

A Guide for Indirect Cost Rate Determination

Based on the Cost Principles and Procedures
Required by OMB Circular A-122 (2 CFR Part 230)
for Non-profit Organizations
and by the Federal Acquisition Regulation - Part 31.2
for Commercial Organizations



U.S. Department of Labor
Division of Cost Determination
Office of Acquisition Management Services
Business Operations Center, OASAM

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PREFACE

This Guide has been prepared by the Division of Cost Determination (DCD), to assist non-profit and commercial organizations 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 DCD, 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.

OMB Circular A-122 (codified on August 31, 2005, in 2 CFR Part 230) "Cost Principles for Non-Profit Organizations," establishes the Federal requirements for the determination of allowable and unallowable direct and indirect costs, and is available at either one of the following websites: http://www.whitehouse.gov/omb/fedreg/2005/083105_a122.pdf, and http://www.whitehouse.gov/omb/circulars/a122/a122_2004.html.

The Federal Acquisition Regulations, 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: <http://www.acqnet.gov/far/>

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 DCD. The addresses and telephone numbers of the DCD national office and regional cost negotiators can be found in Appendix III of this Guide.



VICTOR M. LOPEZ
Chief
Division of Cost Determination

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SECTION I

General Information

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 OMB Circular A-122 (2 CFR Part 230):

“Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective...”

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 DCD typically issues provisional and final indirect cost rates. There are also predetermined and fixed rates but are rarely used. All of these rates are described below, per OMB Circular A-122:

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: A permanent rate established for a specified current or future period and 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: A permanent rate established for a future prospective period of time used for budgeting, obligations, and payment of funds by awarding agencies. Actual costs are determined by the organization's accounting system and the difference between fixed and actual is carried forward to a future period (usually the organization's fiscal year) in order to adjust the fixed rate for any over or under recovery.

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

1. Actual indirect costs are allocated to program objectives in the year incurred, creating accurate cost information;
2. There are no prior year indirect costs carried into a future year to burden new or continuing funding;
3. All indirect costs are properly funded in the fiscal year incurred, creating no profit or loss for the organization;
4. 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
5. The actual cost of services or programs is determined annually and is therefore available for purposes of internal management and informed budgeting.

C. Determination of Indirect Cost Rates and Cost Allocation

Non – Profits - The three basic methods for calculating indirect cost rates under OMB Circular A-122 are the:

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

Specific instructions on the computation of indirect cost rates with the conditions on when to use each method are contained in OMB Circular A-122, Attachment A. Examples of the Simplified and Direct Allocation methods are shown on Exhibits D and E in Section III of this Guide.

OMB Circular A-122 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).

When a grantee uses the **Direct Allocation** method to calculate indirect cost rates and rents the facilities used to operate Federal programs, then a breakout of the above indirect cost components is not required. This policy has been adopted since the majority of the rental costs, as well as other facilities/administration costs, would be direct charged to Federal programs.

Commercial Organizations – Typically, commercial organizations use the “simplified” method, and can follow Exhibit D in Section III of this Guide, if applicable.-

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)

Commercial Organizations

Federal Acquisition Regulation (Part 31.2)

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 DCD no later than six months after the close of the organization’s fiscal year, unless an exception is approved by the DCD. 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.

The indirect cost rate proposal is to be submitted to the DCD office that covers the geographical region in which the organization is located (see Appendix III for addresses, telephone numbers, and fax numbers of the National and Regional office locations).

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 DCD 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 DCD. However, the approval of indirect costs by the DCD 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 Chief, DCD (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, or an approved fringe benefit rate;
3. General terms and conditions; and
4. Special remarks, e.g., composition of the indirect cost pool.

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

G. Disputes

When the DCD and a grantee/contractor cannot reach an agreement on an acceptable indirect cost rate, the DCD will make a unilateral determination of the rate(s) and will notify the organization. The DCD 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 OMB Circular A-110 - Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations, Subpart C. 53.

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

Preparing Indirect Cost Rate Proposals

SECTION II

Guidelines for Preparing Indirect Cost Rate Proposals

Note: 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 Systems in [OMB Circular A-110](#). Also, see evaluation of accounting systems referenced in [FAR Part 9.106](#) and the [Standard Form 1408](#).

