

# **Cost Allocation Guide for State and Local Governments**



**U.S. DEPARTMENT OF EDUCATION**

**Indirect Cost Division**

**Office of Grants Administration**

**Office of Finance and Operations**

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Betsy DeVos

*Secretary*

**Office of Finance and Operations**

Office of Grants Administration

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**September 2019**

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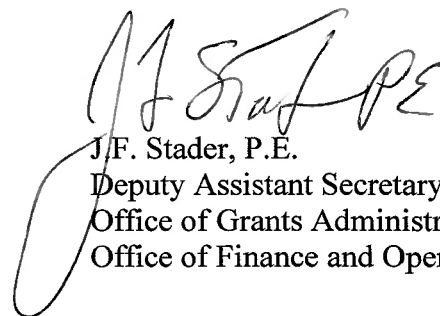
## FOREWORD

Office of Management and Budget's (OMB's) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR Part 200, *Uniform Guidance*) establishes principles and standards for determining costs on federal awards carried out through agreements with state and local governments. This *Cost Allocation Guide for State and Local Governments* (the Guide) provides assistance to state and local governments determining indirect cost and allocation methodologies in accordance with the uniform guidance and federal regulations. This Guide delivers instruction on the preparation of indirect cost rate proposals and the treatment of certain costs.

Financial stewardship is the cornerstone of the partnership between federal agencies and state governments. Changes in technology, administrative flexibility, and business management provide us with an opportunity to balance innovation with oversight. Maintaining adequate documentation and implementing proper internal controls are elemental to successful financial management.

The Indirect Cost Division (ICD) at the U.S. Department of Education (ED) developed this Guide to assist state and local governments in the preparation, submission, and review of indirect cost rate proposals (ICRP). An ICRP is the documentation that serves as the basis for determining an organization's indirect cost rate. This Guide includes informational guidance, forms, samples, and templates that can be used to assist in the preparation of the ICRP.

This Guide also provides direction on financial management and oversight practices related to cost allocation. For further information or technical assistance on the indirect cost process, please contact the ICD by writing to [IndirectCostGroup@ed.gov](mailto:IndirectCostGroup@ed.gov).



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Office of Grants Administration  
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## ACKNOWLEDGEMENTS

The *Cost Allocation Guide for State and Local Governments* represents a major initiative to establish key standards and practices in the area of cost allocation.

State and local educational agencies and ED's program offices provided valuable input for the contents of the original Guide, published in September 2009. In 2016, ICD developed a pilot group and worked closely with several state education agencies on the standardized submission templates. During 2017, ICD received feedback from several states and incorporated this feedback into the current Guide.

The ICD staff worked extensively to ensure that this Guide contains current information and addresses the needs of grantees. The Indirect Cost Division staff includes Frances Outland, Director, Associate Directors; Andre Hylton, Phillip Luster, and Emily Wen, Negotiators; Nelda Barnes, Vivian Crouch, Mae Ewell, Catherine Hull, Anthony Johnson, Christian Muniz, and Damien Williams. During our research, ICD used information and related websites from other federal agencies' indirect cost departments, including the U.S. Department of Health and Human Services, the U.S. Department of the Interior, the U.S. Department of Justice, and the U.S. Department of Labor.

ED's Office of Finance and Operations expresses gratitude and appreciation to all who contributed to the completion of this Guide.

## SECTION I

### SECTION I: GENERAL INFORMATION

#### A. Authority

This *Cost Allocation Guide for State and Local Governments* is based on the requirement of the *Code of Federal Regulations (CFR)* under Office of Management and Budget (OMB) grant guidance under 2 *CFR* 200, “*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*” (subsequently referred to as the *Uniform Guidance*) and *Education Department General Administrative Regulations (EDGAR)* under 34 *CFR* 75 and 76.

The Uniform Guidance under 2 *CFR* 200 establishes the standard that one federal agency is responsible for the review, negotiation, and approval of indirect cost rate proposals.

As provided in *EDGAR* at 34 *CFR* 76.561, the secretary establishes that each state educational agency, on the basis of a plan approved by the U.S. Department of Education secretary, shall approve an indirect cost rate for each local educational agency (LEA) that makes such a request, and the secretary has delegated cost allocation responsibilities to the chief financial officer of each LEA.

ICD negotiates directly with organizations that receive the majority of their direct federal funding from the U.S. Department of Education or are designated by the Office of Management and Budget to negotiate with the Department of Education — such as state educational agencies.

#### B. Key Terms

For purposes of this Guide, the following definitions of key terms apply<sup>1</sup>:

**Central Service Cost Allocation Plan** (2 *CFR* 200.9) is the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies.

**Cognizant Agency** (2 *CFR* 200.19) means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this part on behalf of all Federal agencies. The cognizant agency for indirect cost is not necessarily the same as the cognizant agency for audit. For assignments of cognizant agencies, see the following:

- (a) For IHEs: Appendix III to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs), paragraph C.11.
- (b) For nonprofit organizations: Appendix IV to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations, paragraph C.2.a.

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<sup>1</sup> For many of these terms, more detailed definitions are provided at 2 *CFR* Part 200.



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(c) For State and local governments: Appendix V to Part 200—State/local Government-wide Central Service Cost Allocation Plans, paragraph F.1.

(d) For Indian tribes: Appendix VII to Part 200—States and local Government and Indian Tribe Indirect Cost Proposal, paragraph D.1.

**Cost Allocation Plan** is a document that identifies, accumulates, and distributes allowable direct and indirect costs to cost objectives. The plan also identifies the allocation methods used for distribution to cost objectives, on the basis of relative benefits received.

**Governmental Unit** is the entire state, local, or federally recognized Indian tribal government, which includes components.

**Indirect Costs** (2 *CFR* 200.56) are costs that have been incurred for common or joint purposes. Indirect costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective.

**Indirect Cost Rate** is a method for determining, in a reasonable manner, the proportion of indirect costs each program should bear. The indirect costs are included in the numerator (pool) and the direct costs are included in the base (denominator). The result is expressed as a percentage (rate) of the indirect costs to direct costs.

**Indirect Cost Rate Proposal** (2 *CFR* 200.57) is documentation prepared by a governmental unit or component thereof to substantiate its request for the establishment of an indirect cost rate.

**Local Educational Agency (LEA)** is a public board of education or other public authority legally constituted within a state for either administrative control or direction of public elementary or secondary schools in a city, county, township, school district, or other political subdivision of a state; or such combination of school districts or counties a state recognizes as an administrative agency for its public elementary or secondary schools.

**Local Government** (2 *CFR* 200.64) is any unit of government within a state, including a county, borough, municipality, city, town, township, parish, local public authority — including any public housing agency under the *United States Housing Act of 1937*, school district, special district, intrastate district, council of governments (whether or not incorporated as a nonprofit corporation under State law), and any agency or instrumentality of a multi-regional, or intrastate or local government.

**Non-Federal Entity (NFE)**, also referred to as “grantee,” is the organization to which a grant is awarded and that is accountable for the use of the funds provided. The NFE or grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document.

**State** is any of the states of the United States, District of Columbia, Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a state exclusive of local governments.

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**State Educational Agency (SEA)** is the state board of education or other agency or office primarily responsible for the supervision of public elementary and secondary schools in a state. In the absence of this office or agency, it is an office or agency designated by the governor or state law.

**Subaward** (Subgrant) is an award made by a pass-through entity to a subrecipient to carry out part of a federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

**Subrecipient** (2 *CFR* 200.93) is a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program; but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency.

Characteristics of a subrecipient include but are not limited to when the non-Federal entity

1. determines who is eligible to receive what Federal assistance.
2. measures performance in relation to accomplishing the Federal program objectives.
3. is responsible for programmatic decision making.
4. must adhere to applicable Federal program requirements specified in the Federal award.
5. uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.

### C. Types of Indirect Cost Rates

**Provisional Rate** is a temporary indirect cost rate applicable to a specified period, which is used for funding, interim reimbursement and reporting indirect costs on federal awards pending the establishment of a “final rate” for that period.

**Final Rate** is an indirect cost rate applicable to a specified past period, which is based on the actual allowable costs of the period. A final rate is not subject to adjustment.

**Fixed Rate (with Carry-forward)** is an indirect cost rate calculated similarly to a predetermined rate, except the difference between the estimated costs and the actual costs of the period is carried forward as an adjustment to the rate computation of a subsequent period.

**Predetermined Rate** is an indirect cost rate applicable to a specified current or future period, usually the governmental unit’s fiscal year. This rate is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is

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not subject to adjustment. Because of legal constraints, predetermined rates are not permitted for federal contracts; they may, however, be used for grants or cooperative agreements.

**Unrestricted** indirect cost rates are those calculated for use on programs without limitations on indirect costs.

**Restricted Rates** — Certain ED grant programs have a statutory requirement prohibiting the use of federal funds to supplant non-federal funds. These programs require the use of a restricted indirect cost rate, computed in accordance with 34 *CFR* 76.564-76.569. Adjustments to the unrestricted rate calculation are made and result in a lower rate to claim indirect cost reimbursement on restricted rate programs.

**De Minimis Rate** is a rate provided for at 2 *CFR* 200.414(f) that does not require the use of an indirect cost rate agreement approved by the cognizant agency. Non-federal entities that have never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10 percent of modified total direct costs, which may be used indefinitely. If the NFE chooses to use the de minimis rate, it must do so consistently for all Federal awards until it chooses to negotiate a rate. The NFE may apply for indirect cost rate any time. Any non-federal entity seeking this rate must inform their grant or program officer prior to the award of their grant. As described in *CFR* §200.403 “Factors Affecting Allowability of Costs,” costs must be consistently charged as either indirect or direct costs, and the same costs that have been allocated as indirect costs must not be also classified as direct costs.

The de minimis rate is not applicable to the following programs:

- programs administered by SEAs and LEAs
- restricted programs subject to supplement and not supplant clause requirements (applicable provisions in *EDGAR* 34 *CFR* §§75.563 and 76.563)
- training grants

**Pass-through entities can issue de minimis rates to their subrecipients.**

### **D. Uniform Guidance Indirect Cost Rate Extensions**

In accordance with §2 *CFR* 200.414(g), the NFE may request an extension of its current rates for up to four years, as stated below:

Any NFE that has a current federally negotiated indirect cost rate may apply for a one-time extension of the approved rate for a period of up to four years. This extension will be subject to review and approval by the cognizant agency. If an extension is granted, the NFE may not request a rate review until the extension period ends. At the end of the four-year extension, the non-Federal entity must re-apply for a rate. A subsequent one-time extension (up to four years) is permitted if a renegotiation is completed between each extension request.

The required level of documentation is determined by the cognizant agency. The Department of Education follows the additional guidance provided by [OMB in its frequently asked questions](#)

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[\(FAQ\)](#) on this subject. The following guidance is applicable to request for extensions under 2 *CFR* 200.414(g) as follows:

1. Written request (email or letter) with the number of years requested submitted within 60 days or sooner before the due date of the next submission of the indirect cost rate proposal.
2. Determination of eligibility for the extension: NFEs with fixed carry-forward rates are not eligible; NFEs that have cost reimbursable contracts are not eligible; NFEs that do not have sufficient historical experience or potential future business that would justify granting the extension are not eligible.
3. If eligible for rate extension, the following additional documents may be requested by ED:
  - a. Most recent audited financial statements or current expenditures for the last completed fiscal year
  - b. Current Listing of Grants by agency, award amount, and performance period. Information on any applications made for significant awards and the probability of them being awarded

### **E. Special Indirect Cost Rate**

Many ED programs are subject to statutory requirements that the Federal funds be used to “supplement and not supplant” ongoing educational services; therefore, they are subject to restricted indirect cost rates as defined in *EDGAR* under 34 *CFR* 75.563 and 34 *CFR* 76.563. For those programs under the supplement not supplant requirements, a special rate is required, which is termed a “restricted indirect cost rate.” If special rate circumstances exist as a restricted rate, the NFE must make the cognizant agency aware of these special requirements for the purpose of rate negotiation. Some grantees have an approved cost allocation plan from their cognizant agency. Even if the cost allocation plan is approved, if the grantee receives funds from an ED program that is subject to the “supplement not supplant” requirement, the grantee must use a restricted indirect cost rate. In addition to a restricted rate, a training grant with an 8 percent limitation is another example of a special indirect cost rate.

According to 2 *CFR* 200, Appendix VII, (C)(4)(b), “Where Federal statutes restrict the reimbursement of certain indirect costs, it may be necessary to develop a special rate for the affected Federal award. Where a ‘restricted rate’ is required, the same procedure for developing a non-restricted rate will be used except for the additional step of the elimination from the indirect cost pool those costs for which the law prohibits reimbursement.” The requirements and guidance are defined in the *Education Department General and Administrative Regulations (EDGAR)* at 34 *CFR* 75.563 and 76.563 and computed in accordance with 34 *CFR* 76-564 – 76.569. In addition, according to 2 *CFR* 200, Appendix VII (E)(1), “Negotiation and Approval of Rates,” it is stated that where a Federal awarding agency has reason to believe that special operating factors affecting its Federal awards necessitate special indirect cost rates, the funding

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agency will, prior to the time the rates are negotiated, notify the cognizant agency for indirect costs.

### **F. Approval and Negotiation of Indirect Cost Rates**

The ICD will negotiate and approve indirect cost rates submitted by entities for which ED is the cognizant federal agency. LEAs shall submit their indirect cost rate proposals to SEAs for approval. In situations where a local government receives funds only as a subrecipient, the pass-through entity is responsible for the approval of the subrecipient's indirect cost rates in accordance with the uniform guidance requirements.

### **G. Disputes**

If a dispute arises during the negotiation, the concern may be addressed to ED's Deputy Assistant Secretary for Grants Administration. ED's Office of Administrative Judges has the authority to review disputes involving funds recovery actions under specific programs only.

#### Appeals

When an indirect cost rate negotiator and a grantee cannot reach agreement on an acceptable indirect cost rate, the cost negotiator shall make a unilateral determination of the rate(s) and will notify the NFE. ICD will advise the NFE of its right to appeal the determination and will provide information about the appeal procedures, upon request. Based on the information provided by the cost negotiator and the grantee, ED's Deputy Assistant Secretary for Grants Administration shall review the appeal and issue a memorandum sustaining, modifying, or denying the unilateral rate issued.

### **H. Records Retention**

In accordance with the provisions of 2 *CFR* 200.333, "Retention requirements for records," records shall be retained for three years for indirect cost proposals and cost allocation plans. The three-year period runs from the submission of certain financial documents (explained further below) and is based on the following circumstances:

Indirect cost rate proposals and cost allocations plans. This paragraph applies to the following types of documents and their supporting records: indirect cost rate computations or proposals, cost allocation plans, and any similar accounting computations of the rate at which a particular group of costs is chargeable (such as computer usage chargeback rates or composite fringe benefit rates).

1. *If submitted for negotiation.* If the proposal, plan, or other computation is required to be submitted to the Federal Government (or to the pass-through entity) to form the basis for negotiation of the rate, then the three-year retention period for its supporting records starts from the date of such submission.

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2. *If not submitted for negotiation.* If the proposal, plan, or other computation is not required to be submitted to the Federal Government (or to the pass-through entity) for negotiation purposes, then the three-year retention period for the proposal, plan, or computation, and its supporting records, starts from the end of the fiscal year (or other accounting period) covered by the proposal, plan, or other computation.

In addition to the exception given for the indirect cost proposals and cost allocation plans, the general rule for maintaining records for a period of three years is that if any litigation, claim or audit is started before the expiration of that three-year period, the records must be retained until all litigation, claims, or audit findings involving those records have been resolved or final action is taken.

According to 2 *CFR* 200.333: “Retention requirements for records”:

Financial records, supporting documents, statistical records, and all other non-Federal entity records related to a Federal award must be retained for a period of three years, from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. Federal awarding agencies and pass-through entities must not impose any other record retention requirements upon non-Federal entities. The only exceptions are the following:

1. If any litigation, claim, or audit is started before the expiration of the 3-year period, the records must be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken.
2. When the non-Federal entity is notified in writing by the Federal awarding agency, cognizant agency for audit, oversight agency for audit, cognizant agency for indirect costs, or pass-through entity to extend the retention period.
3. Records for real property and equipment acquired with Federal funds must be retained for 3 years after final disposition.
4. When records are transferred to or maintained by the Federal awarding agency or pass-through entity, the 3-year retention requirement is not applicable to the non-Federal entity.
5. Records for program income transactions after the period of performance. In some cases recipients must report program income after the period of performance. Where there is such a requirement, the retention period for the records pertaining to the earning of the program income starts from the end of the non-Federal entity's fiscal year in which the program income is earned.

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If any litigation, claim or audit is started before the expiration of the 3-year period, the records must be retained until all litigation, claims, or audit findings involving those records have been resolved or final action is taken.

### **I. Proposal Submission Due Dates**

The due dates for submission of indirect cost proposals to the cognizant agency depend on whether an organization has previously established an indirect cost rate with the government, as well as the type of organizational entity (nonprofit, commercial, state or local government). Please note that an indirect cost proposal must be submitted to the cognizant agency.

NFEs that have previously established indirect cost rates with the Government must submit a new indirect cost proposal to the cognizant agency within six months after the close of the Entity's fiscal year (2 *CFR* 200, Appendix VII(D)(1)(d)). The certificate must be signed on behalf of the NFE by the chief financial officer or an individual designated by an individual at a level no lower than vice president or chief financial officer. The requirement for an indirect cost proposal is an annual requirement and is in effect as long as the organization is claiming indirect costs as part of its award.

#### **Extension of Due Dates**

Occasionally, extenuating circumstances may justify an extension of the due date for submission of a proposal. When a due date cannot be met, a written request for an extension, stating the reasons, must be sent to ICD prior to the due date. If a NFE is consistently late without adequate explanations, ICD would inform program offices and may recommend withholding of indirect cost recovery on existing award agreements when submission due dates have not been met.

## SECTION II

### SECTION II: GUIDELINES FOR PREPARING INDIRECT COST RATE PROPOSALS

Prior to the preparation of an indirect cost rate proposal and supporting documentation, the NFEs should thoroughly review the applicable cost principles. The 2 *CFR* 200 establishes the federal requirements for the determination of allowable and unallowable direct and indirect costs and the preparation of indirect cost proposals.

