



Missouri Division of Workforce Development
DWD Issuance 06-2015

Issued: October 9, 2015
Effective: October 9, 2015

Subject: Indirect Cost Rate Proposals Guidance and Policy

1. Purpose: This Issuance is written to provide guidance and documentation requirements for Indirect Cost Rate Proposals.
2. Background: The Office of Inspector General randomly audits Indirect Cost Rate Proposals. The results of their audits have indicated a need for better controls and procedures on charging indirect costs to federal awards.
3. Substance: §2 CFR 200.331(4) requires pass-through entities to negotiate an Indirect Cost Rate or a De Minimis Indirect Cost Rate when no such rate exists between the sub-recipient and the federal government.

If a subrecipient has an approved, federally recognized Indirect Cost Rate or Cost Allocation Plan, a copy of the agreement document must be submitted to the Division of Workforce Development (DWD). Subrecipients without an approved, federally recognized Indirect Cost Rate must apply for a rate with DWD, if indirect costs are to be charged to federal awards. Subrecipients have the option of utilizing the De Minimis Rate, Cost Allocation Plan, or an Indirect Rate with the submission of the appropriate documentation. Regardless of method chosen to recover indirect costs, organizations must have a Cost Policy Statement, a Certification of Indirect Costs, and Methodology for the Treatment of Costs documented.

Section I - Cost Pools

Cost pools shall only contain costs that are consistently treated as indirect (or are shared) costs and which jointly benefit two or more of the same programs or other cost objectives to the same degree.

A cost pool can be used in the allocation of indirect and/or shared costs. Only actual costs may be allocated for purposes of expenditure reporting (budgeted costs may only be used for purposes of developing the budget). The costs accumulated in a cost pool must benefit the same programs to the same degree so that the distribution base used to allocate the pool will result in an equitable distribution of costs relative to the benefits received.

For administrative and indirect cost pools, in some cases, laws may limit the amount of administrative or indirect cost allowed. Amounts not recoverable as indirect or administrative costs under one federal or state award may not be shifted to another federal or state award unless specifically authorized by federal or state legislation or regulation.

Allocation (Distribution) Base

An acceptable base meets these criteria:

- Minimal Distortion —this requires that the base be as causally related as possible to the types of costs being allocated so that benefit can be measured as accurately as possible.
- General Acceptability — for example, it should be consistently applied over time. The base should also be drawn from the same period during which the costs to be allocated have been incurred.
- Represents Actual Cost or Effort Expended — the base should be a measure of actual cost or actual effort expended.
- Timely Management Control — the base should be within management's ability to control on a timely basis.
- Consistency with Variations in Funding — the base must be able to accommodate and withstand changes in funding during the year and from year to year.
- Materiality of Costs Involved — the time and expense spent in developing the base should not be greater than justified by the materiality of the costs to be allocated.
- Practicality and Cost of Using the Base — the base should be as efficient as possible, thus, wherever possible, a database that already exists in the financial or participant record keeping and reporting systems should be used rather than create a separate database to be used only for allocating costs.

Unacceptable bases are those that:

- Distort the final results;
- Do not represent actual effort or cost expended;
- Are not used consistently over time and with variations in funding; and
- Do not have an integral relationship to the types of costs being allocated.

Types of Rates

Section II - Cost Allocation Plans

The Cost Allocation Plan must be adequately documented and must include all costs that will be claimed as allocated costs under federal or state awards. Costs that are omitted from the Cost Allocation Plan will not be reimbursed.

Documentation. All costs and other data used to distribute the costs in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to federal or state awards. Thus, the Cost Allocation Plan must be adequately documented.

General. The following types of information must accompany all Cost Allocation Plans:

Cost Allocation Plan - Checklist

- Submit once unless changes are observed:
 - Organizational chart;
 - Employee time sheet sample, providing for distribution of hours to direct/indirect functions; and

- Cost Policy Statement, describing all accounting policies and narrating in detail the proposed Cost Allocation Plan. This Plan must describe the procedures used to identify measure and allocate all costs to each benefiting activity. This Plan must be signed by a duly authorized official.
- A Cost Allocation Plan providing the following schedules:
 - Personnel Costs Worksheet, including fringe benefits breakdown;
 - Allocation of Personnel Worksheet, providing indirect/direct time charges;
 - Fringe Benefits Worksheet, if fringes are not directly and indirectly identified; and
 - Statement of Total Costs, segregated between the indirect and direct costs incurred by line item of expense (salaries, fringes, rent, etc.), identified by federal agency, specific government grant, contract, and other non-federal activities

Note that the allocation base and the amount of indirect costs allocated to each funding source should be identified.

