

SECTION V

Typical Questions and Answers (Q&As)

1. How do we get a copy of the Indirect Cost Guide?

“A Guide to Indirect Cost Rate Determination” is available in the DOL website:
<http://www.dol.gov/oasam/boc/dcd/>

2. Who needs an indirect cost rate?

Any organization being awarded cost reimbursable grants and contracts, also having more than one source of funding (including direct Federal funding), needs an indirect cost rate.

3. Why do I need an indirect cost rate?

Your organization needs an indirect cost rate for: management information, to be in compliance with Federal regulations, 2 CFR Part 200, Subpart E & Appendix IV, or the FAR (whichever applies), close-out purposes, and for audit documentation.

4. Where can I find information on the applicable cost principles?

Available website links for the cost principles are available in the OCD's website:
<http://www.dol.gov/oasam/boc/dcd/extrelatedlinks.htm>

5. What is an indirect cost rate?

An indirect cost rate is a percentage (indirect cost pool/direct cost base) used to distribute indirect costs to all cost centers benefiting from those costs.

6. Which agency should approve my indirect cost rate(s) and issue a Negotiation Agreement?

Your cognizant agency is responsible for negotiating your indirect cost rate and issuing the appropriate Negotiation Agreement. Unless specifically assigned by OMB, the Federal agency with the preponderance of direct funding is normally your cognizant agency.

7. What documentation is required as part of the provisional (based on budgetary costs) or final (based on incurred costs) indirect cost rate proposal?

Please refer to our website's "checklist". Also available in Section II (Page II-4) of our indirect cost guide.

8. How many days do we have to submit a provisional (based on budgetary information) indirect cost rate proposal - 1st time?

All organizations must submit their initial indirect cost rate proposal to their cognizant agency within 90 days of receiving a cost reimbursable grant/contract award. For example, 2 CFR, Part 200, Appendix IV, C.2.b., states:

“b. Except as otherwise provided in §200.414 Indirect (F&A) costs paragraph (e) of this Part, a nonprofit organization which has not previously established an indirect cost rate

with a Federal agency must submit its initial indirect cost proposal immediately after the organization is advised that a Federal award will be made and, in no event, later than three months after the effective date of the Federal award.”

9. 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. For example: For example, 2 CFR, Part 200, Appendix IV, C.2.c., states:

“c. Unless approved by the cognizant agency for indirect costs in accordance with §200.414 Indirect (F&A) costs paragraph (f) of this Part, organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency for indirect costs within six months after the close of each fiscal year.”

10. 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, 2012 through July 1, 2015). Your fiscal year ends on December 31st.

Based on the above example, your organization would need to submit final incurred cost proposals for the organizations’ fiscal year ending (FYE):

12/31/2012, 12/31/2013, 12/31/2014, and 12/31/2015.

11. How many days does it takes my Federal cognizant agency to process my indirect cost rate proposal?

The DOL’s Office of Cost Determination (OCD) typically issues indirect cost rate agreements within 120 days of proposal receipt pending no unforeseen negotiation issues.

12. What is the correct DOL address for submission of an indirect cost proposal?

Most of the proposals received are handled out of Office of Cost Determination's National Office in Washington D.C. Refer to our directory listing of this guide for more information.

13. What can the submitting organizations do to help the Federal Cognizant Agency facilitate their review of an indirect cost rate proposal?

To avoid delays, organizations should submit complete proposals. If proposals are based on actual costs, they must reconcile to financial statements. If there are any questions concerning any aspect of the proposal, contact OCD to resolve the issue prior to formal submission. Also, if during a prior negotiation you agreed to take corrective action(s) on any issues, you must disclose the status of your action(s). Finally, you must inform OCD about all significant organizational or accounting changes and their impact. If these actions are taken, it could save time in getting the proposal negotiated.

14. When a grantee/contractor is required by DOL to submit a closeout package prior to negotiating a final indirect cost rate, what is the procedure?

The grantee/contractor should prepare the closeout package using the approved provisional indirect cost rate and include a statement indicating that a provisional indirect cost rate was used pending negotiations of a final indirect cost rate. Upon receipt of a final indirect cost rate, the grantee/contractor must notify the applicable Federal funding agency of the final rate issued and request an amended final closeout adjustment. Refer to 2 CFR, Part 200, Subpart D, §200.343 and §200.344 for information on closeout and post-closeout adjustments and continuing responsibilities.

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

2 CFR Part 200, Subpart E, §200.414(c), states, however:

(c) Federal Agency Acceptance of Negotiated Indirect Cost Rates. (See also §200.306 Cost sharing or matching.)