Indirect cost rate proposals require supporting schedules and documentation. The following steps are recommended in preparing an indirect cost rate proposal. An indirect cost rate proposal model for a SEA is included in the Appendix. The proposal should be tailored to the organization's structure.

Before calculating an indirect cost rate, the NFE should consider and review the following:

- Organizational structure
- Level of Federal funding
- Requirements of the *Uniform Guidance* (2 *CFR* 200) and *EDGAR*
- Accounting system reports
- Policies related to the charging of direct and indirect costs
- Availability of data on square footage, number of transactions, number of employees, etc., (if necessary to support cost calculations)
- Effort and cost required to achieve differing degrees of accuracy
- Need for a restricted indirect cost rate

#### A. Determination of Indirect Cost Rates

The basic methods for calculating indirect cost rates include the simplified, direct allocation, and the multiple allocation base methods. These methods and special (or restricted) indirect cost rates are discussed in further details in Section IV.

In order to prepare an indirect cost rate proposal, total costs, regardless of funding source, must be classified into one of the following categories: direct, indirect, and excludable costs. The following detailed steps will guide the preparation of the proposal.

#### B. Detailed Steps

##### 1. Determine Total Expenditures

Information from the NFE's accounting system should be used to determine total expenditures. Total costs, regardless of the funding source, should be identified for each fund, function, and object class (expenditure type). Federal and non-federal outlays should be determined.



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### 2. Identify Unallowable and Excluded Costs

Before calculating an indirect cost rate, the NFE should review the uniform guidance to determine which costs are unallowable or should be excluded from the indirect cost pool and/or distribution base. All activities that benefit from the governmental unit's indirect costs, including unallowable activities and donated services, should receive an appropriate allocation of indirect costs. All direct costs that are supported by indirect activities, including unallowable costs and the value of donated services, will be included in the direct cost base when calculating indirect cost rates.

Unallowable costs include but are not limited to debt service, fines and penalties, contingencies, lobbying, and election expenses. The indirect cost rate calculation and application should remove all unallowable costs. However, some unallowable costs must be allocated their share of indirect costs if they either generated or benefited from the indirect costs. The unallowable costs, when significant and necessary to the non-federal entity's mission, must be treated as direct costs whether or not allowable, and be allocated an equitable share of indirect costs.

The indirect cost rate calculation should exclude certain costs specified by 2 *CFR* 200.68 or costs which may distort or produce an inequity in the distribution of indirect costs to benefitting activities. Excludable costs include but are not limited to pass-through funds (funds provided to the NFE for specific subrecipients, such as funds designated for LEAs), subaward or subcontract expenditures in excess of \$25,000, food purchases, equipment purchases, charges for patient care, and rental costs (per 2 *CFR* 200, FAQ.68-3). The exclusion of rental costs in the definition of modified total direct costs (MTDC) is to exclude a cost item that may be a distorting item and skew the distribution of indirect costs), tuition remission, scholarships and fellowships, participant support costs, and any other costs which may distort the distribution of indirect costs.

The same costs should be excluded when calculating the rate and indirect cost reimbursement because the activities listed above require minimal administrative support.

Below are two examples of funds that can be awarded to a state agency. The examples explain when costs should be included in the direct cost base (denominator) or excluded from the rate calculation.

#### Example 1

*The SEA receives a \$1,000,000 award from a federal agency. The purpose of the award is to have specific school districts conduct seminars on a new federal program. The SEA awards \$100,000 each to 10 school districts. Each of the school districts is responsible for payroll, issuing contracts and purchase orders, acquiring and paying for supplies, reimbursement for travel, and other similar administrative costs. The only efforts the SEA spends on these awards are providing electronic payments and reviewing end-of-year financial reports. The \$1,000,000 award is a "pass-through" and therefore excluded. There is minimal benefit from these funds*

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*received from the SEA. For each school district, the expenditures are part of the base for calculating their indirect cost rate.*

### Example 2

*A state agency receives a \$500,000 grant from a corporate endowment to improve mathematics instruction. The endowment does not allow indirect cost reimbursement under its grants. The agency hires five full-time staff with the funds. The state agency pays the salaries, fringe benefits, local travel, supplies, and other staff expenses. All expenses incurred under this endowment grant are included in the state agency's base (except distorting items). It does not matter whether the endowment allows indirect costs or not. These costs benefit from the state agency's allowable indirect costs (payroll, personnel, procurement, data processing, etc.). Therefore, the costs are included in the base. If not, the state agency's other programs absorb an unfair portion of the costs of administering the endowment grant.*

### 3. Determine Direct Costs

Direct costs are those that can be identified specifically with a particular cost objective. The direct costs of a federal award can be specifically identified to the program and may be charged directly to the program. Examples of direct costs that may be charged to a federal program include the following:

- Compensation of the employees who works on the program
- Supplies and materials used for the program
- Equipment purchased and used for the program
- Travel expenses incurred specifically to carry out the program

### 4. Determine Indirect Costs

The Uniform Guidance defines indirect costs (2 CFR 200.56 Indirect (facilities & administrative (F&A)) costs) as those that are incurred for a common or joint purpose benefiting more than one cost objective. In addition, indirect costs cannot be readily identified as benefiting a particular cost objective. Examples of indirect costs include the salaries and expenses for the following activities which benefit the organization as a whole:

- Accounting
- Personnel
- Purchasing

Indirect costs are normally charged to federal programs through the indirect cost rate. Non-federal entities must be consistent in treating costs as direct or indirect under federal awards. Once a cost is treated as direct or indirect, it should be treated that way

## SECTION II

for all projects and activities, regardless of the source of funding. Any major change in the treatment of costs from indirect to direct or direct to indirect should be discussed with the cognizant agency for indirect costs for approval. These are accounting changes and impact the costs to the various grant programs.

### 5. Reconcile Proposal to Financial Statements/Expenditure Reports

Reconcile amounts in the indirect cost rate proposal to the audited financial statements or final expenditure reports. The organization is expected to provide support or explanation for any material variances.

### 6. Select the Distribution Base

The direct cost base (distribution base) selected should be the one best suited for assigning indirect costs to all cost objectives in accordance with the relative benefits received. The distribution bases commonly used are listed below. A restricted indirect cost rate must be calculated using a modified total direct cost base in accordance with 34 *CFR* 76.564-76.569. Organizations preferring to apply the indirect cost rate to a salaries and wages base may use a conversion calculation. The conversion calculation allows a restricted indirect cost rate to be based on and applied to salaries and wages.

Commonly used distribution direct cost bases include the following:

- a. Direct salaries and wages, including applicable fringe benefits
- b. Direct salaries and wages, excluding fringe benefits
- c. Total direct costs, excluding such items as equipment purchases, capital expenditures (e.g. alterations/renovations), 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, pass-through funds, or any other cost which may distort the distribution of indirect costs to benefiting activities. This base is referred to as a modified total direct costs (MTDC) base.

The selection of an appropriate direct cost base should be based upon the commonality of costs to all cost objectives. The proposed allocation base(s) is subject to negotiation and approval. Any modifications to the “approved” base require prior written approval. Failure to obtain such written approval may result in cost disallowances.

### 7. Compute the Indirect Cost Rate

Using the results of the steps listed above and the indirect cost proposal formats shown in the Appendices, compute the appropriate indirect cost rate. For programs requiring the use of a restricted indirect cost rate, the grantee must calculate the restricted rate in accordance with the guidance provided in Section IV.

## SECTION II

### 8. Complete Indirect Cost Rate Proposal Documentation Checklist

The following information is recommended to be submitted with the indirect cost rate proposal:

- a. Capitalization Policy (including the capitalization threshold)
- b. Certificate of Indirect Costs
- c. Certification of Lobbying Costs
- d. Cost Policy Statement
- e. Cover Letter
- f. Depreciation Schedule
- g. Federal Grants and Contracts List
- h. Exclusions Schedule
- i. Financial Statements (e.g. comprehensive annual financial report (CAFR) Expenditures Report)
- j. Organization Chart and Profile
- k. Restricted Rate Adjustment Schedule
- l. Salary and Fringe Benefits Schedule
- m. Statement of Indirect Costs
- n. Statement of Total Costs (including carry-forward schedule for fixed rate)
- o. Statewide Cost Allocation Plan (if applicable)
- p. Subawards and Subcontracts Schedule
- q. Unused Leave Schedule
- r. Trend Analysis
- s. Website Links to Accounting Policy Manual, and Listing of Funds, Functions and Object Codes

For detailed information about each of the required supporting documentation, please refer to the addendum “Appendices.”

### **C. Submission of Proposals**

An indirect cost rate proposal, with supporting documentation, must be developed and (when required) submitted to ED on an annual basis. The proposal should be submitted no later than six months after the close of the NFE’s fiscal year, unless an exception is approved by ED.

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The indirect cost rate proposal and supporting documentation should be submitted to the U.S. Department of Education via electronic submission. Electronic submissions should be in a format compatible with the software used by the ICD and spreadsheets should be formatted for standard printing. Prior to providing the submission electronically, NFEs should contact the ICD for additional information regarding supported formats. The documents are submitted to the Director and Intake Processor or to the mailbox at [IndirectCostGroup@ed.gov](mailto:IndirectCostGroup@ed.gov).

After the receipt of the proposal, the point of contact(s) listed in the proposal should receive an email from our office within ten business days confirming receipt of the proposal package. If you do not hear from our office within ten business days, please follow up by emailing [IndirectCostGroup@ed.gov](mailto:IndirectCostGroup@ed.gov).

Non-federal entities with programs that require the use of restricted rate who are required to submit a restricted indirect cost rate proposal will submit their restricted indirect cost rate proposal to their cognizant federal agency.

### **D. Cost Allocation Plans**

Cost allocation plans (CAPs) are generally submitted in lieu of an indirect cost rate proposal. A CAP may be necessary when substantial direct costs of programs consist of joint or common cost distributions and/or when the nature of the grantee's activities is such that direct costs cannot be adequately determined with reasonable precision. In such situations, use of a CAP may be more suitable than an indirect cost rate. Non-federal entities considering a CAP are required to contact their cognizant agency before submission of the CAP methodology, to determine if CAP is acceptable for the circumstances.

## SECTION III

### SECTION III: REIMBURSEMENT OF INDIRECT COSTS

#### A. Requirements for Reimbursement

The *Uniform Guidance* (2 CFR 200.403 “Factors affecting allowability of costs”) outlines the factors to consider in determining the allowability of costs. Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for State and local governments and Indian tribes only, as otherwise provided for in this part.
- (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also §200.306 Cost sharing or matching paragraph (b).
- (g) Be adequately documented. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

#### B. Application of Indirect Cost Rates

The dollar amount of indirect costs allocable to a federal award will be determined by applying the approved indirect cost rate to the direct cost base, unless there are statutory or administrative limitations on the indirect costs (See Section III, C.). For purposes of illustrating the application of indirect cost rates, assume an ED grantee has approved indirect cost rates as follows:

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<u>Type</u>	<u>From</u>	<u>To</u>	<u>Rate</u>	<u>Base</u>	<u>Applicable To</u>
Fixed	7/1/17	06/30/18	17.0%	MTDC	Unrestricted
Fixed	7/1/17	06/30/18	9.0%	MTDC	Restricted

### **Distribution Base:**

Modified total direct cost (MTDC) — Total direct costs, excluding equipment, capital expenditures, participant support costs, pass-through funds, and the portion of each subaward (subcontract or subgrant), above \$25,000 (per award; per year).

Note: Other distribution bases include salaries and wages (SW), and salaries, wages, and fringe benefits (SWF). The indirect cost rate must always be applied to the approved base.

### **Applicable To:**

Unrestricted rates apply to programs that do not require a restricted rate per 34 *CFR* 75.563 and 34 *CFR* 76.563.

Restricted rates apply to programs that require a restricted rate per 34 *CFR* 75.563 and 34 *CFR* 76.563.

From July 1, 2017, through Dec. 31, 2018, the grantee has incurred the following costs on ED grants:

	Unrestricted Grants	Restricted Grants	Totals	Notes
Personnel	\$198,000	\$267,300	\$465,300	1
Other Direct	126,000	187,200	313,200	2
Equipment	26,100	15,300	41,400	3
Subcontracts	65,700	89,100	154,800	4
Pass-through	1,276,200	2,349,000	3,625,200	5
Totals	\$1,692,000	\$2,907,900	\$4,599,900	

### **Notes:**

1. Includes fringe benefits
2. Includes travel, supplies, equipment with a unit cost of less than \$5,000 (considered supplies), and other costs that generate or benefit from the organization's indirect costs
3. Equipment purchases with unit costs of \$5,000 or more
4. Subaward under "Unrestricted" grant total \$65,700. The first \$25,000 is included in the base. The remaining \$40,700 is excluded from the base.
5. Subaward expenses under "Restricted" grant total \$89,100. The first \$25,000 for each of the two subcontracts is included in the base, totaling \$49,300. The remaining \$39,800 is excluded from the base.

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	Expenses	Included in Base
Subaward A	\$24,300	\$24,300
Subaward B	64,800	25,000
Total	\$89,100	\$49,300

6. Pass-through amounts represent funds provided to the NFE for specific subrecipients.

The amounts subject to the indirect cost rate are shown below. These are amounts to which the indirect cost rate is applied. The rate must be applied in a manner consistent with the calculation methodology. The following illustration reflects how indirect costs should be billed using the rates calculated on the previous page:

	Unrestricted Grants Total Costs	Unrestricted Grants Subject to Indirect	Restricted Grants Total Costs	Restricted Grants Subject to Indirect
Personnel	\$198,000	\$198,000	\$267,300	\$267,300
Other Direct	126,000	126,000	187,200	187,200
Equipment	26,100	0	15,300	0
Subcontracts	65,700	25,000	89,100	49,300
Pass-through	1,276,200	0	2,349,000	0
Totals	\$1,692,000	\$349,000	\$2,907,900	\$503,800
Indirect Cost Rate		17.00%		9.00%
Indirect Cost Billings		\$59,330		\$45,342

### C. Indirect Cost Limitations

Reimbursement of indirect costs is subject to the availability of funds and statutory or administrative restrictions. Such restrictions include the supplement-not-supplant provision (restricted rates) and the 8 percent indirect cost rate limitation on training grants.

When the amount allowable under a limitation is less than the amount otherwise allowable as indirect costs per 2 *CFR* 200, the amount unrecoverable as indirect costs may not be shifted to another federal award. ED regulations further state that the unrecovered indirect costs cannot be used for matching or cost sharing purposes or charged as direct costs to other awards.

### D. Administrative Cost Limitations



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Some ED awards have statutory or regulatory limitations on the costs of administration. The costs of administration are those portions of reasonable, necessary, and allowable costs associated with the overall project management and administration. These costs can be both personnel and non-personnel, and both direct and indirect. Therefore, the limitation applies to 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 direct administration are salaries, benefits, and other expenses of the recipient's staff who perform the following functions:

- managing overall program, program coordination, and office functions, including the salaries and related costs of the executive director, project director, and/or project evaluator
- preparing program plans, budgets schedules, and related amendments
- monitoring programs, projects, subrecipients, 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
- performing divisional-level administrative services, such as program-specific accounting, auditing, or legal activities

Examples of non-labor costs for direct administration include the following:

- costs for goods and services required for the administration of the program, including the rental or purchase of equipment, utilities, office supplies, and postage, and the rental and maintenance of office space
- travel costs incurred for official business in carrying out program management

The following illustration reflects how administrative cost limitations may affect an award. In the illustration, assume a 15 percent administrative cost limitation. The limitation is applied to the total award. The effect on the indirect cost reimbursement is shown below:

Grant/Contract Funds Available	<u>\$1,000,000</u>
Administrative Cost Limitation at 15%	<u>\$ 150,000</u> (1)
Direct Program Administrative Cost Incurred	<u>\$ 112,500</u>

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Allowable Indirect Cost Reimbursement                      \$ 37,500 (2)

Total Administrative Cost Reimbursement                      \$ 150,000

#### Indirect Costs:

Modified Direct Total Costs (MTDC)  
Incurred on Grant/Contract (including costs  
for Direct Administration)                      \$ 450,000

Indirect Costs Calculation  
(Rate of 10% of MTDC)                      \$ 45,000 (2)

- a. Grantees must note the administrative cost limitation of \$150,000 applies to both (combined) direct administration and indirect costs.
- b. Although indirect costs are calculated at \$45,000 as a result of applying the negotiated rate to MTDC, the indirect costs reimbursement is limited to \$37,500. The overall administrative cost limitation of \$150,000 minus the \$112,500 in direct program administrative costs leaves a balance of \$37,500 for indirect cost reimbursement. The allowable amount of direct program administrative cost is determined first, and second, the allowable amount of indirect cost reimbursement is determined.

## SECTION IV

### SECTION IV: INDIRECT COST RATE METHODS

#### A. General Information

According to 2 *CFR* 200, there are certain methods of allocating indirect costs and determining indirect cost rates. The methods to be used depend upon the governmental unit's number of major functions and how the functions benefit from the indirect costs. In this section, the Simplified Method, Direct Allocation Method, Multiple Allocation Base Method and special/restricted indirect cost rates are discussed.

#### B. Simplified Method

The Simplified Method is used when a grantee has only one major function encompassing a number of individual projects or activities and the level of federal awards is relatively small. It is applicable whenever a grantee's major functions benefit from its indirect costs to approximately the same degree. The allocation of indirect costs may be accomplished by (1) classifying the grantee total costs for the base period as either direct or indirect, and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base.

Both the direct costs and the indirect costs shall generally exclude distorting items and unallowable costs. However, unallowable costs must be included in the distribution base if such costs represent activities benefiting from the indirect expenses.

The indirect cost rate is used to distribute indirect costs to individual programs, functions or activities. The distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, the portion of each subaward in excess of \$25,000, etc.); (2) direct salaries and wages; or (3) another base which results in an equitable distribution.

#### C. Direct Allocation Method

Some organizations treat all costs as direct costs except general administration and general expenses. These organizations generally separate their costs into three basic categories: (i) General administration and general expenses, (ii) fundraising, and (iii) other direct functions (including projects performed under federal awards). Joint costs, such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each federal award or other activity using a base most appropriate to the particular cost being prorated.

This method is acceptable, provided each joint cost is prorated using a base which accurately measures the benefits provided to each federal award or other activity. The bases must be established in accordance with reasonable criteria and be supported by current data.

