

LOUISIANA DEPARTMENT OF EDUCATION
AGREEMENT FOR AUTHORIZED INDIRECT COST RATES
FOR LOUISIANA'S LOCAL EDUCATION AGENCIES

OFFICE OF MANAGEMENT AND FINANCE
DIVISION OF EDUCATION FINANCE
LOUISIANA DEPARTMENT OF EDUCATION
1201 NORTH THIRD STREET
BATON ROUGE, LA

Amended March 2010

Introduction

The U.S. Office of Management and Budget (OMB) Circular A-87, sets forth the cost principles and standards for determining the allowable costs of federally funded grants and contracts administered by state and local governments and contains provisions for determining indirect cost rates for grantees and sub-grantees of federal grants. The objectives of the Circular are to:

1. *Establish uniform standards of allowability.* All federal agencies agree to recognize the central service costs which benefit grant programs as allowable costs of those programs, so long as they are calculated in accordance with the Circular.
2. *Establish uniform standards of allocation.* All federal agencies accept the method of allocation agreed to by the “cognizant” federal agency. Costs are allocated to the benefiting departments regardless of the funding source or the ability of that source to pay.
3. *Identify the full cost of federal programs.* By identifying, accumulating, and allocating all allowable direct and indirect costs to the program for which the cost was incurred, the exact cost of all federal programs may be determined.
4. *Ensure federal programs bear their fair share of costs.* Only by identifying and allocating all direct and indirect costs within a central service cost allocation plan in conformity with the Circular will localities be reimbursed for the total cost of federal programs.
5. *Simplify intergovernmental relations.* Under the OMB Circular A-87 concept of the “cognizant” federal agency, one agency with one group of reviewers approves a cost plan. All other agencies accept the plan. Thus, uniform methods of allocation and allowability are applied to all federal grants.
6. *Encourages consistency of treatment.* Grantee organizations are encouraged to process all grant applications through a central office that is also aware of the basis of which an indirect cost rate was developed to minimize inconsistent treatment.

GENERAL INFORMATION

The U. S. Department of Education (USDOE) has been delegated as the “cognizant” federal agency responsible for the review, negotiation, and approval of the indirect cost rate proposals prepared by state and local government agencies. This authority, in turn, has been given to the Office of the Chief Financial Officer of USDOE by the Secretary of the USDOE. The Louisiana Department of Education (LDE) has, in cooperation with the USDOE, developed an indirect cost proposal to be used by local education agencies

(LEAs) in Louisiana. LDE has been delegated the authority by the USDOE to approve indirect cost rates for the LEAs in Louisiana.

According to state law, each district must submit an AFR to the LDE by September 30 of each year, with time allowed for corrections, amendments, and retransmissions of data. The AFR is submitted electronically to LDE via the Web-based data collection system. The accounting structure of the Louisiana School Districts' AFR is based on the National Center of Educational Statistics' Financial Accounting for Local and State School Systems; the terminology and classification of accounts and funds is contained in the Louisiana Accounting & Uniform Governmental Handbook (LAUGH), amended in March 2007. The sources of information utilized to determine indirect cost rates are the LEAs' Annual Financial Reports and the detail accounts that make up those reports.

In order to recover any indirect costs incurred in the administration of grants, an LEA must have an approved indirect cost rate. The approved plan consists of a predetermined rate based on the average of the three prior years indirect cost rates, discounted by 3%. The indirect cost rate for each LEA is computed based on data submitted by the local school districts to the LDE via the Annual Financial Report (AFR). Each line item in the AFR has the designation of a direct, indirect, unallowable, or excluded cost, based on the plan approved by the USDOE. Therefore, it is essential that LEAs classify expenditures uniformly and consistently. Types of expenditures, which are identified as indirect costs, shall also not be included as direct costs. All expenditures detailed on the AFR must have been made, and records supporting them must be maintained by the LEA. The indirect cost rate will be computed annually for all LEAs.

LDE's in-house computer program calculates the indirect cost rate for each LEA after the AFR system is closed after the end of each fiscal year. Each district is sent a copy of its calculated rate along with the backup data for review and approval. Once the district has reviewed and agreed with the rate calculation, district superintendents or their designee complete an Indirect Cost Rate Acknowledgment form, in which they agree that the calculated restricted rate will be used to recover indirect costs on the federal grants that flow through LDE to the LEAs. Upon receipt of the signed acknowledgment form from the LEA, the LEA is considered to have an approved indirect cost rate.

Indirect Cost Rates

An indirect cost rate is a means of determining in a reasonable manner the percentage of allowable general management costs that each federal grant should bear. Indirect costs are generally administrative costs such as the salaries and expenses for people who are engaged in administrative activities from which the entire LEA benefit. Indirect costs are recovered only to the extent of direct costs incurred. Once a rate is approved, it is applied to the net direct cost amount expended.

