Developing an Indirect Cost Rate Proposal (ICRP)

Department of Finance Fiscal Systems and Consulting Unit

FALL 2015
Objectives

- Understand the **roles and responsibilities** of the **Department of Finance** and **state departments** for the recovery of administrative costs from the federal government.
Objectives (cont’d)

- Develop a basic understanding of how to develop an ICRP

- Understand what **supporting documentation** is required for an ICRP

- Identify the **process to bill** the federal government and **transfer recoveries** to the General Fund
Full Cost Recovery Policy

- The state policy is for departments to recover full costs whenever goods or services are provided for others. This policy, which applies to all departments regardless of funding sources, is to be followed in all cases except where statutes prohibit full cost recovery.

- The full cost of goods or services includes all costs attributable directly to the activity plus a fair share of indirect costs which can be ascribed reasonably to the good or service provided.

(SAM 8752 and GC 13332)
Central Service Costs

- Central service costs are those amounts expended by central service departments and the Legislature for overall administration of state government and for providing centralized services to state departments. These functions are necessary for state operations and are centralized to provide efficient and consistent statewide policy and services.

  - There are 17 CSA departments – including Finance, State Controller’s Office and State Treasurer’s Office.
  - CSA costs also includes health and dental benefits for retirees.

(SAM Section 8753)
Who are the CSAs?
<table>
<thead>
<tr>
<th>Central Service Agencies</th>
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<tbody>
<tr>
<td><strong>California State Auditor (CSA)</strong></td>
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<tr>
<td><strong>California State Library (CSL)</strong></td>
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<tr>
<td><strong>California Department of Technology (CDOT)</strong></td>
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<tr>
<td><strong>Department of Finance (DOF)</strong></td>
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<td><strong>CA Department of Human Resources (CalHR)</strong></td>
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<td><strong>Department of Justice (DOJ)</strong></td>
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<tr>
<td><strong>Financial Information System for California (FI$Cal)</strong></td>
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<td><strong>Governor’s Office</strong></td>
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What type of functions do the CSAs perform?
# Examples of central service functions

<table>
<thead>
<tr>
<th>Function Code</th>
<th>Central Service</th>
<th>Workload Unit</th>
<th>Source</th>
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</thead>
<tbody>
<tr>
<td>Finance (DOF)</td>
<td></td>
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<tr>
<td>004</td>
<td>Audits</td>
<td>Audit Hours</td>
<td>DOF/OSAE</td>
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<tr>
<td>005</td>
<td>Budgets</td>
<td>Budget Hours</td>
<td>DOF/Admin</td>
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<tr>
<td>Department of Technology</td>
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<tr>
<td>105</td>
<td>Department of Technology</td>
<td>State Ops $</td>
<td>DOF</td>
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<tr>
<td>Financial Information Systems for California (FI$Cal)</td>
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<td></td>
</tr>
<tr>
<td>110</td>
<td>Financial Information System for California (SWCAP only)</td>
<td>State Ops $</td>
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<td>Transactions</td>
<td>SCO</td>
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<td>202</td>
<td>Claim Audits</td>
<td>Warrants</td>
<td>SCO</td>
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<td>203</td>
<td>Payroll</td>
<td>Warrants</td>
<td>SCO</td>
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<tr>
<td>204</td>
<td>General Disbursements</td>
<td>Warrants</td>
<td>SCO</td>
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## Examples of central service functions (cont’d)

<table>
<thead>
<tr>
<th>Function Code</th>
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<th>Workload Unit</th>
<th>Source</th>
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<tr>
<td>600</td>
<td>Health Benefits (HB) for Annuitants (Retired)</td>
<td>HB Costs for Active Employees</td>
<td>SCO/PERS/CalHR</td>
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<tr>
<td>601</td>
<td>Dental Benefits (DB) for Annuitants' (Retired)</td>
<td>DB Costs for Active Employees</td>
<td>SCO/PERS/CalHR</td>
</tr>
</tbody>
</table>

### Department of Justice (DOJ)

<table>
<thead>
<tr>
<th>Function Code</th>
<th>Central Service</th>
<th>Workload Unit</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>605</td>
<td>Legal (SWCAP Only)</td>
<td>Attorney Hours</td>
<td>DOJ</td>
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<tr>
<td>607</td>
<td>Tort Liability (SWCAP Only)</td>
<td>Attorney Hours</td>
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<td>800</td>
<td>Legislature (Pro Rata Only)</td>
<td>Sum of Past Actual Expend.</td>
<td>DOF/FSCU</td>
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<td>805</td>
<td>Legislative Counsel Bureau (Pro Rata Only)</td>
<td>Sum of Past Actual Expend.</td>
<td>DOF/FSCU</td>
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</table>
The SWCAP… is a "fair share" distribution of central service costs. SWCAP includes only those central services costs which are allowable for federal reimbursement purposes.

