the non-Federal entity meeting the requirements specified at 200.414 (f). These include limiting availability to organizations that have never received a negotiated indirect cost rate, except for those described in Appendix VII of Part 200, paragraph (D)(1)(b) "governmental department or agency unit that receives more than \$35 million in direct Federal funding must submit its indirect cost rate proposal..." State and local government departments that have never negotiated indirect cost rates with the Federal government and receive less than \$35 million in direct Federal funding per year may use the 10% de minimis indirect cost rate, and must keep the documentation of this decision on file. Federally recognized Indian tribes that have never negotiated an indirect cost rate with the Federal government may also use the 10% and must keep the documentation of this decision on file.

.414-2 Indirect Cost Rate Extensions – “Current” and “one-time”

Section 200.414(g) of the Uniform Guidance states: “Any non-Federal entity that has a federally negotiated indirect cost rate may apply for a one-time extension of a current negotiated indirect cost rates for a period of up to four years.” • What is meant by the term “current negotiated indirect cost rates”? • What is meant by the term “one-time”?

A current negotiated indirect cost rate is the negotiated rate *in effect* (i.e., *not expired*) when the non-Federal entity requests a rate extension. Rate extension requests will only be considered once in a rate negotiation cycle.

For example, a non-Federal entity with a current negotiated rate for 7/1/15-6/30/16 requests an extension of that rate for 3 years, until 6/30/19. If approved by the cognizant agency for indirect costs, the non-Federal entity is required to submit a proposal and request a negotiation of an indirect cost rate for the period beginning 7/1/19. Assuming these are predetermined rates effective until 6/30/23, the non-Federal entity could then request an extension of the current negotiated rate at the end of this approved period (6/30/23), prior to the submission of a proposal for negotiated rates in the next period. “Current negotiated rates” include only “predetermined” and “final” rates (not “provisional” or “fixed” rates).

.414-3 Documentation Required for Extension

Section 200.414(g) allows any non-Federal entity that has a federally negotiated indirect cost rate to apply for a one-time extension of its current negotiated indirect cost rates for a period of up to four years. This extension will be subject to the review and approval of the cognizant agency for indirect costs. Are there any documentation requirements that must be submitted? Are non-Federal entities eligible for multiple four-year extensions?

See FAQ .414-2. The intent of allowing for indirect cost rate extensions is to minimize the administrative burden for the non-Federal entity. As such, documentation requirements to support a four-year indirect cost rate extension should be kept to a minimum. A non-Federal entity can apply for a one-time extension (up to four years) on its most current negotiated rate. Subsequent one-time extensions (up to four years) are available if a renegotiation is completed between each extension request. Once there is a new negotiated indirect cost rate in effect, a non-Federal entity could request a one-time extension on that rate.

.414-4 Timing of Request for Extension

When should an institution contact the cognizant agency for indirect costs to request extension of their current negotiated rate?

Such requests should be submitted 60 days prior to the due date of the next proposal for indirect costs, but cognizant agencies for indirect costs can accept extension requests submitted later than that on a case by case basis.

.414-5 Extensions and Fixed-Rates with Carry-Forward

How might an organization with negotiated fixed rates with carry-forward effectively use the option for an extension of a current negotiated rate provided by 200.414(g)?

A fixed-rate with carry-forward agreement cannot be extended. If a non-Federal entity with a fixed-rate with carry-forward agreement would like to take advantage of the flexibilities in this provision of the Uniform Guidance, it would need to first negotiate a final or predetermined rate, which could then be extended, subject to the approval of the cognizant agency. The carry-forward for the last fixed year would have to be resolved in accordance with cognizant agency for indirect cost procedures.

.414-6 (Previously Q IV-3) Extensions and Old Rates, Shorter Extensions

Can an entity extend their rate for up to 4 years even if it's a really old rate (say 10 years ago)? Can they only extend for 4 years? What about 3 years or 2 years?

Uniform Guidance in section 200.414 states that any non-Federal entity with a federally negotiated indirect cost rate may apply for a one-time extension for a period of up to 4 years. The extension is subject to the review and approval of the cognizant agency for indirect costs.