Generally, an indirect cost rate is a ratio of total indirect costs to total direct costs, based on an LEA's actual expenditures, exclusive of any extraordinary or distorting expenditures such as capital outlay and major subcontracts. When calculating the

indirect cost rate, the *expenditures for the second preceding fiscal year* are used. For example, expenditures for FY 2007-08 will be used when calculating the rates for FY 2009-10. The second preceding year is used because the actual costs for the immediately preceding year will not be available at the time the LEA needs to calculate the rate for the following year.

CLASSIFICATION OF COSTS

Direct Costs

Direct costs are those which can be identified with a single cost objective. These costs can be charged directly to the grants, contracts, or programs that benefit from the expenditures that make up the costs. Typical costs that can be directly charged to grants include, but not limited to:

1. Compensation of employees for the time spent specifically working on a particular grant, if supported with appropriate cost certification reports according to OMB circular A-87 (see information in Appendix A);
2. Cost of materials purchased and used specifically for the purpose of the particular grant/program; travel costs incurred specifically to carry out the purpose of the particular grant/program.

Indirect Costs

Indirect costs are those that cannot be identified specifically with a single cost objective in an economically feasible manner. These costs benefit multiple federal and state awards, programs, and other activities of the LEA.

A cost *may not* be allocated to a federal financial assistance program as an indirect cost if any other cost incurred for the same purpose, in a like circumstance has been assigned to a federal program as a direct cost. Some typical examples of indirect costs are:

1. Purchasing or procurement
2. Payroll
3. Accounting
4. Auditing
5. Personnel
6. Budgeting

Unallowed Costs

Certain items of cost are classified by OMB Circular A-87 as unallowable, which means that federal funds cannot be used for those items of cost. For indirect cost rate calculation; however, these unallowed costs are included in the base along with the direct costs. Some examples of unallowed costs are:

1. Governance
2. Entertainment
3. Fines and Penalties
4. Bad Debts
5. Contributions and donations to outside organizations

Excluded Costs

Certain items of cost are classified by OMB Circular A-87 as extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate. Some examples of excluded costs are:

1. Equipment
2. Miscellaneous Expenditures
3. Some items of cost in Facility Construction category will be changed from Unallowed to Excluded. Salary and benefits in this category will be classified as direct costs.

Restricted Indirect Cost Rate

According to the Education Department General and Administrative Regulations (EDGAR), at 75.563 and 76.563 the restricted indirect cost rate is used for federal grant programs with the statutory requirement prohibiting the use of federal funds to supplant non-federal funds. The federal funds are required to be used to supplement and in no case replace local funds used.

Unrestricted Indirect Cost Rate

The Unrestricted Indirect Cost Rate is used for grant programs without the statutory requirement prohibiting the use of federal funds to supplant non-federal funds.

Reimbursement of Indirect Costs

Indirect costs are reimbursed based on the amount actually expended from grant funds, not the total grant budget. LDE's EGMS system will automatically calculate the appropriate amount of indirect costs based on allowable expenditures submitted with the request for funds.

Some grants have indirect cost rate limitations which may be less than an LEA's calculated rate. In these cases, the rate limitations take precedence. If the grant is in EGMS, the rate limit is built into the system. For grants not within the EGMS system, rate limits will be discussed in the budget process.

Additional Information Regarding Calculation

Vacation Severance Pay

LDE has been provided additional guidance regarding Vacation Severance Pay as it relates to the federal grants and the calculation of the indirect cost rate. Currently, LDE does not capture Vacation Severance Pay on the AFR. Current guidance from USDOE stipulates that Vacation Severance Pay should be treated as an indirect cost and should be paid for and reported in the General Fund. This means that vacation days that have been accrued over the years and are paid out to an employee are an expense of the general fund upon the retirement or termination of an employee who has been working on federal programs. Until changes can be made to the AFR, it will be necessary for each LEA to report amounts expended for vacation severance pay separately from the AFR. A schedule will be provided to each LEA for this purpose.

The one exception to this is that the annual vacation time earned in the year of retirement or termination, may be paid for by the federal program and direct charged, even if the person involved takes the vacation immediately prior to leaving the LEA's employment either through retirement or voluntary/involuntary termination. Any vacation severance pay paid to individuals above the annual vacation leave earned during the last year of employment cannot be paid for with federal grant funds. The vacation severance pay must be paid for with general fund dollars and will be coded as an indirect cost once it is included in the Annual Financial Report.

As a reminder, sick leave severance pay is also considered an indirect cost and is a general fund expenditure. This is already captured in the AFR and is coded as an indirect cost on the LEAs' Indirect Cost Plan.

