



**Early Childhood Iowa
Indirect Cost Rate Principles
Tool H (A)**

What are Indirect Costs?

Indirect costs are those that have been incurred for common objectives benefiting all programs and cannot be readily identified or assignable to a particular final cost in a program (2 CFR PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS). Indirect costs relate to central management and administrative functions that are necessary and beneficial to all programs administered by the organization.

What is the Purpose of the Indirect Cost Rate (ICR)?

An indirect cost rate provides a systematic method for charges that result in an equitable distribution of indirect costs to benefitting programs. Without an approved indirect cost rate, agencies must (service providers) directly charge grants and contracts for costs such as executive director, accounting staff, space, etc. The problem with direct charging is that the costs may be based on budget estimates, availability of funds, or other arbitrary allocations. These types of allocations may be out of compliance with federal regulations. Establishing an indirect cost rate is in compliance with federal cost principles and is a strongly encouraged practice for agencies that administer a variety of Federal, State and local programs. An ICR is typically utilized by agencies managing multiple contracts, as well as local, state and federal government funding.

Who Negotiates and Approves Indirect Cost Rates?

An agency's indirect rate is established and approved by the federal agency from which they receive the greatest portion of their federal funding. If the agency does not receive funding directly from the federal government, but rather federal funding is passed through a state agency, the state agency may approve the indirect cost rate in compliance with 2 CFR 200.331 After a rate is approved, it will be accepted by all federal and state agencies. An indirect cost proposal's compliance is verified by the agency's annual audit. Once a rate is established an agency must apply the indirect cost rate to all programs and contracts.

What Does the Rate Accomplish?

- An indirect cost rate provides a better system for cost accounting and minimizes future audit risks.
- An indirect cost rate ensures that the agency will meet 2 CFR PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS requirements.

- An indirect cost rate eases accounting burdens through cost pooling and eliminates arbitrary direct charging of management and administrative costs.
- An indirect cost rate encourages all funding sources to pay their fair share as determined by the established cost rate.
- An indirect cost rate develops actual costs, which are essential for assessing results and performance.

Cost Allocation Plan Overview — One way an agency can determine indirect costs is by utilizing a Cost Allocation Plan. This is a formal means by which an Agency identifies agency-wide indirect costs (i.e., overhead) and assigns them to the benefiting departments/funds on a reasonable and consistent basis. Only administrative costs are allocated according to the plan.

A Cost Allocation Plan allows an Agency to recover its agency-wide indirect costs through federal and state grants and contracts. It is prepared in compliance with the cost principles set forth in 2 CFR PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

How does Indirect Cost Rates Impact ECI Area Boards?

Contracting with an agency (service provider) that has a federally-approved indirect cost rate:

The ECI Area board will want to determine a policy or procedure for reimbursement for administrative-related expenses when contracting with an entity that does have an approved indirect cost rate. The ECI Area board needs to determine if they will support that rate or if they want to negotiate any specifics for the rate with the service provider.

When a contractor has an approved indirect cost rate, the proof of that rate determination should be provided to the ECI Area Board as the local funder. The information provides dependable documentation regarding the rate necessary for the operation of that entity.

Contracting with an agency that does not have an approved indirect cost rate:

The ECI Area board will want to determine a policy or procedure for coming to agreement regarding reimbursement for administrative-related expenses when contracting with an agency that does not have an approved indirect cost rate. If the agency has a cost allocation plan, the ECI area board will want to review it to understand what is identified within the indirect cost category. This will assist both the area board and the service providers.

As policies are developed, this information should be made available to contractors. This can be accomplished by having the information included on the local website. As RFPs are released, the indirect policies could be added into the document or provided as an addendum.

Reference Materials:

Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government. A guide that includes helpful information for indirect cost rate determination.

<http://rates.psc.gov/fms/dca/asmb%20c-10.pdf>

2 CFR PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS <https://www.ecfr.gov/cgi-bin/text-idx?node=2:1.1.2.2.1>