



Background on Federal Indirect Cost Rate

OWEB Grant Administration and Federal Indirect Cost Rate

OWEB grants allow up to 15% grant administration using one of three billing methods, (1) direct cost, (2) cost allocation, and (3) indirect cost only where the applicant has a current, approved federal indirect cost rate. The process for obtaining an approved federal indirect cost rate is rigorous and time-consuming and requires organizations to have well-developed and well-run accounting and financial structures and systems. OWEB is not able to provide advice on federal indirect rates. If an applicant or grantee has questions, they should consult their own financial advisor.

What is a federal indirect cost rate?

A federal agency may negotiate with a non-federal entity to establish a federally approved indirect cost rate for indirect administrative costs. Organizations must submit a proposal and supporting documentation. An applicant for a federal indirect cost rate must submit a proposal with supporting documentation each year.

From federal guidance: An indirect cost rate is a method for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each activity should bear. Indirect costs are incurred for common or joint objectives and cannot be readily identified with a particular grant, contract or other activity of the organization. An indirect cost rate is the ratio between the total indirect expenses and some direct cost base. The indirect cost allocation methods used by each organization depend on its structure, program functions, and accounting system.

What do applicants for a federal indirect cost rate need to provide?

Grantees/contractors must have an established accounting system prior to being awarded a grant or contract from any federal agency. The accounting system must provide adequate internal controls to safeguard assets, insure fund accountability by cost category, assure accounting data accuracy and reliability, promote operating efficiency, and comply with government requirements and accounting procedures.

Before preparing an indirect cost rate proposal, grantees should thoroughly review the cost principles established by OMB Circular A-122 (2 CFR Part 230). If indirect costs are allowed, the entity will then prepare an indirect cost rate proposal based on the following steps:

1. Organization review, including review of services and functions, resulting in a determination of which services are allocable to federal grants per the applicable cost principles
2. Review federal and non-federal funding to determine what programs are being funded; prepare a list of all funded programs in detail as to the amount of reimbursement of direct and indirect costs and associated restrictions. Relate program funding back to each individual on organization chart.
3. Review the accounting structure based on the list of accounts in the organization to relate actual dollars expended to various programs or organizational structure; reconcile the accounting structure to the organization chart.
4. Prepare a Cost Policy Statement that outlines costs considered direct and indirect and the rationale to support each.
5. Prepare indirect cost rate proposal by determining which method is best (direct, simplified, special indirect rates) considering level of federal funding, reports, data on square footage, transactions, employees, purchase orders, etc.; compile along with other documentation.
6. Submit to agency for negotiation and approval. An applicant for a federal indirect cost rate must submit a proposal with supporting documentation each year.