Requests for extensions may be for periods of less than 4 years. The extension period is subject to the review and approval of the cognizant agency for indirect costs.

[.414-7 Extensions of Final Rates](#)

May a non-Federal entity apply for a one-time extension of federally negotiated indirect cost rates per section 200.414(g), when rates are based on the provisional/final indirect cost rate method?

Yes. The non-Federal entity must have a current federally negotiated final indirect cost rate to apply for an extension of indirect cost rates. If the final rates are based on the latest applicable audit and completed fiscal year under 2 CFR 200 (beginning on or after December 26, 2014), they are considered current for this purpose and may be used to apply for an extension. For example, if a non-Federal entity's fiscal year is calendar, and rates are finalized based on the audit received by the end of September with the costs incurred through the previous December, the organization could apply for a one-time extension when submitting the final rate proposal for FYE December 31, 2015. In this example, the non-Federal entity can request an extension covering fiscal year(s) 2016 through 2019. Note, however, that Federal agencies may not approve rate extensions of final rates for any non-Federal entity that has cost reimbursement contracts. All one-time extensions of federally negotiated indirect cost rates are subject to the review and approval of the cognizant agency for indirect costs.

.414-8 (Also applicable to 200.331) Federally negotiated indirect cost rates – voluntary under-charging or waiving IDC

Section 200.414(c) says "The negotiated rates must be accepted by all Federal awarding agencies. A Federal awarding agency may use a rate different from the negotiated rate...only when required by Federal statute or regulation, or when approved by a Federal awarding agency head or delegate based on documented justification." For pass-through entities, FAQ .331-6 says "If the subrecipient already has a negotiated F&A rate with the Federal government, the negotiated rate must be used. It also is not permissible for pass-through entities to force or entice a proposed subrecipient without a negotiated rate to accept less than the de minimis rate." However, some non-Federal entities voluntarily choose to not charge indirect costs for certain Federal programs or choose to charge less than their full negotiated rate, to allow a greater share of the Federal program funds to be used for the direct program costs. Can Federal awarding agencies and pass-through entities permit this practice when it is truly voluntary?

Yes. If a non-Federal entity receiving a direct Federal award or a subrecipient voluntarily chooses to waive indirect costs or charge less than the full indirect cost rate, Federal awarding agencies and pass-through entities can allow this. The decision must be made solely by the non-Federal entity or subrecipient that is eligible for IDC reimbursement, and must not be encouraged or coerced in any way by the Federal awarding agency or pass-through entity.

.414-9 De Minimis Rate and Breaks in Federal Relationship *

Our organization previously had a negotiated indirect cost rate. However, all federal awards expired causing a break in our relationship with the federal government. During the break in relationship our negotiated indirect cost rate expired. Our organization has now received a new federal award. Are we eligible to receive the 10 percent de minimis rate?

No. Organizations that experience a break in federal relationship are not eligible to receive the 10 percent de minimis rate upon receipt of a new award. The availability of the de minimis rate is specifically limited to a non-Federal entity that has never received a negotiated indirect cost rate (200.414(f)). It is expected that organizations that have experience developing and negotiating rates have adequate resources to develop a new indirect rates.

.414-10 De Minimis Rate and Period of Applicability *

If an organization elects the 10 percent de minimis rate at the beginning of an award, is the de minimis rate applicable to the period of performance of the award?

The de minimis rate may not be applicable during the entire period of performance of an award. A non-Federal entity may use the 10 percent de minimis rate indefinitely until it elects to negotiate an indirect cost rate, which the non-Federal entity may apply to do at any time. Indirect cost rates are generally negotiated based on a non-federal entity's fiscal year (not the period of performance of an award). Therefore, the de minimis rate may not be applicable during the entire period of performance of an award.

Awarding agencies are not required to reissue awards issued prior to the effective date of the indirect cost negotiation agreement. Accordingly, the de minimis rate may be applicable to the period of performance of the award if the total award amount is known and made available to the organization at the time of award.