- Financial statements (audited if available) for the applicable fiscal year; Note: The Statement of Total Costs (above) must reconcile to Financial Statements. If not, please provide a reconciliation statement.
- Signed and dated Certificate of Cost Allocation Plan (**ATTACHMENT 1**).
- A listing of grants and contracts by federal agency, subagency, program office funding source, total dollar amount, period of performance, and the indirect cost limitations (if any) applicable to each, such as amounts restricted by administrative or statutory regulations, applicable to the period(s) of the proposal(s); and
- A schedule listing any funding sources excluded from indirect cost allocations and the reasons for the exclusions.

Section III - Indirect Cost Rate

An Indirect Cost Rate is simply a device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each program should bear. An Indirect Cost Rate is the ratio between the total indirect expenses and some direct cost base.

DWD will negotiate a provisional and final Indirect Cost Rate.

Provisional rate or billing rate means a temporary Indirect Cost Rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on awards pending the establishment of a final rate for the period.

Final rate means an Indirect Cost Rate applicable to a specified past period which is based on the actual costs of the period. A final rate is not subject to adjustment.

Note that a final Indirect Cost Rate is established after an organization's actual costs are known, typically a fiscal year. Once established, a final Indirect Cost Rate is used to adjust the indirect costs claimed.

The use of provisional and final rates will likely result in final audited expenditures being higher or lower than those reported for awards, which are terminated during the organization's fiscal year. A final rate may be issued as a provisional rate in the ensuing year, adjusted for anticipated changes in funding levels or costs.

Indirect Cost Proposal - Checklist

- Submit once unless changes are observed:
 - Organizational chart; and
 - Signed Cost Policy Statement.
- An Indirect Cost Rate Proposal(s) providing the following:
 - Personnel Costs Worksheet, including fringe benefits breakdown;
 - Allocation of Personnel Worksheet, providing indirect/direct time charges;
 - Fringe Benefits Worksheet;
 - Statement of Total Costs, supporting the indirect and direct costs incurred by expense category, identified by federal agency, specific government grant, contract, and other non-government activities; and
 - Statement of Indirect Costs, including indirect cost pool(s), allocation base(s), and indirect cost rate(s) proposed.
- Audited financial statements for the final rate proposal. Approved budget for provisional proposal, if needed.

Note that the Statement of Total Costs (above) must reconcile to the Financial Statements. If not, please provide a reconciliation statement.

- Certification that the Indirect Cost Rate Proposal was prepared in a manner consistent with the applicable cost principles set forth in 2 CFR Part 200, Subpart E & Appendix IV for non-profits, or the Federal Acquisition Regulation ((Part 31) for commercial organizations. The certifications should be signed by the President/Executive Director, or Comptroller/CFO (**ATTACHMENT 2**).
- A listing of grants and contracts by federal agency subagency, program office funding source, award amount, period of performance, and the indirect cost (overhead) limitations (if any) applicable to each, such as, ceiling rates or amounts restricted by administrative or statutory regulations, applicable to the period(s) of the proposal(s).

See DCD's A Guide for Indirect Cost Determination
(<http://www.dol.gov/oasam/boc/dcd/np-comm-guide.htm>)

Section IV 10% - De Minimis Rate

Organizations may elect to charge a De Minimis Rate of 10 percent of Modified Total Direct Costs (MTDC) which may be used indefinitely. Costs must be consistently charged as either indirect or direct costs, but may not be double charged or inconsistently charged as both. If chosen, this methodology once elected must be used consistently for all federal awards until such time as a non-federal entity chooses to negotiate for a rate, which the non-federal entity may apply to do at any time.

MTDC means all direct:

- Salaries and wages;
- Applicable fringe benefits;
- Materials and supplies;
- Services;
- Travel; and
- Subawards and subcontracts up to the first \$25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts under the award)

MTDC excludes:

- Equipment;
- Capital expenditures;
- Charges for patient care;
- Rental costs;
- Tuition remission;
- Scholarships and fellowships;
- Participant support costs;
- The portion of each subaward and subcontract in excess of \$25,000; and
- Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs

De Minimis Proposal

- Submit once unless changes are observed:
 - Organizational chart;
 - Employee time sheet sample, providing for distribution of hours to direct/indirect functions; and
 - Signed Cost Policy Statement.
- Financial statement documentation to support the methodology (200.403) used to determine the MTDC (200.68) broken out by funding source. Financial statements (audited if available) for the applicable fiscal year.
- Ten percent (10%) federal De Minimis Indirect Cost Rate Certification of Indirect Costs (**ATTACHMENT 3**).