The Department of Finance (Finance), Fiscal Systems and Consulting Unit (FSCU) prepares California's SWCAP and submits it to the federal Department of Health and Human Services (DHHS).

The DHHS approval authorizes state departments to include SWCAP in their charges for work performed under federal grants and contracts.  
(SAM Section 8755)
Tools to recover costs from the federal government

- Indirect Cost Rate Proposal (ICRP)
- Cost Allocation Plan (CAP)
- Public Assistance Cost Allocation Plan (PACAP)
- Direct Bill (DB)
- Combination of ICRP and CAP/PACAP
General Overview of SWCAP Recovery Process
Roles and Responsibilities

Departments

- **Understand** thoroughly your grant requirements
- **Budget** for SWCAP, return “Pinks” to Finance
- **Prepare** ICRP and **submit** to FSCU for review
- **Submit** ICRP to Federal Cognizant Agency
- **Spend** Federal funds on agreed tasks
- **Bill** the federal government/ **draw down** funds
- **Transfer** SWCAP recoveries to the General Fund
Roles and Responsibilities (cont’d)

FSCU

- Prepare SWCAP plan
- Distribute “Pink” sheets to departments through Finance budget staff
- Review ICRPs before departments submit them to the federal government
- Monitor transfer of recoveries to General Fund
- Administer Control Section 8.54 (when necessary)
Roles and Responsibilities (cont’d)

- Office of Management and Budget (OMB)
  Establishes policies and guidelines related to federal grants

  Website: www.ecfr.gov
  Title 2 → Subtitle A → Chapter II → Part 200

- Federal Cognizant Agency
  The Federal agency which, on behalf of all Federal agencies reviews, negotiates, and approves ICRPs for a particular department.
  [2–CFR Part 200.11 and 2–CFR 200 Appendix VII (D1) and (D2)]
Roles and Responsibilities (cont’d)

- Who is my Federal Cognizant?
### State Department’s Federal Cognizant

<table>
<thead>
<tr>
<th>State Department</th>
<th>Federal Cognizant</th>
<th>Fed Abbreviation</th>
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<tbody>
<tr>
<td>Aging</td>
<td>Health and Human Services</td>
<td>HHS</td>
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<tr>
<td>Air Resource Board</td>
<td>Environmental Protection Agency</td>
<td>EPA</td>
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<tr>
<td>Alcohol and Drug Program</td>
<td>Health and Human Services</td>
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<td>Conservation</td>
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<td>Corrections</td>
<td>National and Community Service</td>
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<td>Department of Commerce</td>
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<td>Emergency Service, Office of</td>
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<td>Employment Development Dept.</td>
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<td>Energy Resources Conservation &amp; Dev Com</td>
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<td>EPA</td>
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*Please note: This is a partial list of Departments and Federal Cognizant Agencies*
Deadlines and Deliverables
ICRP Schedule of Activities

1. **Create ICRP for next fiscal year**
   - (Oct-Nov)

2. **Submit ICRP to FSCU for review**
   - (Nov-Dec)

3. **FSCU reviews and approves ICRPs**
   - (Jan–Feb)

4. **Federal Gov’t approves ICRP and notifies Depts**
   - (March–June)

5. **Depts. Submit ICRPs to Federal Gov’t**
   - (Jan–March)

6. **Federal Gov’t approves ICRPs and notifies Depts**
   - (March–June)
What is an Indirect Cost Rate Proposal (ICRP)?

2 CFR Part 200.57, states: *Indirect cost rate proposal* means the documentation prepared by a non-Federal entity to substantiate its request for the establishment of an indirect cost rate as described in Appendix III to Part 200.
When should departments submit their ICRPs to the federal government?

- **SAM Section 8756.1**

Departments must submit their ICRPs, and/or CAPs or PACAP's to Finance, FSCU, for review and approval before sending to the federal cognizant agency for approval. ICRPs, CAPS, or PACAPs are typically due to the federal cognizant agency at least six months before the start of the fiscal year to which the ICRP, CAP, or PACAP applies. Generally, the federal agency from which a department receives the most funding is designated as the federal cognizant agency.

