

Introduction to Indirect Costs

Questions to be Answered

What are indirect costs?

How are they documented?

How are they recovered?

Points to Keep in Mind

- Indirect costs tend to be support costs (e.g., telephone, printing, rent) as opposed to costs that can be traced directly to projects or activities (e.g., construction costs for public facilities)
- Indirect costs are real and have to be paid from some revenue source for an organization to function
- For most HUD grantees, allocation of indirect costs does not increase total funding
- Avoid using terms like “overhead” in lieu of “indirect” – they don’t always mean the same thing

Applicable Requirements

- Cost Principles and Procedures - 2 CFR Part 200, Subpart E (and related appendices)
- All costs, whether charged on a direct or indirect basis, are subject to the factors affecting the allowability of costs (§200.403)
- General Provisions for Selected Items of Cost

Key Terms

Indirect Costs

Cost objective

Indirect cost rate

10% de minimis rate

Central service cost allocation plan

Indirect cost rate proposal

Cognizant Agency

Definition of Indirect Costs

§200.56 Indirect (facilities & administrative (F&A)) costs.

Indirect (F&A) costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Definition of Indirect Costs (cont)

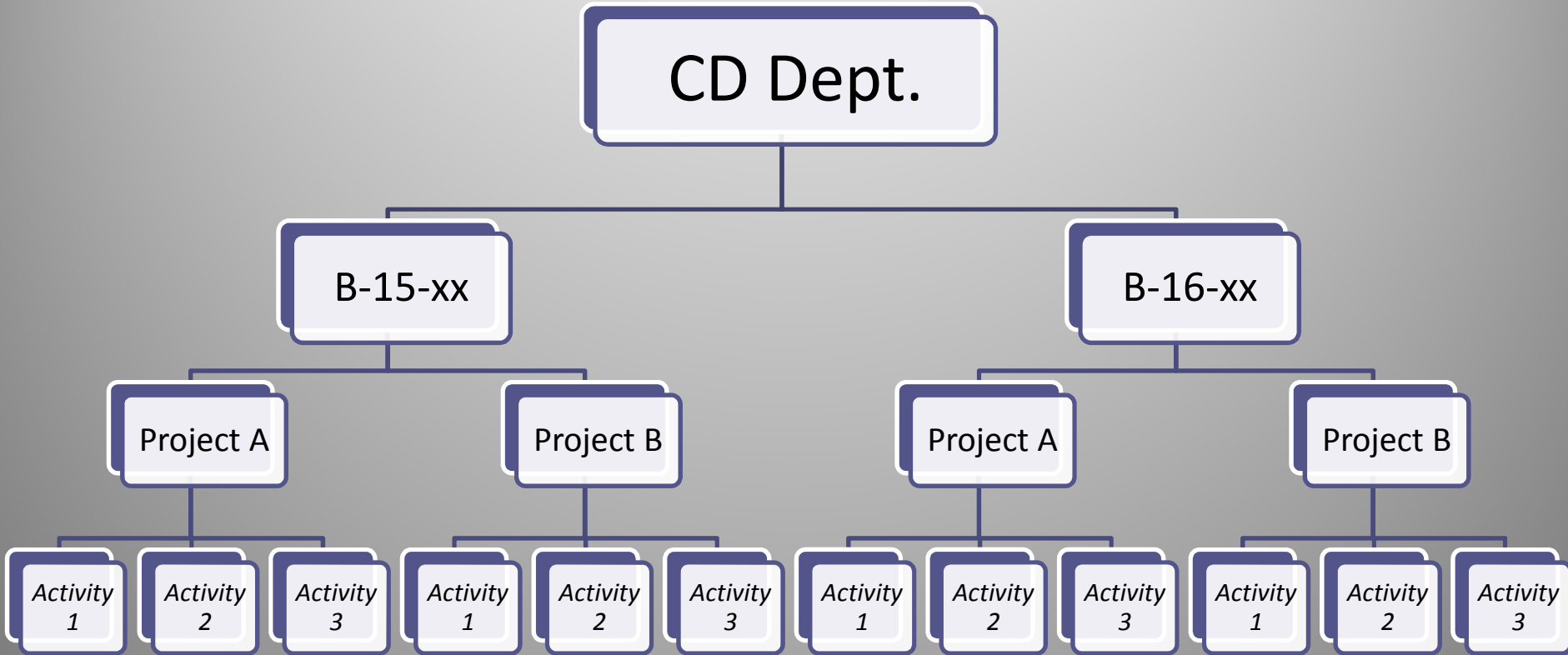
- Indirect costs can more plainly be defined as any costs incurred by a recipient or subrecipient that cannot be **traced** directly to a *cost objective* (without disproportionate effort).
- Cost objective

§200.28 Cost objective.

Cost objective means a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. A cost objective may be a major function of the non-Federal entity, a particular service or project, a Federal award, or an indirect (Facilities & Administrative (F&A)) cost activity, as described in Subpart E—Cost Principles of this Part. See also §§200.44 Final cost objective and 200.60 Intermediate cost objective.

A typical cost objective is a HUD award, project, or activity.