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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 cost principles established by OMB Circular A-122 (2 CFR Part 230) for grantees or the Federal Acquisition Regulation (Part 31.2) should be thoroughly reviewed. If indirect costs are allowed in the 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, using guidance provided in OMB Circular A-122 (2 CFR Part 230), or if applicable, FAR Part 31.

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 – for DCD organizations see DCD's 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-12 & III-13)

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. Total direct cost excluding (if applicable) capital expenditures (buildings, individual items of equipment; alterations and renovations), subawards or that portion of each subaward in excess of \$25,000 and flow-through funds.
4. Total direct costs excluding (if applicable) capital expenditures (buildings, individual items of equipment; alterations and renovations); subawards or that portion of each subaward in excess of \$25,000; rental/maintenance of off-site activities; student (enrollee) tuition payments and student support costs (e.g. student aid, stipends, dependency allowances, scholarships, fellowships).
5. Modified total direct costs consisting of salaries and wages, fringe benefits, materials and supplies, services, travel, and subawards up to \$25,000 each or all subawards.

NOTE: The cost of equipment purchases, major renovation or subcontract costs may vary considerably from program to program which causes the indirect cost to be allocated in a disproportionate amount to the benefit derived. Therefore, such costs will be excluded from the base when a total direct cost is being used.

6. 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 DCD. Any modifications to the "approved" base require prior written approval. Failure to obtain such written approval may result in cost disallowance.

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

<p>1. Submit <u>once</u> unless changes are observed:</p> <p>___ 1a. Organizational chart,</p> <p>___ 1b. Employee time sheet sample, providing for distribution of hours to direct/indirect functions.</p> <p>___ 1c. Signed Cost Policy Statement.</p> <p>2. An Indirect cost rate proposal(s) providing the following:</p> <p>___ 2a. <u>Personnel Costs Worksheet</u>, including fringe benefits breakdown.</p> <p>___ 2b. <u>Allocation of Personnel Worksheet</u>, providing indirect/direct time charges.</p> <p>___ 2c. <u>Fringe Benefits Worksheet</u>,</p> <p>___ 2d. <u>Statement of Total Costs</u>, supporting the indirect and direct costs incurred by expense category, identified by Federal agency, specific government grant, contract, and other <u>non-government</u> activities.</p> <p>___ 2e. <u>Statement of Indirect Costs</u>, including indirect cost pool(s), allocation base(s), and indirect cost rate(s) proposed.</p> <p>3. ___ Audited financial statements, if available. If audited financial statements are not available, IRS Form <u>990</u> (non-profits) or compilation/review financial statements (for-profits) for the final rate proposal. Approved budget for provisional proposal, if needed. OMB A-133 supplemental information, if available. <u>Note</u>: The Statement of Total Costs (2d. above) must reconcile to Financial Statements. If not, please provide documentation showing reconciliation.</p> <p>4. ___ Certification that the indirect cost rate proposal was:</p> <p>___ 4a. prepared in a manner consistent with the applicable cost principles set forth in OMB A-122 for non-profits, or the Federal Acquisition Regulations (Part 31) for commercial organizations.</p> <p>___ 4b. that the non-profit grantee complied with the lobbying requirements of OMB Circular A-122 (2 CFR Part 230), Attachment B, paragraph 25 (If applicable).</p> <p>The certifications must be signed by the President/Executive Director, or Comptroller/ CFO.</p> <p>5. ___ A listing of grants and contracts by Federal agency, total dollar amount, period of performance, and the indirect cost (overhead) limitations (if any) applicable to each, such as, ceiling rates or amounts restricted by administrative or statutory regulations, applicable to the period(s) of the proposal(s). This listing should <u>also</u> be supported by the approved federal grant or contract notification award(s).</p>
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¹ Refer to Section III of this guide or to the following website to obtain samples of indirect cost proposal exhibits, employee timesheet, certification and cost policy statement:
<http://www.dol.gov/oasam/programs/boc/costdeterminationguide/main.htm>

Notes to “Checklist”, as applicable

1a. Not applicable.

1b. **Timesheet or Personnel Activity Report (PAR)**

An acceptable timesheet 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.

DCD 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, 200X] have been made.

2a. **Personnel Costs Worksheet**

An example of a personnel costs 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.

Actual personnel costs should be documented in accordance with OMB Circular A-122 (2 CFR Part 230), Attachment B, paragraph 7.m. (1) through (4), and the FAR.

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.