- **2 CFR 200 Appendix VII (d)**

d. Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant agency for indirect costs. If the proposed central service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally-approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.
Developing an ICRP

General Steps:
- Know grant requirements
- Determine rate type (e.g., fixed rate)
- Identify direct costs
- Identify indirect costs
- Adjust for unallowable costs (e.g., equipment)
- Add allowable costs not included (e.g., depreciation)
- Calculate total allowable costs & indirect cost rate
- Determine if a multiple rate is appropriate
- Reconcile
- Review, certify, and submit to FSCU for review.
- Submit to federal cognizant*

*State departments that have DHHS as their cognizant agency must use an automated Document Management and Workflow System (eFlow) designed to capture ICRPs documentation electronically by email or scanning. Departments assigned to DHHS must submit their ICRPs electronically using PDF format.
OFFICIAL NOTIFICATION
New Procedures for Submitting
State & Local Indirect Cost Rate Proposals and
Central Services Cost Allocation Plans

NAME CHANGE:  From Division of Cost Allocation to Cost Allocation Services (CAS)

This is to officially notify you that CAS has implemented an automated Document Management and Workflow System (eFlow). The eFlow System is designed to capture indirect cost rate proposals and cost allocation plans along with other supporting documents electronically by email or scanning. CAS implemented this system to enhance the efficiency and productivity of our review process, in compliance with the Paper Reduction Act. Additionally, transitioning to eFlow eliminates barriers associated with paper documents in the new era of electronic transmission.

Effective immediately, all indirect cost rate proposals and cost allocation plans together with supporting information should be submitted electronically to your respective regional office at the following email address: CAS-SF@psc.hhs.gov. For those organizations not having the capability to submit their proposals or plans electronically, you can submit a hardcopy via mail for scanning into the eFlow System. However, an electronic submission is preferred.

Please note that effective January 2015 all organizations will be required to submit electronically.

The preferred electronic format is two separate PDF files, as follows:

1. Single PDF file titled “Proposal” containing the entire proposal, including the transmittal letter and required certification. This file should not include the supporting financial data.

2. Separate single PDF file titled “Financial Statements”, containing the financial data (financial statements, comprehensive annual financial reports, executive budgets, accounting reports, etc.) upon which the rate or allowable central service costs are based.

Due to our email server limitations, we cannot receive emails exceeding 25 MB (including all attachments). Therefore, if the proposal and financial statements together exceed 25 MB, please mail a CD disk or flash drive containing the electronic files.
Know Grant Requirements

- Administrative cost recovery provisions
- Indirect cost restrictions or caps
- Negotiate for the recovery of administrative costs *when possible*
Determine Type of ICRP Rate

- De Minimis Rate of 10%
- Provisional Rate
- Final Rate
- Fixed Rate with Carry-Forward
- Predetermined Rate

**ICRP rate**: the ratio, expressed as a percentage of indirect costs and a direct cost base.
De Minimis Indirect Cost Rate – 2 CFR 200.414(f)

- Any non-federal entity that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10% of modified total direct costs which may be used indefinitely.

- If chosen, must be used consistently for all federal awards until the non-federal entity chooses to negotiate for a rate, which it may do at any time.
Determine Type of Rate

Provisional/final rate – provisional rate is a temporary rate agreed to in advance, based on anticipated future costs. Once the final costs are known, it becomes the “final” rate. It is subject to retroactive adjustment once the actual costs are known.
Fixed Rate with Carryforward - the difference between estimated and actual costs. The difference is carried forward as an adjustment to calculate the rate for a future period.
Predetermined Rate – This rate is agreed to in advance, based on estimated future costs.
Identify Direct Costs

Direct costs are costs identified specifically with a particular program or cost objective.

Typical direct costs chargeable to federal awards are:

- **Salaries and wages** (Including fringe benefits)
- **Operating expenses**
- **Equipment** costing less than $5,000 (e.g., supplies)
- **Travel expenses** incurred specifically to carry out the grant award
Identify Indirect Costs

Costs that benefit more than one program and cannot be identified with a particular program or cost objective.

- Accounting
- Budgeting
- Human Resources
- Statewide Indirect Costs (SWCAP)
Identify and Adjust for Unallowable Costs

Common unallowable costs include:

- Assets - Tangible and Intangible over $5,000 (Capitalized)
- Pro Rata
- Fines and Penalties
- Legal Costs
Add Allowable Costs not Included

- Use Allowance = 6.67% x fixed assets
- Straight line depreciation for fixed assets

Note: State departments cannot employ both the straight line depreciation and use allowance method in an ICRP. Only one method can be used.

*ICRPs submitted for FY 17/18 must use the straight line depreciation method. Departments must begin building depreciation schedules.