Capitalization Threshold

The LDE has changed the capitalization threshold for equipment to \$5,000 for grants beginning in FY 2008-09. If your district's official threshold is less than \$5,000, you must have official school board approval to raise the threshold, or you must use the lower threshold set by your district's policy.

Charter Schools

For charter schools not under the jurisdiction of an LEA, the LDE allows use of the state average rate for recovery of indirect costs.

Non LEA's

The USDOE's publication, "*Cost Allocation Guide for State and Local Governments*," states, the flow of responsibilities is from the federal agency making the award, to the primary (direct recipient), and from the primary recipient to the sub-recipient. The publication also states the entities receiving federal funds only as subrecipient will obtain

indirect cost rate approval from the primary recipient, before claiming indirect cost reimbursement. Louisiana's SEA establishes the non-LEA subrecipients' indirect cost rate using a method that is the same as is used for approval of LEA rate determinations. For subrecipients other than state and local governments that receive no funding directly from any federal agency, and that request an indirect cost rate from LDE, the department will, for administrative expediency, assign an indirect cost rate that is the state average restricted indirect cost rate of the LEAs in Louisiana. The LDE will approve these rates on an individual basis. This method will be used by LDE for non-LEA subrecipients, including but not limited to nonprofit entities and public schools not under the jurisdiction of LDE.

Other Information

- As already noted, Vacation Severance Pay has not been reported separately in the AFR. Based on the new proposed plan, LDE will add this line item in the AFR in each functional category. Vacation severance pay will be included as an indirect cost item. Until revisions to the format of the AFR are complete, and beginning in FY 2007-08, LDE will survey all LEAs regarding their method of reporting of vacation severance pay, and manual adjustments will be made to the calculated indirect cost rate based on results of the survey. For federal grant purposes, vacation pay equal to the amount earned by an employee in a given fiscal year can be directly charged to the grant. Any vacation severance pay in excess of this amount must be coded as indirect cost and paid for with state and/or local funds.
- In early discussions concerning the Indirect Cost plan, there was mention of including only the first \$25,000 of Contracts and Sub-Awards, both in the calculation of the indirect cost rate and the recovery of indirect costs from federal grants. This issue is temporarily on hold pending more guidance from USDOE and will not be included in the current approved plan.
- The definition of stipends in the LAUGH is substantially different from the definition used by the USDOE; therefore, based on the Department's guidance to LEAs regarding the definition of and reporting of expenditures based on this definition, LEAs in Louisiana will continue to direct charge all amounts coded as stipends to the federal grants that flow through the LDE.

APPENDIX A

OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments"

Time Distribution Requirements

Federal funds may be used to pay salaries and wages as long as appropriate time distribution records are maintained documenting time spent on federal cost objectives. Such records are maintained in addition to the standards for payroll documentation.

A. Single Cost Objectives

If an employee is expected to work solely on a single federal award or cost objective, such work must be supported with a periodic certification that indicates the employee worked solely on that program for the period covered by the certification. The certification must be prepared at least semi-annually (every six months). The certification must be signed and dated by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

B. Multiple Cost Objectives

If an employee is expected to work on multiple cost objectives, a distribution of his or her salaries or wages must be supported by Personnel Activity Reports ("PARs").

An employee is considered to work on multiple cost objectives if they work on:

- more than one federal award
- a federal award and a non-federal award
- a federal award with specific earmarking (set-asides) or matching requirements
- 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

For employees working on multiple cost objectives, PARs must be maintained that reflect the following standards:

- After-the-fact record: The PAR must be created after the work has been executed. Projections of how an employee is expected to work or position descriptions would not be sufficient.
- Total activity: The PAR must account for the total activity for which each employee is compensated, including part-time schedules or overtime.
- Monthly: The PAR must be prepared at least monthly and must coincide with one or more pay periods; and
- Signed and dated: The PAR must be signed and dated by the employee. Unlike the semi-annual certification, signature of a supervisor alone would not be sufficient; however, the supervisor could sign in addition to the employee.

- The Semi-Annual Certification must be reconciled with the payroll records semi-annually.
- The Periodic Activity Reports (PAR) must be reconciled with the payroll records at least quarterly.

Examples of both Semi-Annual Certification and Periodic Activity Reports follow.

EXAMPLE OF PERSONNEL ACTIVITY REPORT
Bi-weekly Certification – for staff working on multiple federal and/or
federal and non-federal cost objectives

Pay Period Ending: _____ Fiscal Year: _____

Employee Name: _____

<u>Program/Activity/</u> <u>Description</u>	<u>CFDA #</u>	<u>Payroll Funding</u> <u>Code</u>	<u>Anticipated</u> <u>Effort</u>	<u>Total</u> <u>Actual Effort</u>
			00%	00%
			25%	20%
			65%	65%
			10%	15%
			Total Actual Effort	100

I hereby certify this report is an after-the-fact determination of the total activity and actual effort expended for the period indicated, and I have full knowledge of 100% of these activities.

