



Indirect Cost Rate Proposal (ICRP) Overview

DEPARTMENT OF FINANCE

FISCAL SYSTEMS AND CONSULTING
UNIT

SEPTEMBER 19, 2024

Objectives

Federal and State Guidance

Roles and Responsibilities

Indirect Cost Development

Rates and Methods

SWCAP Apportionment

What is an Indirect Cost Rate Proposal (ICRP)?

2 CFR Part 200.1, 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 appendices III through VII and appendix IX to this part.

Cost Elements

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

(SAM section 9211)

Department Direct Costs

Direct costs are 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

Indirect (overhead) costs are support costs that benefit more than one cost objective (i.e., program or project)

Examples:

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

(SAM section 9211)

Central Service Costs

Central service costs are the amounts expended by central service departments and the Legislature for the **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. It includes only those central service costs that 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 departments to include SWCAP in their charges for work performed under Federal grants and contracts.

(SAM section 9215.2)



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.

[\(SAM section 9210\)](#)

Full Cost Recovery Policy

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.

The department's ICRP/CAP is required to include SWCAP costs 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**)/Public Assistance Cost Allocation Plan (**PACAP**)
- Direct Bill
- De Minimis 15% Rate
 - (increased from 10%)

When should departments submit their ICRPs to the federal government?

SAM Section 9216.2

Departments must submit their ICRP, CAP, or PACAP 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 and 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 the departments submits them to the federal government
- **Monitor** the transfer of federal recoveries to the 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

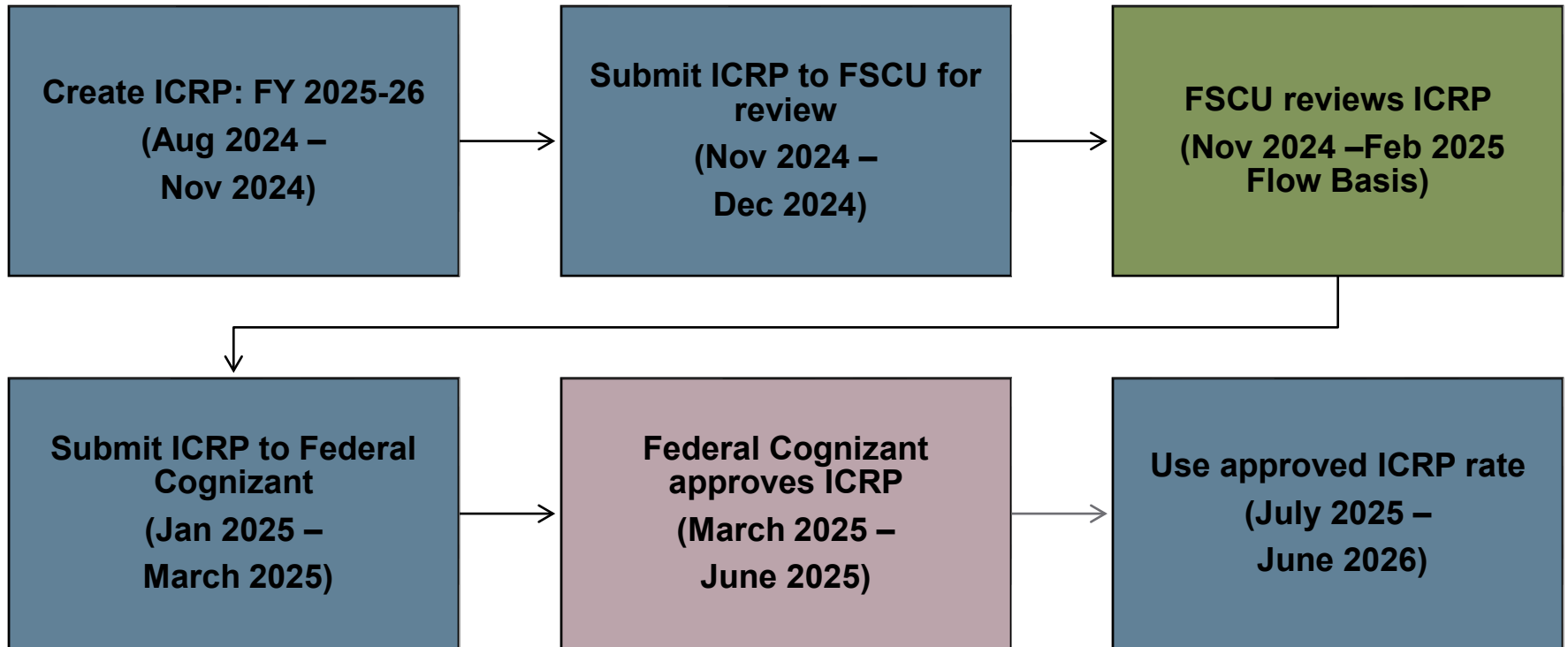
Title 2 → Subtitle A → Chapter II → Part 200

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

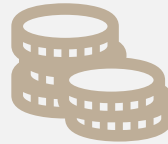
General Steps:

- ✓ 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 for approval.

