

U.S. Department of Commerce (DOC) General Indirect Cost Rate Program Guidelines for Grantee Organizations

Office of Acquisition Management and Financial Assistance (OAMFA)
Grants Management Division (GMD)

Background and Purpose

Indirect costs are the costs incurred by an organization that are not readily identifiable with a particular project or program but are nevertheless necessary to the operation of the organization and the performance of its programs. The costs of operating and maintaining facilities, depreciation, and administrative salaries, are examples of the types of costs that are usually treated as indirect costs.

In theory, all such costs might be charged directly. Practical difficulties, however, will normally preclude this approach. The indirect costs are therefore grouped into common pools and distributed to the organization's programs or cost centers through a cost allocation process. The end product of this allocation process is an indirect cost rate (or rate for each pool) which is then applied to individual financial assistance awards to determine the amount of indirect costs chargeable to the awards.

The purpose of this document is to prescribe the Department's basic policies and procedures governing the establishment of indirect cost rates when DOC is the cognizant federal agency.

Definitions

Indirect Cost Rate -- The ratio, expressed as a percentage, of an organization's total indirect costs (numerator) to its direct cost base (denominator). The base can be defined as salaries and wages, modified total direct costs, or some other financial number that provides for an equitable distribution of indirect costs to the benefiting activities. When a rate is established for a specific cost center, the rate represents the ratio of the total allowable indirect costs allocated to the activity to the direct base costs of the activity.

Fixed Indirect Cost Rate With Carry-forward -- A permanent rate established for a given period to permit reimbursement of indirect costs for that period. Typically, the calculation of this type of rate is based on an organization's most recently audited financial statements, which form the basis for a rate proposal to be applied to a subsequent period. The difference between the estimated costs used to establish the fixed rate and the actual costs of the period covered by the rate is "carried forward" as an adjustment to the rate computation of the following period.

Indirect Cost Proposal -- The documentation prepared by a grantee organization to substantiate its claim for the reimbursement of indirect costs. This proposal provides

the basis for review, audit, and negotiation leading to the establishment of the organization's indirect cost rate(s).

Rate Agreement -- The document that formalizes the establishment of indirect cost rates and provides information on the proper application of the rates.

Award – The term “award”, as used in this document, includes grants, cooperative agreements, and other forms of financial assistance.

Cognizant Federal Agency

The Office of Management and Budget (OMB) is responsible for assigning federal agencies to serve as cognizant for purposes of review and approval of indirect cost (and other) rates for organizations receiving financial awards. The Office of Federal Financial Management is the responsible unit within OMB.

Each organization is assigned to a single federal agency which acts on behalf of all federal agencies in rate negotiations, and is referred to as the “cognizant” agency. This is the agency to which organization’s indirect cost proposals are submitted. For organizations not specifically assigned a federal cognizant agency by OMB, federal agency cognizance shall be based on largest dollar value of direct federal awards (not pass-through awards) provided to the organization.

Once established, a change of cognizant agency will not be addressed unless there is a major long-term shift in the dollar volume of federal awards to the organization.

Due Dates

The due dates for submission of indirect cost proposals to DOC (the cognizant agency) depend on whether an organization has previously established an indirect cost rate with the Government, as well as the type of organizational entity (non-profit, commercial, state/local government).

→For Non-Profit and Commercial Entities

No Previous Rate –

If an organization has not previously established an indirect cost rate with the Government, it should submit its initial indirect cost proposal to DOC immediately after it is notified that an award providing indirect cost reimbursement will be made. If possible, the proposal should be submitted before the award is made, and must be submitted no later than 90 days after the effective date of the award. It should be based on the organization’s actual costs for its most recently completed and audited fiscal year, with the rate proposal coinciding with the organization’s fiscal year that follows the audited financial statements (e.g., an FY07 audited financial statement could produce an FY08 rate proposal).

Previously Established Rate –

Organizations of this type that have previously established indirect cost rates with the Government **must submit** a new indirect cost proposal to DOC within

six months after the close of **the organization's fiscal year**. The requirement for an indirect cost proposal is an annual requirement and in effect as long as the organization is claiming indirect costs as part of its award.