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

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

D. Indirect Cost Proposal – DCD’s Review Procedures

Some issues that may be raised by a DCD 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 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 cost centers 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 base.
- Determine that "pass-through" funds have been excluded from the base.
- Review the analysis of 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

Sample Exhibits to Support Indirect Cost Rate Proposals

SECTION III
Sample Exhibits to Support
Indirect Cost Rate Proposals

<u>Exhibits</u>	<u>Description</u>	<u>Page Numbers</u>
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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 F	Cost Policy Statement	III-14
Exhibit G	Certificate of Indirect Costs	III-19
Exhibit H	Listing of Federal Grants and Contracts	III-20

* 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
Sample - 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
Sample - 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

Sample - 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*														Total
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

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
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Employee Signature _____ Date: _____ Supervisor Signature _____ Date: _____

General Note on this Exhibit: - This sample time distribution report is intended to show the minimum requirements that organizations need to capture to comply with applicable regulations to support claims for salaries and wages. For additional information on these requirements, see OMB Circular A-122, Attachment B, 8.M.

- Notes:**
- * "Projects" must be specifically identified to the actual program worked with name/title/code, etc. Note that "fundraising" is considered a direct activity.
 - ** Indirect - can be changed, or a row can be added showing G&A, Overhead Onsite/Offsite, if applicable.
 - *** "Other" could include other types of leave. If so, they must be identify here or detailed in the organizations' cost policy statement.

Exhibit C

Sample - 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		50,384	
Subtotal - Release Time		\$126,037	a
FICA	\$100,245	\$100,245	
State Unemployment Compensation	17,040	17,040	
Worker's Compensation Insurance	13,140	13,140	
Medical Insurance	168,200	168,200	
Pension	<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 Sample 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:

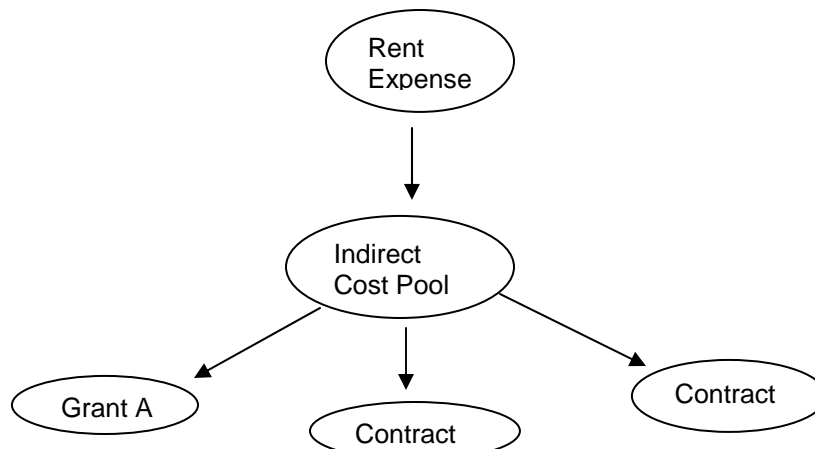
- (1) the organization has only one major function encompassing a number of individual projects or activities, and/or
- (2) where the level of Federal awards to that organization is relatively small.

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
Sample - 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: Direct Exclusions and Indirect Unallowable Costs	Indirect Costs (3)	"Modified" Total Direct Costs (MTDCs)	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
Subcontracts	175,000	107,000 (2)		68,000	10,200	8,200	2,000	57,800
Purchase, Lease of Equipment	82,000	22,100 (2)	59,900					
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	28,800		8,800	20,000	3,000	2,000	1,000	17,000
Emergency Assistance	54,000	54,000 (2)						
Training Materials	82,000			82,000	12,300	10,000	2,300	69,700
Participant Support Costs	184,000	184,000 (2)						
Total Non-Personnel Costs	\$1,302,000	\$378,900	\$396,800	\$526,300	\$143,600	\$101,100	\$42,500	\$382,700
TOTAL	\$3,019,746 (4)	\$378,900	\$884,736	\$1,756,110	\$1,145,946	\$774,342	\$371,604	\$610,164