CDBG Cost Objective Examples



Indirect Cost Rate

Indirect costs ÷ Direct cost base
(expressed as a percentage)

- Acceptable direct cost bases:
 - Direct salaries and wages including (or excluding) all fringe benefits.
 - Direct salaries and wages including vacation, holiday, sick pay, and other paid absences but excluding all other fringe benefits.
 - Modified Total Direct Costs (MTDC)

Types of Indirect Cost Rates

Provisional

Final

Predetermined

Fixed (with carry forward)

10% De Minimis Rate

§200.414 Indirect (F&A) costs.

(f) In addition to the procedures outlined in the appendices in paragraph (e) of this section, any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-Federal entities described in Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals, paragraph D.1.b, may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. As described in §200.403 Factors affecting allowability of costs, costs must be consistently charged as either indirect or direct costs, but may not be double charged or inconsistently charged as both. If chosen, this methodology once elected must be used consistently for all Federal awards until such time as a non-Federal entity chooses to negotiate for a rate, which the non-Federal entity may apply to do at any time.

10% De Minimis Rate (continued)

§200.68 Modified Total Direct Cost (MTDC).

MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). *MTDC* excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

Government Wide Central Service Cost Allocation Plan

Appendix V to Part 200—State/Local Governmentwide Central Service Cost Allocation Plans

- Governmental units provide provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating departments or agencies on a centralized basis.
- Plan identifies central service costs and assigns them to operating departments (or other sub-units) on a reasonable and consistent basis

Indirect Cost Rate Proposal (ICRP)

§200.57 Indirect cost rate proposal.

Indirect cost rate proposal means the documentation prepared by a non-Federal entity to substantiate its request for the establishment of an indirect cost rate as described in Appendix III to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs) through Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals of this part, and Appendix IX to Part 200—Hospital Cost Principles.

Indirect Cost Rate Proposal (continued)

- Typically, the ICRP for a governmental entity covers an operating department or agency
- ICRP for nonprofit organization may cover entire operation
- Indirect costs included in ICRP consist of:
 - Central service costs allocated to the unit (if it is a governmental unit), and
 - Indirect costs of department/agency/organization

Cognizant Agency Determination

- Guidance on determining cognizance provided in Appendix V to Part 200 - State/Local Governmentwide Central Service Cost Allocation Plans
- **NOTE:** Cognizance for Central Service Cost Allocation Plan may be different than cognizance for an Indirect Cost Proposal for a department of the governmental unit
- Some Federal agencies are always cognizant for certain categories of governmental units (e.g., HUD is cognizant for state and local housing and development districts)

Preliminary Steps - Documentation

Organization review

Review Federal and non-Federal funding

Review accounting structure

Prepare cost policy statement

Prepare indirect cost proposal

Submit to cognizant agency (or retain for review)

Submission Requirements

Government Wide Central Service Cost Allocation Plans

- Major Local Government
 - a “major local government” is required to submit plan to its cognizant agency annually
 - major local government: receives more than \$100 million in direct Federal awards
 - other local governments claiming central service costs must develop a plan in accordance with Appendix V and maintain the plan and related supporting documentation for audit
- Timing
 - prepared and, when required, submitted within six months prior to the beginning of each of the governmental unit's fiscal years in which it proposes to claim central service costs.

Submission Requirements

Indirect Cost Rate Proposal (ICRP)

Governmental Entity

- governmental department/agency receiving more than \$35 million in direct Federal funding must submit ICRP to its cognizant agency
- other departments/agencies must prepare proposal and hold for review
- ICRP must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year

Submission Requirements

ICRP from Nonprofit Organization

- a nonprofit organization which has not previously established an indirect cost rate with a Federal agency must submit its initial ICRP immediately after the organization is advised that a Federal award will be made and, in no event, later than three months after the effective date of the Federal award
- Organizations that have previously established indirect cost rates must submit a new ICRP to the cognizant agency for indirect costs within six months after the close of each fiscal year.

Submission Instructions

If HUD is determined to be the *cognizant agency* and submission of Central Services Plan or ICRP is required, it should be submitted by the grant recipient to the CPD Division in the appropriate field office. The field office should forward the documentation to

HUDCPDIndirectCostRates@hud.gov for submission to the Department of Health and Human Services (HHS).

Recovering Indirect Costs

When using a rate specified in ICRP:

- Submit claims/drawdowns using the rate negotiated with the cognizant agency or the rate in the indirect cost proposal prepared and held for review
- Apply indirect cost rate to direct cost base (i.e., direct costs incurred under the grant being charged for indirect costs)
- Maintain documentation for audit purposes

Recovering Indirect Costs

When using a 10% de minimis rate:

- Submit claims/drawdowns using the 10% de minimis rate
- Apply de minimis rate to MTDC (incurred under grant being charged for indirect costs)
- Maintain documentation for audit purposes

Limitations

- Amount recovered may be affected by statutory or regulatory limitations
- For example, CDBG recipients may not be able to recover amount of indirect costs otherwise allocable to a grant if it would cause the recipient to exceed the cap on general administrative costs