Under this method, indirect costs consist exclusively of general administration and general expenses. In all other respects, the organization's indirect cost rates must be computed in the

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same manner as that described in section B Simplified Method.

### **D. Multiple Allocation Base Method**

The Multiple Allocation Base Method is used whenever a grantee's indirect costs benefit its major functions in varying degrees. Such costs are accumulated into separate cost groupings. Each grouping constitutes a pool of expenses that are of like character in terms of the functions benefited and in terms of the allocation base that best measures the relative benefits received. The number of separate groupings should be held within practical limits, taking into consideration the materiality of the amounts involved and the degree of precision needed.

Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping. When an allocation can be made by assignment of a cost grouping directly to the function benefited, the allocation shall be made in that manner. When the expenses in a grouping are more general in nature, the allocation should be made through the use of a selected base which produces results that are equitable to both the Federal government and the grantee. In general, any cost element or related factor associated with the grantee's activities is potentially adaptable for use as an allocation base if (1) it can readily be expressed in terms of dollars or other quantitative measures (total direct costs, direct salaries and wages, staff hours applied, square feet used, hours of usage, number of documents processed, population served, and the like); and (2) it is common to the benefited functions during the base period.

Except where a special (or restricted in accordance with 34 *CFR* 76.564 - 76.569) indirect cost rate is required, the separate groupings of indirect costs allocated to each major function shall be aggregated and treated as a common pool for that function. The costs in the common pool shall then be distributed to individual programs included in that function by the use of a single indirect cost rate.

The distribution base used in computing the indirect cost rate for each function may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, the portion of each subaward in excess of \$25,000, etc.); (2) direct salaries and wages; or 3) another base which results in an equitable distribution. An indirect cost rate should be computed for each separate cost pool.

### **E. Special and Restricted Indirect Cost Rates**

Special indirect cost rates may be required when a regular indirect cost rate for all activities of a grantee, or for each major function of the agency, may not be appropriate. Regular indirect cost rates may not take into account different factors that substantially affect the indirect costs applicable to a particular program or group of programs. Such factors may include the physical location of the work, the level of administrative support required, the nature of the facilities or other resources employed, the organizational arrangements used, etc. When a particular program is performed in an environment that generates a significantly different level of indirect costs, provisions should be made for a separate indirect cost pool applicable to that program.

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The separate indirect cost pool should be developed during the course of the regular allocation process. The special indirect cost rate may be used if (1) the rate differs significantly from the rate which would have been developed under the simplified or multiple allocation base method; and (2) the programs to which the rate will apply are material in amount.

One example is a major activity or function that is performed at a site other than the grantee's main office. An off-site rate, where occupancy costs are removed from the pool, may be more appropriate.

Restricted indirect cost rates must be calculated for ED grant programs that have a statutory requirement prohibiting the use of federal funds to supplant non-federal funds. These programs use a restricted indirect cost rate, computed in accordance with 34 *CFR* 76.564 – 76.569. The governmental unit should be notified by the ED program office during the award phase of a grant, or it is noted on the Grant Award Notification whether the grant is restricted or not. ED publishes a list of restricted programs periodically, which may also be used to determine whether a restricted rate is required. When a restricted rate is required, the unrestricted rate is calculated first. Adjustments are made to the unrestricted indirect cost pool, removing certain unallowable expenses from the indirect cost pool and adding those expenses to the direct cost base.

### **F. Restricted Indirect Cost Rates — Questions and Answers**

The following questions and answers provide additional details on the restricted rate calculation:

#### *1. What is the background on the restricted indirect cost rate?*

Many of the large educational entitlement programs that provide funds to state and local jurisdictions were created by legislative statute that require that the federal funds be used to "supplement and not supplant" ongoing educational services. This means that state and local agencies have tax revenue or other financial resources of their own to finance the education. Without the "supplement not supplant" provision, states could simply reduce their support of educational service to the extent of the newly available federal funding or could substitute federal money for tax revenue already generated to fund schools.

#### *2. What are restricted rates?*

Restricted rates incorporate the provisions of program legislation that bar supplanting. The restricted indirect cost rate formula is described at 34 *CFR* 75.564 and 76.565. The formula limits the general management costs that can be included in the indirect cost pool (numerator) and requires adjustments to the MTDC base (denominator).

#### *3. What is the practical effect of the restricted indirect cost rate formula?*

The formula results in a marginal distribution of administrative costs required to implement federal assistance. The calculation of the restricted indirect cost rate is viewed as a funneling process. The first step requires the state and local units of government to segregate the

## SECTION IV

accounting of costs between indirect and direct with full cost reimbursement in mind. The restricted indirect cost rate determination further filters costs that are incurred by the state or local unit of government. Rules in 34 *CFR* 76.565 allow only costs for the "direction and control" of the grantee to be considered general management costs.

Costs associated with activities under organizational units that are not for department-level management also are not considered general management costs. Therefore, in a restricted rate setting, indirect costs are purged to include only "organization-wide" general management costs at the grantee level (e.g., bookkeeping, accounting, payroll, auditing, procurement, and personnel). The general management costs are refined again to exclude costs of the chief executive officers, their immediate officers, component officers, and related costs. Related costs include applicable fringe benefits, travel, space costs, and other associated costs. These costs are then reclassified from indirect to the MTDC base.

### *4. Who are the chief executive officers?*

The chief executive officer exercises overall responsibility for the operation and management of the organization. The chief executive officer's immediate office includes any deputies or similar offices, along with the immediate support staff. It is important to emphasize that the chief executive officer of the grantee is not the governor or member of an elected or appointed board. Expenses for these positions are already unallowable as general government expenses.

### *5. What are component costs?*

Generally, components are organizational units for both indirect and direct functions existing one level below the chief executive officer unit. Depending on the organization, there may be circumstances where component costs would properly be accounted for in the indirect cost pool. However, organization structures cannot shield chief financial officers, chiefs of information technology, chiefs of general counsel, chief internal auditors and chiefs of human resources. If any of these positions has significant staff reporting to them, then an intermediate manager cannot serve as a substitute for these component heads. The grantee's organizational structure is considered in determining adjustments for components.

### *6. What does the term "organization-wide" mean in the restricted indirect cost rate determination?*

The term organization-wide means those departmental level direction and control function costs that all grantees have in common. The regulations describe accounting, payroll, and personnel management as examples of organizational disciplines. Often, cross-cutting educational activities (e.g., curriculum development, pupil data, library services, evaluation services, and school services) are mistaken for indirect cost functions. They are not for direction and control of the organization but rather provide services to schools or students. Those cost centers are program service functions, even if they have system-wide impact.

The restricted indirect costs include activities related to maintaining operations as a business concern, but not the delivery of services that the state or local government provides as part of its

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specific mission.

*7. May costs for divisional administration be billed directly to federal programs?*

Generally, such costs are the obligation of the state and local government. An exception would be granted if the program official makes a determination that the costs are specifically required for the award.

*8. Space type costs are accepted in a usual indirect cost environment. How are they accounted for in the restricted indirect cost formula?*

Occupancy and space maintenance costs as described at 34 *CFR* 76.568 are included in the direct cost base (denominator) for the restricted indirect cost rate determination. However, if the state and local governments can identify the portion of space that supports allowable indirect cost personnel, then the costs may be included with allowable general management costs.

*9. May the space costs that are reclassified to the other direct cost base be recovered through direct billings?*

No. These space costs are the financial responsibility of the organization.

*10. When occupancy costs are part of the approved statewide costs, how are they treated for restricted rate purposes?*

Occupancy costs are disallowed, except where allowable under 34 *CFR* 76.568 (b). The disallowed amount is not included in the base, because these costs are not incurred by the grantee.

## SECTION V

### SECTION V: STATE AND LOCAL AGENCIES RESPONSIBILITIES

#### A. General

State and local agencies that are receiving federal funds from ED are required to comply with 2 *CFR* 200 and *EDGAR* in order to be reimbursed for indirect costs. In addition, recipients of direct grant awards must ensure that subrecipients also comply with 2 *CFR* 200. Where local governments only receive funds as a subrecipient, the primary recipient will be responsible for negotiating the indirect cost rate or cost allocation plan.

#### B. State Educational Agency Procedures

The majority of ED funding provided to LEAs are passed-through from the SEAs. Although LEAs may also receive awards directly from a federal agency, ED delegates authority for LEAs' indirect cost rate determination to the SEA (34 *CFR* 561 (b)).

SEAs must submit an LEA indirect cost plan to ED. The plan details the methodology LEAs will use to calculate indirect cost rates. (See rate preparation procedures in Section II and the model LEA plan in Appendix III.) ED must first approve the LEA's indirect cost methodology to ensure that the SEA's procedures for indirect cost rate oversight are acceptable. In general, the LEA's methodology is submitted by the SEA and reviewed by ED every five years. Once approved, a Delegation Agreement is signed by ED and a SEA official (see Delegation Agreement example in Appendix IV).

#### C. Subrecipients

The flow of responsibilities is from the federal agency making the award to the primary (direct recipient) Non-Federal Entity, and from the primary recipient to the subrecipient. Entities receiving federal funds only as subrecipients will obtain indirect cost rate approval from the primary recipient, before claiming indirect cost reimbursement. The primary recipient is also responsible for monitoring and oversight at the subrecipient level.

Both primary (direct) and subrecipients are subject to the cost principles stipulated in 2 *CFR* 200. However, cost principles are determined based on the type of entity. For example, if the direct award is made to a State or local government, all costs incurred by that entity are governed by 2 *CFR* 200, specifically, Appendix VII. On the other hand, if that grantee makes a subaward to a non-profit entity, costs incurred by the non-profit entity are also subject to 2 *CFR* 200, specifically, Appendix IV.



## SECTION VI

### SECTION VI: TIME REPORTING REQUIREMENTS

#### A. General Information

The 2 *CFR* 200, *Uniform Guidance*, provides the standards on time reporting and labor charges to federal awards. Grantees are responsible for compliance with the standards.

#### B. Standards for Documentation of Personnel Expenses

One of the flexibilities available under *the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards from the Office of Management and Budget* (2 *CFR* part 200, *Uniform Guidance*) is the documentation for allocating salaries and wages to federal awards, also known as time and effort reporting.

The Department is committed to compliance with the new standards for documentation of personnel expenses shown under 2 *CFR* 200.430. More flexible and less burdensome time and effort reporting systems could be implemented in a manner that meets the Standards of Documentation of Personnel Expenses at 2 *CFR* 200.430(i)(1). As such, State and local educational agencies would not need cognizant agency approval to use these approaches because 2 *CFR* 200.430(i)(1) does not treat them as substitute or alternative systems, as described under §200.430(i)(5). Moreover, in implementing these approaches, State and local educational agencies must take care not only to meet 2 *CFR* 200.430(i)(1) but also to have strong internal controls as required under §200.303.

The uniform guidance elevated the role of internal controls for all systems relative to the use of federal funds under 2 *CFR* 200.303. This provision requires the non-Federal entities to establish and maintain effective internal control over the Federal award and that systems of internal control comply with either the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States or the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This guidance ensures a clear framework to follow when non-federal entities are designing their systems of control and provides auditors a framework against which to evaluate those systems.

While the uniform guidance gives non-federal entities flexibility in documenting personnel expenses, it also establishes critical parameters within which that flexibility must be exercised: specifically that charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed, must be supported by a system of internal controls, and meet the other general requirements in 2 *CFR* 200.430(i). Department grantees that do not adhere to these parameters in documenting personnel expenses charged to federal grants could face questioned costs in audit findings.

#### C. Personnel Charges to Federal Awards

The uniform guidance made significant changes in the area of time and effort reporting, streamlining the requirements and standards across most entities that receive federal awards.

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This reform did not impose any changes on entities. Therefore, institutions that had an acceptable process in place do not need to change their processes. The new standards for documentation incorporate many of the same requirements and guidance from the previously accepted methodologies. As a result, entities have more flexibility in devising their internal controls, such as documented policies and procedures, provided they consistently apply and adhere to those controls to meet the standards. The uniform guidance emphasizes internal controls; the non-federal entities must have sufficiently strong controls to ensure that personnel costs are justifiable.

### **D. Time and Attendance Reporting**

Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal controls that provides reasonable assurance that the charges are accurate, allowable, and properly allocated. The records must be incorporated into the official records of the non-federal entity and reasonably reflect the total activities for which the employee is compensated by the non-federal entity in compliance with the non-federal entity's written policy.

Time and attendance reporting systems are used to document personnel charges for federal awards. The documentation is necessary to support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and a non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities that are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

The non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. For a non-federal entity where the records do not meet the standards as prescribed in 2 *CFR* 200.430, the federal government may require personnel activity reports, including prescribed certifications or equivalent documentation.

### **E. Substitute or Alternative Systems**

A non-federal entity may submit to their cognizant agency for approval its substitute or alternative proposals, based on clearly documented outcomes and milestones for program performance. For further detail about substitute or alternative systems, see 2 *CFR* 200.430 (i) Compensation-Personal Services.

### **F. Policies and Procedures**

Written policies and procedures are essential to implementing an effective time reporting system. The state and local units of government should develop instructions for (1) the completion of time and attendance reporting; (2) the approval cycle that is required; (3) the processing of personnel charges to federal awards; and (4) the internal review process that will

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be established to ensure effective internal control over the federal award. Generally, the information should be in sufficient detail to permit an understanding of how the system will operate from the point the time worked to the point the time is recorded in the accounting records and charged to federal awards.

## SECTION VII

### SECTION VII: COMMON INDIRECT COST ISSUES

This section presents examples of some common issues disclosed in ED reviews. The issues are summarized below under the following categories:

- A. Compensation
- B. Unallowable Costs
- C. Credits
- D. Interest
- E. Depreciation/Use Allowance
- F. Subawards
- G. Unsupported Costs

#### A. Compensation

The following issues and items of cost are addressed in *2 CFR 200, Uniform Guidance* in the paragraph titled “Compensation—personal services.”

##### 1. Support for Salaries and Wages

According to *2 CFR 200.430(8)(i)*, Standards for documentation of personnel expenses, grant recipients can use a time and effort system of their choice as long as it provides adequate internal controls. Grant recipients may also choose to maintain their current time and effort systems that were in place prior to the inception of the uniform guidance.

The Department encourages state partners to take full advantage of the regulatory flexibilities to maximize program outcomes. In utilizing their respective methodologies, State and local educational agencies’ charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. The records must be supported by a system of internal controls that provides reasonable assurance that the charges are accurate, allowable, and properly allocated. State and local educational agencies must have strong internal controls as required under §200.303. However, in many cases where issues were found, an adequate time reporting system was not in place. Grantees that do not have adequate internal control in place to ensure adequate documentation of personnel expenses charged to federal grants could face questioned costs in audit findings.

##### 2. Unused Leave Payments

The state, local, and Indian tribal governments using the cash basis of accounting with unfunded/unrecorded leave liabilities cannot charge unused leave payout directly to federal programs. Charging all unused leave costs for separating employees in the same manner as it had charged the employees’ salary costs (i.e., directly to the activities on which the employees were working at the time of their separation) would result in inequitable distribution of the unused leave costs, because the leave costs were accumulated over the entire period of employment while working on various programs. In addition, having the last program bear the burden of these unbudgeted costs creates an unfair distribution of costs to this program. Therefore, any state, local or tribal government using the cash basis

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of accounting should allocate payments for unused leave, when an employee retires or terminates employment, in the year of payment as a general administrative expense to all activities of the governmental unit or component or, with the approval of the cognizant agency for indirect costs, the costs can be included in fringe benefit rates.

### 3. Severance Pay

According to the *Uniform Guidance*, 2 CFR 200.431 (6)(i) Severance Pay:

- a. Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by non-Federal entities to workers whose employment is being terminated. Costs of severance pay are allowable only to the extent that in each case, it is required by (a) law, (b) employer-employee agreement, (c) established policy that constitutes, in effect, an implied agreement on the non-Federal entity's part, or (d) circumstances of the particular employment.
- b. Costs of severance payments are divided into two categories, as follows:
  - (1) Actual normal turnover severance payments must be allocated to all activities; or, where the non-Federal entity provides for a reserve for normal severances, such method will be acceptable if the charge to current operations is reasonable in light of payments actually made for normal severances over a representative past period, and if amounts charged are allocated to all activities of the non-Federal entity.
  - (2) Measurement of costs of abnormal or mass severance pay by means of an accrual will not achieve equity to both parties. Thus, accruals for this purpose are not allowable. However, the Federal Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment. Prior approval by the Federal awarding agency or cognizant agency for indirect cost, as appropriate, is required.
- c. Costs incurred in certain severance pay packages which are in an amount in excess of the normal severance pay paid by the non-Federal entity to an employee upon termination of employment and are paid to the employee contingent upon a change in management control over, or ownership of, the non-Federal entity's assets, are unallowable.

Severance payment (incurred under law, employer/employee agreement or under a written policy) associated with normal turnover is an allowable cost in the year of separation. Generally, the payments must be allocated to all activities of the governmental unit as an indirect cost. Prior approval by the federal awarding agency or cognizant agency for indirect cost, as appropriate, is required for any direct charging of severance pay.

The cost of mass severance pay will be decided on a case-by-case basis by the cognizant federal agency. Mass severance costs include retirement incentives, buyouts, lump sum payments, increased pension benefits and all expenses associated with such an event.

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Grantees must request prior approval in writing. The criteria, to be used in considering whether abnormal severance pay is allowable, are included in the 2 *CFR* 200.431(i). LEAs must request approval of mass severance costs through their respective SEA. The SEA will coordinate the approval process with ED.

### 4. Post-Retirement Health Plans, 2 *CFR* 200.431 (h)

Post-Retirement Health Plans (PRHPs) refer to costs of health insurance or health services not included in a pension plan covered by 2 *CFR* 200.431(h) for retirees and their spouses, dependents, and survivors. PRHP costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the non-Federal entity. For PRHP financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.

PRHP costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The Federal cognizant agency for indirect costs may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursements and the non-Federal entity's contributions to the PRHP fund. Adjustments may be made by cash refund, reduction in current year's PRHP costs, or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the PRHP fund.

Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the non-Federal entity contribution in a future period. When a non-Federal entity converts to an acceptable actuarial cost method and funds PRHP costs in accordance with this method, the initial unfunded liability attributable to prior years is allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency for indirect costs. To be allowable in the current year, the PRHP costs must be paid either to:

- a. An insurer or other benefit provider as current year costs or premiums, or
- b. An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries.

