

Indirect Cost Rate Proposal (ICRP) Overview

DEPARTMENT OF FINANCE
FISCAL SYSTEMS AND CONSULTING UNIT

FALL 2023

September 20, 2023



Objectives

- ❖ Understand the statewide policy of **Full Cost Recovery**
- ❖ Understand the **roles and responsibilities of the Department of Finance** and **state departments** for the recovery of administrative costs from the federal government.
- ❖ 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

OMB Uniform Guidance (2014)

The Office of Management and Budget's (OMB) Uniformed Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (aka OMB's Uniform Guidance – CFR Title 2 Part 200) was officially implemented in December 2014. This guidance supersedes requirements from OMB Circulars A-21, A-50, **A-87**, A-89, A-102, A-110 and A-122, and A-133 (which have been placed in 2 CFR Parts 220, **225**, 215 and 230).

The administrative requirements and cost principles apply to new awards, and to additional funding to existing awards, **made after December 26, 2014.**

- ❖ **OMB Circular Guidance CFR Title 2, Subtitle A, Chapter II, Part 200**
<http://www.ecfr.gov>

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.

Cost Elements

- ❖ Department Direct Costs
- ❖ Department Indirect (overhead) costs
- ❖ Central Service Costs

(SAM section 9211)

Department Direct Costs

Department direct costs are those which can be identified specifically with a particular cost objective.

Examples:

- ❖ Personal services costs incurred in meeting the cost objective
- ❖ Operating expenses and equipment costs incurred in meeting the cost objective, such as the cost of contracts, travel expenses, etc.

(SAM section 9211)

Department Indirect Costs

Department indirect (overhead) costs are those support costs that benefit more than one cost objective/organization unit.

Examples:

- ❖ Personal services costs of department administrative and executive staff.
- ❖ Operating expenses and equipment costs not included as part of department direct costs.

(SAM section 9211)

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.

(SAM section 9215)

Statewide Cost Allocation Plan (SWCAP)

SWCAP is a “fair share” distribution of central service costs to state departments. SWCAP includes only those central services costs which are allowable for federal reimbursement purposes.

- ❖ Prepared by FSCU annually, due on December 31st.
- ❖ Submitted to the U.S. Department of Health and Human Services (DHHS) for approval.
- ❖ The DHHS approval authorizes state department to include SWCAP in their charges for work performed under Federal grants and contracts.

(SAM section 9215.2)

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 section 9210)

Recovering costs from the federal government

Each department that receives federal funds must prepare an ICRP and/or CAP (Cost Allocation Plan) to establish the basis for recovering full costs associated with federal programs or activities.

Inclusion of SWCAP costs is required in the department's ICRP/CAP to allow for the recovery of central service costs.

(SAM section 9216.2)

Tools to recover costs from the federal government

- ❖ Indirect Cost Rate Proposal (**ICRP**)
- ❖ Cost Allocation Plan (**CAP**)
- ❖ Direct Bill (**DB**)
- ❖ De Minimis 10% Rate



When should departments submit their ICRPs to the federal government?

SAM Section 9216.2

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 (D1d)

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.

General Overview of Indirect Cost/SWCAP Recovery Process

Department of Finance, FSCU –Roles and Responsibilities

- ❖ **Prepares** SWCAP plan
- ❖ **Distributes** “**Pink**” sheets – SWCAP
Apportionment to departments through
Finance budget staff
- ❖ **Review** ICRPs before departments submits
them to the federal government
- ❖ **Monitor** transfer of recoveries to General
Fund
- ❖ **Administer** Control Section 8.54 (when
necessary)

State Departments – Roles and Responsibilities

- ❖ **Understand** your federal grant requirements thoroughly
- ❖ **Budget** for SWCAP, return “**Pinks**” to Finance budget analyst
- ❖ **Prepare** ICRP and **submit** to FSCU for review
- ❖ **Submit** ICRP to Federal Cognizant Agency after FSCU approval
- ❖ **Spend** federal funds on agreed upon tasks
- ❖ **Bill** the federal government/**draw down** funds
- ❖ **Transfer** SWCAP recoveries to the General Fund

(SAM section 9216)

Federal Agencies—Roles and Responsibilities

Office of Management and Budget (OMB)