.414-11 De Minimis Rate and non-Federal entity with Single Function *

Can a non-Federal entity conducting a single function, which is predominately funded by Federal awards elect to charge the 10% de minimis rate if they currently charge all costs as direct costs to Federal programs?

No, the 10% de minimis rate must only be used to pay for overhead costs that are not directly charged to Federal awards. If all costs are charged directly to the Federal award (e.g., space costs, utility and administrative costs) then the recipient should not also charge the 10% de minimis rate. As described in 2 CFR section 200.403, costs must be consistently charged as either indirect or direct cost, but may not be doubled charged or inconsistently charged as both.

[200.430](#)

[.430-1 Authorization of Changes to Time and Effort Systems](#)

Section 200.430(a) provides new guidance for the costs of salaries and wages. What processes do non-Federal entities need to follow to be authorized to change their current systems for documenting payroll charges? Can non-Federal entities make incremental changes that reduce burden but maintain the spirit of their current processes? For those institutions that are required to file a DS-2, what is the role of the DS-2 in this process?

Changes to the process through which payroll charges are documented are allowable and can be implemented when the non-Federal entity complies with the guidance in this section, including standards defined in paragraph .430(i) Standards for Documentation of Personnel Expenses. For non-Federal entities that disclose their current process in a DS-2, any change will require a corresponding change in the DS-2. In most cases, this simply means that the non-Federal entity would revise its current DS-2 and provide a high level summary of the processes that meet paragraph (i). The DS-2 should be comprehensive enough to document the non-Federal entity's accounting practices without further information. Non-Federal entities can develop solutions that meet the requirements in paragraph (i) and reduce the burden related to their current process whether they be incremental or more significant, including complete elimination of current systems.

[.430-2 Time and Effort and Tribes](#)

In paragraph 200.430(i)(5) regarding compensation for personal services, “For states, local governments and Indian tribes, substitute processes or systems for allocating salaries and wages to Federal awards may be used in place of or in addition to the records described in paragraph 200.430(i)(5)(1) if approved by the cognizant agency for indirect cost.” Please verify tribes will now be required to obtain approval from IBS due to the “If approved by cognizant agency for indirect cost”.

Yes. This is not a policy change.

[200.444](#)

[.444-1 Salaries and wages for Tribal Councils](#)

In section 200.444 the guidance now includes language that up to 50% of the salaries and expenses for the tribal council can be included in the indirect cost calculation without documentation. Does this include the Chairman or equivalent?

Yes, provided these expenses are allocable to managing and operating Federal programs.

[Appendix V](#)

[Appendix V-1 SWCAP For Tribes](#)

Did this appendix replace Appendix C to Part 225 – State/Local-Wide Central Service Cost Allocation Plans (SWCAP)? If so, why did the Appendix’s new title include reference to Indian tribes? SWCAPs have historically been applicable to states and U.S. territories, not Indian tribes.

Yes, Appendix V to part 200 does replace Appendix C to Part 225 and provides guidance on the preparation, submission and approval of Statewide Cost Allocation Plans (SWCAP). Indian tribes are not required to prepare and submit tribe-wide cost allocation plans for reimbursement of indirect costs. Based on the COFAR’s recommendation, OMB will issue a technical correction to remove Indian tribe in the title of Appendix V.

**APPENDIX I
NEGOTIATED INDIRECT COST RATE AGREEMENT
COMMERCIAL ORGANIZATION**

EIN#: xxxxxx

ORGANIZATION:

ABC Organization
1201 12th Street, N.W.,
Washington, D. C. 20210

DATE: August 23, 2016

FILE REFERENCE: This
replaces the agreement dated
April 15, 2015

The indirect cost rate(s) contained herein are for use on cost reimbursable contracts with the Department of Labor to which Federal Acquisition Regulations, Part 31.2 applies, subject to the limitations contained in Section II, A, below. The rate(s) were negotiated by the (name of the organization) and the U.S. Department of Labor in accordance with the authority contained in **Federal Acquisition Regulation (FAR) Part 42.703-1**. Indirect rates included in proposals for time and material, labor hour, and fixed price contracts are subject to negotiation by the Contracting Officer during pre-award in accordance with FAR Part 15.404-1(c).