STEP 2 - Rate Calculation...		STEP 3 - Distribution to the Cost Centers						
<u>Indirect Cost Rate Calculation*</u>		<u>Distribution of Indirect Costs (ICs) - (5)</u>						
Indirect Costs	\$884,736					<u>a</u>	<u>b</u>	<u>Total a+b</u>
Method A - Total Direct Salaries & Benefits	1,229,810	<u>Method A (6)</u>	Allocation Base	1,002,346	673,242	329,104	227,464	1,229,810
Indirect Rate	71.94%		Times Indirect Rate	71.94%	71.94%	71.94%	71.94%	
			Equals Allocable Share of ICs	\$721,096	\$484,336	\$236,760	\$163,640	\$884,736
Indirect Costs	\$884,736					<u>a</u>	<u>b</u>	<u>Total a+b</u>
Method B - MTDCs	\$1,756,110	<u>Method B (6)</u>	Allocation Base	1,145,946	\$774,342	\$371,604	610,164	1,756,110
Indirect Rate	50.38%		Times Indirect Rate	50.38%	50.38%	50.38%	50.38%	
			Equals Allocable Share of ICs	\$577,333	\$390,117	\$187,216	\$307,403	\$884,736
Difference between A & B (A-B)				\$143,764	\$94,219	\$49,545	(\$143,764)	

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

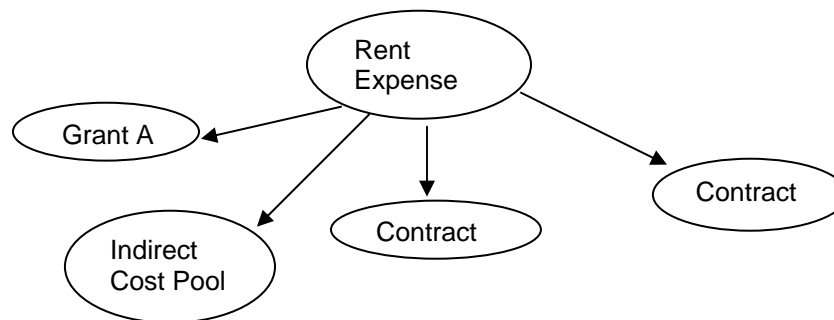
Note: The costs included in this exhibit are for illustrative purposes only.

Introduction to Sample 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
Sample - 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

STEP 1 - Do Statement...				Federal Programs					Non-Federal Programs			
Budget Category	Total Costs	Less: Direct Exclusions and Indirect Unallowables Costs	Indirect Costs (3)	Modified Total Direct Costs (MTDCs)	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	107,000 (2)		68,000	50,000			50,000	18,000	18,000		
Purchase, Lease of Equipment	82,000	22,100 (2)	10,700	49,200	39,900	16,700	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	29,700		8,800	20,900	20,000	10,000	10,000		900	900		
Emergency Assistance	54,000	54,000 (2)										
Training Materials	82,000			82,000	76,300	36,100		40,200	5,700	5,700		
Participant Support Costs	184,000	184,000 (2)										
Total Non-Personnel Costs	1,302,000	378,900	139,600	783,500	668,400	244,700	135,900	287,800	115,100	104,400	10,700	
TOTAL	\$3,019,746	(4)	\$378,900	\$627,536	\$2,013,310	\$1,670,746	\$765,972	\$349,311	\$555,463	\$342,564	\$324,020	\$18,544

STEP 2 - Rate Calculation...		STEP 3 - Distribution to the Cost Centers												
Indirect Cost Rate Calculation		Distribution of Indirect Costs (ICs) - (5)												
Indirect Costs	\$627,536	<u>Method A (6)</u>	Allocation Base	a	1,002,346	521,272	213,411	267,663	b	227,464	219,620	7,844	Total a+b	1,229,810
<u>Method A - Total Direct Salaries & Benefits</u>	<u>1,229,810</u>		Times Indirect Rate		51.03%	51.03%	51.03%	51.03%		51.03%	51.03%	51.03%		
Indirect Rate	51.03%		Equals Allocable Share of ICs		\$511,468	\$265,990	\$108,897	\$136,581		\$116,068	\$112,066	\$4,003		627,536
Indirect Costs	\$627,536	<u>Method B (6)</u>	Allocation Base		1,670,746	\$765,972	\$349,311	\$555,463		342,564	\$324,020	\$18,544		2,013,310
<u>Method B - MTDCs</u>	<u>\$2,013,310</u>		Times Indirect Rate		31.17%	31.17%	31.17%	31.17%		31.17%	31.17%	31.17%		
Indirect Rate	31.17%		Equals Allocable Share of ICs		\$520,761	\$238,749	\$108,878	\$173,134		\$106,775	\$100,995	\$5,780		627,536
			Difference between A & B (A-B)**		(\$9,293)	\$27,241	\$19	(\$36,554)		\$9,293	\$11,071	(\$1,777)		

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

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

Notes to Exhibit 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 (OMB Circular A-122, Attachment A, paragraph 5).

