



U.S. Economic Development Administration

Indirect Cost Instructions

Updated 11/30/2017

Summary of Changes

There have been substantial changes to the Indirect Cost Instructions since the previous version dated 1/5/17.

The U.S. Department of Commerce, Economic Development Administration (EDA) has entered into a working relationship with the U.S. Department of the Interior, Interior Business Center (IBC) to issue indirect cost rates to organizations for which EDA is the cognizant agency for indirect costs. Effective August 1, 2017, the Office of Indirect Cost Services for IBC (IBC/ICS) will collect the required documents, negotiate, issue and countersign indirect rate agreements for your organization.

We believe this change will greatly facilitate the timely issuance of indirect cost rates. In selecting IBC/ICS, we were particularly impressed with the depth of their experience in negotiating indirect cost rate agreements, the quality of their customer service, and the utility of their website. To obtain the best service, you should use the websites listed in this guidance document to familiarize yourselves with IBC/ICS requirements. Familiarity will help ensure that all documentation submitted to EDA or IBC/ICS, as appropriate, can be processed by IBC/ICS in a timely manner. IBC/ICS has stated that incomplete documentation is the number one cause of delays in issuing rates.

During the transition, all indirect cost proposals should be submitted to EDA's Indirect Cost Coordinator. EDA will then submit your proposal to IBC/ICS on your behalf. Please note that once your proposal has been submitted to IBC/ICS, negotiation and issuance of rates will be conducted directly between your organization POC and IBC/ICS.

Once you have an IBC/ICS issued rate agreement, future proposals can be submitted directly to IBC/ICS. EDA's Indirect Cost Coordinator must be cc'd on these communications. Submission instructions can be found in Section 6 of this guidance and on IBC/ICS's website at <https://www.doi.gov/ibc/services/finance/indirect-cost-services>. You may also continue submitting your materials to the EDA contact listed in Section 8 of this guidance.

We appreciate your cooperation as we make this transition, and think you will benefit from the change. If you have any questions, please reach out to EDA's Indirect Cost Coordinator.

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1.0 Background and Purpose

Indirect costs are the costs incurred by an organization that are not readily identifiable with a particular project or activity, but are nevertheless necessary to the operation of the organization and the performance of its programs.¹ The costs of operating and maintaining facilities, depreciation, and administrative salaries are all examples of typical indirect costs.² The federal government allows organizations receiving grants and cooperative agreements to charge indirect costs to an individual grant award.

In theory, all such costs might be charged directly. Practical difficulties with identifying and apportioning such common or joint costs to a particular project or activity funded under the grant or cooperative, however, will normally preclude this approach. The indirect costs are therefore grouped into common pools and distributed to the organization's programs or cost centers through a cost allocation process. The end product of this allocation process is an indirect cost rate (or rate for each pool) which is then applied to individual financial assistance awards to determine the amount of indirect costs chargeable to the awards.

The purpose of this document is to explain the policies and procedures governing EDA's Indirect Cost program, which apply when EDA is an organization's "cognizant agency", as defined below. If EDA is not an organization's cognizant agency, the instructions in this document do not apply to that organization and it should instead refer to any instructions promulgated by its respective cognizant agency.

2.0 Definitions

Indirect Cost Rate – The ratio, expressed as a percentage, of an organization's total indirect costs (numerator) to its direct cost base (denominator). The direct cost base can be determined using one of three methodologies:

- Total Direct Salaries and Wages (SW): This base includes only the direct salaries and wages incurred by the organization.
- Total Direct Salaries and Wages, including Fringe Benefits (SWF): This base includes only the direct salary and wages and the direct fringe benefits incurred by the organization.
- Modified Total Direct Cost (MTDC): This base includes all direct costs incurred by the organization with the exception of distorting items such as capital expenditures, subcontracts, flow through funds, etc.

The base chosen should result in each award bearing a proportionate share of the indirect costs relative to the benefits received from those costs. For example, if 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

¹ See 2 C.F.R. § 200.56.

² See 2 C.F.R. Part 200, Appendix III.

to use modified total direct costs (exclusive of unusual or distorting expenditures). Please consult the Indirect Cost Services office at IBC/ICS if you need additional guidance on selecting the appropriate direct cost base.