SECTION I: RATES

<u>TYPE</u>	<u>EFFECTIVE PERIOD</u>		<u>RATE*</u>	<u>LOCATION</u>	<u>APPLICABLE TO</u>
	<u>FROM</u>	<u>TO</u>			
<u>Overhead - Offsite Office</u>					
Final	7-1-2015	6-30-2016	16.05%(a)	ALL	ALL
Provisional	7-1-2016	6-30-2017	15.75%(a)	ALL	ALL
<u>G&A</u>					
Final	7-1-2015	6-30-2016	17.25%(b)	ALL	ALL
Provisional	7-1-2016	6-30-2017	17.50%(b)	ALL	ALL

(SEE SPECIAL REMARKS)

***BASE:**

- (a) Total direct salaries and wages including applicable fringe benefits
- (b) Total costs less G&A expenses

TREATMENT OF FRINGE BENEFITS:

Fringe benefits are specifically identified to each employee and are charged individually as direct or indirect costs (as applicable).

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.

SECTION II: GENERAL

- A. **LIMITATIONS:** Use of the rate(s) contained in the Agreement is subject to all statutory or administrative limitations and is applicable to a given Federal award 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 non-Federal entity or contractor were included in its indirect cost pool as finally accepted and that such incurred costs are legal obligations of the non-Federal entity 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 non-Federal entity or contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially inaccurate by the Federal government. In such situations, the rate(s) may be subject to renegotiation at the discretion of the Federal government.
 - (5) The rates cited in this Agreement are subject to audit.
- B. **ACCOUNTING CHANGES:** This agreement is based on the accounting system purported by the non-Federal entity or contractor to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval from the Office of Cost Determination. Such changes include, but are not limited to changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.
- C. **NOTIFICATION TO FEDERAL AGENCIES:** A copy of this document is to be provided by the non-Federal entity or contractor to other Federal funding sources as a means of notifying them of the Agreement contained herein.
- D. **PROVISIONAL-FINAL RATES AND ADJUSTMENTS:** When seeking initial reimbursement of indirect costs using the provisional/final rate methodology, a provisional proposal must be submitted within 90 days of receiving a Federal award (financial assistance, grants, cooperative agreements, and cost reimbursable contracts) that requires accounting for actual costs incurred. The non-Federal entity or contractor must submit an indirect cost rate proposal within six (6) months after the end of their fiscal year to establish a final rate.

Once a final rate is negotiated, 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 non-Federal entity or contractor may not recover all indirect costs. Conversely, if the final rate is less than the provisional rate, the non-Federal entity or contractor will be required to reimburse the funding agency for the excess billings.

Non-Federal entities or contractors receiving a Federal cost reimbursable contract(s) - Must adhere with FAR 52.216-7(d)(2)(v), to settle final indirect cost rates typically on an annual basis:

“The contractor shall update the billings on all contracts to reflect the final settled rates and update the schedule of cumulative direct and indirect costs claimed and billed, as required in paragraph (d)(2)(iii)(I) of this sections, within 60 days after settlement of final indirect cost rates.”

In addition, the contractor shall provide to the Contracting Officer the noted cumulative costs schedule within 60 days of the execution of this agreement.

If the non-Federal entity or contractor has completed performance under any of the contracts covered by this Agreement, a final invoice or voucher must be submitted no later than 120 days from the date on which this Agreement is executed, following guidance from FAR 52.216-7(d)(5) and FAR 52.216-7(h).

Non-Federal entities receiving Federal awards (financial assistance, grants, and cooperative agreements) – Note that even if Federal awards are administratively closed prior to the settlement of final indirect cost rates, non-Federal entities still must comply with the following 2 CFR Part 200 clauses stating, in part:

§200.344 Post-closeout adjustments and continuing responsibilities

(a) The closeout of a Federal award does not affect any of the following:

- (1) The right of the Federal awarding agency or pass-through entity to disallow costs and recover funds on the basis of a later audit or other review. The Federal awarding agency or pass-through entity must make any cost disallowance determination and notify the non-Federal entity within the record retention period.
- (2) The obligation of the non-Federal entity to return any funds due as a result of later refunds, corrections, or other transactions including final indirect cost rate adjustments.