(1) The negotiated rates must be accepted by all Federal awarding agencies. A Federal awarding agency may use a rate different from the negotiated rate for a class of Federal awards or a single Federal award only when required by Federal statute or regulation, or when approved by a Federal awarding agency head or delegate based on documented justification as described in paragraph (c)(3) of this section.

(2) The Federal awarding agency head or delegate must notify OMB of any approved deviations.

(3) The Federal awarding agency must implement, and make publicly available, the policies, procedures and general decision making criteria that their programs will follow to seek and justify deviations from negotiated rates.

(4) As required under §200.203 Notices of funding opportunities, the Federal awarding agency must include in the notice of funding opportunity the policies relating to indirect cost rate reimbursement, matching, or cost share as approved under paragraph (e)(1) of this section. As appropriate, the Federal agency should incorporate discussion of these policies into Federal awarding agency outreach activities with non-Federal entities prior to the posting of a notice of funding opportunity.

16. Will DOL provide technical assistance to grantees/contractors in obtaining proper approval of the indirect cost rate from other Federal agencies and State and local units of Government?

Yes. Note that OCD has a weblink to contact information from other Federal cognizant agencies (FCAs) available at: <https://www.dol.gov/oasam/boc/dcd/dcd-agency-list.htm>. Reiterating a prior Q&A, the Federal agency providing most of the direct Federal funding is the FCA for the grantee/contractor and they should negotiate and approve indirect costs for non-Federal entities. See also Q&A # 15 above citing information from 2 CFR Part 200, Subpart E, §200.414(c), Federal Agency Acceptance of Negotiated Indirect Cost Rates.

Regarding subawards and responsibilities of pass-through entities, it is important to highlight that 2 CFR Part 200, Appendix VII, D.1., states: "...Where a non-Federal entity only receives funds as a subrecipient, the pass-through entity will be responsible for negotiating and/or monitoring the

subrecipient's indirect costs." On that regard, pass-through entities must also follow guidance from 2 CFR Part §200.331 Requirements for pass-through entities, stating:

All pass-through entities must:

"(a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

... (4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f);..."

17. Our grant with DOL totals \$500,000 and includes a provisional indirect cost rate of 10%. Our actual, final indirect cost rate is 13%. Will DOL provide us with additional grant funds due to our higher indirect cost rate?

DOL could provide your organization with additional grant funds due to a higher final indirect cost rate than the established provisional rate subject to funds available. Also, a grant modification may be allowed to transfer budgeted direct costs to the indirect cost category due to the increased indirect costs. This would be subject to the terms and conditions of the grant agreement, e.g. approval of grant officer, indirect cost ceilings, and administrative cost limitations. Contact your grant officer or grant officer technical representative for additional questions on this topic.

18. In the event that a grantee/contractor does not exceed the total grant/contract but exceeds the ceiling placed on the indirect cost by DOL, can the excess indirect cost be recovered?

No. The ceiling on the indirect cost was included in the agreement to limit the amount of grant/contract funds used for indirect cost purposes by the grantee/contractor. This condition was known by the grantee/contractor before any grant/contract funds were expended.

19. Can our indirect cost rate proposal be based only on Federal funds since it only represents 15% of our total revenue?

No. Your indirect cost rate proposal must be accompanied by a schedule of costs incurred for all projects, Federal and non-Federal, and the amount of the proposed allocation base must tie-in with the applicable direct cost base for all projects.

20. Accrued annual leave cost – Is it allowable under 2 CFR Part 200?

2 CFR Part 200, Subpart E, §200.403 Factors affecting allowability of costs, details that allowable costs must be determined in accordance with Generally Accepted Accounting Principles.

The Financial Accounting Standards Board issued Financial Accounting Standard Number 43 "Accounting for Compensated Absences" to establish uniformity in the accounting for annual leave pay. This standard requires employers to accrue during each accounting period the liability for compensated absences earned by employees during that period provided that all of the following conditions are met:

1. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employee's services already rendered;
2. The obligation relates to rights that vest or accumulate;

3. Payment of compensation is probable; and
4. The amount can be reasonably estimated.

The accrual of annual leave does not result in increased costs, but allows recognizing the cost in the proper accounting period to improve actual cost determination. In general, compensated absences are to be accrued in the period in which they are earned rather than when they are paid. In order for accrued leave to be an allowable cost, the personnel policies of the organization must comply with the Financial Standard Number 43.

21. What is the difference between bid and proposal costs and fund raising costs and how does a grantee/contractor treat such costs in its indirect cost proposal?