Employee Signature

Date

Supervisor's Signature

Date

Completion of this form is required for all federally funded and general funded participating employees working on multiple cost objectives. Submit to payroll upon completion for reconciliation of actual effort to anticipated effort.

Example of Semiannual Employee Certification

For staff working on a single federal cost objective

Semi-annual period: _____ Fiscal Year: _____

Employee Name: _____ Job Title: _____

Program/Activity/
Description

CFDA # and Payroll Funding Code

I hereby certify that for the period _____, through _____, I spent 100% of my time on the above-referenced program. This report is an after-the-fact determination of the total activity and actual effort expended for the period indicated, and I have full knowledge of 100% of these activities.

Employee Signature

Date

Supervisor's Signature

Date

Completion of this form is required for all federally funded participating employees working on single cost objectives. Submit to the payroll upon completion for reconciliation to payroll.

Other Sources of Information

- ◆ Louisiana Department of Education (LAUGH)
 - <http://www.doe.state.la.us>
- ◆ Office of Management & Budget (Circular A-87)
 - <http://www.whitehouse.gov/omb/circulars/>
- ◆ U.S. Department of Education (EDGAR)
 - <http://www.gpoaccess.gov/cfr/index.html>

State of Louisiana
Department of Education
 2012-2013 Restricted Indirect Cost Rate

LEA NUMBER	City/Parish District	2012-2013 Restricted Indirect Cost Rate (%) 3 yr Average w/ 3% Discount
0001	Acadia Parish	4.5235
0002	Allen Parish	4.9904
0003	Ascension Parish	8.4432
0004	Assumption Parish	10.7816
0005	Avoyelles Parish	11.3716
0006	Beauregard Parish	7.6171
0007	Bienville Parish	8.6323
0008	Bossier Parish	3.313
0009	Caddo Parish	7.2441
0010	Calcasieu Parish	4.9742
0011	Caldwell Parish	7.762
0012	Cameron Parish	6.6771
0013	Catahoula Parish	10.6931
0014	Claiborne Parish	6.4583
0015	Concordia Parish	4.1397
0016	DeSoto Parish	12.0049
0017	East Baton Rouge Parish	10.3713
0018	East Carroll Parish	6.0531
0019	East Feliciana Parish	7.1165
0020	Evangeline Parish	8.3852
0021	Franklin Parish	9.7824
0022	Grant Parish	7.9013
0023	Iberia Parish	4.3936
0024	Iberville Parish	5.2007
0025	Jackson Parish	8.0389
0026	Jefferson Parish	11.0864
0027	Jefferson Davis Parish	7.3016
0028	Lafayette Parish	4.809
0029	Lafourche Parish	6.4992
0030	LaSalle Parish	8.5523
0031	Lincoln Parish	5.89
0032	Livingston Parish	4.6859
0033	Madison Parish	8.367
0034	Morehouse Parish	10.9229
0035	Natchitoches Parish	7.5222
0036	Orleans Parish	8.5896
0037	Ouachita Parish	6.539
0038	Plaquemines Parish	7.0922
0039	Pointe Coupee Parish	9.9655
0040	Rapides Parish	7.398
0041	Red River Parish	3.8288
0042	Richland Parish	8.1004
0043	Sabine Parish	7.479
0044	St. Bernard Parish	11.4709
0045	St. Charles Parish	7.1288
0046	St. Helena Parish	12.0049
0047	St. James Parish	6.0261
0048	St. John Parish	6.2284
0049	St. Landry Parish	8.1493
0050	St. Martin Parish	6.7767
0051	St. Mary Parish	4.4534
0052	St. Tammany Parish	6.283
0053	Tangipahoa Parish	6.3152
0054	Tensas Parish	9.5806
0055	Terrebonne Parish	6.2953

State of Louisiana
Department of Education
 2012-2013 Restricted Indirect Cost Rate