§200.345 Collection of amounts due

(a) Any funds paid to the non-Federal entity in excess of the amount to which the non-Federal entity is finally determined to be entitled under the terms of the Federal award constitute a debt to the Federal Government.

(b) Except where otherwise provided by statutes or regulations, the Federal awarding agency will charge interest on an overdue debt in accordance with the Federal Claims Collection Standards (31 CFR parts 900 through 999). The date from which interest is computed is not extended by litigation or the filing of any form of appeal.

E. **SPECIAL REMARKS:**

1. Indirect costs charged to Federal contracts by means other than the rate(s) cited in this Agreement should be adjusted to the applicable rate cited herein and be applied to the appropriate base to identify the proper amount of indirect costs allocable to the program.
2. 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. 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 contract.
3. ABC Organization's indirect pools are comprised of the following elements:

Off-site Overhead Pool:

Salaries, Applicable fringes, Insurance, Supplies, Printing & Duplicating, Telephone-voice, Telephone-data, Temporary Staff, Training & Education, Miscellaneous.

General & Administrative Pool:

Salaries, Applicable fringes, B&P Labor Applicable Fringes, Applied OH on B&P, Other B&P Costs, Accounting, Advertising, Board Expenses, Computer Processing Charges, Computer Supplies, Depreciation (F&E), Depreciation (computers), Dues & Subscriptions, Equipment & Furniture Rental, Insurance, Legal Expenses, Maintenance/repairs, Meetings, Miscellaneous/other, Office Rent, Office Supplies, Postage & Shipping, Printing & Duplicating, Recruiting, Taxes & Licenses, Telephone-voice, Telephone-data, and Temporary Staff.

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ACCEPTANCE

BY THE ORGANIZATION:

ABC Organization
1201 12th Street, N.W.,
Washington, D. C. 20210

(Grantee/Contractor)

(Signature)

(Name)

(Title)

(Date)

**BY THE COGNIZANT AGENCY
ON BEHALF OF THE FEDERAL GOVERNMENT:**

U.S. DEPARTMENT OF LABOR
Office of Cost Determination
200 Constitution Ave., N.W., S-1510
Washington, D.C. 20210

(Government Agency)

(Signature)

Victor M. Lopez
(Name)

Director, Office of Cost Determination
(Title)

August 23, 2016
(Date)

Negotiated By: Victor M. Lopez
Telephone No.: 202-693-4100

APPENDIX II

**NEGOTIATED INDIRECT COST RATE AGREEMENT
NONPROFIT ORGANIZATION**

EIN#: xxxxxxxx

ORGANIZATION:
ABC Organization
1201 12th Street, N.W.,
Washington, D. C. 20210

DATE: November 25, 2016
FILE REF: This replaces
the agreement dated
April 15, 2015

The rates approved in this Agreement are for use on grants, contracts, and other agreements with the Federal Government. OMB Circular A-122 applies, subject to the conditions in Section II, A, below. The rates were negotiated by ABC Organization and the U.S. Department of Labor in accordance with the authority contained in Attachment A, Section E.2.a., of the Circular.

Indirect rates for fiscal years that begin on or after 12/26/2014 are subject to 2 CFR Part 200, Subpart E, in accordance with the authority contained in 2 CFR, Part 200, Appendix IV, C.2.

SECTION I: RATES

<u>TYPE</u>	<u>EFFECTIVE PERIOD</u>		<u>RATE</u>	<u>LOCATION</u>	<u>APPLICABLE TO</u>
	<u>FROM</u>	<u>TO</u>			
INDIRECT COST:					
Final	7/1/2014	6/30/2015	7.74%	All	All Programs
Final	7/1/2015	6/30/2016	9.24%	All	All Programs
Provisional	7/1/2016	6/30/2017	8.75%	All	All Programs
Provisional	7/1/2017	6/30/2018	9.00%	All	All Programs

(SEE SPECIAL REMARKS)

BASE:

Modified total direct costs - Total direct costs excluding equipment, capital expenditures, the portion of each sub-award in excess of \$25,000 (regardless of the period of performance of the subaward), and participant support costs.