If an organization previously had a rate established with the Government, but has not submitted a rate proposal for the year preceding the fiscal year in which they would now like to request a rate (skipped one or more years), they should contact the DOC Indirect Cost Program Coordinator in the Office of Acquisition Management and Financial Assistance (see contact information section later within this document) to discuss prior to submitting their proposal. Depending on the circumstances, DOC will determine if the organization's next indirect cost proposal should be processed as establishment of a new rate, or a continuation of a previously approved Government rate.

→For State and Local Governments

State and local governments **must prepare** a new indirect cost proposal within six months after the close of **its fiscal year**. This is an annual requirement and in effect as long as the governmental entity is claiming indirect costs as part of an award. The proposal should be calculated in the form of a 'fixed rate with carryforward' to be established for a fiscal year following the year covered by the audited financial statements on which the rate proposal was based.

Under Department of Commerce Financial Assistance Standard Term & Condition A.05, Indirect Costs (pursuant to OMB Circular A-87, Cost Principles for State, Local, and Federally-recognized Tribal Governments), your organization is **not required** to submit the indirect cost allocation proposal or plan to DOC. These plans are to be prepared and retained at the local government level, and are subject to audit. OMB Circular A-87, Attachment E, section D(1)(a) states, in part:

All department or agencies of the governmental unit desiring to claim indirect costs under federal awards must prepare an indirect cost rate proposal and related documentation to support the costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

It is important to note that each state/local government organization is still required to submit to the U.S. Department of Commerce (DOC) an annual Certificate of Indirect Costs. A sample Certificate and additional guidance is attached. The submission of this form is due to DOC within six (6) months after the close of each fiscal year, and sent to the address as referenced on the sample Certificate.

Note: Upon request, DOC will issue state and local governments a signed letter indicating the terms stated above for their official award files and reference.

Extension of Due Dates

Occasionally, extenuating circumstances may justify an extension of the due date for submission of a proposal. When a due date cannot be met, a written request for an extension, stating the reasons, must be sent to DOC prior to the due date. DOC has the right to withhold indirect cost recovery on existing award agreements when submission due dates are not met.

Negotiation of Rates

DOC will review the indirect cost proposals submitted by grantee organizations and, based on these reviews, will negotiate appropriate indirect cost rates with the organizations. If additional information or an audit is deemed necessary, DOC or an auditor working for the Department will notify the organization of the specific requirements necessary to complete the review of the grantee's submission.

The results of each negotiation will be formalized by an indirect cost Rate Agreement signed by the appropriate DOC official and an authorized representative of the grantee organization. Each Rate Agreement will include the following provisions:

- a. The agreed upon rate(s) and information directly related to the use of the rate(s) (e.g., type of rate, effective period, direct cost base, etc.)
- b. The treatment of fringe benefits as either direct or indirect costs.
- c. General terms and conditions of the Agreement.
- d. Special terms and conditions of the Agreement (if any).*
- e. Additional information (if necessary) that may be needed by the users of the Agreement (e.g., the direct charging of a type of cost that is normally treated as indirect by other grantees).*

* This information will normally be included in the "Special Remarks" subsection of the Agreement.

DOC Indirect Cost Proposal Submission & Contact Information

U. S. Department of Commerce
1401 Constitution Avenue, N.W.
Office of Acquisition Management, Room 6412
Washington, DC 20230
Attn: Indirect Cost Program

Please forward questions, comments and program feedback to:
Richard Franetzki, Director- DOC Grants Management Division
Phone: (202) 482-5904
Email: RFranetzki@doc.gov

Note: In addition, the grantee must provide the Grants Officer on each DOC award notice with a copy of the indirect cost proposal transmittal letter.