The Federal Government must receive an equitable share of any amounts of previously allowed post-retirement benefit costs (including earnings thereon) which revert or inure to the non-Federal entity in the form of a refund, withdrawal, or other credit.

The Governmental Accounting Standards Board requires each unit of government to identify the full cost of PRHBs on its financial statements and to have a plan for meeting those obligations. Until a unit of government converts to an actuarial based methodology, the "pay-as-you-go" approach is acceptable. For those units of government that convert to an actuarial based calculation, and until OMB states otherwise, the basic requirements associated with the calculation and documentation of actuarial based pension costs will be

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followed.

### **B. Unallowable Costs**

Concerns related to unallowable activities are generally categorized in the following two areas:

1. All costs associated with unallowable activities not properly charged to the final cost objectives
2. Since all such costs were not directly charged to unallowable activities, an appropriate share of indirect costs was not allocated to these activities. As a result, federal awards that were allocated a disproportionate share of the organization's indirect costs.

For the purpose of determining an indirect cost rate, grantees must add unallowable costs to the distribution base (denominator) if those costs are supported by indirect activities. The base should result in each award bearing a fair share of the indirect costs in reasonable proportion to benefits received.

### **C. Credits**

Some grantees did not reduce total costs claimed under federal awards by the amount of credits applicable to costs charged either directly or indirectly. These credits were generated through various transactions, including fees for conferences held for the benefit of federal 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 federal awards must be credited to those awards. Credits applicable to indirect costs must be made to the appropriate indirect cost pools.

### **D. Interest**

Some grantees charged financing costs to federal awards. Costs on borrowed capital are unallowable. Started on Oct. 1, 1980, interest on facilities (including acquisition or remodeling) was allowable if the conditions in OMB Circular A-87 were met. Interest related to equipment was also allowable if the conditions in the Circular were met for costs incurred on or after Sept. 1, 1995.

According to the *Uniform Guidance*, 2 CFR 200.449, Interest:

1. General. Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-Federal entity's own funds, however represented, are unallowable. Financing costs (including interest) to acquire, construct, or replace capital assets are allowable, subject to the conditions in this section.
  - a. Capital assets is defined as noted in §200.12 Capital assets. An asset cost includes (as applicable) acquisition costs, construction costs, and other costs capitalized in

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accordance with GAAP.

- b. For non-Federal entity fiscal years beginning on or after January 1, 2016, intangible assets include patents and computer software. For software development projects, only interest attributable to the portion of the project costs capitalized in accordance with GAAP is allowable.

### 2. Conditions for all non-Federal entities.

- a. The non-Federal entity uses the capital assets in support of Federal awards;
- b. The allowable asset costs to acquire facilities and equipment are limited to a fair market value available to the non-Federal entity from an unrelated (arm's length) third party.
- c. The non-Federal entity obtains the financing via an arm's-length transaction (that is, a transaction with an unrelated third party); or claims reimbursement of actual interest cost at a rate available via such a transaction.
- d. The non-Federal entity limits claims for Federal reimbursement of interest costs to the least expensive alternative. For example, a capital lease may be determined less costly than purchasing through debt financing, in which case reimbursement must be limited to the amount of interest determined if leasing had been used.
- e. The non-Federal entity expenses or capitalizes allowable interest cost in accordance with GAAP.
- f. Earnings generated by the investment of borrowed funds pending their disbursement for the asset costs are used to offset the current period's allowable interest cost, whether that cost is expensed or capitalized. Earnings subject to being reported to the Federal Internal Revenue Service under arbitrage requirements are excludable.
- g. The following conditions must apply to debt arrangements over \$1 million to purchase or construct facilities, unless the non-Federal entity makes an initial equity contribution to the purchase of 25 percent or more. For this purpose, "initial equity contribution" means the amount or value of contributions made by the non-Federal entity for the acquisition of facilities prior to occupancy.
  - (1) The non-Federal entity must reduce claims for reimbursement of interest cost by an amount equal to imputed interest earnings on excess cash flow attributable to the portion of the facility used for Federal awards.
  - (2) The non-Federal entity must impute interest on excess cash flow as follows:
    - (i) Annually, the non-Federal entity must prepare a cumulative (from the inception of the project) report of monthly cash inflows and outflows, regardless of the funding source. For this purpose, inflows consist of Federal reimbursement for depreciation, amortization of



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capitalized construction interest, and annual interest cost. Outflows consist of initial equity contributions, debt principal payments (less the pro-rata share attributable to the cost of land), and interest payments.

- (ii) To compute monthly cash inflows and outflows, the non-Federal entity must divide the annual amounts determined in step (i) by the number of months in the year (usually 12) that the building is in service.
- (iii) For any month in which cumulative cash inflows exceed cumulative outflows, interest must be calculated on the excess inflows for that month and be treated as a reduction to allowable interest cost. The rate of interest to be used must be the three-month Treasury bill closing rate as of the last business day of that month.

h. Interest attributable to a fully depreciated asset is unallowable.

- 3. Additional conditions for States, local governments and Indian tribes. For costs to be allowable, the non-Federal entity must have incurred the interest costs for buildings after October 1, 1980, or for land and equipment after September 1, 1995.
  - a. The requirement to offset interest earned on borrowed funds against current allowable interest cost (paragraph (c)(5), above) also applies to earnings on debt service reserve funds.
  - b. The non-Federal entity will negotiate the amount of allowable interest cost related to the acquisition of facilities with asset costs of \$1 million or more, as outlined in paragraph (c)(7) of this section. For this purpose, a non-Federal entity must consider only cash inflows and outflows attributable to that portion of the real property used for Federal awards.

### E. Depreciation

The 2 *CFR* 200 regulations, effective December 26, 2014, eliminated the prior use-allowance methodology allowed under OMB A-87, which was an alternative to depreciation. In order to be reimbursed for the cost associated with facilities or equipment, the amount must be based on the depreciation included in the Comprehensive Annual Financial Report or other formal document. A governmental unit will normally identify the classes of assets and the expected lives related to those classes of assets. In addition, an inventory of assets by component within the unit of government will usually be developed. Depreciation will then be computed by class of asset, by expected remaining life and by component within the unit of government.

According to the *Uniform Guidance*, 2 *CFR* 200.436, Depreciation:

- 1. Depreciation is the method for allocating the cost of fixed assets to periods benefitting from asset use. The non-Federal entity may be compensated for the use of its buildings, capital improvements, equipment, and software projects capitalized in accordance with GAAP, provided that they are used, needed in the non-Federal entity's activities, and

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properly allocated to Federal awards. Such compensation must be made by computing depreciation.

2. The allocation for depreciation must be made in accordance with Appendices III through IX.
3. Depreciation is computed applying the following rules. The computation of depreciation must be based on the acquisition cost of the assets involved. For an asset donated to the non-Federal entity by a third party, its fair market value at the time of the donation must be considered as the acquisition cost. Such assets may be depreciated or claimed as matching but not both. For the purpose of computing depreciation, the acquisition cost will exclude:
  - a. The cost of land;
  - b. Any portion of the cost of buildings and equipment borne by or donated by the Federal Government, irrespective of where title was originally vested or where it is presently located;
  - c. Any portion of the cost of buildings and equipment contributed by or for the non-Federal entity where law or agreement prohibits recovery; and
  - d. Any asset acquired solely for the performance of a non-Federal award.
4. When computing depreciation charges, the following must be observed:
  - a. The period of useful service or useful life established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment, technological developments in the particular area, historical data, and the renewal and replacement policies followed for the individual items or classes of assets involved.
  - b. The depreciation method used to charge the cost of an asset (or group of assets) to accounting periods must reflect the pattern of consumption of the asset during its useful life. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight-line method must be presumed to be the appropriate method. Depreciation methods once used may not be changed unless approved in advance by the cognizant agency. The depreciation methods used to calculate the depreciation amounts for indirect (F&A) rate purposes must be the same methods used by the non-Federal entity for its financial statements.
  - c. The entire building, including the shell and all components, may be treated as a single asset and depreciated over a single useful life. A building may also be divided into multiple components. Each component item may then be depreciated over its estimated useful life. The building components must be grouped into three general components of a building: building shell (including construction and design costs), building services systems (e.g., elevators, HVAC, plumbing system and heating and air-conditioning system) and fixed equipment (e.g., sterilizers,

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casework, fume hoods, cold rooms and glassware/washers). In exceptional cases, a cognizant agency may authorize a non-Federal entity to use more than these three groupings. When a non-Federal entity elects to depreciate its buildings by its components, the same depreciation methods must be used for indirect (F&A) purposes and financial statements purposes, as described in paragraphs (d)(1) and (2) of this section.

- d. No depreciation may be allowed on any assets that have outlived their depreciable lives.
  - e. Where the depreciation method is introduced to replace the use allowance method, depreciation must be computed as if the asset had been depreciated over its entire life (i.e., from the date the asset was acquired and ready for use to the date of disposal or withdrawal from service). The total amount of use allowance and depreciation for an asset (including imputed depreciation applicable to periods prior to the conversion from the use allowance method as well as depreciation after the conversion) may not exceed the total acquisition cost of the asset.
5. Charges for depreciation must be supported by adequate property records, and physical inventories must be taken at least once every two years to ensure that the assets exist and are usable, used, and needed. Statistical sampling techniques may be used in taking these inventories. In addition, adequate depreciation records showing the amount of depreciation taken each period must also be maintained.

### **F. Subawards**

Subawards generally include subgrants and subcontracts. Major subawards do not incur (or benefit from) indirect costs to the same degree as other activities. Per 2 *CFR* 200.68, the generally accepted definition of a major subaward is one that exceeds \$25,000 in expenditures per year. ED, as well as other federal agencies, adopted this policy for consistency purposes.

ED's policy on subaward treatment applies on a yearly basis. Grantees must exclude the amount of subaward costs exceeding \$25,000 per subaward, per year. As such, the indirect cost rate will be applied only to the first \$25,000 of each subaward, each year.

According to the *Uniform Guidance*, 2 *CFR* 200.330, Subrecipient and contractor determinations:

The non-Federal entity may concurrently receive Federal awards as a recipient, a subrecipient, and a contractor, depending on the substance of its agreements with Federal awarding agencies and pass-through entities. Therefore, a pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor. The Federal awarding agency may supply and require recipients to comply with additional guidance to support these determinations provided such guidance does not conflict with this section.

- 1. Subrecipients. A subaward is for the purpose of carrying out a portion of a Federal award and creates a Federal assistance relationship with the subrecipient. See §200.92 Subaward. Characteristics which support the classification of the non-Federal entity as a subrecipient

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include when the non-Federal entity:

- a. Determines who is eligible to receive what Federal assistance;
  - b. Has its performance measured in relation to whether objectives of a Federal program were met;
  - c. Has responsibility for programmatic decision making;
  - d. Is responsible for adherence to applicable Federal program requirements specified in the Federal award; and
  - e. In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.
2. Contractors. A contract is for the purpose of obtaining goods and services for the non-Federal entity's own use and creates a procurement relationship with the contractor. See §200.22 Contract. Characteristics indicative of a procurement relationship between the non-Federal entity and a contractor are when the contractor:
  - a. Provides the goods and services within normal business operations;
  - b. Provides similar goods or services to many different purchasers;
  - c. Normally operates in a competitive environment;
  - d. Provides goods or services that are ancillary to the operation of the Federal program; and
  - e. Is not subject to compliance requirements of the Federal program as a result of the agreement, though similar requirements may apply for other reasons.
3. Use of judgment in making determination. In determining whether an agreement between a pass-through entity and another non-Federal entity casts the latter as a subrecipient or a contractor, the substance of the relationship is more important than the form of the agreement. All of the characteristics listed above may not be present in all cases, and the pass-through entity must use judgment in classifying each agreement as a subaward or a procurement contract.

A “subaward” is an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a Federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

According to the *Uniform Guidance*, 2 CFR 200,

FAQ.23-1. Vendor vs Contractor and Generally Accepted Accounting Principles (GAAP)

Does the elimination of the term "vendor" in favor of "contractor" require non-federal entities

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(such as states) to change their longstanding practice of awarding "contracts" to nonprofits which they treat substantively as "subawards" for purposes of this guidance? Would continuing this practice be contrary to GAAP?

No, this policy does not require such a change, nor would it be in conflict with GAAP. States may call an agreement with a nonprofit however they like, so long as the agreement is audited according to the appropriate policies under the Uniform Guidance based on the determination made in accordance with section 200.330. See also 200.93 which states "A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract."

### FAQ.23-2 (previously Q III-1) Vendor vs Contractor Clarification

What clarification can OMB and COFAR provide regarding changes to the term contractor and the elimination of the term vendor?

1. In existing guidance, the COFAR has found that some confusion results from the fact that OMB Circular A-133 makes a distinction between subrecipients and "vendors" while other circulars describe either subawards or "subcontracts".
2. For purposes of the Uniform Guidance, when a non-Federal entity provides funds from a Federal award to a non-Federal entity, the non-Federal entity receiving these funds may be either be a subrecipient or a contractor. The term contractor is used for purposes of consistency and clarity to replace areas in the previous guidance that referred to vendors, though substantively in the previous guidance, these two terms have always had the same meaning.
3. Section 200.330 Subrecipient and Contractor Determinations, as well as section 200.22 Contract and 200.92 Subaward provide guidance on making subrecipient and contractor determinations. This language was largely taken from existing guidance in OMB Circular A-133 on subrecipient and vendor determinations.
4. As described in the Uniform Guidance in the sections noted above, it is the substance of the award that determines how it should be treated, even though the pass-through entity or non-Federal entity receiving the award may call it by a different name.
5. So, if a pass-through entity makes an award that it calls a "contract", but which meets the criteria under section 200.330 to be a subaward to a subrecipient, the non-Federal entity must comply with the provisions of the Uniform Guidance relevant to subawards, regardless of the name used by the pass-through entity to refer to the award agreement.
6. Likewise, any Federal awards that meet the criteria under section 200.330 for the non-Federal entity to be considered a contractor, whether the non-Federal entity providing the funds calls it a "vendor agreement" or a "subcontract", the non-Federal entity must comply with the provisions of the Uniform Guidance relevant to a contractor.

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### G. Unsupported Costs

In order to be allowable, all direct and indirect costs must be adequately supported by source documentation which clearly shows the purposes and circumstances of the cost incurred. For example, canceled checks, credit card invoices, and travel agents' invoices alone are not sufficient in determining whether the costs are chargeable as direct costs or indirect costs, and whether ED awards received the benefit of the cost incurred. In order to determine whether a cost is allowable or allocable, the purpose of the cost incurrence must be established. ED reviews have disclosed that a large number of grantees did not have adequate documentation to support the allowability or allocability of the costs claimed or proposed.

Verbal approval from a program official is insufficient documentation for supporting costs under a grant. Prior approvals and changes to awards must be in writing.

Some issues may be raised by an indirect cost rate negotiator during the review of an indirect cost rate proposal. Performing the following procedures while preparing an indirect cost rate proposal may help organizations prevent such issues from occurring.

- Determine that the applicable cost principles 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 statements and audit 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 itemized costs in the indirect cost pool pertain to functions that are supportive of all direct activities.
- 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/allocation base.
- Determine that "pass-through" funds have been excluded from the base.
- Review and analyze direct costs for the determination of
  - consistency in charging specific items of cost.
  - the selection of an appropriate base for allocating indirect costs.
- Review the contract and grant budget and payments, or contractor and grantee records, for a determination of the following (if deemed feasible under the circumstances):

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- The direct funding of indirect costs
- Any limitations placed upon the full recovery of indirect costs, i.e. ceiling rates or amounts
- The 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.

### H. 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 salaries and fringe benefits as the allocation base to allocate indirect costs to their grants and contracts or other programs. Another cost allocation base commonly used is **modified total direct costs** (see definition at 2 *CFR*, Part 200, Subpart A, §200.68).

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 federal grants. The use of an inappropriate base that does not allocate indirect costs on the basis of relative benefits received could result in substantial questioned costs.

### I. 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.

The grantee or 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.

### J. Consistent Treatment and Specific Identification of Costs

In order to be allowable, costs must be treated consistently in all programs of the organization. Examples of inconsistent charges in federal grants and/or contracts, either directly or indirectly, are

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- costs specifically identifiable with programs and activities other than its federal awards.
- costs which were not treated consistently with other costs incurred for the same purpose in like circumstances.

Even if an organization's own activities, 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 2 *CFR* 200.405(c), Allocable Costs, which states, "Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards."



## SECTION VIII

### SECTION VIII: QUESTIONS AND ANSWERS

The following questions to the Indirect Cost Division are frequently asked by state and local governments. Indirect cost guides issued by the U.S. Department of Health and Human Services, the U.S. Department of Labor, and the U.S. Department of Interior also contain questions and answers. The website references for these agencies are listed in Appendix VII of this Guide.

The following questions are grouped according to the subject:

- A. Application of Principles
- B. Federal Cognizance
- C. Allocation of Costs
- D. Subawards
- E. Other Items

#### **A. Application of Principles**

1. *Is 2 CFR 200 Uniform Guidance mandatory to determine allowable costs for State and local governments?*

Yes. The 2 CFR 200 states that these principles will be applied by all Federal agencies in determining costs incurred by governmental units under Federal grants, cost reimbursement-type contracts, and cooperative agreements (including subgrants and subcontracts).

2. *Are public school systems under the same guidelines as state and local governments and subject to 2 CFR 200?*

Yes. The standards for public schools are included in 2 CFR 200.

3. *Will the indirect costs, determined by applying the indirect cost rate to federal programs, be reimbursed to state and local governments?*

Yes. The indirect costs will be recognized as part of the total cost of the federal programs, except where restricted or prohibited by law. The reimbursement of indirect costs is determined by the federal awarding agency.

#### **B. Federal Cognizance**

1. *Can another federal agency question the costs included in a central service cost allocation plan submitted to and approved by the cognizant agency?*

Approved central service costs are set in a negotiation agreement, signed by the representatives of the state or local government and the cognizant federal agency. However, in restricted indirect cost rate calculations, occupancy and maintenance costs, and other statewide costs unallowable per 34 CFR 76.565-569, are adjusted from the approved central services costs.