TREATMENT OF FRINGE BENEFITS:

Fringe benefits are specifically identified to each employee and are charged individually as direct or indirect costs (as applicable).

TREATMENT OF PAID ABSENCES:

Sick leave, holiday, 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. Vacation pay is accrued and charged the same as other fringe benefits.

SECTION II: GENERAL

- A. **LIMITATIONS:** Use of the rate(s) contained in the Agreement is subject to all statutory or administrative limitations and is applicable to a given Federal award 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 non-Federal entity or contractor were included in its indirect cost pool as finally accepted and that such incurred costs are legal obligations of the non-Federal entity 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 non-Federal entity or contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially inaccurate by the Federal government. In such situations, the rate(s) may be subject to renegotiation at the discretion of the Federal government.
 - (5) The rates cited in this Agreement are subject to audit.
- B. **ACCOUNTING CHANGES:** This agreement is based on the accounting system purported by the non-Federal entity or contractor to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval from the Office of Cost Determination. Such changes include, but are not limited to changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.
- C. **NOTIFICATION TO FEDERAL AGENCIES:** A copy of this document is to be provided by the non-Federal entity or contractor to other Federal funding sources as a means of notifying them of the Agreement contained herein.
- D. **PROVISIONAL-FINAL RATES AND ADJUSTMENTS:** When seeking initial reimbursement of indirect costs using the provisional/final rate methodology, a provisional proposal must be submitted within 90 days of receiving a Federal award (financial assistance, grants, cooperative agreements, and cost reimbursable contracts) that requires accounting for actual costs incurred. The non-Federal entity or contractor must submit an indirect cost rate proposal within six (6) months after the end of their fiscal year to establish a final rate.

Once a final rate is negotiated, 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 non-Federal entity or contractor may not recover all indirect costs. Conversely, if the final rate is less than the

provisional rate, the non-Federal entity or contractor will be required to reimburse the funding agency for the excess billings.

Non-Federal entities or contractors receiving a Federal cost reimbursable contract(s) - Must adhere with FAR 52.216-7(d)(2)(v), to settle final indirect cost rates typically on an annual basis:

“The contractor shall update the billings on all contracts to reflect the final settled rates and update the schedule of cumulative direct and indirect costs claimed and billed, as required in paragraph (d)(2)(iii)(I) of this sections, within 60 days after settlement of final indirect cost rates.”

In addition, the contractor shall provide to the Contracting Officer the noted cumulative costs schedule within 60 days of the execution of this agreement.

If the non-Federal entity or contractor has completed performance under any of the contracts covered by this Agreement, a final invoice or voucher must be submitted no later than 120 days from the date on which this Agreement is executed, following guidance from FAR 52.216-7(d)(5) and FAR 52.216-7(h).

Non-Federal entities receiving Federal awards (financial assistance, grants, and cooperative agreements) – Note that even if Federal awards are administratively closed prior to the settlement of final indirect cost rates, non-Federal entities still must comply with the following 2 CFR Part 200 clauses stating, in part:

§200.344 Post-closeout adjustments and continuing responsibilities

(a) The closeout of a Federal award does not affect any of the following:

- (1) The right of the Federal awarding agency or pass-through entity to disallow costs and recover funds on the basis of a later audit or other review. The Federal awarding agency or pass-through entity must make any cost disallowance determination and notify the non-Federal entity within the record retention period.
- (2) The obligation of the non-Federal entity to return any funds due as a result of later refunds, corrections, or other transactions including final indirect cost rate adjustments.

§200.345 Collection of amounts due

(a) Any funds paid to the non-Federal entity in excess of the amount to which the non-Federal entity is finally determined to be entitled under the terms of the Federal award constitute a debt to the Federal Government.