When a rate is established for a specific cost center, the rate represents the ratio of the total allowable indirect costs allocated for the activity to the direct costs allocated for the activity. The IBC/ICS will determine the best type of rate for your organization. There are four different types of rates that can be negotiated:

- *Provisional* – a temporary indirect cost rate that is applied for a limited time period. A Provisional rate 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 for the specified time period are known and can be verified through audited financial statements.
- *Final* – an indirect cost rate applicable to a specified past period that is based on the actual costs of the period. A final rate is not subject to adjustment.
- *Predetermined* – an indirect cost rate, applicable to a specified current or future period, usually the organization’s fiscal year. The rate is based on an estimate of the costs to be incurred during the period. A predetermined rate is not subject to adjustment. Predetermined indirect cost rates may be negotiated for periods of up to 2 to 4 years.
- *Fixed (or Fixed Carry-Forward)* – an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

Indirect Cost Rate Proposal – The documentation prepared by an organization to substantiate its request for the establishment of an indirect cost rate, as described in Appendixes IV to VII of the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Appendix IV to 2 C.F.R. Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations through Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals). The package normally includes the proposal, related audited financial statements, and other detailed supporting documents such as general ledger, trial balance, etc.

Cognizant Agency – For non-commercial organizations (e.g., state, local, and Indian Tribal governments; Economic Development Districts; educational institutions; and non-profit organizations), the cognizant agency is generally defined as the agency that provides the largest dollar amount of direct federal funding. For commercial organizations, the cognizant agency is defined as the agency that provides the largest dollar amount of negotiated contracts, including options.

Award – The term “award”, as used in this document, includes grants, cooperative agreements, and other forms of financial assistance.

Indirect Cost Negotiation Agreement – A document that formalizes the indirect cost rate negotiation process. This document typically contains:

- 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; and
- The program(s) to which the rate(s) is/are applicable.

It also provides information on the base(s) used to distribute indirect costs, and the treatment of fringe benefits and paid absences.

The indirect cost negotiation agreement must be signed by both the organization's authorized representative and the IBC/ICS or authorized representative.

3.0 Cognizant Agency

OMB is responsible for assigning federal agencies to serve as cognizant agencies to review and accept indirect cost rates for organizations receiving financial awards. The Office of Federal Financial Management is the responsible unit within OMB.

Each organization is assigned or derived to a single cognizant agency which acts on behalf of all federal agencies by reviewing and accepting indirect cost rates. 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.

Indirect cost rates approved by cognizant agencies must be accepted by all Federal agencies, unless otherwise stipulated by Federal statute, or regulation, or agency head or delegate, in accordance with 2 C.F.R. § 200.414(c)(1).

4.0 Non-Profit and Commercial Organizations

Non-profit and commercial organizations must develop and submit a new indirect cost proposal to EDA or IBC/ICS, as appropriate, no later than six months prior to the expiration of their current rate. The rate is calculated based on the organization's most recent audited financial statements. For example, an organization requesting an FY 2017 indirect cost rate will base the proposed FY 2017 rate on their audited FY 2015 or FY 2016 financial statements.

For EDA's purposes, Economic Development Districts (EDDs) organized as non-profit organizations will generally be considered non-profit organizations and therefore be required to submit their full indirect cost rate proposal for review and negotiation. EDA will consider evidence in an EDD's organizational documents (e.g., by-laws, articles of incorporation) that demonstrates it is more appropriately categorized as a state/local government organization. If EDA determines the EDD is more appropriately a state/local government organization, the provisions of Section 5 of this guidance will apply.

5.0 State/Local Government Organizations

5.1 Overview

EDDs organized as a unit of government, and Indian Tribes fall into the category of state/local government organizations for the purpose of determining how to authorize an indirect cost rate. Please note that an EDD that is a Council of Governments will generally qualify as a local government regardless of whether it is officially organized as a non-profit. See Section 9 for a diagram to help determine the process your organization should follow.

State/local government organizations must prepare a new indirect cost proposal annually and submit them directly to the EDA Indirect Cost Coordinator (if they have never received a federally negotiated rate from the EDA) or directly to IBC/ICS (if they have received a federally negotiated rate from the EDA). Organizations that have previously received a rate from the EDA may also submit their proposals directly to the EDA Indirect Cost Coordinator.