2 CFR 200.436 (a)
Select Direct Cost Base

Typical direct cost bases:

- **Direct Salaries and Wages** (including fringe benefits)
- **Modified Total Direct Costs** (excludes distorting costs, such as capital expenditures and pass-through funds)
Indirect Cost Rate Calculation

Indirect Costs = ICRP rate
Direct Costs
Example of Calculating ICRP Rate

Department X administers three grants (A, B & C).

- Dept. X Total Indirect Costs & SWCAP = $100,000
- Dept. X Total Direct Salaries & Wages and OE&E = $1,000,000

\[
\text{Indirect Cost Rate (\%) = } \frac{\text{Total Indirect Costs (\$)}*}{\text{Direct Cost Base (\$)}}
\]

*Adjusted for unallowable costs and allowable costs (e.g., use allowance or depreciation)

- Indirect Rate = 10% = \[\frac{\$100,000}{\$1,000,000}\]
Indirect Cost Rate Methodologies

There are two basic methods for calculating indirect cost rates:

- Simplified allocation method
- Multiple allocation base method
Simplified Method

This method should be used when:

- A department’s major functions (programs/divisions) benefit from departmental indirect costs in approximately the same proportion.
Multiple Rate Method

This method should be used when:

- A department’s major functions (programs/divisions) benefit from departmental indirect costs in *varying proportion*

- Calculate a rate for each program or division
ICRP Submission Documentation

- Certification
- Summary of Proposed ICRP rate
- Organization chart
- SWCAP allocation
- Financial statements or equivalent
Certification

- No cost allocation plan or indirect cost rate will be approved by the federal government unless the plan or rate proposal has been certified by the department designee. [2 CFR 200.415 (1), (2)]

- No indirect cost will be reimbursed under federal awards unless the department has an approved rate/plan on file with the federal government.
Review prior to submitting to DOF

- Is the submission complete?
- Is the proposal accurate? Does it include all of the activities and costs of the department?
- Have unallowable costs been excluded?
- Does the proposal contain questionable items?
- Are indirect costs in the proposal treated consistently?
- Are mathematical calculations correct?
Review prior to submitting to DOF (cont’d)

- Does the department have a history of audit findings? Is there a pattern of charging unallowable costs or using invalid methodology?

- Is the current proposal significantly different from prior years? If so, is it substantiated with supporting documents?

- Has the department complied with previous cost allocation plans or indirect cost agreements?
Indirect Cost Rate Agreement

An indirect cost negotiation agreement is a document that formalizes the indirect cost rate negotiation process. This document typically contains:

- **Type of rate(s) negotiated**
- **Effective period(s) of the rate(s)**
- **Location(s) to which the rate(s) is/are applicable**
- **Program(s) to which the rate(s) is/are applicable**
- **Base(s) used to distribute indirect costs**

The indirect cost negotiation agreement must be signed by both the department’s authorized representative and the federal cognizant.

**Note:** A copy of the finalized Indirect Cost Rate Agreement should be sent to Finance, FSCU. If the federal government changed the rate submitted, please provide a copy of the explanation from the federal government along with rate agreement to FSCU.
Approved ICRP Rate

Approved rate is applied to the applicable base of the allowable direct costs incurred

There are two applicable bases:

- **Direct costs** (salaries and wages), or
- **Total direct costs** (salaries, wages and operating expenses)
SWCAP Recoveries

- Quarterly SWCAP transfers to the General Fund (SAM section 8755.2) **within 30 days** after the end of each quarter.

- Departments must complete a Transaction Request (TR) (Form CA 504) and submit to State Controller’s Office (SCO) for processing.

- Original TR to SCO and a copy to Finance, FSCU, and the department’s Finance budget analyst.

  (Electronic copies of the TR can be emailed to FSCU to FIPROSWP@dof.ca.gov)
Control Section 8.54

What happens if my department does not remit the SWCAP recovery amounts received from the federal government?

Pursuant to Control Section 8.54 of the 2015 Budget Act, if a department has not transferred federal funds to the General Fund on a timely basis, Finance has the authority to enforce recovery by reducing any state operations appropriation, not to exceed one percent. Departments are responsible for complying with federal and state requirements to ensure that SWCAP costs can be recovered from the federal government.
Negotiating Rates

- ICRP negotiations with the federal cognizant may be limited or extensive in scope.

- A small department that has a proposed ICRP rate that is the same or similar to the previous rate is likely to receive less scrutiny.

- A larger department with a significant change in federal awards or rate is likely to receive more scrutiny.

- Proposals from new ICRP departments will almost always receive greater scrutiny than those departments that had a previously negotiated rate.

- In the event that a rate cannot be negotiated, 2 CFR 200.415 (2) permits unilateral action by a cognizant agency to establish a rate.
Your negotiation and approval process will be easier if you scrutinize your ICRP before submitting it to your federal reviewer.

