

Guidance for Establishing an Indirect Cost Rate Agreement or Cost Allocation Plan

What are indirect costs?

Indirect costs are costs an organization incurs for common or joint objectives, that cannot be readily and specifically identified with a particular grant project or other institutional activity. Typical indirect costs include the costs of operating and maintaining facilities, equipment, and grounds; depreciation or use allowances; and administrative salaries and supplies. These costs are usually charged to the grant as a percentage of some or all of the direct cost items in the applicant's budget, this percentage is called the **indirect cost rate**.

Who may charge indirect costs to their TRIO grant(s)?

"A grantee must have a current indirect cost rate agreement to charge indirect costs to a grant. To obtain an indirect cost rate, a grantee must submit an indirect cost proposal to its cognizant agency and negotiate an indirect cost agreement."

Education Department General Administrative Regulations (EDGAR)
34 CFR 75.560 (b)

Note: Small colleges that need an indirect cost rate solely for the purpose of charging indirect costs for a training grant may use the simplified process for establishing an indirect cost rate.

Simplified Process for Establishing an Indirect Cost Rate

This particular guidance applies to colleges that:

1. Are subject to OMB Circular A-21;
2. Have no formal indirect cost rate agreement approved by a cognizant federal agency; and
3. Want to, or are currently participating in a Department of Education grant program that is subject to an 8 percent training grant limit.

If these conditions apply to your institution, you may follow the guidance outlined below to establish an indirect cost rate.

First, for OMB Circular A-21 colleges...cognizance for cost negotiation defaults to the Department of Health and Human Services (DHHS), regardless of which federal agency provides direct federal funding to the college.

Second, DHHS will not establish an indirect cost rate for the college, if the college's only use for the indirect cost rate is to justify the 8 percent application limit. This DHHS policy results from practical workload considerations.

Third, knowing that in this circumstance the college is in a bind, the college should use the OMB Circular A-21 short form in computing an indirect cost rate for each year that indirect costs are claimed. This calculation should confirm that the college's actual indirect cost rate is equal to or exceeds the 8 percent limit.

Fourth, the college's indirect cost calculation should be verified by an independent accounting authority and retained on file for review by auditors, and/or federal oversight staff.

Please note: 8 percent means 8 percent of "modified total direct costs" that in turn means 8 percent of total direct costs, less equipment, contracts, and stipends.

Fifth, the same indirect costs that make up the numerator of the college's rate calculation cannot be charged directly to any federal award.

Sixth, the OMB Circular A-21 short form can be found at the following website:

<http://rates.psc.gov/fms/dca/shortform1.pdf>

<http://rates.psc.gov/>

If the college plans to calculate its actual indirect cost rate (whatever the rate may be) and use that rate for recovery of indirect costs on Federal awards, the DHHS should be contacted to negotiate an indirect cost rate for use on all grants, contracts, etc. As noted in number 1 above, cognizance defaults to DHHS.

How do I determine if my agency needs to apply for an indirect cost rate agreement from my cognizant Federal agency?

Use the following chart to determine if your agency needs to apply for an indirect cost rate agreement from its cognizant Federal agency.

INDIRECT COST RATES/COST ALLOCATION PLANS FOR NON-PROFIT GRANTEES

| Grantee Status | Requirement | Budget |
|--|---|--|
| One grant from one federal agency – <i>Grantee has no other programs or activities and is solely organized to carryout the activities of one grant.</i> | Must have cost allocation plan <i>including a cost policy statement. This documentation will be retained on file for audit.</i> | Direct cost all budget items. No indirect costs <i>or joint direct costs</i> charged to budget. |
| Multiple grants from one federal agency - <i>Grantee has no other programs or activities and is solely organized to carryout the activities of the grants from one federal agency.</i> | Must have a cost allocation plan <i>or indirect cost rate approved by the Federal cognizant agency.</i> | Direct cost all budget items, <i>including joint direct costs. Indirect costs, are budgeted, if a rate is approved</i> |

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| Multiple grants from more than one federal agency or multiple activities/programs from federal and nonfederal sources. | Must have an indirect cost rate approved by its Federal cognizant agency. | Use a temporary billing rate pending the establishment of an approved provisional rate. Indirect Cost Rate is limited to a maximum of 8 percent of a "modified total direct cost base" {34 CFR 75.562} |

ADDITIONAL INFORMATION:

IRS Form 990 (Return of Organization Exempt from Income Tax) can be used to estimate an interim indirect cost rate calculation. In Part II of the form (page 2), the Statement of Functional Expenses includes costs for program services, management and general, and fundraising. To estimate the rate calculation, divide the total in the management and general column by the total in the program services column. The result is a "rough" estimate of the grantee's indirect cost rate.

The grantee's Audited Financial Statements may includes "notes" regarding "related party transactions." If the grantee is leasing space from a related party, the allowable lease costs are limited to the costs of ownership such as depreciation, maintenance, taxes, etc. If a building is owned by the grantee, depreciation costs should be reflected in the Financial Statements and on the Form 990.

The grantee's OMB Circular A-133 Audit Report should be reviewed for audit findings that may have an effect on direct and indirect program costs.

It is important to understand what expenses or amounts are included in the 8 percent indirect cost limitation. The indirect costs that exceed the 8 percent limitation are not allowable as direct costs. Each grantee's accounting system is unique and its treatment of costs must be appropriately considered.

Note: For additional information, you may contact either of the two Team Leaders listed on the Indirect Cost Group's Website. A link to this Web site is provided below.

<http://www.ed.gov/about/offices/list/ocfo/fipao/icgreps.html>

Sample Cost Allocation Plan

Attached

Recent Guidance on Indirect Cost Rate Issues Provided to TRIO Grantees

Attached