However, pursuant to OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (codified at 2 C.F.R. Part 200), state/local government organizations and Indian Tribes are *not required to submit their indirect cost proposals to EDA*, unless their organization receives more than \$35 million in direct Federal funding. The indirect cost proposals must still be prepared and retained at the state/local government level though and are subject to audit. It is the organization's responsibility to retain all appropriate records to support audit inquiries. Paragraph D.1.b of Appendix VII to 2 C.F.R. Part 200 states:

“A governmental department or agency unit that receives more than \$35 million in direct Federal funding must submit its indirect cost rate proposal to its cognizant agency for indirect costs. Other governmental departments or agencies must develop an indirect cost proposal in accordance with the requirements of this Part and maintain the proposal and related supporting documentation for audit. These governmental departments or agencies are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency for indirect costs.”

Even though not required to submit an indirect cost proposal to EDA, state/local government organizations and Indian Tribes receiving less than \$35 million in direct Federal funding may still request a formal indirect cost rate from EDA. In this circumstance, EDA will forward the request to IBC/ICS for review, negotiation and approval. Absent a request for a formal indirect cost rate, EDA will, upon request, provide a letter acknowledging receipt of the information. See Section 7 of this Guidance for further information.

In certain situations, governmental departments or agencies (components of the governmental unit), because of the nature of their Federal 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

EDA reserves the right to review current or future indirect cost rate proposals to ensure conformity with the requirements of 2 C.F.R. part 200. Typically, EDA will exercise this right if there is a relevant audit finding, a concern is raised by another government agency concerning a particular indirect cost rate, and/or if EDA finds an anomaly in an indirect cost rate proposal. In such circumstances EDA may review such an indirect cost rate proposal itself or through another Federal agency.

these cases, a narrative cost allocation methodology (CAP) should be developed, documented, maintained for audit, or submitted, as appropriate, to the cognizant agency for indirect costs for review, negotiation, and approval (2 C.F.R Part 200, Appendix VII § F.3.). For organizations seeking review and approval of their CAP, IBC/ICS will approve the CAP methodology for a five-year period unless there is a change in methodology or if EDA requests a new CAP approval.

5.2 Audited or Unaudited Year-End Financial Statements

Typically, the indirect cost rate is calculated based on the state/local government organization's most recent audited year-end financial statements. However, a state/local government organization has the additional flexibility to base their calculation on unaudited year-end financial statements from the immediately preceding year if these unaudited actual indirect costs best approximate their expected indirect costs. Paragraph D.2 of Appendix VII to 2 C.F.R. Part 200 states, in part:

“The following must be included with each indirect cost proposal:

...

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 for indirect costs in a subsequent proposal.”

For example, a state/local government organization requesting an FY 2017 indirect cost rate will typically base the proposed FY 2017 rate on their audited FY 2015 or FY 2016 financial statements. If the organization prefers, however, they may instead use their unaudited financial statements from FY 2016, should these unaudited FY 2016 indirect costs best approximate their expected FY 2017 indirect costs.

6.0 Development and Submission of Indirect Cost Proposals

All organizations are required to develop an indirect cost rate proposal and retain this on file for their annual audit. Submission requirements vary depending on the type of rate an organization has received. Annual submissions are required for provisional/final or fixed with carry forward rates. If an organization has a predetermined rate, the proposal should be filed six months prior to the rate expiration date (if there is a previously established rate). To receive a rate extension, the proposal must be filed six months prior to the rate expiration date. If needed, the organization may use the rate proposed in their submitted indirect cost proposal as the provisional rate until EDA notifies them of the accepted rate.

6.1 No Previous Rate

Non-profit and commercial organizations that have never received a federally negotiated indirect cost rate from EDA should submit their indirect cost proposals to the EDA Indirect Cost Coordinator, whose contact information is provided in Section 8 of this guidance. EDA will submit your proposal to IBC/ICS for negotiation on your behalf.

6.2 Previously Established Rate

Organizations that have previously established an indirect cost rate with EDA must submit a new indirect cost proposal to EDA's Indirect Cost Coordinator or IBC/ICS, as appropriate, no later than six months prior to the expiration of their current rate.

If an organization previously had a rate established with the Government, but has not submitted a rate proposal for one or more years, the organization should contact the EDA Indirect Cost Coordinator prior to submitting their proposal. Depending on the circumstances, EDA will determine if the organization's next indirect cost proposal should be considered as an establishment of a new rate, or a continuation of a previously approved rate.