In general, federal reviewers initially focus on two areas:

- Completeness and accuracy of the proposal
- Methodology
If a dispute between the cognizant agency and a state department arises concerning the submission, negotiation, or establishment of an ICRP, the dispute is resolved in accordance with the appeals procedures of the cognizant agency. (2 CFR 200, App. IV C.2 paragraph h).

Some federal agencies, such as HHS, have well-established appeal procedures and a long history of adjudicating issues relating to cost negotiation. Other agencies may have no appeals procedures; in this case, final determinations by the agency may only be appealed in federal court.
Record Retention of ICRP

2 CFR 200.333 (1), (2) states the following:

- **If submitted for negotiation.** If the proposal, plan, or other computation is required to be submitted to the federal government (or to the pass-through entity) to form the basis for negotiation of the rate, then the **3-year retention period for its supporting records starts from the date of such submission.**

- **If not submitted for negotiation.** If the proposal, plan, or other computation is not required to be submitted to the federal government (or to the pass-through entity) for negotiation purposes, then the **3-year retention period for the proposal, plan, or computation and its supporting records starts from the end of the fiscal year (or other accounting period) covered by the proposal, plan, or other computation.**

The administrative requirements and cost principles apply to new awards, and to additional funding to existing awards, **made after December 26, 2014.** Existing federal awards will continue to be governed by the terms and conditions of the federal award.
Departments should review the following cost principles and if necessary consult with their federal cognizant.

§200.331 (a) (4) Requirements for pass-through entities.

All pass-through entities must:

(a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

(4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f).

Refer to: OMB Circular Guidance FAQ (331-6 and 331-7):
§200.414 (f), (g) Indirect (F&A) costs

(f) In addition to the procedures outlined in the appendices in paragraph (e) of this section, any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-Federal entities described in Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals, paragraph D.1.b, may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely.

As described in §200.403 Factors affecting allowability of costs, 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.
(g) Any non-Federal entity that has a current federally negotiated indirect cost rate may apply for a one-time extension of the rates in that agreement for a period of up to four years. This extension will be subject to the review and approval of the cognizant agency for indirect costs. If an extension is granted the non-Federal entity may not request a rate review until the extension period ends. At the end of the 4-year extension, the non-Federal entity must re-apply to negotiate a rate. Subsequent one-time extensions (up to four years) are permitted if a renegotiation is completed between each extension request.
§200.436 (a), 5, (e) Depreciation

(a) Depreciation is the method for allocating the cost of fixed assets to periods benefitting from asset use. The non-Federal entity may be compensated for the use of its buildings, capital improvements, equipment, and software projects capitalized in accordance with GAAP, provided that they are used, needed in the non-Federal entity's activities, and properly allocated to Federal awards. Such compensation must be made by computing depreciation.

(5) Where the depreciation method is introduced to replace the use allowance method, depreciation must be computed as if the asset had been depreciated over its entire life (i.e., from the date the asset was acquired and ready for use to the date of disposal or withdrawal from service). The total amount of use allowance and depreciation for an asset (including imputed depreciation applicable to periods prior to the conversion from the use allowance method as well as depreciation after the conversion) may not exceed the total acquisition cost of the asset.

(e) Charges for depreciation must be supported by adequate property records, and physical inventories must be taken at least once every two years to ensure that the assets exist and are usable, used, and needed. Statistical sampling techniques may be used in taking these inventories. In addition, adequate depreciation records showing the amount of depreciation taken each period must also be maintained.
Federal Standard Form 424

- Federal Standard Form 424 (Application for Federal Assistance) must be submitted to the Federal Government for Federal Assistance.

- The federal government requires that all applicants for federal grants and cooperative agreements with the exception of individuals other than sole proprietors, have a Data Universal Number System (DUNS) number. (See policy at: http://www.omb.gov/grants/grants_docs). The federal government will use the DUNS number to better identify related organizations that are receiving funding under grants and cooperative agreements, and to provide consistent name and address data for electronic grant application systems.

- Do not use the statewide payroll Tax Identification Number assigned to SCO.
ICRP Resources

- OMB Circular Guidance CFR 200 (New) - Title 2, Subtitle A, Chapter II, Part 200
  http://www.ecfr.gov

- OMB Circular Guidance FAQs

- ASMB C-10

- Department of Health and Human Services – Cost Allocation Services
  https://rates.psc.gov/

- Department of Finance – Pro Rata/SWCAP website
  http://www.dof.ca.gov/accounting/fscu/pro_rata-swcap/
Contact Finance

E-mail: fiproswp@dof.ca.gov