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Other similar adjustments include, but are not limited to the following:

- a. Legal costs related to tort cases or tort settlements, and legal proceedings related to the organization's mission, rather than its internal management. For example, legal costs for a school district boundary dispute, or for advice on educational activities, are unallowable. Legal costs related to the organization's personnel system or related procurement activities are allowable.
  - b. State auditor costs related to non-Federal activities are unallowable.
2. *Where can states and local governments receive additional information or clarification on the implementation of 2 CFR 200?*

Federal agencies assigned cognizance for central service cost allocation plans or indirect cost rate proposals can provide guidance.

3. *Is there is a form called a "Federally negotiated rate agreement"?*

Yes. The Indirect Cost Rate Agreement provides indirect cost rates that a State or local department or agency may use to claim indirect costs under Federal programs. The agreement covers specific periods and must be renegotiated as required. The agreement is issued by the cognizant Federal agency, and signed by both the recipient organization and the cognizant Federal agency.

An indirect cost negotiation agreement is a document that formalizes the indirect cost rate negotiation process. This document typically contains the following:

- The type of rate(s) negotiated
  - The effective period(s) of the rate(s)
  - The location(s) to which the rate(s) is/are applicable
  - The program(s) to which the rate(s) is/are applicable
  - Information on the base(s) used to distribute indirect costs, and the treatment of fringe benefits and paid absences
  - The signature of both the organization's authorized representative and the DOI indirect cost coordinator or authorized representative
4. *Who is responsible for the approval of state and local central service cost allocation plans and indirect cost proposals?*

The U.S. Department of Health and Human Services approves state and local government's central service cost allocation plans.

5. *How will a central service plan be used?*

The central service plan is used to distribute allowable central service costs to each of the

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individual government departments. The costs are allocated and included in the appropriate state agency's indirect cost proposal.

6. *Can a public school district receive direct federal grant funds? Who approves the indirect cost rate?*

LEA indirect cost oversight is delegated to the SEAs. Contact the business office at the SEA to obtain information about the approved rate.

7. *How can I determine which federal agency is cognizant for a particular governmental unit?*

The OMB published in the Jan. 6, 1986, *Federal Register* a list of cognizant agency assignments for state and local governments. To date, the list has not been revised. HHS is cognizant for all state-wide central service cost allocation plans and public assistance cost allocation plans. For those governmental units not listed by OMB, cognizance is determined based on the federal agency that provided the largest amount of federal funds.

8. *Can we use the negotiated indirect cost rate for all of our federal programs?*

Yes, the agreed upon rate(s) shall be accepted and made available to all federal agencies for their use unless prohibited or limited by statute. It is our understanding that state and local agencies will also accept the federally approved rate(s).

9. *I am a consultant hired to prepare the entity's indirect cost rate proposal and need a copy of a previous year's negotiation agreement. Can you send the information to me?*

The entity is authorized to release their indirect cost rates to your organization. If the entity does not have the rates for whatever reason, they may contact our office and obtain a copy and then release them to their consultant. The cognizant agency for indirect costs will only release the negotiation agreement to the respective entity.

### C. Allocation of Costs

1. *How can a grantee distinguish between a direct cost and an indirect cost?*

Generally, a direct cost is one that is incurred specifically for one activity. Indirect costs are of a more general nature and are incurred for the benefit of several activities. A cost is allocable to a particular federal award or other cost objective if the goods or services involved are chargeable or assignable to that federal award or cost objective in accordance with relative benefits received. Once a grantee makes an election and treats a given cost as direct or indirect, that treatment must be applied consistently and may not change during the fiscal year.

2. *Is it permissible to allocate costs (either directly or indirectly) on the basis of revenue or on the basis of funds available under federal grants or contracts?*

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No. The allocation of costs by either of these methods is unacceptable. Cost must be allocated on the basis of costs and expenditures incurred.

3. *Is it necessary to follow the time reporting requirements of 2 CFR 200 for the salaries and wages of employees that are used for matching requirements on federal awards?*

Salaries and wages of employees used in meeting cost-sharing or matching requirements must be supported in the same manner as those claimed as allowable costs on federal awards.

### **D. Subawards**

1. *If a grantee hires an individual to perform speech pathology services to students in the school, is the service considered a subaward?*

No, this is a professional service providing an auxiliary expertise normally provided in-house. The costs would not be treated as a subaward and are not subject to the exclusion of amounts over \$25,000.

2. *If a grantee contracts with a software vendor to provide technical support and enhancement of existing business software, would this be considered a subaward?*

No, if this cost is for organization-wide support, then it is an indirect cost.

3. *Would a school nurse who only provides medication (who is not an instructor) to students in the classroom be considered a subaward?*

No, this is a professional service providing an auxiliary expertise normally provided in-house. The costs would not be treated as a subaward and are not subject to the “exclusion of amounts over \$25,000”.

### **E. Other Items**

1. *Are the costs of significant software projects allowable as charges to federal awards?*

Federal programs benefitting from such projects should be charged only for amortization of the capitalized costs once the projects are implemented and in use by federal programs. The costs should be amortized over the useful life of the intangible asset.

2. *May estimates be used when calculating provisional or fixed rates?*

Provisional and fixed indirect cost rates should be based on the most currently available actual cost data or estimates supported by appropriate documentation. Supportable estimates may be more appropriate than a prior year’s cost in circumstances where expected changes are not reflected in the actual cost data. Regarding the fixed rate, estimates may be included in the part of a fixed rate calculation reflecting the current proposed rate (not the part of the calculation with the comparison of the previous year’s recovery to the actual rate).

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### 3. *Must a grantee have an approved indirect cost rate to charge indirect costs to programs?*

Yes. ED requires grantees charging indirect costs to programs to obtain a federally approved indirect cost rate. LEAs obtain approved indirect cost rates from the SEA via a Delegation Agreement with ED. ED grant officers may approve a temporary indirect cost rate of 10 percent of direct salaries and wages, for grantees receiving ED awards and who do not have a federally approved rate. However, a grantee must submit an indirect cost rate proposal to its cognizant agency within 90 days of the grant award notice.

*Note: Non-Federal entities that have never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10 percent of modified total direct costs; however, the de minimis rate is not applicable to the following: programs administered by state and local educational agencies, restricted programs with supplement not supplant clauses, and training grants.*

### 4. *May a grantee apply an approved restricted rate to unrestricted programs?*

Yes. Grantees have the option to use the restricted rate for indirect cost claims under all federal programs that permit reimbursement. The rate must be current — meaning it is approved and covers the period coincident with grant activities.

### 5. *What is a state/local department indirect cost rate proposal?*

An indirect cost rate proposal is prepared by a governmental department or agency to provide necessary documentation to substantiate its request for an indirect cost rate. Indirect costs are normally charged to federal awards using an indirect cost rate. The indirect costs include (i) costs originating in the department or agency carrying out the federal awards, and (ii) costs of governmental central services distributed through the central service cost allocation plan that are not otherwise treated as direct costs.

### 6. *What are the different types of rates that can be negotiated?*

There are four types of rates that can be requested in your proposal:

- Provisional
- Final
- Predetermined
- Fixed (Fixed Carry-forward)

### 7. *What is a provisional rate?*

A provisional rate is a temporary indirect cost rate that is applied to a limited time period that is used until a "final" rate is established for that same period. Provisional rates can be used for funding, interim reimbursement, and reporting of indirect costs on federal awards. They must be finalized by submitting an "Indirect Cost Rate Proposal for a Final Rate" once the actual costs

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for the specified time period are known and can be verified through audited financial statements.

### *8. What is a final rate?*

A final rate is an indirect cost rate applicable to a specific time period that is based on the actual, allowable costs of that period. Once established, a final, audited rate cannot be adjusted.

### *9. What is a predetermined rate?*

A predetermined rate is an indirect cost rate that applies to a specific current or future time period (usually the organization's fiscal year). Except under very unusual circumstances, a predetermined rate cannot be adjusted. Predetermined rates may be used with cooperative agreements and grants only. They may not be used for federal contracts due to legal constraints. Predetermined indirect cost rates may be negotiated for periods of up to four years.

### *10. What is a fixed (fixed carry forward) rate?*

A fixed rate (also known as a fixed carry forward rate) is an indirect cost rate that applies to a specific current or future time period (usually the organization's fiscal year). It differs from the predetermined rate in that it is subject to later adjustment. Initially, the fixed rate is based on estimated costs for a set, future time period. When the actual costs for that period become available, a carry forward adjustment is used. A carry forward adjustment is the amount required to reconcile the difference between the estimated costs and the actual costs incurred for the agreed-upon time period.

### *11. What typical types of distribution bases are available to calculate the indirect cost rate?*

These are types of distribution bases:

- Modified total direct costs (MTDC)
- Total direct salaries and wages excluding fringe benefits (S&W)
- Total direct salaries and wages, including fringe benefits (SWF)
- "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.

### *12. What type of direct cost (distribution) base should my organization select?*

The chosen distribution base should distribute awards so that each award bears a proportionate share of the indirect costs relative to the benefits received from those costs. For example, if

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several of your programs and grants do not pay salaries, then it might not be a good idea to use total salaries and wages as the direct cost base. If you do, those programs paying most of the salaries and wages would bear a larger, disproportionate share of the indirect costs. In this situation, it might be more appropriate to use modified total direct costs (exclusive of unusual or distorting expenditures). Please consult the Indirect Cost Division office if you need additional guidance.

*13. Can we include all depreciation expenses in the indirect cost pool?*

Yes — but only if these depreciation expenses are related to assets used by indirect-related personnel (i.e., accounting, human resources, etc.) and are purchased with non-federal dollars. Depreciation related to assets used by direct personnel should be direct-charged.

*14. The negotiated rate is already expired. What rate should I use?*

The negotiated rate is only good for the period listed on the negotiation agreement. Whether you can continue using the expired rate is a decision that needs to be made by the awarding agency. Therefore, please contact your awarding official.

*15. How many days do we have to submit a final (based on incurred costs) indirect cost rate proposal?*

All organizations must submit their final indirect cost rate proposals within 180 days of the end of your organization's fiscal year. Per the Uniform Guidance, "Organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency within six months after the close of each fiscal year."

*16. For how long do we need to submit annual indirect cost rate proposals based on incurred costs?*

For the life of the cost reimbursable contract/grant period. For example: You receive a three-year grant award (July 1, 2015 through July 1, 2018). Your fiscal year ends on Dec. 31. Based on the above example, your organization would need to submit final incurred cost proposals for the organization's fiscal year ending (FYE): June 30, 2016; June 30, 2017; and June 30, 2018.

*17. What are some of the concerns the Federal agencies have about grantee and 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.

*18. What are some of the concerns the Federal agencies have about grantee/contractor*

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*submissions of indirect cost rate proposals?*

The primary concern of Federal agencies is the receipt of inadequate documentation. Indirect cost proposals that do not provide sufficient support 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 an entity's comprehensive annual financial report, general ledger and expenditure report, or financial statements.

*19. What do we do if some grants or 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 or contract may not be shifted to other Federal grants or contracts, unless specifically authorized by legislation. Non-Federal revenue sources must be used to pay for these unrecovered costs.



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### SECTION IX: DEFINITIONS

#### **Definitions (§200.1)**

These are the definitions for terms used in this part. Different definitions may be found in Federal statutes or regulations that apply more specifically to particular programs or activities. These definitions could be supplemented by additional instructional information provided in governmentwide standard information collections.

#### **Acquisition cost.**

*Acquisition cost (§200.2)* means the cost of the asset including the cost to ready the asset for its intended use. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Acquisition costs for software includes those development costs capitalized in accordance with generally accepted accounting principles (GAAP). Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in or excluded from the acquisition cost in accordance with the non-Federal entity's regular accounting practices.

#### **Advance payment.**

*Advance payment (§200.3)* means a payment that a Federal awarding agency or pass-through entity makes by any appropriate payment mechanism, including a predetermined payment schedule, before the non-Federal entity disburses the funds for program purposes.

#### **Allocation.**

*Allocation (§200.4)* means the process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

#### **Audit finding.**

*Audit finding (§200.5)* means deficiencies which the auditor is required by §200.516 Audit findings, paragraph (a) to report in the schedule of findings and questioned costs.

#### **Auditee.**

*Auditee (§200.6)* means any non-Federal entity that expends Federal awards which must be audited under Subpart F—Audit Requirements of this part.

#### **Auditor.**

*Auditor (§200.7)* means an auditor who is a public accountant or a Federal, state, local

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government, or Indian tribe audit organization, which meets the general standards specified for external auditors in generally accepted government auditing standards (GAGAS). The term auditor does not include internal auditors of nonprofit organizations.

### **Budget.**

*Budget* (§200.8) means the financial plan for the project or program that the Federal awarding agency or pass-through entity approves during the Federal award process or in subsequent amendments to the Federal award. It may include the Federal and non-Federal share or only the Federal share, as determined by the Federal awarding agency or pass-through entity.

### **Central service cost allocation plan.**

*Central service cost allocation plan* (§200.9) means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a state, local government, or Indian tribe on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users.

### **Catalog of Federal Domestic Assistance (CFDA) number.**

*CFDA number* (§200.10) means the number assigned to a Federal program in the CFDA.

### **CFDA program title.**

*CFDA program title* (§200.11) means the title of the program under which the Federal award was funded in the CFDA.

### **Capital assets.**

*Capital assets* (§200.12) means tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP. Capital assets include:

- (a) Land, buildings (facilities), equipment, and intellectual property (including software) whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases; and
- (b) Additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life (not ordinary repairs and maintenance).

### **Capital expenditures.**

*Capital expenditures* (§200.13) means expenditures to acquire capital assets or expenditures to make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life.

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### **Claim.**

*Claim* (§200.14) means, depending on the context, either:

(a) A written demand or written assertion by one of the parties to a Federal award seeking as a matter of right:

- (1) The payment of money in a sum certain;
- (2) The adjustment or interpretation of the terms and conditions of the Federal award; or
- (3) Other relief arising under or relating to a Federal award.

(b) A request for payment that is not in dispute when submitted.

### **Class of Federal awards.**

*Class of Federal awards* (§200.15) means a group of Federal awards either awarded under a specific program or group of programs or to a specific type of non-Federal entity or group of non-Federal entities to which specific provisions or exceptions may apply.

### **Closeout.**

*Closeout* (§200.16) means the process by which the Federal awarding agency or pass-through entity determines that all applicable administrative actions and all required work of the Federal award have been completed and takes actions as described in §200.343 Closeout.

### **Cluster of programs.**

*Cluster of programs* (§200.17) means a grouping of closely related programs that share common compliance requirements. The types of clusters of programs are research and development (R&D), student financial aid (SFA), and other clusters. “Other clusters” are as defined by OMB in the compliance supplement or as designated by a State for Federal awards the State provides to its subrecipients that meet the definition of a cluster of programs. When designating an “other cluster,” a State must identify the Federal awards included in the cluster and advise the subrecipients of compliance requirements applicable to the cluster, consistent with §200.331 Requirements for pass-through entities, paragraph (a). A cluster of programs must be considered as one program for determining major programs, as described in §200.518 Major program determination, and, with the exception of R&D as described in §200.501 Audit requirements, paragraph (c), whether a program-specific audit may be elected.

### **Cognizant agency for audit.**

*Cognizant agency for audit* (§200.18) means the Federal agency designated to carry out the responsibilities described in §200.513 Responsibilities, paragraph (a). The cognizant agency for audit is not necessarily the same as the cognizant agency for indirect costs. A list of cognizant agencies for audit may be found at the FAC Web site.

### **Cognizant agency for indirect costs.**

*Cognizant agency for indirect costs* (§200.19) means the Federal agency responsible for

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reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this part on behalf of all Federal agencies. The cognizant agency for indirect cost is not necessarily the same as the cognizant agency for audit. For assignments of cognizant agencies see the following:

- (a) For IHEs: Appendix III to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs), paragraph C.11.
  - (b) For nonprofit organizations: Appendix IV to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations, paragraph C.2.a.
  - (c) For State and local governments: Appendix V to Part 200—State/local Governmentwide Central Service Cost Allocation Plans, paragraph F.1.
  - (d) For Indian tribes: Appendix VII to Part 200—States and local Government and Indian Tribe Indirect Cost Proposal, paragraph D.1.
- [78 FR 78608, Dec. 26, 2013, as amended at 79 FR 75880, Dec. 19, 2014; 80 FR 54407, Sept. 10, 2015]

### **Cognizant Federal Agency**

The Office of Management and Budget (OMB) is responsible for assigning federal agencies to serve as cognizant for purposes of review and approval of indirect cost (and other) rates for organizations receiving financial awards. The Office of Federal Financial Management is the responsible unit for this within OMB.

Each organization is assigned to a single federal agency, which acts on behalf of all federal agencies in rate negotiations and is referred to as the “cognizant” agency. This is the agency to which an organization’s indirect cost proposals are submitted. For non-commercial organizations (e.g. state, local, and Indian tribal governments; educational institutions; and nonprofit organizations), the cognizant federal agency is generally defined as the agency that provides the largest dollar amount of direct federal funding. For commercial organizations, cognizant federal agency is defined as the agency that provides the largest dollar amount of negotiated contracts, including options.

Once established, a change of cognizant agency will not be addressed unless there is a major long-term shift in the dollar volume of federal awards to the organization.

### **Computing devices.**

*Computing devices* (§200.20) means machines used to acquire, store, analyze, process, and publish data and other information electronically, including accessories (or “peripherals”) for printing, transmitting and receiving, or storing electronic information. See also §§200.94 Supplies and 200.58 Information technology systems.

### **Compliance supplement.**

*Compliance supplement* (§200.21) means Appendix XI to Part 200—Compliance Supplement (previously known as the Circular A-133 Compliance Supplement).

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### **Contract.**

*Contract* (§200.22) means a legal instrument by which a non-Federal entity purchases property or services needed to carry out the project or program under a Federal award. The term as used in this part does not include a legal instrument, even if the non-Federal entity considers it a contract, when the substance of the transaction meets the definition of a Federal award or subaward (see §200.92 Subaward).

### **Contractor.**

*Contractor* (§200.23) means an entity that receives a contract as defined in §200.22 Contract.