(b) Except where otherwise provided by statutes or regulations, the Federal awarding agency will charge interest on an overdue debt in accordance with the Federal Claims Collection Standards (31 CFR parts 900 through 999). The date from which interest is computed is not extended by litigation or the filing of any form of appeal.

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(s) cited herein and be applied to the appropriate base to identify the proper amount of indirect costs allocable to the program.
2. Contracts/grants 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 contract or grant agreement.
3. Administrative costs consist of all **Direct** and **Indirect** costs associated with the management of an organization's programs. Organizations should refer to their contracts/grants terms and specific program legislation for the applicable definition of Administrative Costs and any related limitations.
4. The indirect cost pool consists of its allocable share of the following administrative expenses (all costs identifiable to a specific contract or grant must be charged directly):
 - 1) Salaries:
 - a. 100% indirect- President, Executive Director, Administrative Assistant, Personnel Staff, Office Services, Accounting, Network Support, Receptionist.
 - b. The remaining salaries are charged either to direct or indirect costs by individual time sheets.
 - 2) Employee fringe benefits for indirect employees- FICA, Unemployment Insurance, Workers Compensation, health insurance, pension, long term disability, and life insurance. Vacation pay is accrued and charged like other fringe benefits.
 - 3) Professional fees & contract services
 - 4) Supplies & materials
 - 5) Telephone
 - 6) Postage and shipping
 - 7) Occupancy
 - 8) Rental & maintenance of equipment
 - 9) Printing & publication, visual aids
 - 10) Travel
 - 11) Training and educational assistance costs
 - 12) Depreciation and amortization costs

ACCEPTANCE

BY THE ORGANIZATION:

ABC Organization
1201 12th Street, N.W.,
Washington, D. C. 20210

(Grantee/Contractor)

(Signature)

(Name)

(Title)

(Date)

**BY THE COGNIZANT AGENCY
ON BEHALF OF THE FEDERAL
GOVERNMENT:**

U.S. DEPARTMENT OF LABOR
Office of Cost Determination
200 Constitution Ave., N.W., S-1510
Washington, D.C. 20210

(Government Agency)

(Signature)

Victor M. Lopez

(Name)

Director, Office of Cost Determination

(Title)

November 25, 2016

(Date)

Negotiated By: Victor M. Lopez
Telephone No.: 202-693-4100

APPENDIX III

Office of Cost Determination List of Addresses and Telephone Numbers

National Office address and contact information: 200 Constitution Avenue, N.W., S-1510
Washington, D.C. 20210
(P) 202-693-4100
(F) 202-693-4099

Director: Victor M. Lopez
E-mail address: lopez.victor@dol.gov
(P) 202-693-4106

<u>Cost Negotiators</u>	<u>E-mail Address</u>	<u>Location/ Region*</u>	<u>Address</u>	<u>Phone/FAX</u>
1 Stephen Hobday	hobday.stephen.w@dol.gov	D.C.	Same as National Office	(P) 202-693-4110 (F) 202-693-4099
2 James Turkvant	turkvant.james.b@dol.gov	D.C.	Same as National Office	(P) 202-693-4105 (F) 202-693-4099
3 Robin Powell	powell.robin.w@dol.gov	D.C.	Same as National Office	(P) 202-693-4107 (F) 202-693-4099
4 Phat Chau	chau.phat@dol.gov	D.C.	Same as National Office	(P) 202-693-4103 (F) 202-693-4099
5 Damon Tomchick	tomchick.damon@dol.gov	D.C.	224 Westbridge Place Mount Airy, NC 27030	(P) 240-475-2786
6 Ronald Goolsby	goolsby.ronald@dol.gov	Chicago	230 South Dearborn St., Room 1016 Chicago, IL 60604-1505	(P) 312-886-5247 (F) 312-353-0704

* All organizations should submit indirect cost proposals to the above DC address, except for organizations located in the Chicago region, or as noted by the assigned cost negotiator.

The States assigned to the Chicago region are: *Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, North Dakota, South Dakota, Nebraska, Ohio, and Wisconsin.*