

Indirect Cost Guidance for EPA Assistance Agreements

This Indirect Cost Guidance for EPA Assistance Agreements (IDC Guidance) is intended for EPA management and staff, to assist applicants and recipients with regulatory compliance. This IDC Guidance corresponds with the applicable sections of the [Indirect Cost Policy for EPA Assistance Agreements](#) (IDC Policy), followed by general information that does not necessarily correspond with a specific section of the IDC Policy.

A corresponding [Indirect Cost Policy for Recipients of EPA Assistance Agreements](#) and accompanying [Indirect Cost Guidance for Recipients of EPA Assistance Agreements](#) document is available to applicants and recipients. Components of this guidance that are not intended to be shared externally are marked “Internal”. Additional Indirect Cost (IDC) Policy materials are available on the [GPI Topics](#) page of the Office of Grants and Debarment’s Intranet, and externally on the [EPA Indirect Cost Policy](#) page.

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Applicability and Effective Date (relates to Section 2.0 of the IDC Policy)

Applicability of the IDC Policy to Subrecipients or Procurement Contractors under EPA Assistance Agreements

The IDC Policy does not apply to subrecipients or procurement contractors. Pass-through entities should refer to [2 CFR 200.331 Requirements for pass-through entities](#), paragraph (a)(4), which includes the option of allowing use of the 10% *de minimis* rate in accordance with [2 CFR 200.414\(f\)](#).

Policy (relates to Section 6.0 of the IDC Policy)

Statutory or Regulatory Limits on Administrative Costs and their Impact on Indirect Costs

As a general matter, statutory or regulatory limits on administrative costs restrict the amount of indirect costs that may be charged to EPA assistance agreements subject to the limitation. However, the precise language of the statute or regulation may lead to a different result. EPA's Chesapeake Bay Program, for example, has a 10% statutory limit on administrative costs that applies to the direct costs of grant administration but does not restrict the allowability of indirect costs. When a recipient has an approved IDC rate, and the recipient has a grant under a program with a statutory or regulatory limit, the recipient can only budget for, and draw down, IDCs in amounts that comply with the limitation.

EPA Grant Programs that have Statutory or Regulatory Limits on Indirect Costs

EPA has developed a list of grant programs with statutory or regulatory limits on indirect costs that is available at:

http://intranet.epa.gov/ogd/policy/statutory_restrictions_on_indirect_costs_in_epa_financial_assistance_programs.pdf

Statutory or Regulatory Limits on Administrative Costs when Program Funds are Included in Performance Partnership Grants

Program specific limitations on administrative costs do not apply when the program is included in a Performance Partnership Grant (PPG). The statutory authority for the PPG itself, as implemented by EPA's PPG regulations, is controlling. EPA has not applied administrative cost restrictions to PPGs.

Approved Rates are the Correct Rates to Use (Aside from When Receiving a Grant under a Program with a Statutory Administrative Cap)

Recipients may use a lower rate than their approved rate if they wish, however they cannot use a rate that is higher than the approved rate. Usually, recipients will budget using their full approved rate, which EPA must honor (with the exception of IHEs, which are required to use the same rate throughout the life of the grant, even if a higher rate is negotiated after award).

Proposed Rates (relates to Section 6.2 of the IDC Policy)

(Internal) Sample Email Language for GMOs/GSs to Use when Requesting Proof of IDC Proposal Submittal to Cognizant Agency from Applicants

Greetings _____,

I am working on processing your assistance agreement (grant) application and as part of that process, I am required to verify whether you have submitted an IDC Rate proposal to your cognizant agency. Please forward verification if you have submitted an IDC Rate proposal to your cognizant agency. Verification may be in the form of a forwarded email showing that the IDC rate proposal was submitted, a response email from the cognizant agency, acknowledging receipt of your IDC rate proposal, or other written form of verification.