Bid and proposal costs represent the salaries, consultant fees, printing, postage, travel, etc. associated with an organization's preparation of bids, proposals and applications to perform specific tasks for remuneration under potential Federal and non-Federal grants, contracts or other agreements. An organization should treat bid and proposal expenses as allowable indirect costs subject to any limitations imposed by the Cognizant Federal agency.

Fund raising costs represent the salaries, consultant fees, printing, postage, travel, etc. associated with an organization's requests to private institutions or individuals for donation of funds for non-specific purposes. Fund raising costs are unallowable for Federal reimbursement purposes. However, this activity (cost objective) shall be allocated an appropriate share of indirect costs. Accordingly, fund raising costs are to be included in the distribution base used to compute an organization's indirect cost rate.

22. Can the audit costs under 2 CFR Part 200, Subpart F, be recovered?

Audit costs could be recovered as either direct or indirect costs in accordance with applicable cost principles and the benefits received concept. However, there is no special appropriation for audit costs. To recover audit costs, the organization must build them into the specific grant/contract documents (if direct) or into the overhead proposal (if indirect).

For more information on this topic, see language below from 2 CFR, Part 200, Subpart F:

§200.501 Audit requirements.

(a) Audit required. A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.

(b) Single audit. A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit conducted in accordance with §200.514 Scope of audit except when it elects to have a program-specific audit conducted in accordance with paragraph (c) of this section.

(c) Program-specific audit election. When an auditee expends Federal awards under only one Federal program (excluding R&D) and the Federal program's statutes, regulations, or the terms and conditions of the Federal award do not require a financial statement audit of the auditee, the auditee may elect to have a program-specific audit conducted in accordance with §200.507 Program-specific audits. A program-specific audit may not be elected for R&D unless all of the Federal awards expended were received from the same Federal agency, or the same Federal agency and the same pass-through entity, and that

Federal agency, or pass-through entity in the case of a subrecipient, approves in advance a program-specific audit.

23. If the grantee's policy is to capitalize equipment under the \$5,000 threshold specified in 2 CFR Part 200, §200.439 (Equipment and other capital expenditures), do they need Federal approval prior to directly charging the grant with the cost of equipment?

Not from the Office of Cost Determination since no indirect costs are being charged. Instead, these direct costs would need to be reviewed and approved by the grant/contract officer.

24. A grantee has contracted to update its computer network with its affiliates for a total cost of \$50,000. Since each component; i.e., monitor, printer, personal computer, software, modem, etc., costs less than the \$5,000 per unit threshold specified in 2 CFR Part 200, §200.439, can this "equipment" be charged to the indirect cost pool?

No. The components of the computer network make it useable for the purpose for which it was acquired and therefore establishes the "system" as a capital expenditure. Accordingly, this equipment can be appropriately charged to Federal grants either as a direct or indirect cost, on the basis of depreciation and the benefits received concept.

25. A non-profit grantee purchased a building in September, 1994 and refinanced its mortgage in September, 1998. Can the grantee now charge Federal programs with the interest incurred on this mortgage?

No. The refinanced interest costs are not allowable because the building was originally purchased on September 1994. Had the building been purchased on or after September 29, 1995, these costs could have been allowed.

26. Can transactions with an affiliate affect allowable costs?

Yes. A problem may arise in transactions between parent organizations and their affiliates when the parent organization has an equity interest in the affiliate. When an equity interest exists, any profits made by the affiliate improve the equity interest of the parent. If an affiliate sells a good or service to the parent and the selling price includes a profit to the affiliate, the parent's equity interest in the affiliate has been increased. If the parent then includes the purchase price as a direct or indirect charge to a Federal award, it has violated the applicable cost principles that charges will be at cost and not include a profit factor.

For example, suppose your organization (the parent) obtains accounting services from an affiliate and the parent organization has an equity interest in the affiliate. The fee that the parent pays to the affiliate must be based on the cost incurred by the affiliate and the fee and should not include a profit to the affiliate.

If the fee does include a profit factor to the affiliate, the allowable part of the fee is limited to that portion which represents the cost to the affiliate exclusive of any profit factor.

This principle works in reverse as well. When an organization provides a good or service to an affiliate, the full cost of providing that good or service must be recovered from the affiliate and an appropriate credit must be applied to the indirect cost pool.

27. What is the period of time that an indirect cost rate agreement covers?

A provisional indirect cost rate is negotiated to cover a one year period. However, because of the time lapse between the submission and approval of a rate, provisional rates are usually established by DOL for a two year period. A final indirect cost rate agreement is negotiated to cover one fiscal year period after which a new final indirect cost rate must be negotiated for the subsequent fiscal year.