Required Data / Documentation To Be Included With Indirect Cost Proposal
→ Submitted by Non-Profits and Commercial Entities

1. A chart showing the organizational structure during the period for which the proposal applies, along with a functional statement noting the duties and/or responsibilities of all units that comprise the organization. Please make sure this includes a brief narrative background statement outlining the financial operation of the organization.
2. The basic proposal including all other supporting schedules and financial and statistical information supporting the basic proposal. Any supporting schedules should be cross-referenced to the basic proposal (accounting records and related work papers to support the costs contained in the indirect cost proposal).
 - The total costs shown in the basic proposal should also reconcile to the financial statements in the most recent audit report, which should also be provided.
 - Reconciliations / Analyses –
 - o As stated above, detailed reconciliation between the proposal and the financial statements
 - o Adjusted detailed trial balance which agrees to the audited financial statements
 - o Trend analysis of the last three year's indirect cost rates, with explanations for any changes
 - o Calculations showing how applicable prior year carry-forward amounts were applied to formulate current year's rate submission
3. A listing of directly awarded grants and contracts by federal agency, Catalog of Federal Domestic Assistance (CFDA) number, dollar amounts separated by direct-indirect-total costs, period of performance, applicable cost principle, and the identification of any cost limitations and special award terms/conditions applicable to each.
4. Cost Policy Statement (e.g. Disclosure Statement) – the purpose of which is to establish an unambiguous understanding between the grantee and the Federal Government as to what costs will be charged directly and what costs will be charged indirectly. If a Cost Policy Statement was submitted with last year's proposal and not proposing any changes to the current year's submission, the following suggested language should be included in their transmittal letter when a proposal is submitted: [ABC Organization] hereby confirms that no changes to its accounting practices as set forth in its Cost Policy Statement dated [date] have been made."
5. Statement of Total Costs – contains all line items of cost included in the entities' chart of accounts and applicable columns for direct costs (by cost center/activity – federal grants, non-federal grants, fund raising, etc.), indirect costs (overhead, G&A, etc.), and unallowable costs (if applicable). These columns should show the type (e.g. labor, travel supplies, etc.) and amount of cost incurred by each activity. The total costs should reconcile to the entities' financial statements. If the reconciliation is not clear, the entity should provide a separate schedule supporting the difference.
6. Statement of Indirect Costs – contains all line items of cost included in the indirect cost "pool(s)", the applicable base(s), and the resulting indirect cost rate(s). The allocation base should be traceable to the organization's total costs. If not clearly traceable, an additional schedule should be provided to support the

reconciliation.

7. Specific Personnel Costs – Include a list of all volunteers by job title, along with a description of the services they provided to the organization, if significant. Also required is a list of all management level employees, their position descriptions and salaries.
8. Certification of Indirect Costs – A completed Certification must be signed on behalf of the organization by an official at a level no lower than executive director or chief financial officer. The Certification must identify the period of coverage for the indirect cost proposal, asserting that it has been prepared in accordance with the applicable cost principles and guidelines (OMB A-122 non-profits, FAR Part 31 commercial). See Attachment 1 for the required Certificate of Indirect Costs to be used by Non-Profits and Commercial Entities.
9. Identification of Other Items – to be included within the indirect cost proposal packet. If these items are not provided with the organization’s proposal, it may be necessary for them to be provided later during the review process as circumstances dictate.
 - o Identify assets purchased with federal sponsored program funds or non-federal sponsored program funds, if any, and specify if ownership remains with sponsoring entity or transfers to recipient upon successful completion of the awards.
 - o Identify all related party transactions.
 - o Identify idle facilities, if any.
10. Lobbying Certificate – A completed Certification must be signed on behalf of the organization by an official at a level no lower than executive director or chief financial officer. Completion of this form certifies the organization has complied with the requirements and standards on lobbying costs in the development of the indirect cost rate. See Attachment 2 for the required Certificate of Lobbying Costs to be used by Non-Profits and Commercial Entities.
11. DOC’s Indirect Cost Proposal Checklist. See Attachment 3.