(Internal) Sample Email Language for GMOs/GSs to Use when Requesting Proof from Exempt Governmental Agencies that an IDC Proposal has been Prepared, and that Submittal to Cognizant Agency is Not Required

Greetings _____,

I am working on processing your assistance agreement (grant) application and as part of that process, I am required to verify that your agency receives \$35,000,000 or less in Federal funding annually, and is not required to submit an IDC Rate proposal to your cognizant agency, in accordance with 2 CFR 200 Appendix VII. Please reply to this email, attesting that your agency has prepared and IDC rate proposal in accordance with 2 CFR 200 Appendix VII, and that your cognizant agency has not required your agency to submit it. You are not required to submit the prepared IDC rate proposal to the EPA, unless the EPA is your cognizant agency and it is requested by the EPA's Rate Negotiator (currently Jackie Smith at Smith.Jacqueline@epa.gov or 202-564-5055).

Ten Percent *De Minimis* Rate (relates to Section 6.3 of the IDC Policy)

(Internal) How GMOs/GSs should verify whether an applicant that wants to use the 10% *de minimis* rate has never had a negotiated Indirect Cost (IDC) rate

The Grant Specialist (GS) should ask the applicant if the applicant has had a rate in the past, and check IGMS and/or other local sources (such as regional records) to verify the applicant has not had a rate in the past. GMOs/GSs can also contact the cognizant agency, when known.

State and local governmental departments or agency units that receive more than \$35,000,000 in Federal funding annually are not allowed to use the 10% *de minimis* rate, in accordance with the [Frequently Asked Questions For The Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards At 2 CFR 200](#). If a GS is concerned that a state department or agency unit may receive more than

\$35,000,000 in federal funding annually and is requesting to use the 10% *de minimis* rate, the GS may check USASpending.gov to assist with the determination.

How to Request a Regulatory Exception to Use the 10% *De Minimis* Rate, if an Applicant has had an IDC rate in the past

Applicants should seek a regulatory exception in order to budget and draw down funds, using the 10% *de minimis* rate. The applicant should email the exception request to OGDWaivers@epa.gov, copy the appropriate GMO(s) when submitting the exception request, and:

1. The email subject should be “IDC Regulatory Exception.”
2. Include grant numbers for all current grants with the EPA. These numbers are available on the EPA grant award documents, and will start with the Program Code (such as “GA” for a GAP grant) and then eight alphanumeric characters (such as J0110962)
3. Include the Recipient Organization’s Name, as shown in www.SAM.gov
4. Include the Recipient Organization’s Unique Identity Identifier (currently the Dunn and Bradstreet or DUNS Number)
5. Include the Recipient Organization’s Contact Information (email address, mailing address and phone number)
6. Include a statement that the applicant/recipient is requesting an exception to the requirement at [2 CFR 200.414\(f\)](#) that limits use of the 10% *de minimis* rate to entities that have never received a negotiated indirect cost rate.
7. Include a justification for the exception (description of why the exception is needed, any extenuating circumstances that may prevent compliance with the requirement submitting a rate proposal to the cognizant agency)
8. Include a copy of the most recent IDC rate agreement; and
9. Include any additional background information that may help EPA to make a determination

Use of Expired Rates (relates to Section 6.4 of the IDC Policy)

Options for Applicants if the Negotiated Rate Has Expired

The applicant should do (at least) one of the following:

1. Request an IDC rate extension from the cognizant agency (this is not an option for provisional and fixed rates with carry-forward), in order to budget and draw down IDCs;
2. Submit an IDC rate proposal to the cognizant agency in order to include IDCs in the budget. IDCs should not be draw down until a rate is approved;
3. Seek a regulatory exception (only available for fixed rates with carry-forward) to continue to budget and draw down IDCs, using the previous/expired rate;
4. Seek a regulatory exception from the National Policy, Training, and Compliance Division of EPA’s Office of Grants and Debarment, in order to budget and draw down funds using the 10% rate; or

5. Remove IDCs from the budget, and do not charge for IDCs. Funds may be transferred to the appropriate Direct budget categories, in this case.

In some cases, it may be a good idea for an applicant to do a combination of options, such as request an extension from the cognizant agency and also submit a rate proposal to the cognizant agency.