### **Cooperative agreement.**

*Cooperative agreement* (§200.24) means a legal instrument of financial assistance between a Federal awarding agency or pass-through entity and a non-Federal entity that, consistent with 31 U.S.C. 6302-6305:

- (a) Is used to enter into a relationship the principal purpose of which is to transfer anything of value from the Federal awarding agency or pass-through entity to the non-Federal entity to carry out a public purpose authorized by a law of the United States (see 31 U.S.C. 6101(3)); and not to acquire property or services for the Federal Government or pass-through entity's direct benefit or use;
- (b) Is distinguished from a grant in that it provides for substantial involvement between the Federal awarding agency or pass-through entity and the non-Federal entity in carrying out the activity contemplated by the Federal award.
- (c) The term does not include:
  - (1) A cooperative research and development agreement as defined in 15 U.S.C. 3710a; or
  - (2) An agreement that provides only:
    - (i) Direct United States Government cash assistance to an individual;
    - (ii) A subsidy;
    - (iii) A loan;
    - (iv) A loan guarantee; or
    - (v) Insurance.

### **Cooperative audit resolution.**

*Cooperative audit resolution* (§200.25) means the use of audit follow-up techniques which promote prompt corrective action by improving communication, fostering collaboration, promoting trust, and developing an understanding between the Federal agency and the non-Federal entity. This approach is based upon:

- (a) A strong commitment by Federal agency and non-Federal entity leadership to program integrity;
- (b) Federal agencies strengthening partnerships and working cooperatively with non-Federal entities and their auditors; and non-Federal entities and their auditors working cooperatively with Federal agencies;

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- (c) A focus on current conditions and corrective action going forward;
- (d) Federal agencies offering appropriate relief for past noncompliance when audits show prompt corrective action has occurred; and
- (e) Federal agency leadership sending a clear message that continued failure to correct conditions identified by audits which are likely to cause improper payments, fraud, waste, or abuse is unacceptable and will result in sanctions.

### **Corrective action.**

*Corrective action* (§200.26) means action taken by the auditee that:

- (a) Corrects identified deficiencies;
- (b) Produces recommended improvements; or
- (c) Demonstrates that audit findings are either invalid or do not warrant auditee action.

### **Cost allocation plan.**

*Cost allocation plan* (§200.27) means central service cost allocation plan or public assistance cost allocation plan.

### **Cost objective.**

*Cost objective* (§200.28) 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.

### **Cost sharing or matching.**

*Cost sharing or matching* (§200.29) means the portion of project costs not paid by Federal funds (unless otherwise authorized by Federal statute). See also §200.306 Cost sharing or matching.

### **Cross-cutting audit finding.**

*Cross-cutting audit finding* (§200.30) means an audit finding where the same underlying condition or issue affects Federal awards of more than one Federal awarding agency or pass-through entity.

### **Disallowed costs.**

*Disallowed costs* (§200.31) means those charges to a Federal award that the Federal awarding agency or pass-through entity determines to be unallowable, in accordance with the applicable Federal statutes, regulations, or the terms and conditions of the Federal award.

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### **Equipment.**

*Equipment* (§200.33) means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or \$5,000. See also §§200.12 Capital assets, 200.20 Computing devices, 200.48 General purpose equipment, 200.58 Information technology systems, 200.89 Special purpose equipment, and 200.94 Supplies.

### **Expenditures.**

*Expenditures* (§200.34) means charges made by a non-Federal entity to a project or program for which a Federal award was received.

(a) The charges may be reported on a cash or accrual basis, as long as the methodology is disclosed and is consistently applied.

(b) For reports prepared on a cash basis, expenditures are the sum of:

(1) Cash disbursements for direct charges for property and services;

(2) The amount of indirect expense charged;

(3) The value of third-party in-kind contributions applied; and

(4) The amount of cash advance payments and payments made to subrecipients.

(c) For reports prepared on an accrual basis, expenditures are the sum of:

(1) Cash disbursements for direct charges for property and services;

(2) The amount of indirect expense incurred;

(3) The value of third-party in-kind contributions applied; and

(4) The net increase or decrease in the amounts owed by the non-Federal entity for:

(i) Goods and other property received;

(ii) Services performed by employees, contractors, subrecipients, and other payees; and

(iii) Programs for which no current services or performance are required such as annuities, insurance claims, or other benefit payments.

### **Federal agency.**

*Federal agency* (§200.35) means an “agency” as defined at 5 U.S.C. 551(1) and further clarified by 5 U.S.C. 552(f).

### **Federal Audit Clearinghouse (FAC).**

*FAC* (§200.36) means [the clearinghouse designated by OMB](#) as the repository of record where non-Federal entities are required to transmit the reporting packages required by Subpart F—Audit Requirements of this part. The mailing address of the FAC is Federal Audit Clearinghouse, Bureau of the Census, 1201 E. 10th Street, Jeffersonville, IN 47132. Any future updates to the location of the FAC may be found at the OMB Web site.

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### **Federal awarding agency.**

*Federal awarding agency* (§200.37) means the Federal agency that provides a Federal award directly to a non-Federal entity.

### **Federal award.**

*Federal award* (§200.38) has the meaning, depending on the context, in either paragraph (a) or (b) of this section:

(a)(1) The Federal financial assistance that a non-Federal entity receives directly from a Federal awarding agency or indirectly from a pass-through entity, as described in §200.101

Applicability; or

(2) The cost-reimbursement contract under the Federal Acquisition Regulations that a non-Federal entity receives directly from a Federal awarding agency or indirectly from a pass-through entity, as described in §200.101 Applicability.

(b) The instrument setting forth the terms and conditions. The instrument is the grant agreement, cooperative agreement, other agreement for assistance covered in paragraph (b) of §200.40 Federal financial assistance, or the cost-reimbursement contract awarded under the Federal Acquisition Regulations.

(c) Federal award does not include other contracts that a Federal agency uses to buy goods or services from a contractor or a contract to operate Federal Government owned, contractor operated facilities (GOCOs).

(d) See also definitions of Federal financial assistance, grant agreement, and cooperative agreement.

### **Federal award date.**

*Federal award date* (§200.39) means the date when the Federal award is signed by the authorized official of the Federal awarding agency.

### **Federal financial assistance.**

(a) *Federal financial assistance* (§200.40) means assistance that non-Federal entities receive or administer in the form of:

(1) Grants;

(2) Cooperative agreements;

(3) Non-cash contributions or donations of property (including donated surplus property);

(4) Direct appropriations;

(5) Food commodities; and

(6) Other financial assistance (except assistance listed in paragraph (b) of this section).

(b) For §200.202 Requirement to provide public notice of Federal financial assistance programs and Subpart F—Audit Requirements of this part, *Federal financial assistance* also includes assistance that non-Federal entities receive or administer in the form of:

(1) Loans;

(2) Loan Guarantees;

(3) Interest subsidies; and



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(4) Insurance.

(c) *Federal financial assistance* does not include amounts received as reimbursement for services rendered to individuals as described in §200.502 Basis for determining Federal awards *expended*, paragraph (h) and (i) of this part.

### **Federal interest.**

*Federal interest* (§200.41) means, for purposes of §200.329 Reporting on real property or when used in connection with the acquisition or improvement of real property, equipment, or supplies under a Federal award, the dollar amount that is the product of the:

(a) Federal share of total project costs; and

(b) Current fair market value of the property, improvements, or both, to the extent the costs of acquiring or improving the property were included as project costs.

### **Federal program.**

*Federal program* (§200.42) means:

(a) All Federal awards which are assigned a single number in the CFDA.

(b) When no CFDA number is assigned, all Federal awards to non-Federal entities from the same agency made for the same purpose must be combined and considered one program.

(c) Notwithstanding paragraphs (a) and (b) of this definition, a cluster of programs. The types of clusters of programs are:

(1) Research and development (R&D);

(2) Student financial aid (SFA); and

(3) "Other clusters," as described in the definition of Cluster of Programs.

### **Federal share.**

*Federal share* (§200.43) means the portion of the total project costs that are paid by Federal funds.

### **Final cost objective.**

*Final cost objective* (§200.44) means a cost objective which has allocated to it both direct and indirect costs and, in the non-Federal entity's accumulation system, is one of the final accumulation points, such as a particular award, internal project, or other direct activity of a non-Federal entity. See also §200.28 Cost objective and 200.60 Intermediate cost objective.

**Final Indirect Cost Rate** - an indirect cost rate applicable to a specified past period, which is based on the actual allowable costs of the period. A final rate is not subject to adjustment.

### **Fixed amount awards.**

*Fixed amount awards* (§200.45) means a type of grant agreement under which the Federal awarding agency or pass-through entity provides a specific level of support without regard to actual costs incurred under the Federal award. This type of Federal award reduces some of the

## SECTION IX

administrative burden and record-keeping requirements for both the non-Federal entity and Federal awarding agency or pass-through entity. Accountability is based primarily on performance and results. See §§200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b) and 200.332 Fixed amount subawards.

**Fixed indirect cost rate with carry-forward** means a permanent rate established for a given period to permit reimbursement of indirect costs for that period. Typically, the calculation of this type of rate is based on an organization's most recently audited financial statements, which form the basis for a rate proposal to be applied to a subsequent period. The difference between the estimated costs used to establish the fixed rate and the actual costs of the period covered by the rate is "carried forward" as an adjustment to the rate computation of the following period.

### **Foreign public entity.**

*Foreign public entity* (§200.46) means:

- (a) A foreign government or foreign governmental entity;
- (b) A public international organization, which is an organization entitled to enjoy privileges, exemptions, and immunities as an international organization under the International Organizations Immunities Act (22 U.S.C. 288-288f);
- (c) An entity owned (in whole or in part) or controlled by a foreign government; or
- (d) Any other entity consisting wholly or partially of one or more foreign governments or foreign governmental entities.

### **Foreign organization.**

*Foreign organization* (§200.47) means an entity that is:

- (a) A public or private organization located in a country other than the United States and its territories that is subject to the laws of the country in which it is located, irrespective of the citizenship of project staff or place of performance;
- (b) A private nongovernmental organization located in a country other than the United States that solicits and receives cash contributions from the general public;
- (c) A charitable organization located in a country other than the United States that is nonprofit and tax exempt under the laws of its country of domicile and operation, and is not a university, college, accredited degree-granting institution of education, private foundation, hospital, organization engaged exclusively in research or scientific activities, church, synagogue, mosque or other similar entities organized primarily for religious purposes; or
- (d) An organization located in a country other than the United States not recognized as a Foreign Public Entity.

### **General purpose equipment.**

*General purpose equipment* (§200.48) means equipment which is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.

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### **Generally Accepted Accounting Principles (GAAP).**

*GAAP* (§200.49) has the meaning specified in accounting standards issued by the Government Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

Generally Accepted Government Auditing Standards (GAGAS). *GAGAS*, (§200.50) also known as the Yellow Book, means generally accepted government auditing standards issued by the Comptroller General of the United States, which are applicable to financial audits.

### **Governmental Unit**

A governmental unit is the entire State, local or federally recognized Indian tribal government, including components.

### **Grant agreement.**

*Grant agreement* (§200.51) means a legal instrument of financial assistance between a Federal awarding agency or pass-through entity and a non-Federal entity that, consistent with 31 U.S.C. 6302, 6304:

- (a) Is used to enter into a relationship the principal purpose of which is to transfer anything of value from the Federal awarding agency or pass-through entity to the non-Federal entity to carry out a public purpose authorized by a law of the United States (see 31 U.S.C. 6101(3)); and not to acquire property or services for the Federal awarding agency or pass-through entity's direct benefit or use;
- (b) Is distinguished from a cooperative agreement in that it does not provide for substantial involvement between the Federal awarding agency or pass-through entity and the non-Federal entity in carrying out the activity contemplated by the Federal award.
- (c) Does not include an agreement that provides only:
  - (1) Direct United States Government cash assistance to an individual;
  - (2) A subsidy;
  - (3) A loan;
  - (4) A loan guarantee; or
  - (5) Insurance.

### **Grantee.**

The organization to which a grant is awarded and that is accountable for the use of the funds provided. The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document.

### **Hospital.**

*Hospital* (§200.52) means a facility licensed as a hospital under the law of any State or a facility operated as a hospital by the United States, a state, or a subdivision of a state.

## SECTION IX

### **Improper payment.**

(a) *Improper payment* (§200.53) means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and

(b) *Improper payment* includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

Indian tribe (or “federally recognized Indian tribe”).

*Indian tribe* (§200.54) means any Indian tribe, band, nation, or other organized group or community, including any Alaska Native village or regional or village corporation as defined in or established pursuant to the Alaska Native Claims Settlement Act (43 U.S.C. Chapter 33), which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians (25 U.S.C. 450b(e)). See annually published Bureau of Indian Affairs list of Indian Entities Recognized and Eligible to Receive Services.

### **Indirect (facilities & administrative (F&A)) costs.**

*Indirect (F&A) costs* (§200.56) 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.

### **Indirect cost rate proposal.**

*Indirect cost rate proposal* (§200.57) 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.

### **Information technology systems.**

*Information technology systems* (§200.58) means computing devices, ancillary equipment, software, firmware, and similar procedures, services (including support services), and related resources. See also §§200.20 Computing devices and 200.33 Equipment.

### **Intangible property.**

*Intangible property* (§200.59) means property having no physical existence, such as trademarks,

## SECTION IX

copyrights, patents and patent applications and property, such as loans, notes and other debt instruments, lease agreements, stock and other instruments of property ownership (whether the property is tangible or intangible).

### **Intermediate cost objective.**

*Intermediate cost objective* (§200.60) means a cost objective that is used to accumulate indirect costs or service center costs that are subsequently allocated to one or more indirect cost pools or final cost objectives. See also §200.28 Cost objective and §200.44 Final cost objective.

### **Internal controls.**

*Internal controls* (§200.61) means a process, implemented by a non-Federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;
- (b) Reliability of reporting for internal and external use; and
- (c) Compliance with applicable laws and regulations.

### **Internal control over compliance requirements for Federal awards.**

*Internal control over compliance requirements for Federal awards* (§200.62) means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- (a) Transactions are properly recorded and accounted for, in order to:
  - (1) Permit the preparation of reliable financial statements and Federal reports;
  - (2) Maintain accountability over assets; and
  - (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
- (b) Transactions are executed in compliance with:
  - (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
  - (2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and
- (c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

### **Loan.**

*Loan* (§200.63) means a Federal loan or loan guarantee received or administered by a non-Federal entity, except as used in the definition of §200.80 Program income.

- (a) The term “direct loan” means a disbursement of funds by the Federal Government to a non-Federal borrower under a contract that requires the repayment of such funds with or without interest. The term includes the purchase of, or participation in, a loan made by another lender and financing arrangements that defer payment for more than 90 days, including the sale of a Federal Government asset on credit terms. The term does not include the acquisition of a

## SECTION IX

federally guaranteed loan in satisfaction of default claims or the price support loans of the Commodity Credit Corporation.

(b) The term “direct loan obligation” means a binding agreement by a Federal awarding agency to make a direct loan when specified conditions are fulfilled by the borrower.

(c) The term “loan guarantee” means any Federal Government guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender, but does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions.

(d) The term “loan guarantee commitment” means a binding agreement by a Federal awarding agency to make a loan guarantee when specified conditions are fulfilled by the borrower, the lender, or any other party to the guarantee agreement.

### **Local Government.**

*Local government* (§200.64) means any unit of government within a state, including a:

- (a) County;
- (b) Borough;
- (c) Municipality;
- (d) City;
- (e) Town;
- (f) Township;
- (g) Parish;
- (h) local public authority, including any public housing agency under the United States Housing Act of 1937;
- (i) Special district;
- (j) School district;
- (k) IntraState district;
- (l) Council of governments, whether or not incorporated as a nonprofit corporation under State law; and
- (m) Any other agency or instrumentality of a multi-, regional, or intra-State or local government.

### **Major program.**

*Major program* (§200.65) means a Federal program determined by the auditor to be a major program in accordance with §200.518 Major program determination or a program identified as a major program by a Federal awarding agency or pass-through entity in accordance with §200.503 Relation to other audit requirements, paragraph (e).

### **Management decision.**

*Management decision* (§200.66) means the evaluation by the Federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision to the auditee as to what corrective action is necessary.

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### **Micro-purchase.**

*Micro-purchase* (§200.67) means a purchase of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold.

Micro-purchase procedures comprise a subset of a non-Federal entity's small purchase procedures. The non-Federal entity uses such procedures in order to expedite the completion of its lowest-dollar small purchase transactions and minimize the associated administrative burden and cost. The micro-purchase threshold is set by the Federal Acquisition Regulation at 48 CFR Subpart 2.1 (Definitions). It is \$3,000 except as otherwise discussed in Subpart 2.1 of that regulation, but this threshold is periodically adjusted for inflation.

### **Modified Total Direct Cost (MTDC).**

*MTDC* (§200.68) 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.

### **Non-Federal entity.**

*Non-Federal entity* (§200.69) means a state, local government, Indian tribe, institution of higher education (IHE), or nonprofit organization that carries out a Federal award as a recipient or subrecipient.

### **Nonprofit organization.**

*Nonprofit organization* (§200.70) means any corporation, trust, association, cooperative, or other organization, not including IHEs, that:

- (a) Is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;
- (b) Is not organized primarily for profit; and
- (c) Uses net proceeds to maintain, improve, or expand the operations of the organization.

### **Obligations.**

When used in connection with a non-Federal entity's utilization of funds under a Federal award, *obligations* (§200.71) means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period.

### **Office of Management and Budget (OMB).**

*OMB* (§200.72) means the Executive Office of the President, Office of Management and

## SECTION IX

Budget.

### **Oversight agency for audit.**

*Oversight agency for audit* (§200.73) means the Federal awarding agency that provides the predominant amount of funding directly to a non-Federal entity not assigned a cognizant agency for audit. When there is no direct funding, the Federal awarding agency which is the predominant source of pass-through funding must assume the oversight responsibilities. The duties of the oversight agency for audit and the process for any reassignments are described in §200.513 Responsibilities, paragraph (b).

### **Pass-through entity.**

*Pass-through entity* (§200.74) means a non-Federal entity that provides a subaward to a subrecipient to carry out part of a Federal program.

### **Participant support costs.**

*Participant support costs* (§200.75) means direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects.

### **Performance goal.**

*Performance goal* (§200.76) means a target level of performance expressed as a tangible, measurable objective, against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate. In some instances (e.g., discretionary research awards), this may be limited to the requirement to submit technical performance reports (to be evaluated in accordance with agency policy).

### **Period of performance.**

*Period of performance* (§200.77) means the time during which the non-Federal entity may incur new obligations to carry out the work authorized under the Federal award. The Federal awarding agency or pass-through entity must include start and end dates of the period of performance in the Federal award (see §§200.210 Information contained in a Federal award paragraph (a)(5) and 200.331 Requirements for pass-through entities, paragraph (a)(1)(iv)).

