



A GENERAL OVERVIEW OF INDIRECT COSTS

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What are direct costs?

- ▶ Those costs that can be readily identified with a particular cost objective (e.g., grant, contract, WIA funding stream, etc.)
 - Salaries of employees that can be directly charged
 - Space occupied by direct staff and used for grant specific activities
 - Supplies used by direct staff and grant specific
 - Communications for direct staff and grant specific

What are indirect costs?

- ▶ Those costs which are not readily identifiable with a particular cost objective.

Examples:

- Salaries of executive management, HR, Accounting
- Space – reception area, common areas
- Supplies used by the resource room
- Communications for the resource room

What is a Cost Allocation Plan? (CAP)

A document that identifies, accumulates, and distributes allowable direct and indirect costs and declares the allocation methods used for distribution. Please see attached handout for indirect cost admin & program

What is an Indirect Costs Rate? (ICR)

The ratio, expressed as a percentage, of an indirect cost pool and some direct cost base. Some might say it's:

Indirect Cost Rate

▶ Example:

Indirect Cost Pool =	\$ 10,000	
Distribution Base =	\$100,000	
(Salaries & Benefits)		
Indirect Cost Rate =		10%

Which organizations need to have an approved indirect cost rate?

\$ Single Funding Source

Indirect cost rate not needed

\$\$\$ Multiple Funding Sources

Indirect cost rate needed

What purposes are served by having an indirect costs rate?

- ▶ Management Information
- ▶ Compliance with Federal regulations; e.g., OMB Circulars A-87, A-21 & A-122
- ▶ Documentation for auditors

Illustration of Indirect Cost Rates

Indirect Costs		<u>\$150,000</u>	
Direct Costs			
Salaries & Wages		\$300,000	
Other Direct Cost		200,000	
Total Direct Cost		<u>\$500,000</u>	
\$150,000			
\$300,000	=	50%	Direct Labor
\$150,000			
\$500,000	=	30%	Total Direct Cost

Recovery of Costs

<u>Direct Labor Base</u>		<u>Total Direct Cost Base</u>	
Contract/Grant A	\$200,000	Contract/Grant A	\$275,000
-times rate	50%	-times rate	30%
Ind/Cost Recovery	\$100,000	Ind/Cost Recovery	\$82,500
Contract/Grant B	\$100,000	Contract/Grant B	\$225,000
-times rate	50%	-times rate	30%
Ind/Cost Recovery	\$50,000	Ind/Cost Recovery	\$67,500
Total Recovered	<u>\$150,000</u>	Total Recovered	<u>\$150,000</u>

Indirect Cost Rate Allocation Bases

Select the base which results in allocation of indirect costs according to “benefits received”, the golden rule of Federal cost principles.

Types of Indirect Cost Rates



Billing Rate

- ▶ Rate stated in the award to allow recovery of indirect costs until an indirect cost proposal is completed and submitted.
- ▶ Normally only valid for 90 days.

Ceiling Rate

- ▶ Set by the Contract/Grant Officer
- ▶ The maximum rate at which indirect costs may be recovered under a particular award

Provisional Rate

- ▶ A rate based on projected information, historical information, or a combination of the two for the organization's fiscal year
- ▶ This rate allows for recovery of indirect costs during the contract/grant period until the rate can be finalized

Final Rate

- ▶ The experienced indirect cost rate based on actual data for the organization's fiscal year
- ▶ All provisional indirect cost rates must eventually be "finalized"

Fixed Rate

- ▶ A permanent rate that is not subject to change
- ▶ Any differences between estimated and actual costs are carried forward as adjustments to rate computations in future periods
- ▶ Seldom issued to nonprofit organizations

Predetermined Rate

- ▶ A rate negotiated for a certain length of time, usually several years
- ▶ Not subject to change