LEA NUMBER	City/Parish District	2012-2013 Restricted Indirect Cost Rate (%) 3 yr Average w/ 3% Discount
0056	Union Parish	6.6857
0057	Vermillion Parish	4.5173
0058	Vernon Parish	6.891
0059	Washington Parish	6.2505
0060	Webster Parish	7.1261
0061	West Baton Rouge Parish	4.0000
0062	West Carroll Parish	9.7242
0063	West Feliciana Parish	5.8434
0064	Winn Parish	8.8582
0065	City of Monroe	9.6609
0066	City of Bogalusa	10.8391
0067	Zachary Community	3.7173
0068	City of Baker	5.5129
0069	Central Community	3.0099
0101	SSD #1	14.6000
0304	LA School for the Deaf and Visually Impaired	7.3349
0306	LA Special Education Center	7.3349
0318	LSU Laboratory School	7.3349
0319	Southern University Lab School	7.3349
0321	New Vision Learning Academy	7.3349
0329	Glencoe Charter School	7.3349
0331	International School of Louisiana	7.3349
0333	Avoyelles Public Charter School	7.3349
0336	Delhi Charter School	7.3349
0337	Belle Chasse Academy, Inc.	7.3349
0339	Milestone SABIS Academy of New Orleans	7.3349
0340	Maxine Giardina Charter	7.3349
0341	D'Arbonne Woods Charter	7.3349
0343	Madison Preparatory Academy	7.3349
0344	International High School Of New Orleans	7.3349
0345	Louisiana Connections Academy	7.3349
0346	Lake Charles Academy	7.3349
0347	Lycee Francais de la Nouvelle Orleans	7.3349
0348	New Orleans Military/Maritime Academy	7.3349
0396	Recovery School District (RSD) - LDE	7.3349
0A02	Office of Youth Development	7.3349
0W11	Nelson Elementary School	7.3349
0W12	P. A. Capdau School	7.3349
0W13	Lake Area New Tech Early College High School	7.3349
0W14	Gentilly Terrace Charter School	7.3349
0W21	James M. Singleton Charter School	7.3349
0W31	Dr. M.L.K. Charter School for Science & Tech.	7.3349
0W32	Joseph A. Craig Charter School	7.3349
0W42	McDonogh #28 City Park Academy	7.3349
0W51	Lafayette Academy of New Orleans	7.3349
0W52	Esperanza Charter School	7.3349
0W53	New Orleans Elementary Charter School	7.3349
0W62	O.P. Walker Senior High School	7.3349
0W63	McDonogh #32 Elementary School	7.3349
0W64	William J. Fischer Elementary School	7.3349
0W65	Dwight D. Eisenhower Elementary School	7.3349
0W66	Martin Behrman Elementary School	7.3349
0W67	ACSA Technology High	7.3349
0W71	RSD - SUNO Sophie B. Wright Inst.of Academic Excellence	7.3349
0W81	McDonogh #15	7.3349

State of Louisiana
Department of Education
 2012-2013 Restricted Indirect Cost Rate

LEA NUMBER	City/Parish District	2012-2013 Restricted Indirect Cost Rate (%) 3 yr Average w/ 3% Discount
0W82	Edward Phillips/KIPP Believe	7.3349
0W83	KIPP Central City Academy	7.3349
0W84	KIPP Renaissance High School	7.3349
0W85	KIPP New Orleans Leadership Academy	7.3349
0W91	Samuel J. Green Charter School	7.3349
0W92	New Orleans Charter Middle at Ashe	7.3349
0W93	Joseph S. Clark Prep High School	7.3349
0W94	John Dibert Community School	7.3349
0WAA	Morris Jeff Community School	7.3349
0WAB	Edgar P. Harney Spirit of Excellence Academy	7.3349
0WAC	Lagniappe Academies	7.3349
0WAE	Fannie C. Williams Charter School	7.3349
0WAF	Harriet Tubman Charter School	7.3349
0WAG	Louisiana Virtual Charter Academy	7.3349
0WAH	The Net Charter School	7.3349
0WAI	Crescent Leadership Academy at Schwartz	7.3349
0WAJ	Future Is Now Charter	7.3349
0WAK	Southwest Louisiana Charter Academy	7.3349
0WAL	JS Clark Leadership Academy	7.3349
0WB1	Abramson Science and Technology Charter	7.3349
0WB2	Kenilworth Middle School	7.3349
0WC1	Langston Hughes Academy	7.3349
0WD1	Andrew H. Wilson	7.3349
0WE1	NOLA College Prep (Sylvanie Williams College Prep)	7.3349
0WE2	NOLA College Prep at Cohen High School	7.3349
0WG1	Crocker Arts and Tech	7.3349
0WH1	The Intercultural Charter School	7.3349
0WI1	Akili Academy of New Orleans	7.3349
0WJ1	New Orleans Charter Science and Math Academy	7.3349
0WJ2	Collegiate Academy 2	7.3349
0WJ3	Collegiate Academy 3	7.3349
0WK1	Sojourner Truth Academy	7.3349
0WL1	KIPP Elementary	7.3349
0WM1	Miller-McCoy Academy	7.3349
0WN1	Glen Oaks Middle School	7.3349
0WO1	Prescott Middle School	7.3349
0WP1	Pointe Coupee Central High	7.3349
0WP2	Dalton Elementary School	7.3349
0WP3	Lanier Elementary School	7.3349
0WS1	Pride College Preparatory Academy	7.3349
0WT1	Benjamin E. Mays Preparatory Academy	7.3349
0WU1	Success Preparatory Academy	7.3349
0WV1	Arise Academy	7.3349
0WW1	Crestworth Middle School	7.3349
0WX1	Linwood Middle School	7.3349
0WZ1	Batiste Cultural Arts Academy at Live Oak Elementary	7.3349
0WZ2	SciTech Academy at Laurel Elementay	7.3349
0WZ3	Reed Elementary School	7.3349
0WZ4	ReNEW Accelerated High School, City Park Campus	7.3349
0WZ5	ReNEW Accelerated High School, West Bank Campus	7.3349

