

**Indirect Cost  
Question & Answer  
July 2009**

*Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.  
2 CFR Part 225, Appendix A*

**Q1: Do sub-grantees need to have a “federally” approved indirect cost rate?**

A: Sub-grantees do not need to have a federally approved rate. When no federally negotiated rate exists, sub-grantee indirect rate plans must be negotiated and/or monitored by the primary federal grant recipient (State).

Local agencies, universities, and contractors that have a negotiated rate by a cognizant Federal agency may receive that rate.

State agencies that do not have a federally-negotiated indirect rate plan, may be extended a standard indirect cost allowance equal to ten percent of direct salary and wage cost of providing interagency services (excluding overtime, shift premiums, and fringe benefits).

Source: 2 CFR Part 225, Appendix E, Section D.1.b and 2 CFR Part 225 Appendix A, Section G.

**Q2: 2 CFR Part 225 Appendix A, Section G discusses the use of a standard 10% rate for services provided by one agency (except state/local-wide centralized services departments) to another within a governmental unit. Can this concept be used under any circumstances where a State makes a sub-award to a local government?**

A: No. This provision only applies to components (agencies) within a specific governmental unit, not outside that unit.

**Q3: Is there a Federal guide on the types of documentation needed to support a local government sub-award indirect rate cost plan?**

A: Local governments that only receive funds as a sub-recipient of another government should follow instructions from their pass-through grantors concerning submission and review. However, they are expected to prepare and retain their plans for audit by independent auditors and Federal auditors. Pass-through grantors (primary recipients) are *expected* to review and monitor sub-recipient plans to provide reasonable assurance that provisions of 2 CFR 225 are being followed. (emphasis added)

**Source:** ASMB C-10 Part 4, Attachment C 4.4.3

**Note:** the language here is slightly different than the controlling (MR Finding) language of Title 2 part 225, Appendix E, Db which states that the primary recipient is responsible for “negotiating and/or monitoring” the sub-recipient’s plan. The DHHS (ASMB C-10) document is an implementing guideline for auditors working with 2 CFR 225 issues on behalf of the Federal Government. The “expectation” noted emphasizes the importance and need for the primary recipients to periodically review rates that their local agency grantees are claiming. The responsibility does not end once a signed agreement or certificate is placed in the project file. This is also addressed in ASMB C-10 Q&A 4-3 when the level of risk is discussed. This oversight responsibility mirrors the same for cognizant Federal agencies that is described in Title 2 part 225, Appendix E, E, *Negotiation and Approval of Rates*.

Failure to meet this expectation shall not be grounds for a MR Finding, but rather may lead to a Management Consideration. However, the absence of any evidence on the primary recipient’s part to negotiate and/or monitor a subrecipient’s indirect rate cost plan shall be considered an MR Finding.

Attachment E of ASMB C-10 contains sample indirect cost rate proposals.

**Q4: Who approves sub-grantee indirect rate plans?**

A: If there is no federally approved indirect cost rate, grantees may submit their indirect cost allocation plans to the SHSO, for the SHSO or other appropriate State agency to negotiate and/or monitor the plan. The indirect cost rate proposal and related documentation must be made available for Federal and State audit for a period of three years after final payments and other pending matters are closed.

**Source:** ASMB C-10, 4.4.3 and Q and A on Attachment C, 4-3

**Q5: Can agencies report indirect costs as direct costs?**

A: While indirect costs may be reported as direct costs, it will be difficult to do. However, the same costs may not be reported as both indirect and direct. The grantee should take care to be as specific as needed in order to tie a portion of an electric bill or a payroll service (% of total costs), for example, to the specific traffic safety grant. This will not be easy because by definition, indirect costs are not readily assignable to the cost objectives specifically benefitted. They are incurred for a common or joint purpose benefitting more than one cost objective. Further, care must be taken to make sure that the indirect costs (now being reported as direct costs) are not part of a central services take down. And the costs must be allocable. Test: Would the activity still exist, and thereby result in the same costs being incurred, if the 402 grant were terminated? Note: the general costs of government are unallowable.

**Q6: Can indirect costs be used to meet the match requirements for the federal highway safety funds and if so, what are the key considerations? Must the match be reported as a percentage of total direct costs (as per a direct cost rate agreement)?**

A: Yes, indirect costs may be used as a match for the federal highway safety program. If the State uses the indirect costs as match, then the costs would be auditable. The State would also have to document indirect costs (just like direct costs) to its share for the highway safety benefit only. Further, if indirect costs are being used as match, the State must be able to document that the match is not being used elsewhere or for matching another program.