INDIRECT COST RATES

DCA Offices for S&L

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JULY 2013
A-87 Basic Guidelines

Appendix A:

1. Allowable

2. Reasonable

3. Allocable

4. Applicable Credits
Allocable Costs

RELATIVE BENEFIT RECEIVED

- All activities benefitting from indirect costs, including unallowable activities and donated services received will receive an appropriate allocation of indirect costs.

- Cost allocable to a particular Federal award may not be charged to another Federal award.

- Accumulation of indirect costs resulting to Federal award requires a SWCAP, PACAP or indirect cost rate


SWCAP – state central services

PACAP – state departments with programs listed at 45 CFR Part 95.503

Indirect Cost Rate – for organizations with federal award requiring an indirect cost rate agreement to be reimbursed for indirect costs

Classification of Costs

“No universal rule”

Treat each item of cost consistently in like circumstances either as a direct or indirect cost.

Classification of Costs

Direct Costs:

Can be identified specifically with a particular final “cost objective” —
“function, organizational subdivision, contract, grant, or other activity
for which cost data are needed and for which costs are incurred” 2 CFR

TYPICAL Direct costs:

Compensation of personnel for the time devoted and identified
SPECIFICALLY to the award.

SPECIFICALLY acquired, consumed, expended, incurred for the award

APPROVED equipment and capital expenditures


PROGRAM REGULATIONS: ???????????

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Classification of Costs

Indirect Costs:

Incurred for a common or joint purpose benefiting more than one cost objective,
and

Not readily assignable to benefiting cost objectives without effort
disproportionate to the results achieved.


Direct cost items of minor amounts – if accounting treatment is consistently
applied


PROGRAM REGULATIONS: ???????????

JULY 2013
Typical Indirect Costs

Cannot be specified in all situations

State/Local-wide central service costs (SWCAP/LOCAP)

General Administration of the department / agency

Accounting and personnel services within the department / agency

Costs of operating and maintaining facilities, etc.


Equitable Distribution of Indirect Costs

Establish a number of pools

Distribute to benefitted cost objectives on base that will produce an equitable result in consideration of relative benefits received.


Methods:

Single or Multiple Indirect Cost Rate(s)

Single / Multiple cost pools using bases other than Dollars

ASMB C-10 Section 4.6.2

Can’t shift indirect costs unrecoverable for a Federal award to another Federal award

Cost Classification

Are they related?
How are they similar?
How are they different?
How do you know?

Organization Specific Cost Classification

Considerations:
- State accounting system / requirements
- Organizational structure
- Hierarchy of reporting within organization
- Departmental accounting system capabilities especially cost allocation
- Cost Principles – A-87
- Program regulations
- To what detail costs must be reported
- Other???
**Direct vs Indirect Allocation**

*What they look like ---*

<table>
<thead>
<tr>
<th>Department</th>
<th>Dept A</th>
<th>Dept B</th>
<th>Dept C</th>
<th>Pool</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DIRECT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base:</td>
<td>$4,536</td>
<td>$13,548</td>
<td>$27,323</td>
<td>$6,578</td>
<td>$51,985</td>
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<tr>
<td>Percentage</td>
<td>8.7%</td>
<td>26.1%</td>
<td>52.6%</td>
<td>12.7%</td>
<td>100%</td>
</tr>
<tr>
<td>Allocation</td>
<td>$742</td>
<td>$2,215</td>
<td>$4,468</td>
<td>$1,076</td>
<td>$8,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Department</th>
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<td><strong>INDIRECT</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Base:</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Percentage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocation</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$8,500</td>
<td>$8,500</td>
</tr>
</tbody>
</table>
Indirect Cost Rates

Indirect Cost Rate Types

Provisional / Final

Fixed with carryforward

Predetermined
  - Fixed Price Contract Issue
Indirect Cost Rate

\[
\frac{\text{Allowable Indirect Cost}}{\text{Direct Cost Base}^*} = \text{Indirect Cost Rate } \%
\]

* Including Costs of Unallowable Activities
Indirect Cost Rate Base

Accumulated direct costs used to distribute indirect costs to individual Federal awards.

The base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received.


Typical Direct Cost Bases

• Total direct salaries & wages

• Total direct salaries & wages including all fringe benefits

• Modified Total Direct Costs (MTDC) - Total direct costs excluding capital expenditures, that portion of each subaward in excess of $25K and flow-thru funds.