- (2) Examples of direct costs exclusions using MTDCs as the allocation base in this exhibit include amounts over the first \$25,000 of each subcontract, purchase and lease of equipment, emergency assistance and participant support costs. See OMB Circular A-122, Attachment A, paragraph D.2.c. for more details. Details of the direct costs exclusions are as follows:
 - a. The portion of subcontract costs in excess of \$25,000 each. As a general rule, the organization and DCD agree 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 on 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. (Refer to OMB Circular A-122, Attachment A, Paragraphs B.3. & B.4.). This sample exhibit includes these types of costs in the MTDC 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 OMB Circular A-122, Attachment A, paragraph D.2.c., the distribution base may be direct salaries and wages, total direct cost, or another base which results in an equitable distribution to all activities that receive benefit from the indirect cost pool. S

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 DCD.

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

**SAMPLE: 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

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 \$500.

L. Depreciation

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

M. Service to Members

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

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

N. Unallowable Costs

ABC recognizes that unallowable costs, as defined in OMB Circular A-122 (2 CFR Part 230) or the FAR, 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 COSTS

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

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

_____ OMB Circular A-87 (2CFR Part 225) Cost Principles for State, Local and Federally recognized Indian Tribal Governments.

_____ OMB Circular A-122 (2 CFR Part 230) Cost Principles for Non-Profit Organizations

_____ Federal Acquisition Regulation (FAR), Subpart 31.2, Cost Principles for Commercial Organizations.

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

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

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

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

Grantee/Contractor: _____

Signature: _____

Name of Authorized Official: _____

Title: _____

Date: _____

Organization ABC
Listing of Grants and Contracts
Provisional (or Final) Indirect Cost Proposal for 12/31/06

	<u>Grantor</u>	<u>DOL SubAgency*</u>	<u>Grant/Contract Amount</u>	<u>Period of Performance</u>	<u>Indirect Cost Limitations or CAP Limitations</u>	<u>Grant/Contract Award Notice Provided as part of proposal</u>
Federal	U.S. Dept. of Labor	ETA	\$5,000,000	1/1/06 to 12/31/08	20% of Direct Costs	Yes
	U.S. Dept of HHS		\$3,500,000	7/1/06-6/30/09	5% of Total Award	Yes
Non-Federal	Various		\$500,000	1/1/06-12/31/06		

* If applicable.

SECTION IV

Common Indirect Cost Problems

SECTION IV

Common Indirect Cost Problems

A. Introduction

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

1. Timekeeping Systems
2. Consistent Treatment and Specific Identification of Costs
3. Costs of "Unallowable Activities" Credits
4. Indirect Cost Allocation Base
5. Expressly Unallowable Costs
6. Inter-organizational Transfers and Related-party Transactions
7. Lease Incentives and Advance Understandings
8. Budget Limitations Unsupported

B. Examples of Problems

1. Timekeeping Systems

To be allowable, labor costs, whether charged directly or indirectly to DOL grants/contracts, must be based on accurate time sheets reflecting the actual activities of all employees. The time sheets 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).

2. 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.

3. Costs of "Unallowable Activities"

Problems disclosed by recent 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.

OMB Circular A-122, Attachment A, paragraphs B.3 and B.4 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 OMB Circular A-122, Attachment A, paragraph A.4.b., which states that any costs allocable to other cost objectives may not be shifted to a Federal award to "overcome funding deficiencies."

4. 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.

5. 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.

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.

6. Expressly Unallowable Costs

Indirect costs that are "expressly unallowable" are spelled out in OMB Circular A122, Attachment B, Selected Items of Cost. Common examples of expressly unallowable indirect costs include:

- Contributions
- Entertainment costs
- Fund raising
- Lobbying
- Professional service costs
- Public information service costs
- Bad Debts
- Legal Costs

7. 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.