### **Personal property.**

*Personal property* (§200.78) means property other than real property. It may be tangible, having physical existence, or intangible.

### **Personally Identifiable Information (PII).**

*PII* (§200.79) means information that can be used to distinguish or trace an individual's identity, either alone or when combined with other personal or identifying information that is linked or



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linkable to a specific individual. Some information that is considered to be PII is available in public sources such as telephone books, public Web sites, and university listings. This type of information is considered to be Public PII and includes, for example, first and last name, address, work telephone number, email address, home telephone number, and general educational credentials. The definition of PII is not anchored to any single category of information or technology. Rather, it requires a case-by-case assessment of the specific risk that an individual can be identified. Non-PII can become PII whenever additional information is made publicly available, in any medium and from any source, that, when combined with other available information, could be used to identify an individual.

### **Program income.**

*Program income* (§200.80) means gross income earned by the non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance except as provided in §200.307 paragraph (f). (See §200.77 Period of performance.) Program income includes but is not limited to income from fees for services performed, the use or rental of real or personal property acquired under Federal awards, the sale of commodities or items fabricated under a Federal award, license fees and royalties on patents and copyrights, and principal and interest on loans made with Federal award funds. Interest earned on advances of Federal funds is not program income. Except as otherwise provided in Federal statutes, regulations, or the terms and conditions of the Federal award, program income does not include rebates, credits, discounts, and interest earned on any of them. See also §200.407 Prior written approval (prior approval). See also 35 U.S.C. 200-212 “Disposition of Rights in Educational Awards” applies to inventions made under Federal awards.

### **Property.**

*Property* (§200.81) means real property or personal property.

### **Protected Personally Identifiable Information (Protected PII).**

*Protected PII* (§200.82) means an individual's first name or first initial and last name in combination with any one or more of types of information, including, but not limited to, social security number, passport number, credit card numbers, clearances, bank numbers, biometrics, date and place of birth, mother's maiden name, criminal, medical and financial records, educational transcripts. This does not include PII that is required by law to be disclosed. (See also §200.79 Personally Identifiable Information (PII)).

### **Project cost.**

*Project cost* (§200.83) means total allowable costs incurred under a Federal award and all required cost sharing and voluntary committed cost sharing, including third-party contributions.

### **Questioned cost.**

*Questioned cost* (§200.84) means a cost that is questioned by the auditor because of an audit

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finding:

- (a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

### **Real property.**

*Real property* (§200.85) means land, including land improvements, structures and appurtenances thereto, but excludes moveable machinery and equipment.

### **Recipient.**

*Recipient* (§200.86) means a non-Federal entity that receives a Federal award directly from a Federal awarding agency to carry out an activity under a Federal program. The term recipient does not include subrecipients. See also §200.69 Non-Federal entity.

### **Research and Development (R&D).**

*R&D* (§200.87) means all research activities, both basic and applied, and all development activities that are performed by non-Federal entities. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function.

“Research” is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. “Development” is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

### **Simplified acquisition threshold.**

*Simplified acquisition threshold* (§200.88) means the dollar amount below which a non-Federal entity may purchase property or services using small purchase methods. Non-Federal entities adopt small purchase procedures in order to expedite the purchase of items costing less than the simplified acquisition threshold. The simplified acquisition threshold is set by the Federal Acquisition Regulation at 48 *CFR* Subpart 2.1 (Definitions) and in accordance with 41 U.S.C. 1908. As of the publication of this part, the simplified acquisition threshold is \$150,000, but this threshold is periodically adjusted for inflation. (Also see definition of §200.67 Micro-purchase.)

### **Special purpose equipment.**

*Special purpose equipment* (§200.89) means equipment which is used only for research, medical, scientific, or other technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers. See also §§200.33 Equipment and 200.48 General purpose equipment.

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### **State.**

*State* (§200.90) means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and any agency or instrumentality thereof exclusive of local governments.

### **Student Financial Aid (SFA).**

*SFA* (§200.91) means Federal awards under those programs of general student assistance, such as those authorized by Title IV of the Higher Education Act of 1965, as amended, (20 U.S.C. 1070-1099d), which are administered by the U.S. Department of Education, and similar programs provided by other Federal agencies. It does not include Federal awards under programs that provide fellowships or similar Federal awards to students on a competitive basis, or for specified studies or research.

### **Subaward.**

*Subaward* (§200.92) means an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a Federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

### **Subrecipient.**

*Subrecipient* (§200.93) means a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program; but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency.

### **Supplies.**

*Supplies* (§200.94) means all tangible personal property other than those described in §200.33 Equipment. A computing device is a supply if the acquisition cost is less than the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or \$5,000, regardless of the length of its useful life. See also §§200.20 Computing devices and 200.33 Equipment.

### **Termination.**

*Termination* (§200.95) means the ending of a Federal award, in whole or in part at any time prior to the planned end of period of performance.

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### **Third-party in-kind contributions.**

*Third-party in-kind contributions* (§200.96) means the value of non-cash contributions (i.e., property or services) that—

- (a) Benefit a federally assisted project or program; and
- (b) Are contributed by non-Federal third parties, without charge, to a non-Federal entity under a Federal award.

### **Unliquidated obligations.**

*Unliquidated obligations* (§200.97) means, for financial reports prepared on a cash basis, obligations incurred by the non-Federal entity that have not been paid (liquidated). For reports prepared on an accrual expenditure basis, these are obligations incurred by the non-Federal entity for which an expenditure has not been recorded.

### **Unobligated balance.**

*Unobligated balance* (§200.98) means the amount of funds under a Federal award that the non-Federal entity has not obligated. The amount is computed by subtracting the cumulative amount of the non-Federal entity's unliquidated obligations and expenditures of funds under the Federal award from the cumulative amount of the funds that the Federal awarding agency or pass-through entity authorized the non-Federal entity to obligate.

Unrestricted Indirect Cost Rates vs. Restricted Indirect Cost Rates – Unrestricted indirect cost rates are those calculated for use on programs without limitations on indirect costs. Certain ED grant programs have a statutory requirement prohibiting the use of Federal funds to supplant non-Federal funds. These programs require the use of a restricted indirect cost rate, computed in accordance with 34 *CFR* 76.564- 76.569. Generally, adjustments to the unrestricted rate calculation are made and result in a lower rate to claim indirect cost reimbursement on restricted rate programs.

### **Voluntary committed cost sharing.**

*Voluntary committed cost sharing* (§200.99) means cost sharing specifically pledged on a voluntary basis in the proposal's budget or the Federal award on the part of the non-Federal entity and that becomes a binding requirement of Federal award.

# **APPENDICES**

## **MODELS, EXAMPLES and REFERENCES\***

*\*The models and examples are for guidance purposes only.*

## APPENDICES: MODELS, EXAMPLES AND REFERENCE

### Submission Documentation Guidance and Templates



Submission  
Requirments\_SEA.do

## Organization Information

### Capitalization Policy

The capitalization policy statement is a disclosure of the organization's capitalization policies and dollar amount thresholds. This capitalization policy statement is useful in establishing a clear understanding between the organization and the federal government as to what costs will be capitalized and identifying the dollar amount threshold for asset capitalization. This document should contain the following:

- The property and equipment capitalization dollar amount threshold: e.g., equipment purchases under \$1,000 are expensed as incurred.
- The policy for the treatment of fixed asset maintenance and repairs
- The basis for depreciation and/or amortization: e.g., straight-line method of depreciation
- The period of depreciation and/or amortization: e.g., depreciated over the useful life of the fixed asset
- The ways in which property and equipment cost basis are determined: e.g., cost of acquisition or construction, or estimated fair market value if donated.

### Cost Policy Statement (See Exhibit-Cost Policy Statement)



Exhibit-COST  
POLICY STATEMENT

The cost policy statement (CPS) is a disclosure of the organization's accounting practices, policies, and procedures for allocating costs. The CPS is useful in establishing a clear understanding between the organization and the federal government as to what costs will be charged directly and indirectly, and if costs are considered excludable.

When submitting an indirect cost rate proposal, the NFE should provide its most current CPS. Otherwise, if the entity is not proposing any changes, the following suggested language should be included in the transmittal letter when a proposal is submitted: *[Entity Name] hereby confirms that no changes to its accounting policies and practices as set forth in its cost policy statement dated [insert the date of the last CPS] have been made.*

The CPS should provide the following information and statements, including but not limited to:

- Background information: a brief narrative statement outlining the organization's divisions with indirect cost activities
- Basis of Accounting: cash; accrual; modified accrual
- Fiscal Period: e.g., July 1 through June 30
- Allocation Basis: e.g., Simplified Method; Multiple Allocation Base Method, (Direct Allocation Base)
- Indirect Cost Allocation Base: e.g., modified total direct costs; direct salaries and wages including applicable fringe benefits; direct salaries and wages excluding fringe benefits
- Fringe Benefits Rate: if recipient uses a fringe benefit rate, describe fringe benefit allocation base
- Statement that the organization maintains adequate internal controls to ensure that all costs included in this proposal are properly allocable to federal awards 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 requirements. Further, a statement that the same costs that have been treated as indirect costs have not been claimed as direct costs, and that similar types of costs have been accounted for consistently.
- Statement that all costs included in the proposals are allowable in accordance with the requirements of the federal award(s) to which they apply and 2 *CFR* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and that unallowable costs have been adjusted for in allocating costs as indicated in the indirect cost rate proposal
- Description of cost-charging policies and practices for allocating and identifying direct, indirect, and excludable costs (i.e., cost allocation methodology)
- Statement about indirect cost rate proposal preparation policies and procedures: Provide written policies and procedures describing how the organization prepares its indirect cost rate proposal.
- For each general ledger expense account (or cost element/function), indicate whether each account is used to record direct or indirect expenses. For those accounts related to activities that are sometimes charged as both direct and indirect costs, indicate the circumstances under which the determination is made. For each of the below general ledger accounts in which costs are allocated to more than one activity, describe the method used to allocate the costs (such as actual usage, salaries, square feet, cost of space, volume, etc.)

Example accounts include but are not limited to:

- Salaries and wages
- Fringe benefits, including: A statement of how fringe benefits are charged (e.g. actual basis by employee, via a fringe benefit rate, etc.)

- A statement of the treatment of compensated leave costs (vacation, holiday, sick leave, etc.)
  - Travel
  - Board expenses
  - Supplies and materials
  - Occupancy expenses
  - Utilities
  - Communications
  - Photocopying and printing
  - Outside services
  - Capital items
  - Depreciation
  - Services to members
- Explain how unallowable costs are segregated, including a description regarding the accounting treatment of unallowable costs, methods, and controls in place.

The following are examples of unallowable accounts/expenses:

- Fund Raising
- Alcoholic Beverages
- General Government Activities
- Advertising, except for staff recruitment or property disposal
- Claims and Judgments (except workers compensation)
- Bad Debts
- Fines, Penalties, and Charitable Contributions/Donations
- Entertainment Expenses
- Lobbying Costs
- Allowances for doubtful accounts
- Losses on Federal or non-Federal projects
- Provisions for contingencies

This document is submitted initially during the first submission; only revisions need to be submitted with subsequent proposals.

#### **Cover Letter (See Exhibit — Cover Letter)**



**Exhibit-Cover Letter\_  
SEA Model.docx**

The cover letter communicates relevant information to the cognizant agency. The cover letter should include the following information:



- Entity name and mailing address
- Entity's tax identification number or Employer Identification Number (EIN)
- Point-of-contact's (POC's) name, position/title, telephone number and email address
- Approval official's name, position/title (CFO or above), mailing address, email address, and telephone number
- Entity's website address
- The requested type of rate(s): fixed-with-carry-forward (fixed), provisional/final, predetermined
- The indirect cost rate (s) proposed (e.g. unrestricted rate 17.8 percent; restricted 28 percent, etc.)
- What the rate is applicable to (e.g. unrestricted, restricted, training, disability determination service rate, vocational rehab rate)
- The requested period(s) covered by the rate(s): the fiscal period (year) upon which the data is based, and also the fiscal period for which a rate (s) is proposed (proposal year).
- The allocation base proposed (e.g. modified total direct cost (MTDC), salary wage and fringe (SWF), salary and wages (SW)).
- Identification and description of unusual factors that affect the proposed rates (such as anticipated increase or decrease in business, non-recurring costs, etc.), or any other relevant information. State if there were any significant changes that occurred during the year of the actual cost data, and if any significant changes are anticipated that will impact the future indirect cost rate (s), such as (a) to the accounting system, or (b) to the definitions, or to the accounting treatment of any expense category (e.g. a change in building/equipment costing methodology, capitalization level, outsourcing of functions, or a change in the charging of an expense/function from direct to indirect or indirect to direct).

Include details and references to documentation on any significant accounting changes that are planned and may impact the current and/or future indirect cost rate, to minimize the carry-forward amount due to the fluctuation of indirect cost pool or direct cost base. For example, inform the cognizant agency that the organization anticipates a significant change in the level of program activity, due to its receipt of award of a discretionary grant that would result in significant increase of the direct cost base, which would reduce the indirect cost rate.

### **Function Codes/Cost Centers Listing (See Exhibit — Function Codes List)**

The function code/cost centers listing is the basis for determining direct and indirect costs and for calculating the indirect cost rate. Charging expenditures to improper function codes may result in an indirect cost rate that is inaccurate. Non-Federal entities (NFE) should properly segregate agency-wide general administration expenditures (indirect costs) and program-level expenditures (direct costs) and ensure that only agency-wide or district-wide administrative activities are accumulated as indirect costs.

The statement of total expenditures should report at functional level. The function describes the activity for which a service or material object is acquired. For example, the functions of a school

district may be classified into five broad areas: instruction, support services, operation of noninstructional services, facilities acquisition and construction, and debt service. Functions are further classified into sub-functions. Each classification is presented by a code number followed by a description.

To ensure proper review, the function codes/cost centers listing should be provided (a link to the list would be sufficient); at a minimum, identify which units/divisions perform the indirect (administrative) functions of the organization.

### **Object Codes Listing (See Exhibit — Object Codes List)**

The object codes are used to classify expenditures according to the types of items purchased or services obtained. Similar to function codes, charging expenditures to improper object codes may result in an indirect cost rate that is inaccurate. NFEs should properly segregate agency-wide general administration expenditures (indirect cost) and program-level expenditures (direct costs) and ensure that only agency-wide or district-wide administrative activities are reported as indirect costs.

To ensure proper review, the listing of the object codes should be provided (a link to the list would be sufficient); at a minimum the objects that are composed of the indirect costs and exclusions.

### **Organization Chart (See Exhibit — Organization Chart)**

The purpose of an organization chart is to help the cognizant agency gain an understanding of the basic structure of the organization. The organization chart should include each functional unit during the period to which the proposal applies.

### **Organization Profile**

An organizational profile helps the cognizant agency gain an understanding of the basic structure of the organization and should include

- a statement of major activities performed at the organization, including a description of the organization's mission, services performed for the general public, member services, fundraising, lobbying, research grants and contracts, etc.
- a description of the duties/responsibilities of each functional unit that comprise the organization (at a minimum the indirect cost units), by stating the activities or services performed to accomplish a set of objectives or goals, such as Fiscal Services, Budget Services, and Office of General Counsel.
- the accounting manual/policy and identify sections of the manual relating to indirect costs.

# Supporting Schedules and Documentation

**Carry-forward Adjustment** (See Exhibits — Fixed-With-Carry-Forward Calculation)



The carry-forward adjustment is one of the components of the numerator of the indirect cost rate calculation (the indirect cost pool), when a NFE has a fixed-with-carry-forward rate. The carry-forward adjustment is an after-the-fact correction for the difference between the indirect cost amount approved for use in a given year (using the indirect cost rate negotiated) and the actual indirect cost rate (amount) incurred in that year.

Indirect costs are charged to programs using an indirect cost rate that was calculated and approved based on data from two years prior. The difference between the indirect costs that were approved for billing purposes and what actually incurred for that year is the over-or-under recovery of indirect costs, which is called the carry-forward adjustment. The term over-recovery for carry-forward calculation is the dollars actually overcharged on an organization-wide basis, and is inclusive of all programs, both State and federally funded. The carry-forward adjustment compares what could be charged based on the approved rate to what the actual indirect costs were (unrelated to what was actually charged).

## **Central service cost allocation plan/Statewide cost allocation plan (SWCAP)**

A central service cost allocation plan is the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a state, local government, or Indian tribe on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users.

If State central service costs are included in the indirect cost rate proposal (i.e. SWCAP costs), an HHS approved SWCAP schedule for the year being proposed must be included with the indirect cost rate proposal.

HHS is the cognizant agency responsible for the calculation of all statewide cost allocation plans, and [publishes those agreements on its website](#). Federal agencies will not honor claims for central service costs unless the statewide cost allocation plans are approved by HHS.



### **Exclusions Schedule** (See Exhibit — Exclusions Schedule)

Certain types of costs are distorting in nature or require relatively minimal general administrative support compared with the amount of dollars spent. Because these costs would distort the indirect cost process, they are excluded from both the numerator and denominator of the calculation of the indirect cost rate. Any funding sources excluded from indirect cost allocations and the reasons for the exclusions must be provided as part of the submission. (Note: if the NFE's **unallowable** activities (lobbying, fundraising, membership) include salaries, occupy space, and benefit from the organization's indirect costs, 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. See 2 *CFR*, Part 200, Subpart E, §200.413(f)).

Following are the notable categories of costs excluded from the calculation:

- Equipment
- Capital expenditures: such as major constructions, renovations, alterations, and improvements
- Charges for patient care
- Participant support costs (including tuition remission, scholarships, and fellowships): represents payments for stipends, travel allowances and registration fees paid to participants (but not employees) in connection with training projects.
- Pass-throughs: Under some Federal programs, funds are provided to a NFE and subsequently passed through to another organization that actually performs the activity for which the funds are provided. There is no measurable involvement by the NFE in the use or administration of the funds. Since these funds, which are recorded as a cost in the records of the department, do not reflect the expenditures of resources, they are excluded from the computation. However, if the NFE does in fact incur a significant amount of costs in administering the program, then an equitable share of indirect costs should be allocated.
- Subaward/subcontracts: As a general rule, only the first \$25,000 of each subcontract, subgrant, and professional service agreement should be included in the distribution base. This recognizes that a minimal amount of indirect costs are expended overseeing these subawards or subcontracts.