4. Action:

Submit all necessary documentation within ninety (90) days of award, and then annually within six (6) months of fiscal year-end:

- Federally approved negotiated Indirect Cost Rate or Cost Allocation Plan, if applicable; OR
- Cost Allocation Plan Proposal and supporting documentation as noted in Section II; OR
- Indirect Cost Rate Proposal and supporting documentation as noted in Section III; OR
- De Minimis Rate with supporting documentation. Within six (6) months of fiscal year-end, submit audited financial statements indicating direct and indirect costs by line item with the Modified Total Direct Costs (MTDC) calculation by funding source.

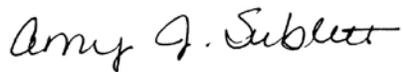
5. Contact:

Please direct questions or comments regarding this Issuance to Jan Miller, Fiscal and Administrative Services, at (573) 522-2789 or jan.miller@ded.mo.gov.

6. Reference: §2 CFR 200.331(4) The extent and results of federal awarding agency monitoring.
http://www.ecfr.gov/cgi-bin/retrieveECFR?n=se2.1.200_1331
- 2 CFR Part 200, Subpart E – Cost Principles
<http://www.ecfr.gov/cgi-bin/text-idx?SID=21cb732fbc280a1b9439181aeb58fdc8&node=sp2.1.200.e&rgn=div6>
- Appendix IV for non-profits: <http://www.gpo.gov/fdsys/granule/CFR-2014-title2-vol1/CFR-2014-title2-vol1-part200-appIV>
- Federal Acquisition Regulation ((Part 31) for commercial organizations:
<http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/31.htm>
- DCD's A Guide for Indirect Cost Determination:
<http://www.dol.gov/oasam/boc/dcd/np-comm-guide.htm>
- Factors Affecting Allowability of Costs: 200.403
<http://www.gpo.gov/fdsys/granule/CFR-2014-title2-vol1/CFR-2014-title2-vol1-sec200-403>
- Modified Total Direct Cost (MTDC): (200.68)
<http://www.gpo.gov/fdsys/granule/CFR-2014-title2-vol1/CFR-2014-title2-vol1-sec200-403>
- Allocable Cost
<http://www.gpo.gov/fdsys/granule/CFR-2014-title2-vol1/CFR-2014-title2-vol1-sec200-405>

7. Rescissions: None.
8. Attachments: (1) Cost Allocation Certification Sample; (2) Indirect Cost Rate Certification Sample; and (3) Certification of Indirect Costs Sample.

The Missouri Division of Workforce Development is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities. Missouri TTY Users can call (800) 735-2966 or dial 711.



Amy Sublett
Director
Missouri Division of Workforce Development



Cost Allocation Certification Sample

This is to certify that I have reviewed the Cost Allocation Plan submitted herewith and to the best of my knowledge and belief:

- All costs included in this proposal ___ [identify date] to establish cost allocations or billings for ___ [identify period covered by plan] are allowable costs in accordance with the requirements of OMB Subpart E – Cost Principles 200.405, and the federal and state awards to which they apply. Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- All costs included in this proposal are properly allocable to federal or state awards on the basis of a beneficial or causal relationship between the expenses incurred and the awards 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.

I declare that the foregoing is true and correct:

Organization: _____
Signature: _____
Name of Official: _____
Title: _____
Date of Execution:: _____



Indirect Cost Rate Certification Sample

This is to certify that I have reviewed the Indirect Cost Rate Proposal submitted herewith and to the best of my knowledge and belief:

- All costs included in this proposal ___ [identify date] to establish billing or final Indirect Cost Rates for ___ [identify period covered by rate] are allowable costs in accordance with the requirements of the federal award(s) to which they apply, and OMB Subpart E – Cost Principles 200.405. Unallowable costs have been adjusted for in allocating costs as indicated in the Cost Allocation Plan.
- 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:

Organization: _____
Signature: _____
Name of Official: _____
Title: _____
Date of Execution: _____



***Certification of Indirect Costs Sample
10% Federal De Minimis Indirect Cost Rate***

We are providing this letter to exercise the option to use the 10% federal De Minimis Indirect Cost Rate applicable to salaries and wages, fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subcontract from the date of execution of this certification.

_____ meets the following eligibility criteria:

(Organization name)

- No previously approved federal negotiated Indirect Cost Rates.
- Will receive less than \$35 million in direct federal funding per year.

Documentation of this decision will be on file in our office and with the Missouri Division of Workforce Development.

We understand this certification must be submitted annually from the date on the original certificate.

I declare that the foregoing is true and correct.

Organization: _____

Signature: _____

Name of Official: _____

Title: _____

Date of Execution: _____