8. Lease Incentives and Advance Understandings

To be allowable, costs related to building or office leases must comply with OMB Circular A-122, Attachment A, paragraph A.2. In addition, a net present value (NPV) computation must be made to ensure that the present value of the total allowable lease expense does not exceed the total present value of the lease payments a grantee/contractor makes to its lessor. Also, non-profit organizations should enter into advance understandings with DOL with regard to capital leases and gains to be realized under capital leases in accordance with Attachment A, paragraph A.6.

In times of an oversupply of office space in certain metropolitan areas, developers/ owners may offer various incentives to prospective tenants to get them to sign long term leases, including substantial cash payments. OIG audits disclosed that nonprofit organizations are not accounting for the lease incentives in accordance with generally accepted accounting principles (GAAP), nor are they computing rent expense utilizing the NPV concept.

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

Questions and Answers

SECTION V

Typical Questions from Grantees/Contractors and DCD Answers

The following questions are typically asked by grantees/contractors, and are summarized below under the following categories:

- A. Indirect rates: 1, 2, 3, 4, 5, 16
- B. Individual elements of costs: 6, 7, 8, 9, 10, 11, 12, 13,
- C. Audits: 8, 14
- D. Technical assistance, adequate proposals, and DCD concerns: 15, 17, 18, 19

1. **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. **Will DOL assist grantees/contractors in obtaining proper approval of the indirect cost rate from other Federal agencies and State and local units of Government?**

The Division of Cost Determination, DOL, will be available to explain to other organizations the methodology used in development of the grantee's/contractor's indirect cost rate. However, the funding of indirect costs is subject to approval of Government authorized representatives and contracting officers of the respective organization. Under most circumstances, other Federal agencies will recognize and pay a grantee/contractor's approved indirect cost expense. The Cognizant Federal Agency cannot, however, require States or units of local Government to recognize an approved indirect cost rate.

3. **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 will not provide your organization with additional grant funds due to a higher final indirect cost rate than the established provisional rate. However, 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, administrative cost limitations.

4. **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.

5. **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.

6. **Is the cost of accrued annual leave allowable under OMB Circular A-122?**

OMB Circular A-122, Attachment A, Paragraph 2E, states "To be allowable under an award, 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.

7. **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.

8. **Can the audit costs under OMB Circular A-133 be recovered?**

A-133 allows audit costs to be recovered as either direct or indirect costs in accordance with applicable cost principles. 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).

9. **If the grantee's policy is to capitalize equipment under the \$5,000 threshold specified in A-122, do they need Federal approval prior to directly charging the grant with the cost of equipment?**

No. The grantee is allowed to directly charge the Federal grant with the cost of equipment under the \$5,000 threshold without obtaining prior Federal approval. This direct cost is usually classified as supplies in the reporting of Federal grant expenditures and, if applicable, must be in compliance with any budget limitations.

10. **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 A-122, 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 or a use allowance as specified in A-122.

11. **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. Interest on debt incurred to finance or refinance assets acquired before or required after September 29, 1995, is not allowable.

12. **When is a grantee required to prepare a cash flow statement prior to claiming interest expense on Federal programs?**

A cash flow statement is to be prepared on an annual basis for debt arrangements over \$1 million, unless an initial equity contribution to the asset purchase equals 25% or more. A non-profit organization shall reduce claims for interest expense by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated in accordance with Paragraph 23.a.(1)(f)(ii) of Circular A-122.

13. **What is required of a grantee that sells its facilities and decides to rent office space in another facility at less cost to its Federal programs?**

Substantial relocation of Federally-sponsored activities from a facility financed by indebtedness, the cost of which was funded in whole or part through Federal reimbursements, to another facility prior to the expiration of a period of 20 years, requires notice to the Federal cognizant agency for possible adjustment to future space costs charged to Federal programs.

14. **What is the relationship of OMB Circular A-122, Cost Principles for Non-Profit Organizations and OMB Circular A-133, Audits of Institutions of Higher Education and Other Non-Profit Institutions in regard to indirect costs?**

The compliance supplement for OMB Circular A-133 incorporates OMB Circular A-122. It sets forth the major compliance requirements that should be considered in an organization-wide audit of non-profit institutions receiving Federal assistance. The compliance supplement contains general requirements that shall be considered in all financial and compliance audits. Failure to comply with the general requirements could have a material impact on an organization's financial statements.