Required Data / Documentation To Be Kept With Indirect Cost Proposal

→ Prepared by State and Local Governments

All entities receiving this Guidance desiring to claim indirect costs under federal awards using an indirect cost rate must prepare and maintain their completed indirect cost rate proposal for review, as set forth in OMB Circular A-87 (Cost Principles for State, Local, and Federally-recognized Tribal Governments).

At a minimum, the following shall be included in each indirect cost proposal:

- (1) The rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the financial data (as noted below). Allocated central service costs will be supported by the summary table included in the approved central service cost allocation plan. This summary table is not required to be submitted with the indirect cost proposal if the central service cost allocation plan for the same fiscal year has been approved by the cognizant agency and is available to the funding agency.

- (2) A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rate is based. Calculated rates should be based on audited data and must support an indirect cost rate type of 'fixed rate with carryforward'.
- (3) The approximate amount of direct base costs incurred under federal awards. These costs should be broken out between salaries and wages and other direct costs.
- (4) A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency.
- (5) Required certification. Indirect cost rate proposals, whether submitted to a federal cognizant agency or maintained on file, must be certified by the entity using the Certificate of Indirect Costs. The certificate must be signed on behalf of the entity by an individual at a level no lower than chief financial officer (or equivalent), and submitted to DOC upon completion. See Attachment 4 for the Certificate of Indirect Costs to be completed by Governmental Entities.

Periodically, the Department of Commerce (DOC) may notify organizations that they have been selected for a full review/audit of one of their annual indirect cost rate calculations (that was completed but held on site at the organization, subject to DOC audit). When this occurs, the organization will be asked to provide DOC with the same detailed list of documents required by non-profit/commercial organizations (see section above). This notice is provided to specifically prepare your organization for this future event, and is also consistent with the documentation required for submission by state/local governments who have not previously established a rate with the Government.

Reference Guides / Information

The Department of Commerce is in the process of constructing an Indirect Cost Rate web page link where policies, procedures, forms, samples/reference materials and contact information will be maintained. While this web page is under construction, if an organization requires additional assistance with the preparation of their indirect cost rate proposal, or would like to obtain examples of rate calculations and analyses, please email RFranetzki@doc.gov or contact Richard Franetzki, Director – DOC Grants Management Division at (202) 482-5904.

The following federal web site may also be very useful to organizations preparing an indirect cost proposal.

The US Department of Labor web site referenced below contains many useful examples of similar documents/analyses that are being requested as part of your DOC indirect cost rate proposal submission.

<http://www.dol.gov/oasam/programs/boc/costdeterminationguide/main.htm>

U.S. Department of Commerce
Office of Acquisition Management & Financial Assistance
1401 Constitution Ave., NW, HCHB Rm 6412
Washington, DC 20230
Attn: Indirect Cost Program

CERTIFICATE OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal prepared and maintained herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal _____ [identify date] to establish indirect costs rates for _____ [identify period covered by rate] are allowable in accordance with the requirements of the federal award(s) to which they apply and _____ [identify applicable cost principle: Circular A-122, "Cost Principles for Non-Profit Organizations" or 48 CFR Part 31 (FAR) for commercial entities]. This proposal does not include any costs which are unallowable as identified in the applicable federal cost principles. For example, advertising contributions and donations, bad debts, entertainment costs or fines and penalties.
- (2) 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 agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that could affect the rate.
- (3) The indirect cost rate(s) calculated within the proposal are _____ % [identify rate(s)], which were calculated using an indirect cost rate base type of _____ [identify type of rate base - Salary & Wage, Modified Total Direct Costs (MTDC), etc.].

Subject to the provisions of the Program Fraud Civil Remedies Act of 1986, (31 USC 3801 et seq.), the False Claims Act (18 USC 287 and 31 USC 3729); and the False Statement Act (18 USC 1001), I declare to the best of my knowledge that the foregoing is true and correct.