Drawing Down EPA Funds for IDCs with an Expired IDC Rate

Only Institutes of Higher Education may draw down for IDCs with an expired rate, as long as an approved rate was in place and funds were budgeted for IDCs when the grant was awarded.

Other recipient types (Tribe, Non-Profit, governmental agency that receives \$35,000,000 or more in federal funding annually) has an expired (or expiring) rate, the applicant must do one of the following, in order to continue using that rate after expiration:

1. Obtain approval from the cognizant agency to extend the rate (not applicable to fixed rates with carry-forward or provisional rates).
2. Obtain a regulatory exception from the National Policy, Training, and Compliance Division (NPTCD) of EPA's Office of Grants and Debarment (OGD), to continue to use a fixed rate with carry-forward (for EPA grants only).

How to Remedy Expired or Expiring Rates when EPA is the Cognizant Agency

Applicants and EPA GMOs can contact EPA's Rate Negotiator (currently Jackie Smith at Smith.Jacqueline@epa.gov or 202-564-5055) for assistance. GMOs can check to see if the applicant has submitted a rate proposal, and applicants can request rate extension. If the EPA's Rate Negotiator has received a rate proposal, the GMO will allow the applicant to budget for IDCs. If the applicant has submitted a request for a rate extension (for an IDC rate type other than fixed rates with carry-forward or provisional rates, which cannot be extended), the GMO will allow the applicant to budget for IDCs. If a rate proposal or request for a rate extension has not been received, the applicant/recipient cannot budget for IDCs.

The EPA Rate Negotiator cannot extend fixed rates with carry-forward, however applicants can request a regulatory exception to continue using a fixed rate with carry-forward from the National Policy, Training, and Compliance Division of EPA's Office of Grants and Debarment. See below for instructions on requesting a regulatory exception that you can share with applicants, though they are also contained in the [Indirect Cost Guidance for Recipients of EPA Assistance Agreements](#).

GMOs should work with the EPA Rate Negotiator and applicants/recipients prior to removing IDCs from the budget. Funds cannot be drawn down for IDCs until a rate (or extension) has been approved. Fixed rates with carry-forward cannot be extended by cognizant agencies, however as the awarding agency, EPA may approve a regulatory exception on a case-by-case basis to allow continued use of an expiring or expired fixed rate with carry-forward.

How to Request a Regulatory Exception to Continue to Use an Expiring/Expired Fixed Rate with Carry-Forward

The applicant/recipient should email the exception request to OGDWaivers@epa.gov, copy the GMO(s) when submitting the exception request, and:

1. The email subject should be “IDC Regulatory Exception.” Include grant numbers for all current grants with the EPA. These numbers are available on the EPA grant award documents, and will start with the Program Code (such as “GA” for a GAP grant) and then eight alphanumeric characters (such as J0110962)
2. Include the Recipient Organization’s Name, as shown in www.SAM.gov
3. Include the Recipient Organization’s Unique Entity Identifier (currently the Dunn and Bradstreet or DUNS) Number
4. Include the recipient Organization’s Contact Information (email address, mailing address and phone number)
5. Include a statement that the applicant/recipient is requesting an exception to the requirement at [2 CFR 200.414\(c\)](#) that it charge indirect costs based on an approved rate.
6. Include a justification for the exception (description of why the exception is needed, any extenuating circumstances that may prevent compliance with the requirement to obtain an approved fixed rate with carry forward prior to expiration)
7. Include a copy of the most recent IDC rate agreement; and
8. Include any additional background information that may help EPA to make a determination

Handling IDCs in upcoming awards, if an applicant has submitted a regulatory exception request to continue to use an expiring/expired fixed rate with carry-forward

The GMO should treat the exception request the same way as an IDC rate proposal is treated. The applicant will include IDCs in the budget, if it has submitted an exception request. The National General IDC Term and Condition alerts recipients that in order to use EPA funds for T&Cs, they must have a current, approved rate.