### **Federal Grant Award Listing** (See Exhibit — Federal Grants and Contracts List)



Exhibit\_Schedule of  
Fed Grants Contract.x

According to Uniform Guidance §200.302, the financial management system of each non-Federal entity must provide for the following (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.

A complete Federal grants and contracts list informs the cognizant agency of various Federal funding sources. This information allows the cognizant agency to verify the applicable rate for each respective Federal program, along with any statutory indirect cost rate limitations, such as restricted or ceiling rates or amounts restricted by administrative regulations. In addition, the schedule would allow the cognizant agency to identify the impact of the application of the indirect cost rate (how much indirect costs would be charged). This information will assist in the determination of the cognizant agency when it is dependent on the level of direct Federal funding.

The Federal grant and award listing should include the following information:

- Catalog of Federal Domestic Assistance (CFDA) number.
- Federal agency program name/title, grouped by funding agency
- Total dollar amount of expenditures of each Federal grant/contract
- The allocation/direct cost distribution base and the amount of direct costs (base) incurred on each of these Federal awards (can be aggregated by CFDA numbers)
- Indirect cost limitations (such as restricted or ceiling rates or amounts restricted by administrative or statutory regulations), applicable to each
- The amount of indirect costs allocated to each CFDA numbers

## **Financial Information**

The indirect cost rate proposals are based on actual expenditures incurred during the fiscal year, generally the most current financial data supported by the organization's accounting ledger (expenditure report) and audited financial statements. NFEs should provide a copy of the financial audit on which the proposal is based. If the financial statement is part of a consolidated financial statement audit, reconciliation between the expenditure report and the comprehensive annual financial report (CAFR) should be provided.

A reconciliation between the proposed total costs and the financial statements for the applicable fiscal years must be provided, and all differences must be explained. The reconciliation of actual cost data demonstrates the total costs relationship to the Statement of Revenues and Expenses in the Comprehensive Annual Financial Report. Material differences must be explained.

In addition, adjustments resulting from the use of unaudited data should be recognized, where appropriate, in a subsequent proposal.

## Restricted Rate Adjustments Schedule (See Exhibit — Restricted Rate Adjustments Schedule)



### Exhibit\_Restricted Rate Actual.xlsx

The restricted rate adjustment schedule is to detail the adjustments to the unrestricted rate in order to calculate the restricted rate. Many of the large educational entitlement programs that provide funds to State and local jurisdictions were created by legislative statute, which require that the Federal funds be used to “supplement and not supplant” ongoing educational services (meaning the funds are for support in addition to State and local funding). These programs must use a restricted indirect cost rate, as defined in the *Education Department General and Administrative Regulations (EDGAR)* at 34 *CFR* 75.563 and 76.563 and computed in accordance with 34 *CFR* 76.564–76.569. The formula limits the general management costs that can be included in the indirect cost pool and require adjustments to the MTDC base, with the ultimate result to disallow inclusion in rate calculation of admin expenses that would otherwise be incurred.

When calculating a restricted indirect cost rate, the indirect cost pool does not normally include the following expenditures:

- The governing body (members of the board of the education)
- Compensation and related costs of the chief executive officer (CEO): CEOs exercise overall management responsibility for the operation and management of the organization. Positions such as superintendents, commissioners, and principals are generally CEOs.
- Compensation and related costs of CEO’s immediate offices: include any deputies or similar offices, along with their immediate support staff (deputy superintendent, deputy commissioner, etc.)
- Compensation and related costs of heads of component offices (divisional administration): Components are organization units for both indirect and direct functions existing one level below the chief executive officer unit (units supervised directly or indirectly by the superintendent or commissioner). Depending on the organization, there may be circumstances where components costs would properly be accounted for in the indirect cost pool. The grantee’s organizational structure (such as number of staff in the unit) is considered in determining adjustments for components.
- Space and maintenance costs, except where allowable under 34 *CFR* 76.568(b)

The calculation of the restricted indirect cost rate is viewed as a funneling process. The first step requires the non-Federal entity to segregate the accounting of costs between indirect and direct with full cost reimbursement in mind. The restricted indirect cost rate determination further filters costs that are incurred. In a restricted rate setting, indirect costs are purged and the indirect cost pool is refined to reclassify costs of the chief executive officers, their immediate officers, components officers and related costs. Related costs include applicable fringe benefits, travel, space costs and other associated costs. These costs are then reclassified from indirect to the

MTDC base.

In addition, occupancy and space maintenance costs as described at 34 *CFR* 76.568 are generally disallowed in the indirect cost pool, and instead be included in the direct costs base for the restricted indirect cost rate determination. If the grantee can identify the portion of space that supports allowable indirect cost personnel, then the costs may be included with the indirect cost pool. When occupancy and space maintenance costs are part of the approved statewide costs (SWCAP), these costs are disallowed (except where allowable under 34 *CFR* 76.568(b)). These disallowed amounts are not included in the base, because these costs are not incurred by the grantee.

The following procedures are generally involved in the restricted rate calculation process:

Step 1: Review the list of Federal programs to determine whether a restricted rate is required, by referring to the Grant Award Notification (GAN).

Step 2: If a restricted rate is required, first calculate the unrestricted rate. The unrestricted indirect cost pool and direct cost base will be the baseline for the restricted rate calculation.

Step 3: Calculate and summarize total restricted rate adjustments, and properly remove these costs from the indirect cost pool, and add the appropriate amounts to the base, in order to arrive at the restricted indirect cost rate.

**Personnel related costs:** review the entity's organization chart to determine if any of the positions meet the qualification for removal from the indirect cost pool. Those personnel and associated operating costs must be reclassified from indirect cost pool to the MTDC base. In general, personnel and related operating costs (including applicable fringe benefits, travel, space costs, and other associated costs) for the following positions are required for reclassification:

- Chief executive officer (CEO)
- CEO's immediate office: deputy superintendent, deputy commissioner, etc.
- Heads of components (CFOs, HR directors, general counsels, CIOs)

Based on the above determinations, tally the personnel related cost adjustments. Remove the unallowable expenses from the indirect cost pool and add those disallowed expenses to the direct cost base.

**Occupancy and space maintenance costs:**

- Determine if the entity can identify the portion of occupancy and space maintenance costs that supports allowable indirect cost personnel; if not, any amounts included in the indirect cost pool must be adjusted.

- Determine if the entity has a statewide cost allocation plan (SWCAP); if yes, review the approved SWCAP and determine if occupancy and space maintenance costs are part of the approved statewide costs.
- When occupancy and space maintenance costs are part of the approved statewide costs (SWCAP), remove these costs from the indirect cost pool, except where allowable under 34 *CFR* 76.568(b). **Do not include these disallowed amounts in the base** because these costs are not directly incurred by the grantee.

### Special Restricted Rate Situations to Consider:

- **Salary Base Conversion:** Restricted rates must be calculated by reclassifying disallowed costs from indirect cost pools to the MTDC base. Therefore, when the unrestricted rate has SW or SWF as the base, salary base conversion must be performed. Contact the Indirect Cost Division for details.

**Salary and Fringe Benefit Schedule** (See Exhibit— Salary and fringe benefits schedule)



Exhibit\_Sch of Sal &  
Fring Opt 2.xlsx



Exhibit\_Sch of Sal &  
Fring Opt 1.xlsx



Exhibit\_Schedule of  
Fringe Benefits.xlsx

As stated in 2 *CFR* 200.430, charges to Federal awards for salaries and wages (directly or indirectly) must be based on records that accurately reflect the work performed, and comply with the established accounting policies and practices of the non-Federal entity. In order to ensure that these charges are adequately supported, the non-Federal entity must demonstrate the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities that are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

When submitting an indirect cost rate proposal, the non-Federal entity must provide the salary schedule, demonstrating how the entity allocates salaries and wages. The schedule should include the following information:

- Indirect salaries and wages:
  - Each employee who charged time to an indirect cost function, including employees who charge 100 percent of their effort to indirect tasks as well as employees who split time between direct and indirect tasks, must be identified. In addition, the schedule should also include respective indirect personnel's position/title, functions/divisions, and annual salaries.



- Total indirect salaries and wages must reconcile to the total salaries and wages in the indirect cost pool.
- Direct salaries and wages:
  - Total direct salaries and wages must reconcile to the total direct salaries and wages in the direct cost base. Whenever administratively feasible, each employee who charged time to a direct cost function, including employees who charge 100 percent of their effort to direct tasks as well as employees who split time between direct and indirect tasks, should be identified. The entity can also report direct cost employees' salaries and wages in lump sum in total direct or grouped by function.
- Total salaries and wages:
  - The total salaries and wages must reconcile to the total salaries and wages reported in the statement of total costs
  - The total salaries and wages must be the sum of total indirect and direct salaries and wages.

Below are some relevant citations:

**§200.430 (a) *General.***

Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits which are addressed in §200.431 Compensation—fringe benefits. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and
- (3) Is determined and supported as provided in paragraph (i) of this section, Standards for Documentation of Personnel Expenses, when applicable.

**§200.430 (b) *Reasonableness.***

Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the non-Federal entity. In cases where the kinds of employees required for Federal awards are not found in the other activities of the non-Federal entity, compensation will be considered reasonable to the extent that it is comparable to that

paid for similar work in the labor market in which the non-Federal entity competes for the kind of employees involved.

**§200.430 (i) Standards for Documentation of Personnel Expenses**

*(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:*

*(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;*

*(ii) Be incorporated into the official records of the non-Federal entity;*

*(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS);*

*(iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;*

*(v) Comply with the established accounting policies and practices of the non-Federal entity (See paragraph (h)(1)(ii) above for treatment of incidental work for IHEs.)*

*(vi) [Reserved]*

*(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.*

*(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:*

*(A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;*

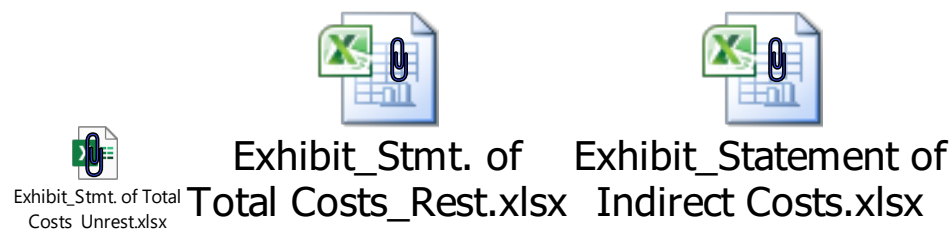
*(B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and*

*(C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.*

In addition to the salary schedule, fringe benefits are also included.

- List the various types of fringe benefits by type and amount.
- List the various types of payroll taxes by type and amount.
- Separate out indirect and direct costs. Report the total agency-wide costs incurred during the fiscal year for each type of fringe benefit. The total costs reported must reconcile to the agency's financial statement.

**Statement of Total Costs and Indirect Costs** (See Exhibit — Statement of Total Expenditures)



Statement of Total Expenditures: In order to prepare an indirect cost rate proposal, total costs, regardless of funding source, must be classified into one of the following categories: direct, indirect, and excluded. Information from the organization's accounting system should be used to determine total expenditures. Total costs should be identified for each function and object class. This schedule should contain all line items of costs included in the NFE's chart of accounts with applicable columns for indirect costs (overhead, G&A, etc.), direct costs (by cost center), and excludable costs. The indirect and direct cost columns should segregate personnel and nonpersonnel costs and amount of cost incurred by each function/cost center. The total costs should reconcile to the NFE's financial statements/expenditures report. If it does not reconcile, the NFE should provide a separate schedule supporting all differences. The allocation base should be traceable to the statement of total costs. If it is not clearly traceable, an additional reconciliation schedule must be provided.

Note that if the organization's unallowable activities (lobbying, fundraising, membership) benefit from the NFE's indirect costs, they should be included in the direct cost allocation base for the purpose of determining the indirect cost rate and be allocated their fair share of the indirect costs (see §200.413(f)).

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).

**Subaward and Subcontract Schedule** (See Exhibit-Subaward and Subcontract Schedule)



## Exhibit\_Schedule of Subcontracts.xlsx

Subagreements, which include expenditures for subawards pursuant to certain contracts, subcontracts, and subgrants, are considered to be extraordinary or distorting. The amount exceeding the first \$25,000 of subagreement is excluded from the indirect cost rate calculation (up to \$25,000 is included in the direct cost base).

Subagreements typically include those cooperative projects and pass-through grants in which the NFE have both administrative and direct financial involvement. Subagreements exclude pass-through grants in which NFEs have administrative involvement only.

Subagreements generally exclude contracts for central administrative services, and also exclude routine purchases of standard commercial goods or services from a vendor.

When distinguishing between a subagreement and a routine purchase from a vendor, the substance of the transaction is more important than the form. For example, a contract with a vendor to provide home-to-school transportation to an LEA's students would be a subagreement, but a contract with the same vendor to rent buses for the LEA to transport its own students would be a routine purchase from a vendor. The form of the written agreements might be identical in that they might both be contracts with a transportation vendor, yet the substance of the transactions is different.

An analysis of indirect cost rate, allocation base, and distribution of indirect costs (bottom line allocated dollars through indirect) for before and after scenarios would be required if the grantee proposes to charge, for example, all of the subcontractor costs in the allocation base. Although total subcontractor costs could be included in full (not meeting the definition of a subagreement) in the allocation base, it may not be reasonable to include the full amount if it results in allocating an unreasonable amount of indirect costs to the Federal programs.

**Trend Analysis** (See Exhibit — Trend Analysis)



  
Exhibit\_Trend  
Analysis\_Indirect.xlsx

## Exhibit\_Trend Analysis\_Direct.xlsx

The purpose of the trend analysis is to identify and describe unusual factors/events which would affect the proposed rates, such as anticipated increases or decreases in business, non-recurring costs, or any or any other relevant information helpful to the cognizant agency's review and

analysis. The organization is expected to provide support or explanation for any substantive variances, both at the object code level (type of expenses) and the functional/divisional unit level.

The following is a list of fluctuations that potentially can impact the rate(s).

- Reorganization of functional units (e.g., grant management division separated from the fiscal group)
- One-time, non-recurring costs (e.g., moving, acquisition of new accounting/IT software)
- Change of methodology (e.g., classifying client service and medical records costs relating to DDS program as excludable costs instead of as direct costs)
- Distorting item (e.g., major repairs to the buildings from Super Storm Scarlett)
- Change in the level of program activity (e.g., received a major discretionary award, Race to the Top, which increased the direct cost base significantly).
- Outsourcing of major indirect functions (e.g., information technology outsourced to an IT firm, resulting in significant increase in professional fee but reduced personnel costs in that division).

#### **Unused Leave Payout Schedule** (See Exhibit — Unused Leave Payout Schedule)



Exhibit Schedule of  
Unused Leave.xlsx

The State and local governments using the cash basis of accounting with unfunded/unrecorded leave liabilities cannot charge unused leave payout directly to Federal programs. Charging all unused leave costs for separating employees in the same manner as it had charged the employees' salary costs (i.e., directly to the activities on which the employees were working at the time of their separation) would result in an inequitable distribution of the unused leave costs, because the leave costs were accumulated over the entire period of employment while working on various programs. In addition, having the last program bear the burden of these costs creates an unfair distribution of costs to this program. Therefore, any State and local government using the cash basis of accounting should allocate payments for unused leave, when an employee retires or terminates employment, in the year of payment as a general administrative expense to all activities of the governmental unit or component. With the approval of the cognizant agency for indirect costs, the costs can be included in the fringe benefits rates.

Payments to separating employees for termination benefits and/or unused leave are treated as indirect costs when computing the restricted and unrestricted indirect cost rate, with one exception. When computing the restricted indirect cost rate, unused leave costs to employees who are indirect for the unrestricted rate, but direct for the restricted rate (i.e. superintendent and their office), are considered direct cost payments for rate calculation purposes only. Payments to separating employees for unused leave are **not** charged as direct costs to any Federal awards. Ensure that terminal leave payouts related to restricted personnel are included in the base.

## **Administrative Forms**

### **Certificate of Indirect Costs** (see Exhibit — Certificate of Indirect Costs-State Agencies)



Exhibit-Certificate of  
Indirect Costs\_SEAs :

Cognizant agencies for indirect costs cannot accept an indirect cost rate proposal unless such costs have been certified by the organization using the Certificate of Indirect Costs. An indirect cost rate is not binding upon the Federal Government if the most recent required proposal from the organization has not been certified. The certificate must be signed on behalf of the organization by the chief financial officer or an individual designated by an individual at a level no lower than vice president or chief financial officer.

### **Indirect Cost Rate Agreement**



Exhibit-Indirect Cost  
Rate Agreement\_SEA

A copy of the last approved indirect cost rate agreement should be submitted with the indirect cost rate proposal for reference purposes.

### **Lobbying Certificate** (See Exhibit — Lobbying Certificate)



Exhibit-Lobbying  
Certificate.docx

The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost (2 *CFR* §200.450). Costs incurred in attempting to influence either directly or indirectly, an employee or officer of the executive branch of the Federal Government to give consideration or to act regarding a Federal award or a regulatory matter are unallowable. Improper influence means any influence that induces or tends to induce a Federal employee or officer to give consideration or to act regarding a Federal award or regulatory matter on any basis other than the merits of the matter.

When an organization seeks reimbursement for indirect costs, total lobbying costs must be separately identified in the indirect cost rate proposal, and thereafter treated as other unallowable activity costs in accordance with the procedures of §200.413 Direct costs.

The organization must submit as part of its annual indirect cost rate proposal a signed lobbying certificate, which verifies that the organization does not include lobbying cost in indirect costs (see Exhibit — Lobbying Certificate). A completed certification must be signed on behalf of the organization by an official at a level no lower than executive director or chief financial officer. Completion of this form certifies the organization has complied with the requirements and standards on lobbying costs in the development of the indirect cost rate.

### **Local Education Agency Model Indirect Cost Plan**

**The LEA Model contained in the September 2009 Cost Allocation Guide is still applicable.**

1. LEA Plan Narrative
2. Profile of LEAs
3. Schedule of Expenditures
4. Restricted Rate Adjustment Schedule
5. Glossary of Functions and Objects
6. Model Organization Chart
7. Delegation Agreement

### **Website References**



**WEBSITE  
REFERENCES.docx**