6.3 De Minimis Rate

In accordance with 2 C.F.R. § 200.414(f), any organization, whether non-profit/commercial, Indian Tribe, or state/local government, that has never received a federally-approved indirect cost rate, except for those non-Federal entities described in Paragraph D.1.b of Appendix VII to 2 C.F.R. Part 200 (specifically, a governmental department or agency that receives more than \$35 million in direct Federal funding), may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC). An organization which is authorized to charge the 10% de minimis rate is allowed to continue doing so indefinitely, until it chooses to submit an indirect cost proposal. Once an organization has submitted an indirect cost proposal, however, it is no longer eligible to charge the 10% de minimis rate. The use of de minimis rates does not require the review and approval of the cognizant agency for indirect costs. Therefore, IBC/ISC does not provide approval of de minimis rates.

6.4 Multi-year Extension of Approved Indirect Cost Rate

In accordance with 2 C.F.R. § 200.414(g), any non-Federal entity, whether non-profit/commercial, Indian Tribe, or state/local government, that has a current federally negotiated indirect cost rate may apply for a one-time extension of the rates in that agreement for a period of up to four years. The extension will be subject to the review and approval of EDA through IBC/ICS. If an extension is granted, the non-Federal entity may not request a new rate until the extension period ends. At the end of the extension period, the non-Federal entity must re-apply to negotiate a rate. Subsequent one-time extensions (up to four years) are permitted if a renegotiation is completed between each extension request.

* Only final and predetermined rates may be eligible for consideration of rate extensions.

6.5 Requirements for Indirect Cost Proposals

EDA or its designee will review these proposals in accordance with the provisions of 2 C.F.R. 200 Subpart E. For detailed information on how to develop an indirect cost proposal, see the Indirect Cost Proposal Checklists, templates, and sample documents found on the following IBC/ICS websites:

Nonprofit Organizations: <https://www.doi.gov/ibc/services/finance/indirect-Cost-Services/nonprofit-orgs>

State and Local Governments: <https://www.doi.gov/ibc/services/finance/indirect-Cost-Services/insular-areas>

Indian Tribal Governments: <https://www.doi.gov/ibc/services/finance/indirect-Cost-Services/indian-tribes>

For any questions pertaining to the development of an indirect cost proposal, please contact IBC/ICS using the contact information in Section 8 of this guidance.

7.0 Notification of Approved Indirect Cost Rates

For all organizations submitting an indirect cost proposal for review and negotiation, IBC/ICS will review the proposal and approve an appropriate indirect cost rate. If additional information is needed, IBC/ICS will notify the organization of the specific requirements necessary to complete the review. Once the review is complete, IBC/ICS will send the organization a Negotiated Indirect Cost Rate Agreement providing formal notification of their ~~accepted~~ approved indirect cost rate. This Agreement must be signed by the organization and returned to IBC/ICS.

7.1 State/Local Government Organizations Under \$35 Million

Upon request, EDA will email a letter to the organization confirming receipt of the Certificate of Indirect Costs for state/local government organizations receiving less than \$35 million per year in federal funding, and that require an acknowledgment letter stating that EDA has received (not reviewed) the updated rate.

8.0 Contact Information

Contact information for EDA's Indirect Cost Coordinator is:

Bernadette Grafton
202-482-2917
indirectcosts@eda.gov

Performance and National Programs
Economic Development Administration
U.S. Department of Commerce
Room 71030
1401 Constitution Avenue, NW
Washington, DC 20230

Contact information for DOI Indirect Cost Services:

Doris Jensen
Phone: 916-930-3803
Fax: 916-930-3804
Email: doris_w_jensen@ibc.doi.gov

U.S. Department of the Interior
Interior Business Center
Indirect Cost Service
650 Capitol Mall, Suite 7-400
Sacramento, CA 95814