- ❖ Establishes policies and guidelines related to federal grants

Website: www.ecfr.gov

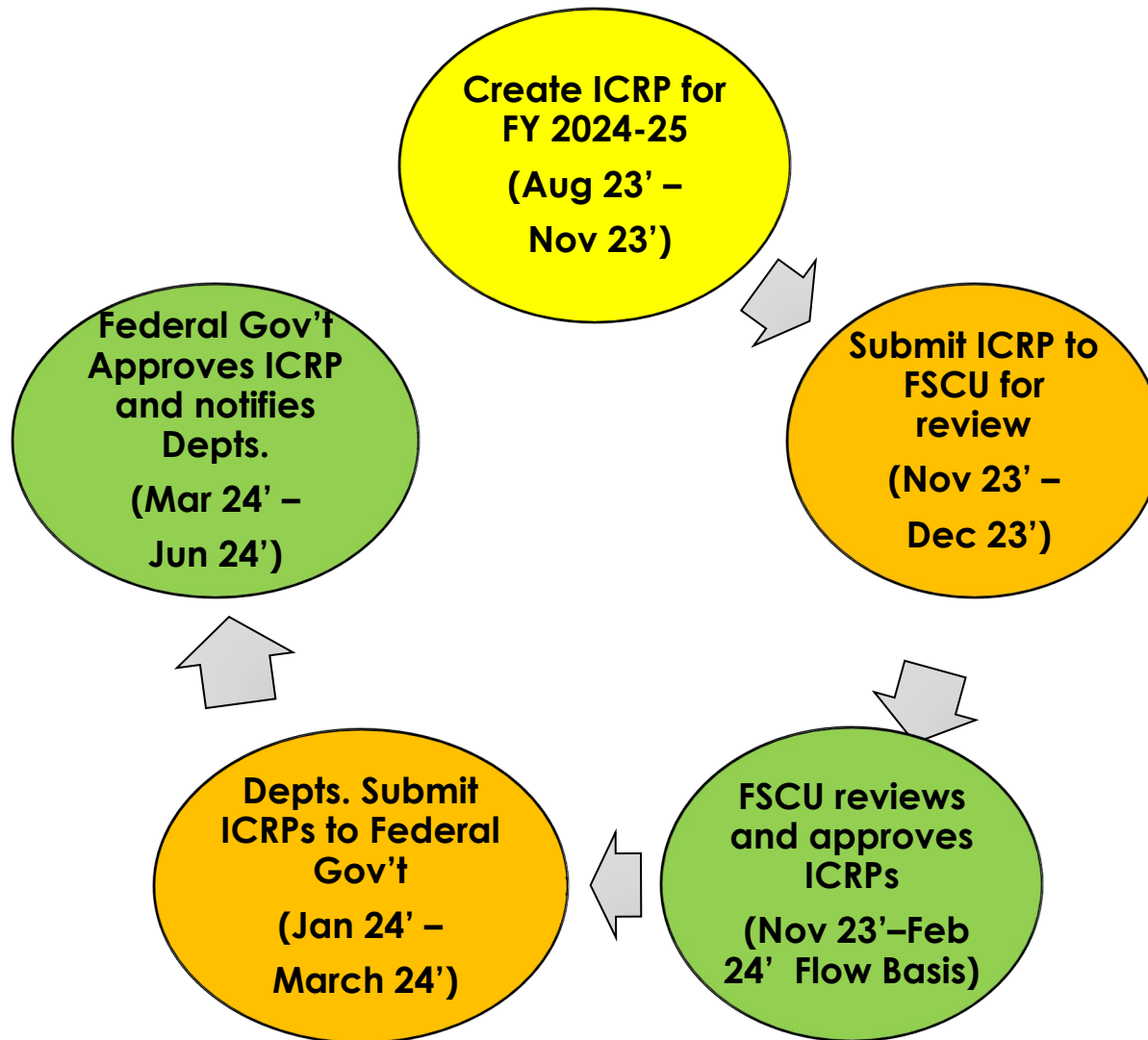
Title 2 → Subtitle A → Chapter II → Part 200

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 200.19]**

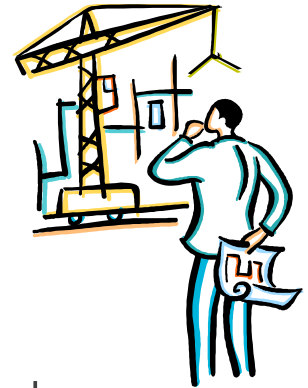
ICRP Schedule of Activities



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



Know Grant Requirements

- ❖ Administrative cost recovery provisions
- ❖ Indirect cost restrictions or limitations (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 is the ratio, expressed as a percentage, of total indirect costs to a direct cost base.

