General

Question # 1: What is the purpose of an indirect cost rate agreement?

Answer: The purpose of an indirect cost rate agreement is to publish the reimbursement rate(s) negotiated between the federal government and a grantee organization which reflects the indirect costs (e.g.; facilities and administrative costs) and fringe benefit expenses incurred by the organization in the conduct of federal programs. The rate agreement includes, but is not limited to identifying the type of rate(s) negotiated, the effective period(s) of the rate(s), the rate expressed as a percentage, the location to which the rate is applicable, and to what programs the rate is applicable to. It also defines the base(s) used to develop the rate(s), the treatment of fringe benefits and paid absences, and the capitalization level for equipment.

Question # 2: How do you arrive at the rates that are published on the agreement?

Answer: The organization submits a formal indirect cost rate proposal to the CAS. The proposal should include the rate calculations along with the allocation methodologies and supporting documentation to justify the proposed rate. The CAS will review the proposal to determine if it complies with the Uniform Guidance and applicable Appendix to Title 2 of the Code of Federal Regulations, Part 200 (2 CFR 200), to verify that the costs are allowable and are allocated in accordance with relative benefits received. The CAS will contact the organization if additional information is needed to clarify issues raised during the review. Subsequent to a desk or on site review, the CAS will enter into negotiations with the organization to establish the rate(s) that appear on the negotiation agreement.

Question # 3: Why is it necessary to have indirect cost rate agreements?

Answer: Rate agreements streamline the process of “awarding,” “monitoring” and “closing out” Federal grants and contracts. When a grant or contact officer issues an award to an organization, he/she is unaware of the indirect costs that will be associated with conducting the program. Indirect expenses such as executive administration, payroll, accounting, human resources, building and equipment depreciation, utilities, janitorial and maintenance are difficult to identify directly to grants and contracts. The indirect cost rate allows the grant or contract officer to calculate the appropriate allocation of indirect costs associated with any one project by applying the negotiated indirect cost rate to the respective base used to develop the rate.

Question # 4: Will the CAS assist grantees/contractors in obtaining proper approval of the indirect cost rate from other Federal agencies and Pass-Through Entities (2 CFR 200.74)?

Answer: The CAS is available to explain to other organizations the methodology used in developing the grantee's/contractor's indirect cost rate. However, there may be laws that limit the amount of indirect costs allowed on an award. Therefore, the funding of indirect costs is subject to approval of government authorized representatives and contracting officers of the respective organization. Under most circumstances, other Federal agencies will use the approved indirect cost rate to reimburse a grantee or contractor. However, the cognizant Federal agency cannot require the Pass-Through Entity to accept the Federally approved indirect cost rate.

Question # 5: Can the audit costs incurred under the Single Audit Act and Subpart F (Audit Requirements) to 2 CFR 200 be recovered?

Answer: Yes, 2 CFR 200.425 (Audit Services) identifies allowable audit costs to be recovered as either direct or indirect costs in accordance with applicable cost principles. 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 cost allocation plan or indirect cost rate proposal (if indirect).

Question # 6: What is the primary issue the CAS faces when receiving indirect cost rate proposals?

Answer: The primary issue usually falls into one of two categories. The documentation submitted to support the development of the indirect cost rate is not adequate and/or the proposal is not reconciled to the organization's audited financial statements.

Question # 7: How do we receive our negotiation agreement once it has been negotiated?

Answer: The CAS is currently emailing indirect cost rate negotiation agreements to our grantees. The grantee should sign the agreement and email it back to the CAS. Statewide and Local Cost Allocation Plan negotiation agreements and Public Assistance Cost Allocation Plan approval/disapproval letters are also being emailed.

Question # 8: If my organization's proposal is due, can I file for an extension of time?

Answer: Yes, contact your CAS field office for information regarding the extension.

Question # 9: Once a negotiation is completed and information in the proposal is subsequently found to be materially incomplete or inaccurate, should I contact the CAS?

Answer: Yes; but only if the changes affect the actual calculation of the indirect cost rate or the amounts allocated in a cost allocation plan.

Question # 10: Negotiation agreements identify rates as being provisional, final, predetermined, and fixed. What is the difference between these classifications?

Answer:
<u>Provisional:</u> A provisional rate is a temporary rate established for a given period of time to permit funding, claiming, and reporting of indirect costs pending establishment of a permanent rate for that period. The CAS also may issue a provisional rate for a fiscal year extending beyond the last permanent rate period. Provisional rates are normally established for all new grantees.

<u>Final:</u> A final rate is a permanent rate established after an organization's actual costs for a current year are known. A final rate is used to adjust indirect costs claimed based on a provisional rate. These negotiations normally take place on an annual basis.

<u>Predetermined:</u> A predetermined rate is a permanent rate established for a specific future period based on a review of actual costs from a preceding period. These rates are not subject to adjustment except under very unusual circumstances. To negotiate this type of rate, the CAS needs reasonable assurance that the rate negotiated sufficiently protects the government.