Drawing Down Funds for IDCs if a Recipient Cannot Obtain Approval to Extend an Expiring/Expired Rate for the Cognizant Agency, or Obtain a Regulatory Exception from NPTCD to Continue to Use an Expired Fixed Rate with Carry-Forward

If a recipient is unable to obtain either an extension of a negotiated IDC rate, or a regulatory exception to continue using a fixed rate with carry-forward, it is unallowable for the recipient to draw down funds for IDCs. In order to draw down funds for IDCs, recipients must do one of the following:

1. Obtain an approved rate from the cognizant agency;
2. Obtain a regulatory exception from NPTCD to use the 10% *de minimis* rate; or
3. Not draw down IDCs until an approved IDC rate is in place.

Drawing Down Funds for IDCs if NPTCD Approves a Regulatory Exception for Continued Use of an Expired Fixed Rate with Carry-Forward

Once NPTCD approves its continued use, the expired rate is considered an approved rate until the date that NPTCD sets (which may be up to four years from the expiration date, or until the recipient receives a new approved negotiated rate by its cognizant agency).

Applicability of NPTCD's Approval of Continued Use of an Expired Fixed Rate to Non-EPA Grants

This flexibility only applies to EPA grants. The rate will still be considered expired by other Federal agencies, though other agencies may also have a regulatory exceptions process. Contact other Federal agencies to find out if they have any procedures in place for expired fixed rates with carry-forward.

Options for Applicants that Cannot get Approved Rates in a Timely Manner Due to the Timing of their Audits or other Budgetary Reasons

Recipients may have a few options:

1. If there is an ongoing issue with rates that rates year after year without approved new rates in place, applicants/recipients can submit a rate proposal to the cognizant agency for one year, and at the same time also request a provisional rate for the next year. This will ensure an "approved" rate is always in place, and allow recipients to draw down for IDCs. For example, if a recipient is on a calendar year (CY) cycle, a recipient can submit a rate proposal for CY19, and at the same time, request a provisional rate for CY20. Then when the rate for CY19 expires, the provisional rate will be in place to cover the time needed to submit and receive a new approved rate for CY20. At the same time the recipient submits a rate proposal for CY20, the recipient would request a provisional rate for CY21.
2. Applicants/recipients can request a rate extension from their cognizant agency (unless they have a provisional or fixed rate with carry-forward) that will cover the period of time until approval of their new IDC rate. This may be done at the same time the applicant/recipient submits an IDC rate proposal.
3. For fixed rates with carry-forward, applicants/recipients can submit an exception request to NPTCD, to request continued use of the fixed rate with carry-forward until the cognizant agency approves a new rate.

Use of Unrecovered Indirect Costs for Cost-Sharing or Matching (relates to Section 6.5 of the IDC Policy)

Examples of Situations in which a Recipient Uses Unrecovered Indirect Costs for Cost-Sharing or Matching

With prior EPA approval, a recipient may meet its statutory or legally binding voluntary cost-sharing requirement by drawing down less than the full amount of indirect costs it would be entitled to under the rate negotiated with its cognizant Federal agency. The difference between the amount for which the recipient receives payments for indirect costs and the amount to which it would be entitled if it had drawn down the full amount authorized under the negotiated rate may be counted towards cost-share as unrecovered indirect costs under 2 CFR 200.306(c). The recipient must maintain records to document the amounts being charged to the EPA agreement and attributable to cost-share.

For example, a recipient may choose to draw down no indirect costs at all and count the entire amount as cost-share. In such a scenario, indirect costs must be included in the approved award budget at the full amount expected to be earned and used as cost-share. As costs are incurred during the performance of the agreement, the recipient would apply its approved indirect rate to the applicable base costs for the period and determine the amount of indirect costs earned. It would not however, submit payment requests (drawdowns) for these indirect costs. This calculation and supporting documentation would serve as the required records to support the unrecovered indirect costs being used as cost-share.