2. Classification of costs. There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost. Guidelines for determining direct and indirect costs charged to Federal awards are provided in the sections that follow.

E. Direct Costs

1. General. Direct costs are those that can be identified specifically with a particular final cost objective.
2. Application. Typical direct costs chargeable to Federal awards are:
 - a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.
 - b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.
 - c. Equipment and other approved capital expenditures.
 - d. Travel expenses incurred specifically to carry out the award.
3. Minor items. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

F. Indirect Costs

1. General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.
2. Cost allocation plans and indirect cost proposals. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Attachments C, D, and E.
3. Limitation on indirect or administrative costs.
 - a. In addition to restrictions contained in this Circular, there may be laws that further limit the amount of administrative or indirect cost allowed.
 - b. Amounts not recoverable as indirect costs or administrative costs under one Federal award may not be shifted to another Federal award, unless specifically authorized by Federal legislation or regulation.

G. Interagency Services. The cost of services provided by one agency to another within the governmental unit may include allowable direct costs of the service plus a pro rate share of indirect costs. A standard indirect cost allowance equal to ten percent of the direct salary and wage cost of providing the service (excluding overtime, shift premiums, and fringe benefits) may be used in lieu of determining the actual indirect costs of the service. These services do not include centralized services included in central service cost allocation plans as described in Attachment C.

H. Required Certifications. Each cost allocation plan or indirect cost rate proposal required by Attachments C and E must comply with the following:

3. If a dispute arises in the negotiation of a plan or from a disallowance involving two or more funding agencies, the dispute shall be resolved in accordance with the appeals procedures set out in 45 CFR Part 75. Disputes involving only one funding agency will be resolved in accordance with the funding agency's appeal process.

4. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, the Office of Management and Budget will lend assistance, as required, to resolve such problems in a timely manner.

F. **Unallowable Costs.** Claims developed under approved cost allocation plans will be based on allowable costs as identified in this Circular. Where unallowable costs have been claimed and reimbursed, they will be refunded to the program that reimbursed the unallowable cost using one of the following methods: (a) a cash refund, (b) offset to a subsequent claim, or (c) credits to the amounts charged to individual awards.

ATTACHMENT E
Circular No. A 87

STATE AND LOCAL INDIRECT COST RATE PROPOSALS

TABLE OF CONTENTS

A. General

B. Definitions

1. Indirect cost rate proposal
2. Indirect cost rate
3. Indirect cost pool
4. Base
5. Predetermined rate
6. Fixed rate
7. Provisional rate
8. Final rate
9. Base period

C. Allocation of Indirect Costs and Determination of Indirect Cost Rates

1. General
2. Simplified method
3. Multiple allocation base method
4. Special indirect cost rates

D. Submission and Documentation of Proposals

1. Submission of indirect cost rate proposals
2. Documentation of proposals
3. Required certification

E. Negotiation and Approval of Rates

F. Other Policies

1. Fringe benefit rates
2. Billed services provided by the grantee agency
3. Indirect cost allocations not using rates
4. Appeals

5. Collections of unallowable costs and erroneous payments
6. OMB assistance

A. General.

1. Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.
2. Indirect costs include (a) the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and (b) the costs of central governmental services distributed through the central service cost allocation plan (as described in Attachment C) and not otherwise treated as direct costs.
3. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards. Guidelines and illustrations of indirect cost proposals are provided in a brochure published by the Department of Health and Human Services entitled "A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government." A copy of this brochure may be obtained from the Superintendent of Documents, U.S. Government Printing Office.
4. Because of the diverse characteristics and accounting practices of governmental units, the types of costs which may be classified as indirect costs cannot be specified in all situations. However, typical examples of indirect costs may include certain State/local wide central service costs, general administration of the grantee department or agency, accounting and personnel services performed within the grantee department or agency, depreciation or use allowances on buildings and equipment, the costs of operating and maintaining facilities, etc.
5. This Attachment does not apply to State public assistance agencies. These agencies should refer instead to Attachment D.