Organization Name: _____

Signature: _____

Name of Authorized Official: _____

Title: _____

Date of Execution: _____

U.S. Department of Commerce
Office of Acquisition Management & Financial Assistance
1401 Constitution Ave., NW, HCHB Rm 6412
Washington, DC 20230
Attn: Indirect Cost Program

LOBBYING CERTIFICATE

This is to certify that I have reviewed the indirect cost rate proposal prepared and maintained herewith and to the best of my knowledge and belief:

As the official having the authority to negotiate indirect cost rates on behalf of the _____ [identify organization name], I hereby certify that the Organization has complied with the federal requirements and standards on lobbying costs in as set forth in OMB Circular A-122 (for non-profit entities) or 48 CFR Part 31 (FAR for commercial entities) in the development of the indirect cost rate for the fiscal year ending _____.

Subject to the provisions of the Program Fraud Civil Remedies Act of 1986, (31 USC 3801 et seq.), the False Claims Act (18 USC 287 and 31 USC 3729); and the False Statement Act (18 USC 1001), I declare to the best of my knowledge that the foregoing is true and correct.

Organization Name: _____

Signature: _____

Name of Authorized Official: _____

Title: _____

Date of Execution: _____

**DOC INDIRECT COST PROPOSAL –
DETAILED COMPONENT CHECKLIST**

(Check Items Below – Include this document with proposal submission)

- 1.a)** A chart showing the organizational structure during the period for which the proposal applies.
- 1.b)** A functional statement noting the duties and/or responsibilities of all units that comprise the organization.
- 1.c)** A brief narrative background statement outlining the financial operation of the organization.
- 2.a)** The total costs shown in the basic proposal should reconcile to the financial statements in the most recent audit report.
- 2.b)** Copy of the organization's last audited financial statement(s) from which the proposal is based.
- 2.c)** Adjusted detailed trial balance which agrees to the financial statements.
- 2.d)** Trend analysis of the last three year's indirect cost rates, with explanations for any changes.
- 2.e)** Calculations showing how applicable prior year carry-forward amounts were applied to formulate current year's rate submission.
- 3.)** Listing of directly awarded grants and contracts, with cost limitations and special award terms/conditions applicable to each.
- 4.)** Cost Policy Statement.
- 5.)** Statement of Total Costs.
- 6.)** Statement of Indirect Costs.
- 7.)** Listing of Specific Personnel Costs.
- 8.)** Certification of Indirect Costs. Attachment 1.
- 9.)** Certification of Lobbying Costs. Attachment 2.
- 10.a)** Identify assets purchased with federal sponsored program funds or non-federal sponsored program funds, if any, and specify if ownership remains with sponsoring entity or transfers to recipient upon successful completion of the awards.
- 10.b)** Identify all related party transactions.
- 10.c)** Identify idle facilities, if any.

Please explain any boxes not checked on a separate sheet .

 Signature/Title

Organization

Date

U.S. Department of Commerce
Office of Acquisition Management & Financial Assistance
1401 Constitution Ave., NW, HCHB Rm 6412
Washington, DC 20230
Attn: Indirect Cost Program

CERTIFICATE OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal prepared and maintained herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal _____ [identify date] to establish indirect costs rates for _____ [identify period covered by rate] are allowable in accordance with the requirements of the federal award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Federally-recognized Tribal Governments". This proposal does not include any costs which are unallowable as identified in the applicable federal cost principles. For example, advertising contributions and donations, bad debts, entertainment costs or fines and penalties.
- (2) 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 agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that affect the rate.
- (3) The indirect cost rate(s) calculated within the proposal are _____ % [identify rate(s)], which were calculated using an indirect cost rate base type of _____ [identify type of rate base - Salary & Wage, Modified Total Direct Costs (MTDC), etc.].

Subject to the provisions of the Program Fraud Civil Remedies Act of 1986, (31 USC 3801 et seq.), the False Claims Act and False Claims Amendments Act of 1986 (18 USC 287 and 31 USC 3729); and the False Statements Accountability Act of 1996 (18 USC 1001), I declare to the best of my knowledge that the foregoing is true and correct.

Organization Name: _____

Signature: _____

Name of Authorized Official: _____

Title: _____

Date of Execution: _____