Costs of unallowable activities which benefit from the indirect cost pool should be included in the base.
Required Proposal Contents

Audited financial statements or alternative

Indirect rate calculation

Reconciliation of AFS and proposed calculation

Federal amount included in base

First Proposal? Include copy of direct Federal grant award

Equipment capitalization and useful life thresholds

2 CFR Part 225 (A-87) Appendix E Certificate of Indirect Costs
**Simplified Proposal**

## DIRECT PROGRAMS

<table>
<thead>
<tr>
<th>Expense</th>
<th>Adj</th>
<th>Program A</th>
<th>All Other</th>
<th>Total Direct Costs</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>$ 1,327,638</td>
<td>$ -</td>
<td>$ 140,431</td>
<td>$ 970,512</td>
<td>$ 1,111,343</td>
</tr>
<tr>
<td>Subtotal labor</td>
<td>$ 1,573,072</td>
<td>$ -</td>
<td>$ 168,769</td>
<td>$ 1,144,593</td>
<td>$ 1,313,562</td>
</tr>
<tr>
<td>Subawards (3)</td>
<td>$ 245,420</td>
<td>$ -</td>
<td>$ 170,420</td>
<td>$ 75,000</td>
<td>$ 75,000</td>
</tr>
<tr>
<td>Depreciation/Use allowance</td>
<td>$ -</td>
<td>$ 41,582</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 41,582</td>
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<tr>
<td>Equipment rental</td>
<td>$ 11,448</td>
<td>$ -</td>
<td>$ 592</td>
<td>$ 5,478</td>
<td>$ 6,079</td>
</tr>
<tr>
<td>Equipment/Capital</td>
<td>$ 58,215</td>
<td>$ (58,215)</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Postage</td>
<td>$ 3,901</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 3,901</td>
</tr>
<tr>
<td>SWCAP</td>
<td>$ -</td>
<td>$ 3,160</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 3,160</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$ 1,892,056</td>
<td>$ (183,893)</td>
<td>$ 169,561</td>
<td>$ 1,225,071</td>
<td>$ 1,394,632</td>
</tr>
</tbody>
</table>

**JULY 2013**

### Calculation of the Rate

Base: Direct Salaries & Wages excluding fringe benefits

\[
\text{Indirect Costs} = \frac{\$ 313,531}{\$ 1,111,343} = 28.2\%
\]

Base: Direct Salaries & Wages including fringe benefits

\[
\text{Indirect Costs} = \frac{\$ 313,531}{\$ 1,313,562} = 23.9\%
\]

Base: Modified Total Direct Costs (MTDC)

\[
\text{Indirect Costs} = \frac{\$ 313,531}{\$ 1,394,632} = 22.5\%
\]
STATE AND LOCAL GOVERNMENTS RATE AGREEMENT

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

SECTION I: INDIRECT COST RATES

<table>
<thead>
<tr>
<th>TYPES</th>
<th>FROM</th>
<th>TO</th>
<th>RATE (%)</th>
<th>LOCATION</th>
<th>APPLICABLE TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINAL</td>
<td>07/01/2010</td>
<td>06/30/2011</td>
<td>21.20</td>
<td>On Site</td>
<td>All Programs</td>
</tr>
<tr>
<td>PROV.</td>
<td>07/01/2011</td>
<td>Until Amended</td>
<td><em>Use same rates and conditions as cited for FY11.</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**BASE**

Direct salaries and wages including all fringe benefits.

JULY 2013

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SECTION II: SPECIAL REMARKS

**TREATMENT OF FRINGE BENEFITS:**

The fringe benefits are specifically identified to each employee and are charged individually as direct costs. The directly claimed fringe benefits are listed below.

**TREATMENT OF PAID ABSENCES**

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

**Equipment**

Equipment means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost of $2,500 or more per unit.

**FRINGE BENEFITS:**

FICA

Pension

Worker’s Compensation

Unemployment Insurance

Group Insurance

JULY 2013
Proposed Reform of Federal Policies

Cost Principles and Administrative Requirements – Other Changes:

- Indirect Cost Rates – State and local government:
  - Departments receiving > $35 million of direct federal funding must submit proposal to Federal cognizant agency.
  - All others not required to submit unless required by Federal cognizant agency.

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Proposed Reform of Federal Policies

Cost Principles and Administrative Requirements – Other Changes:

- Indirect Cost Rates – All “Entities”
  - No rate agreement – may take 10% of MTDC up to 4 years until a rate is negotiated.
  - May apply for a one-time extension of a current negotiated rate for up to 4 years.
    - Requires Cognizant approval
  - May not request a rate review until extension ends.

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WEBSITES

DIVISION OF COST ALLOCATION:  https://rates.psc.gov/

State, Local and Tribal documents:

https://rates.psc.gov/fms/dca/s&l.html

U.S. Department of Interior:  
http://www.doi.gov/ibc/services/indirect_cost_services/ICS_Services.cfm
U.S. Department of Labor:  
http://www.dol.gov/osam/boc/dcd/
U.S. Department of Education:  
http://www2.ed.gov/about/offices/list/ocfo/fipao/icgindex.html