B. Definitions.

1. "Indirect cost rate proposal" means the documentation prepared by a governmental unit or subdivision thereof to substantiate its request for the establishment of an indirect cost rate.
2. "Indirect cost rate" is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.
3. "Indirect cost pool" is the accumulated costs that jointly benefit two or more programs or other cost objectives.
4. "Base" means the accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual Federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.
5. "Predetermined rate" means 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 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.) Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency. In view of the potential advantages offered by this procedure, negotiation of predetermined rates for indirect costs for a period of two to four years should be the norm in those situations where the cost experience and other pertinent facts available are deemed sufficient to

enable the parties involved to reach an informed judgment as to the probable level of indirect costs during the ensuing accounting periods.

6. "Fixed rate" means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

7. "Provisional rate" means 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.

8. "Final rate" means an indirect cost rate applicable to a specified past period which is based on the actual allowable costs of the period. A final audited rate is not subject to adjustment.

9. "Base period" for the allocation of indirect costs is the period in which such costs are incurred and accumulated for allocation to activities performed in that period. The base period normally should coincide with the governmental unit's fiscal year, but in any event, shall be so selected as to avoid inequities in the allocation of costs.

C. Allocation of Indirect Costs and Determination of Indirect Cost Rates.

1. General.

- a. Where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect costs to approximately the same degree, the allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures as described in subsection 2.
- b. Where a governmental unit's department or agency has several major functions which benefit from its indirect costs in varying degrees, the allocation of indirect costs may require the accumulation of such costs into separate cost groupings which then are allocated individually to benefitted functions by means of a base which best measures the relative degree of benefit. The indirect costs allocated to each function are then distributed to individual awards and other activities included in that function by means of an indirect cost rate(s).
- c. Specific methods for allocating indirect costs and computing indirect cost rates along with the conditions under which each method should be used are described in subsections 2, 3 and 4.

2. Simplified method.

- a. Where a grantee agency'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 agency's 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. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This method should also be used where a governmental unit's department or agency has only one major function encompassing a number of individual projects or activities, and may be used where the level of Federal awards to that department or agency is relatively small.
- b. Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs. However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.
- c. The distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass through funds, major subcontracts, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution.

3. Multiple allocation base method.

- a. Where a grantee agency's indirect costs benefit its major functions in varying degrees, such costs shall be accumulated into separate cost groupings. Each grouping shall then be allocated individually to benefitted functions by means of a base which best measures the relative benefits.
 - b. The cost groupings should be established so as to permit the allocation of each grouping on the basis of benefits provided to the major functions. Each grouping should constitute a pool of expenses that are of like character in terms of the functions they benefit and in terms of the allocation base which best measures the relative benefits provided to each function. 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.
 - c. Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping to benefitted functions. When an allocation can be made by assignment of a cost grouping directly to the function benefitted, 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 governmental unit. In general, any cost element or related factor associated with the governmental unit's activities is potentially adaptable for use as an allocation base provided that: (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 benefitted functions during the base period.
 - d. Except where a special indirect cost rate(s) is required in accordance with subsection 4, 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 Federal awards included in that function by use of a single indirect cost rate.
 - e. 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, major subcontracts, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution. An indirect cost rate should be developed for each separate indirect cost pool developed. The rate in each case should be stated as the percentage relationship between the particular indirect cost pool and the distribution base identified with that pool.
4. Special indirect cost rates.
- a. In some instances, a single indirect cost rate for all activities of a grantee department or agency or for each major function of the agency may not be appropriate. It may not take into account those different factors which may substantially affect the indirect costs applicable to a particular program or group of programs. The 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, or any combination thereof. When a particular award is carried out in an environment which appears to generate a significantly different level of indirect costs, provisions should be made for a separate indirect cost pool applicable to that award. The separate indirect cost pool should be developed during the course of the regular allocation process, and the separate indirect cost rate resulting therefrom should be used, provided that: (1) the rate differs significantly from the rate which would have been developed under subsections 2. and 3., and (2) the award to which the rate would apply is material in amount.
 - b. Although this Circular adopts the concept of the full allocation of indirect costs, there are some Federal statutes which restrict the reimbursement of certain indirect costs. Where such restrictions exist, it may be necessary to develop a special rate for the affected award. Where a "restricted rate" is required, the 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.