Similarly, a recipient may choose to draw only a portion of its earned amount of indirect costs and use the rest as cost-share. In this scenario, indirect costs must be included in the approved award budget at the full amounts expected to be earned and used as payment to the recipient and as cost-share. As costs are incurred during the performance of the agreement, the recipient would apply its approved indirect rate to the applicable base costs for the period and determine the amount of indirect costs earned. It would then submit payment requests for (i.e., draw down) less than the full earned value of the indirect costs, and document the difference as unrecovered indirect costs being used as cost-share. These calculations and supporting documentation would serve as the required records to support both the recipient's draw downs and the unrecovered indirect costs being used as cost-share.

Note: For competitive purposes, the recipient may also choose to charge the agreement at a rate less than its full negotiated indirect rate. If this occurs, the only difference between this case and the scenarios above, is the amount budgeted for indirect costs in the award. When a recipient opts to charge a lesser rate, the amount budgeted in the agreement will be less than the amount it would otherwise be if the full rate was used. Of this lesser budgeted amount, the recipient may choose to use all or part of this as cost-share. As provided at 2 CFR 200.306(a), for

research grant competitions EPA generally will not evaluate offers to charge less than the applicant's negotiated rate as a voluntary cost-share as part of the competitive ranking process.

How to Get Prior Approval for Use of Unrecovered IDCs as Cost-Share or Match

When an applicant submits an IDC rate proposal to the Cognizant Agency that clearly states that it is proposing to use unrecovered IDCs as cost-share, and EPA awards the assistance agreement based on the proposal, EPA has provided prior approval to use unrecovered IDCs as cost-share. After award, recipients may request that the EPA Grants Management Officer approve a budgetary change to apply unrecovered indirect costs towards cost-share.

General Guidance (unrelated to a specific section on the IDC Policy)

Prior Approval for Shifting Costs Between Direct and Indirect Cost Categories when Rebudgeting

There is currently no regulatory limitation on shifting costs between IDC and direct cost categories. EPA will allow rebudgeting to include shifting of funds between IDCs and direct costs during the life of the grant without prior approval, as long as none of the notification or prior approval requirements in [2 CFR 200.407](#) are triggered, due to the shifting of funds (e.g. changes to the scope of work, addition of participant support costs). When the shifting of funds triggers notification or prior approval, the recipient must notify the program office and GMO as appropriate.

Distribution of Indirect Costs when Program Income that has been Added to Their EPA Agreement is Disbursed

Unless there is a statutory or regulatory limit on indirect costs, indirect costs can be distributed when disbursing program income that has been added to the agreement. Program income that is added to an EPA assistance agreement under [2 CFR § 1500.7\(b\)](#) “must be used for the purpose and conditions of the Federal award”, in accordance with [2 CFR § 200.307\(e\)\(2\)](#). The terms and conditions of EPA awards include allowable indirect costs. Recipients, therefore, may charge their Federally approved indirect cost rate to expenditures contained in the base of their indirect cost rate agreement, or to Modified Total Direct Costs if the recipient uses the [2 CFR 200.414\(f\)](#) 10% de-minimis rate, provided there are no statutory or regulatory restrictions.

For example, if a recipient's base for the purposes of distributing indirect costs is salaries, fringe benefits, and employee travel, then the recipient may apply its indirect cost rate when expending program income for those cost categories when carrying out the purpose of the EPA award.

Reporting IDCs on the SF-425 Federal Financial Report

Indirect costs reimbursed with federal funds are included in the total expenditures for each grant award. The submission of interim Federal Financial Reports (FFRs) are on a quarterly, semi-annual, or annual basis, based on the Terms and Conditions of each award. IDCs are to be summarized in block 11 of the SF-425 for the beginning and ending effective dates. Final FFRs

will include an entry for all IDC rates approved during the life of the award. Additional IDC approved periods should be included as an attachment to block 12 of the FFR.

What Should I Do if this Guidance Has Not Answered my Question(s)?

If you still have questions or concerns, and/or if you need additional assistance, please send an email to OGD_IndirectCost@epa.gov.