Know Grant Requirements



Administrative cost recovery provisions



Indirect cost restrictions or limitations (caps)



Negotiate for the recovery of administrative costs *when possible*

Determine the Type of ICRP Rate

ICRP rate is the ratio, expressed as a percentage, of total indirect costs to a direct cost base.

De Minimis Rate of 15%

Provisional Rate/Final Rate

Fixed Rate with Carry-Forward

Predetermined Rate

De Minimis Indirect Cost Rate

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 15% 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 receiving more than \$35 million in direct federal funding may not elect to use the de minimis rate to recover indirect costs.

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

Provisional/ Final rate

Provisional and Final Rate

A **temporary rate** is agreed to in advance based on anticipated future costs. Provisional rates can be used for funding, interim reimbursement, and reporting 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.

Upon the establishment of a **Final Rate**, it is subject to retroactive adjustment based on the actual allowable costs incurred for the period involved.

[\[2-CFR Part 200 Appendix III \(C6\) and Appendix VII \(B4\) and B\(10\)\]](#)

Fixed Rate with Carry- Forward

Fixed Rate with Carry-Forward

A 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 a carry-forward adjustment to the indirect costs for a subsequent rate negotiation.

[2-CFR Part 200 Appendix III (C5) and Appendix VII (B5)]

Predetermined Rate

Predetermined Rate

A rate agreed to in advance, based on estimated future costs, that may be used for a period of two to four years.

- The rate is not subject to adjustment except under very unusual circumstances.
- The rate is not permitted for Federal contracts but may be used 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

[2 CFR 200.413]

Identify Indirect Costs

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

- Departmental
 - Accounting
 - Budgeting
 - Human Resources
- Statewide Indirect Costs (SWCAP)

[[2 CFR 200.414](#) and [Appendix VII](#)]

Identify/Adjust for Unallowable Costs

Common unallowable costs include:

- ✓ Assets - Tangible and Intangible over \$5,000 (Capitalized) (2CFR 200.305 and 200.420)
- ✓ Pro Rata (Appendix V – SWCAP)
- ✓ Fines and Penalties (2 CFR 200.441)
- ✓ Legal Costs (2 CFR 200.435 and 200.459)
- ✓ Bad Debts (2 CFR 200.426)
- ✓ Lobbying Activities (2 CFR 200.450)

[2 CFR 200.403]

2 CFR 200 Appendix VII E. 4

Refunds must be made if proposals are later found to have included costs 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

$$\frac{\text{Indirect Costs}^*}{\text{Direct Costs}^{**}} = \text{ICRP Rate}$$

*Includes

- Department Indirect Costs
- SWCAP Apportionment

**Common direct cost bases:

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

Example of Calculating ICRP Rate

Department XYZ administers three federal grants:

- Total Department **Indirect** Costs = \$70,000
- SWCAP Apportionment = \$30,000
- 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

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**.

[\[2-CFR Part 200 Appendix VII \(C2\)\]](#)

Multiple Rate Method

This method should be used when:

- A department's major functions (programs/divisions) benefit from departmental indirect costs in ***varying proportions***.
- Calculate a rate for each program or division.

[\[2-CFR Part 200 Appendix VII \(C3\)\]](#)

ICRP Submission Documentation

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

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

Review prior to submitting to Finance

- ✓ Is the submission complete?
- ✓ Is the proposal accurate? Does it include all the activities and costs of the department with supporting reports? (i.e., expenditure reports, Report 6, etc.)
- ✓ Have unallowable costs been excluded?
- ✓ Is SWCAP Apportionment included?
- ✓ Does the proposal contain questionable items?
- ✓ Are indirect costs in the proposal treated consistently?
- ✓ Are the mathematical calculations accurate?

Review prior to submitting to Finance (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](#) included?
- ✓ Is the 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 consistent with 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.
- If 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 the 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 9216.1) **within 30 days** after the end of each quarter.

Control Section 8.54

Pursuant to Control Section 8.54 of the 2024 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

- **CFR Title 2, Subtitle A, Chapter II, Part 200**
 - [Link to CFR Title 2 Subtitle A Chapter II Part 200](#)
- **OMB Uniform Guidance**
 - [Link to OMB Uniform Guidance](#)
- **ASMB C-10**
 - [Link to ASMB C-10](#)
- **Department of Finance – Pro Rata/SWCAP**
 - [Link to Finance ProRata SWCAP](#)
- **Department of Finance – ICRP**
 - [Link to Finance ICRP](#)
- **Annual Pro Rata/SWCAP Budget Letter**
 - [Link to BL 24-13](#)

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