D. Submission and Documentation of Proposals.

1. Submission of indirect cost rate proposals.

- a. All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.
 - b. A governmental unit for which a cognizant agency assignment has been specifically designated must submit its indirect cost rate proposal to its cognizant agency. The Office of Management and Budget (OMB) will periodically publish lists of governmental units identifying the appropriate Federal cognizant agencies. The cognizant agency for all governmental units or agencies not identified by OMB will be determined based on the Federal agency providing the largest amount of Federal funds. In these cases, a governmental unit must develop an indirect cost proposal in accordance with the requirements of this Circular and maintain the proposal and related supporting documentation for audit. These governmental units are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub recipient, the primary recipient will be responsible for negotiating and/or monitoring the sub recipient's plan.
 - c. Each Indian tribal government desiring reimbursement of indirect costs must submit its indirect cost proposal to the Department of the Interior (its cognizant Federal agency).
 - d. Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant Federal agency. If the proposed central service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.
2. Documentation of proposals. The following shall be included with each indirect cost proposal:
- a. The rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the financial data noted in subsection b. Allocated central service costs will be supported by the summary table included in the approved central service cost allocation plan. This summary table is not required to be submitted with the indirect cost proposal if the central service cost allocation plan for the same fiscal year has been approved by the cognizant agency and is available to the funding agency.
 - b. A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rate is based. Adjustments resulting from the use of unaudited data will be recognized, where appropriate, by the Federal cognizant agency in a subsequent proposal.
 - c. The approximate amount of direct base costs incurred under Federal awards. These costs should be broken out between salaries and wages and other direct costs.
 - d. A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency. (Once this is submitted, only revisions need be submitted with subsequent proposals.)
3. Required certification. Each indirect cost rate proposal shall be accompanied by a certification in the following form:

CERTIFICATE OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal [identify date] to establish billing or final indirect costs rates for [identify period covered by rate] are allowable in accordance with the requirements of the Federal

award(s) to which they apply and OMB Circular A 87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) 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, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: _____

Signature: _____

Name of Official: _____

Title: _____

Date of Execution: _____

E. *Negotiation and Approval of Rates.*

1. Indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Where a Federal funding agency has reason to believe that special operating factors affecting its awards necessitate special indirect cost rates, the funding agency will, prior to the time the rates are negotiated, notify the cognizant Federal agency.

2. The use of predetermined rates, if allowed, is encouraged where the cognizant agency has reasonable assurance based on past experience and reliable projection of the grantee agency's costs, that the rate is not likely to exceed a rate based on actual costs. Long term agreements utilizing predetermined rates extending over two or more years are encouraged, where appropriate.

3. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to re opening if the agreement is subsequently found to violate a statute, or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The agreed upon rates shall be made available to all Federal agencies for their use.

4. Refunds shall be made if proposals are later found to have included costs that (a) are unallowable (i) as specified by law or regulation, (ii) as identified in Attachment B of this Circular, or (iii) by the terms and conditions of Federal awards, or (b) are unallowable because they are clearly not allocable to Federal awards. These adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

F. *Other Policies.*

1. Fringe benefit rates. If overall fringe benefit rates are not approved for the governmental unit as part of the central service cost allocation plan, these rates will be reviewed, negotiated and approved for individual grantee agencies during the indirect cost negotiation process. In these cases, a proposed fringe benefit rate computation should accompany the indirect cost proposal. If fringe benefit rates are not used at the grantee agency level (i.e., the agency specifically identifies fringe benefit costs to individual employees), the governmental unit should so advise the cognizant agency.

2. Billed services provided by the grantee agency. In some cases, governmental units provide and bill for services similar to those covered by central service cost allocation plans (e.g., computer centers). Where this occurs, the governmental unit should be guided by the requirements in Attachment C relating to the development of billing rates and documentation requirements, and should advise the cognizant agency of any billed services. Reviews of these types of services (including reviews of costing/billing methodology, profits or losses, etc.) will be made on a case by case basis as warranted by the circumstances involved.

3. Indirect cost allocations not using rates. In certain situations, a governmental unit, because of the nature of its awards, may be required to develop a cost allocation plan that distributes indirect (and, in some cases, direct) costs to the specific funding sources. In these cases, a narrative cost allocation methodology should be developed, documented, maintained for audit, or submitted, as appropriate, to the cognizant agency for review, negotiation, and approval.

4. Appeals. If a dispute arises in a negotiation of an indirect cost rate (or other rate) between the cognizant agency and the governmental unit, the dispute shall be resolved in accordance with the appeals procedures of the cognizant agency.

5. Collection of unallowable costs and erroneous payments. Costs specifically identified as unallowable and charged to Federal awards either directly or indirectly will be refunded (including interest chargeable in accordance with applicable Federal agency regulations).

6. OMB assistance. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, OMB will lend assistance, as required, to resolve such problems in a timely manner.

[Return to Top](#)

WWW.WHITEHOUSE.GOV

[En español](#) | [Accessibility](#) | [Copyright Information](#) | [Privacy Policy](#) | [Contact](#)
[USA.gov](#) | [Subscribe to RSS Feeds](#) | [Apply for a Job](#)