Determine Type of Rate (cont'd)

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.

Entity receives more than \$35 million in direct federal funding may not elect to use de minimis rate to recover indirect costs.

[\[2-CFR Part 200 Appendix VII \(D1b\)\]](#)

Determine Type of Rate (cont'd)

Provisional/Final rate – provisional rate is a **temporary rate** agreed to in advance, based on anticipated future costs. Provisional rates can be used for funding, interim reimbursement, and reporting of indirect costs on federal awards. They must be finalized by submitting an “Indirect Cost Rate Proposal for a Final Rate” once the actual costs are known and can be verified.

When the **Final Rate** is established, it is subject to retroactive adjustment based on the actual allowable costs incurred for the period involved.

[\[2-CFR Part 200 Appendix III \(C6\)\]](#)

Determine Type of Rate (cont'd)

Fixed Rate with Carryforward – Fixed rate is negotiated in advance for a fiscal year based on estimated costs. The over- or under-recovery for that year is included as carryforward adjustment to the indirect costs for next year (future year) rate negotiation.

[2-CFR Part 200 Appendix III (C5)]

Determine Type of Rate (cont'd)

Predetermined Rate – this rate is agreed to in advance, based on estimated future costs.

- ❖ Predetermined rate is not subject to adjust except under very unusual circumstances.
- ❖ Predetermined Rate is not permitted for Federal contracts, may be use for grants or cooperative agreements.

[2-CFR Part 200 Appendix III (C4) and Appendix VII (B9)]

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**
- ❖ **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)**
- } **Departmental**

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
- ❖ Bad Debts
- ❖ Lobbying Activities

2 CFR 200 Appendix VII E. 4 Refunds must be made if proposals are later found to have included cost that (a) are unallowable.

2 CFR 200 Appendix VII F. 5 Costs specifically identified as unallowable and charged to Federal awards either directly or indirectly will be refunded (including interest chargeable in accordance with applicable Federal cognizant agency for indirect costs regulations)

Indirect Cost Rate Calculation

$$\frac{\text{Indirect Costs (including SWCAP)}}{\text{Direct Costs}^*} = \text{ICRP rate}$$



*Common direct costs bases:

- Total Direct Costs
- Total Salaries and Wages (including fringe benefits)

Example of Calculating ICRP Rate

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

- Dept. X Total Department **Indirect** Costs = \$70,000
- Dept. X SWCAP Costs = \$30,000
- 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., depreciation)

$$\text{*Indirect Rate} = 10\% = \frac{\$70,000 + \$30,000}{\$1,000,000}$$

Indirect Cost Rate Methodologies

There are two basic methods for calculating indirect cost rates:

- ❖ Simplified allocation method
- ❖ Multiple allocation base method

*[2-CFR Part 200 Appendix VII (C2 and C3)]

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

*[2-CFR Part 200 Appendix VII (D)]

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 with supporting reports? (i.e., Budget reports, Report 6, etc.)
- ✓ Have unallowable costs been excluded?
- ✓ Is SWCAP included?
- ✓ 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?
- ✓ Is the [Department of Finance ICRP Summary Form checklist included](#)?
- ✓ Is prior year's approved Indirect Cost Rate Agreement enclosed?

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 have 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.

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 cognizant adjusted the proposed rate, provide the explanation from the federal cognizant along with the rate agreement to FSCU.

SWCAP Recoveries

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

Control Section 8.54

Pursuant to Control Section 8.54 of the 2023 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.

ICRP Resources

- ❖ **OMB Circular Guidance CFR Title 2, Subtitle A, Chapter II, Part 200**
<http://www.ecfr.gov>
- ❖ **OMB Circular Guidance FAQs**
<https://www.grants.gov/learn-grants/grant-policies/omb-uniform-guidance-2014.html>
- ❖ **Department of Finance – Pro Rata/SWCAP website**
<https://dof.ca.gov/accounting/accounting-Statewide-Cost-Allocation/>
- ❖ **Department of Finance – ICRP Indirect Cost Rate Proposals (ICRPs) | Department of Finance (ca.gov)**
<https://dof.ca.gov/accounting/accounting-Statewide-Cost-Allocation/>
- ❖ **Annual Pro Rata/SWCAP Budget Letter**
BL 23-09
- ❖ **Contact FSCU, email**
fiprowp@dof.ca.gov