<u>Fixed:</u> A fixed rate has the same characteristics as a predetermined rate; however, the difference between the costs used to establish the fixed rate and the actual costs incurred during the fiscal year covered by the fixed rate is classified as a carry-forward. If the actual costs incurred are higher than the reimbursement provided using the fixed rate, the grantee will incur an under recovery. If the actual costs incurred are lower than the reimbursement provided using the fixed rate, the grantee incurs an over recovery. The carry-forward is used as an adjustment to the current rate to allow the grantee to either recover under recovery or pay back an over recovery in a subsequent year. Fixed rates are often used to establish fringe benefit rates.

Question # 11: What is the period of time covered by an indirect cost rate agreement?

Answer: The period of time covered by a negotiation varies by type of organization and type of rate negotiated. Typically, a provisional indirect cost rate is usually negotiated for one year. Predetermined rates can be established for a period of two to 5 years depending on the circumstances. Fixed rates are initially established for two years and annually thereafter.

Question # 12: What should a grantee do when an award does not provide for indirect cost reimbursement or provides for indirect costs at a rate lower than on the negotiation agreement? How does this affect the development of the indirect cost rate?

Answer: The decision to accept an award that does not pay indirect costs or pays indirect costs using a rate lower than what has been negotiated is a grantee decision. However, when developing the indirect cost rate, all awards, regardless of whether they pay full indirect costs or not, must be included in the direct cost base. Indirect costs that are not reimbursable under a Federal or non-Federal award due to administrative or statutory restrictions may not be shifted to another Federal award unless specifically authorized by Federal legislation or regulation. Non-Federal revenue sources must be used to pay for these un-recovered costs.

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

Answer: HHS will not provide your organization with additional grant funds due to a higher final indirect cost rate than the established provisional rate. However, 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. The grants officer should be contacted for additional information.

Question # 14: Can our indirect cost rate proposal be developed using only Federal funds since it only represents 15% of our total revenue?

Answer: No. An indirect cost rate proposal must be based on total organization costs, regardless of funding.

Question # 15: What is required for a fringe benefit rate proposal?

Answer: The following information is required in a fringe benefit rate proposal:

1. A copy of the current fringe benefits policies (only changes to the policies are required after the initial submission).

2. A schedule of the components (i.e. health insurance, FICA, etc.) included in the fringe benefit pool and the annual cost for each component

3. A fringe benefit rate calculation (fringe benefit pool divided by total salaries and wages). In some cases, multiple rates will be required if your organization provides different levels of benefits to different classes of employees and the costs of these benefits differ significantly in relation to the employee salaries. For example, salaried employees may have a pension plan which is not provided to hourly employees.

4. A reconciliation of fringe benefit costs and salaries and wages to the audited financial statements.

5. A description of anticipated changes in fringe benefit policies, charging practices, or significant projected changes in expenses for fringe benefit components.

6. A carry-forward calculation if the fringe benefit rates are fixed rates.

7. Any additional information required/requested by the CAS.

Question # 16: Have the OMB Circulars containing the cost principles been relocated to Title 2 of the Code of Federal Regulations, Part 200 (Uniform Guidance)?

Answer: Effective August 31, 2005 OMB Circulars A-21, A-87 and A-122 were relocated to 2 CFR. They were Parts 220, 225 and 230 respectively. Subsequently, the Office of Management and Budget (OMB) streamlined the Federal Government's Guidance on Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards into a single document at 2 CFR 200 (Uniform Guidance) which was published in the Federal Register on December 26, 2013. This final guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, and A-122 (which had been placed in OMB guidances as mentioned above); Circulars A-89, A-102, and A-133; and the guidance in Circular A-50 on Single Audit Act follow-up. Please see the applicable Appendices to Part 200 for your organization. These include: Appendix III (Institutes of Higher Education), Appendix IV (Nonprofit Organizations), Appendix V (State/Local Central Service Plans), Appendix VI (Public Assistance CAPs), Appendix VII (State/local and Tribal IDC), and Appendix IX (Hospitals).

Question #17: Who do I contact to find out where my indirect cost rate or cost allocation plan proposal needs to be submitted?

Answer: There are four (4) CAS Field Offices located across the country. Your proposal should be submitted electronically to the mailbox for the CAS Field Office servicing your organization. The mailbox addresses are CAS-NY@psc.hhs.gov, CAS-Bethesda@psc.hhs.gov, CAS-Dallas@psc.hhs.gov, and CAS-SF@psc.hhs.gov. Please refer to our geographical map on our website and click on your State. The names of your CAS representatives and servicing office will appear.

Question #18: When an institution is a subcontractor on a grant, should the institution use its own negotiated F&A Rate or the "prime recipients" rate (e.g., another university, non-profit or for-profit)?

Answer: You use your own F&A rate because the costs of the subcontract are included in your modified indirect total direct cost base. The primary recipient will apply their rate to the first $25,000 of the subcontract.

Question #19: An award was made where the Principal Investigator (PI) committed 40% paid effort. Subsequently the PI re-budgets salary to cover other costs, however contributes 40% effort on the project. Can the PI's effort be considered voluntary uncommitted cost sharing (VUCS) and not be documented or certified for F&A rate proposal purposes?

Answer: No, the PI originally committed 40% effort to the project and then re-budgeted their salary. The fact is the PI's intention and commitment was 40% and therefore the 40% is committed cost sharing and must be documented, certified and included in the modified total direct cost base.