One of these general requirements is presented in Appendix VII to OMB Circular A-133, "Allowable Costs/Cost Principles." According to this requirement, the auditor is responsible for auditing direct and indirect costs to determine whether costs claimed are in compliance with OMB Circular A-122.

15. 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 OMB Circular A-122 cost principle 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 may 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.

16. 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.

17. 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, an amended final closeout will be submitted.

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

If there are any questions concerning any aspect of the proposal, call the Federal cognizant agency rate negotiator 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 the cognizant agency about all significant organizational or accounting changes and their impact. If these actions are taken, it could save time in getting the proposal negotiated.

19. What are some of the concerns the Federal agencies have about grantee/contractor submissions of indirect cost rate proposals?

The primary concern of Federal agencies is the receipt of incomplete documentation. Indirect cost proposals do not provide sufficient detail to explain the functions and the benefits associated with the costs being allocated. An additional concern to Federal agencies is an indirect cost proposal that is not reconcilable to a budget or a financial statement and contains no explanation of the difference.

APPENDIX I

SAMPLE: Negotiated Indirect Cost Rate Agreement Commercial Organization

**NEGOTIATED INDIRECT COST RATE AGREEMENT
COMMERCIAL ORGANIZATION**

ORGANIZATION:

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

DATE: August 23, 2004

FILE REFERENCE: This
replaces the agreement dated
April 15, 2003

The indirect cost rate(s) contained herein are for use on 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 Regulations, Part 42.703-1.**

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	7-1-02	6-30-2003	16.05%(a)	ALL	ALL
Provisional	7-1-03	6-30-2005	15.75%(a)	ALL	ALL
<u>G&A</u>					
Final	7-1-02	6-30-2003	17.25%(b)	ALL	ALL
Provisional	7-1-03	6-30-2005	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 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 contractor or allocated to the contractor via an approved central service cost allocation plan were included in its indirect cost pool as finally accepted and that such incurred costs are legal obligations of the contractor and are 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 contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially inaccurate.

The elements of indirect cost and the type of distribution base(s) used in computing provisional rates are subject to revision when final rates are negotiated. Also, the rates cited in this Agreement are subject to audit.

B. **CHANGES**: The contractor is required to provide written notification to the indirect Cost Negotiator prior to implementing any changes which could affect the applicability of the approved rates. Changes in the indirect cost recovery plan, which may result from changes such as the method of accounting or organizational structure, require the prior written approval of the Division of Cost Determination (DCD). Failure to obtain such prior written approval may result in cost disallowance.

C. **NOTIFICATION TO FEDERAL AGENCIES**: A copy of this document is to be provided by this organization to other Federal funding sources as a means of notifying them of the Agreement contained herein.

D. **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. Administrative costs consists 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. ABC Organization 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:

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

ABC Organization
(Grantee/Contractor)

U.S. DEPARTMENT OF LABOR
(Government Agency)

(Signature)

(Signature)

(Name)

Victor M. Lopez
(Name)

(Title)

Chief, Division of Cost Determination
(Title)

(Date)

August 23, 2004
(Date)

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

APPENDIX II

SAMPLE: Negotiated Indirect Cost Rate Agreement Non-Profit Organization

**NEGOTIATED INDIRECT COST RATE AGREEMENT
NONPROFIT ORGANIZATION**

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

DATE: August 23, 2004
FILE REF: This replaces
 the agreement dated
 April 15, 2003

The rates approved in this Agreement are for use on grants, contracts, and other agreements with the Federal Government to OMB Circular No. A-122 (2 CFR Part 220) 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.

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	7/1/00	6/30/01	7.74%	All	All Programs
Final	7/1/01	6/30/02	9.24%	All	All Programs
Provisional	7/1/02	6/30/03	8.75%	All	All Programs
Provisional	7/1/03	6/30/05	9.00%	All	All Programs

(SEE SPECIAL REMARKS)

BASE:

Total direct costs excluding capital expenditures (buildings, individual items of equipment; alterations and renovations), and that portion of each sub-award in excess of \$25,000.

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 grant or contract only to the extent that funds are available. Acceptance of the rate(s) agreed to herein is predicated upon the following conditions:
- (1) that no costs other than those incurred by the grantee/ contractor or allocated to the grantee/contractor via an approved central service cost allocation plan were included in its indirect cost pool as finally accepted and that such incurred costs are legal obligations of the grantee/ contractor and allowable under the governing cost principles,
 - (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs,
 - (3) that similar types of costs have been accorded consistent treatment, and
 - (4) that the information provided by the grantee/contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially inaccurate.