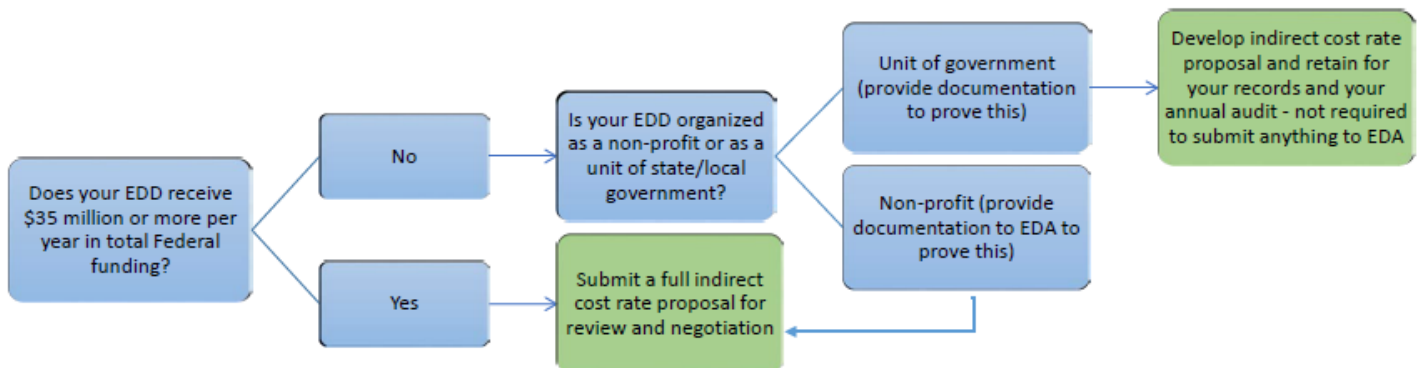
9.0 Additional Information

The full text of the OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is available online at: https://www.ecfr.gov/cgi-bin/text-idx?SID=8c7f4798842c1073421ccd9173a2632a&mc=true&tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl

Also, the U.S. Department of Interior, Interior Business Center websites referenced below contain many useful examples of indirect cost proposal documentation:

- Nonprofit Organizations: <https://www.doi.gov/ibc/services/finance/indirect-Cost-Services/nonprofit-orgs>
- State/Local Governments: <https://www.doi.gov/ibc/services/finance/indirect-Cost-Services/insular-areas>
- Tribal Governments: <https://www.doi.gov/ibc/services/finance/indirect-Cost-Services/indian-tribes>

Economic Development District (EDD) Indirect Costs Process Flow Chart



10.0 Frequently Asked Questions

1. If I want a negotiated rate and I'm not required to have one, can I still get one?

Answer: Yes, absolutely. Please contact the Indirect Cost Coordinator at EDA.

2. If I don't get a negotiated rate and don't have any documentation from EDA as my cognizant agency, what do I need to submit along with my Federal grant applications?

Answer: At a minimum, you should submit your Certificate of Indirect Costs with a brief statement similar to the following:

“As a unit of state or local government that receives less than \$35 million in annual cumulative direct Federal funding, my organization is not required to submit an indirect cost rate proposal to EDA, my cognizant agency (2 C.F.R. part 200, App. VII § D.1.b).”

You may also submit your Cost Allocation Plan or any other supporting documentation.

3. What if one of my state agencies will not accept my non-negotiated rate even though I'm not required to get a negotiated rate because I am organized as a unit of government and receive less than \$35 million per year in direct Federal funding?

Answer: Granting agencies may request any type of documentation to substantiate an organization's indirect cost rate. In this case, you can obtain a negotiated indirect cost rate agreement (NICRA) from your cognizant agency (including from EDA; see FAQ #1), an acknowledgment letter from the EDA, or opt for the 10% de minimis if you have not previously received a negotiated rate.

4. I applied for a grant using a provisional rate and I just received my final rate which is higher than the provisional. What happens now?

Answer: The maximum dollar amount of allocable indirect costs for which a grant recipient can be reimbursed is the lesser of these rates, per the 2017 U.S. Department of Commerce Standard Terms and Conditions.³

5. What do I need to do to claim the de minimus rate?

Answer: It is a good idea to ask the non-Federal entity to state in writing its intent to use a de minimis rate. Letter should include acknowledgement of MTDC cost base, attestation that the non-Federal entity has never received a Federally-approved indirect rate, and signed by the CFO, CEO or someone of similar level of authority. Letter should be filed with the grant records.

³ See Section B.06.e of DOC Standard Terms and Conditions, 2017:

http://osec.doc.gov/oam/grants_management/policy/documents/Department%20of%20Commerce%20Standard%20Terms%20&%20Conditions%2031%20March%202017.pdf