The elements of indirect cost and the type of distribution base(s) used in computing provisional rates are subject to revision when final rates are negotiated. Also, the rates cited in this Agreement are subject to audit.

- B. **CHANGES:** The grantee/contractor is required to provide written notification to the indirect cost negotiator prior to implementing any changes which could affect the applicability of the approved rates. Changes in the indirect cost recovery plan, which may result from changes such as the method of accounting or organizational structure, require the prior written approval of the Division of Cost Determination (DCD). Failure to obtain such prior written approval may result in cost disallowance.
- C. **NOTIFICATION TO FEDERAL AGENCIES:** A copy of this document is to be provided by this organization to other Federal funding sources as a means of notifying them of the Agreement contained herein.
- D. **PROVISIONAL-FINAL RATES:** The grantee/contractor must submit a proposal to establish a final rate within six months after their fiscal year end. Billings and charges to federal awards must be adjusted if the final rate varies from the provisional rate. If the final rate is greater than the provisional rate and there are no funds available to cover the additional indirect costs, the organization may not cover all indirect costs. Conversely, if the final rate is less than the provisional rate, the organization will be required to pay back the difference to the funding agency.

Indirect costs allocable to a particular award or other cost objective may not be shifted to other Federal awards to overcome funding deficiencies to avoid restrictions imposed by law or by the terms of the award.

E. **SPECIAL REMARKS:**

1. Indirect costs charged to Federal grants/contracts by means other than the rate(s) cited in this Agreement should be adjusted to the applicable rate(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. 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:

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

ABC Organization
(Grantee/Contractor)

U.S. DEPARTMENT OF LABOR
(Government Agency)

(Signature)

(Signature)

(Name)

Victor M. Lopez
(Name)

(Title)

Chief
Division of Cost Determination
(Title)

(Date)

August 23, 2004
(Date)

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

APPENDIX III

List of DCD Addresses and Telephone Numbers

APPENDIX III

Division of Cost Determination List of Addresses and Telephone Numbers As of September 2007

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

Chief: 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</u>	<u>Fax</u>
1 Damon Tomchick	tomchick.damon@dol.gov	D.C.	Same as National Office	202-693-4105	202-693-4099
2 Casey Carros	carros.casimer@dol.gov	D.C.	Same as National Office	202-693-4107	202-693-4099
3 Margie Merced	merced.margie@dol.gov	D.C.	Same as National Office	202-693-4104	202-693-4099
4 Stephen Cosminski	cosminski.stephen@dol.gov	Philadelphia	125 Oak Drive Sellersville, PA 18960	215-257-8712	215-257-8994
5 Phil Zahnd	zahnd.phil@dol.gov	Atlanta	111 Zahnd Way Florence, AL 35634	256-272-0075	256-272-0085
6 Ronald Goolsby	goolsby.ronald@dol.gov	Chicago	230 South Dearborn St. Room 1016 Chicago, IL 60604-1505	312-886-5247	312-353-0127
7 Carol McKone	mckone.carol@dol.gov	Dallas	P.O. Box 821067 Ft. Worth, TX 76182	817-281-1503	817-281-1530
8 Arthur Campbell	campbell.arthur@dol.gov	Seattle	P.O. Box 3433 Renton, WA 98256	425-271-3848	425-271-5295

* Cost Negotiators are generally responsible for organizations located in their regions, as follows:

Washington D.C. staff – *Washington D.C., and the metropolitan area.*

Philadelphia region: *Connecticut, Maine, Massachusetts, New Hampshire, Vermont, Rhode Island, New York, New Jersey, Pennsylvania, Puerto Rico, Delaware, Maryland, Virginia, West Virginia, Virgin Islands.*

Atlanta region: *Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee.*

Chicago region: *Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, North Dakota, South Dakota, Nebraska, Ohio, and Wisconsin.*

Dallas region: *Arkansas, Louisiana, Kentucky, Oklahoma, Texas, Colorado, Nevada, Arizona, Wyoming, and New Mexico.*

Seattle region: *Alaska, Idaho, Oregon, Washington, Montana, Utah, California, & Hawaii.*