

EPA Grants Webinar Series: Indirect Cost Rates

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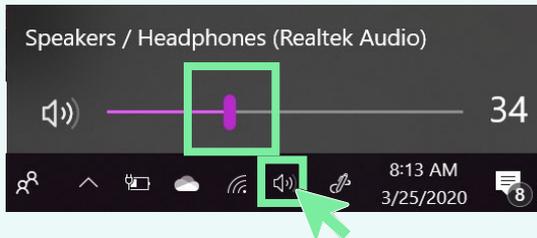
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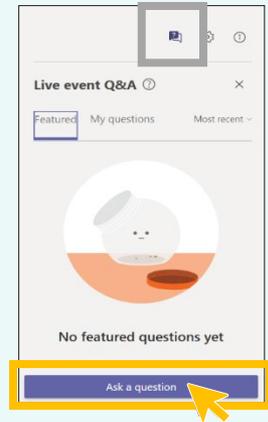
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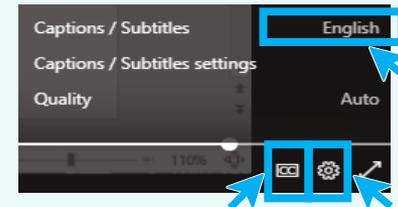


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Indirect Cost Rates

Direct Cost vs. Indirect Costs

No universal rule for classifying certain cost as either direct or indirect costs in every accounting system

Direct Costs

- Direct Costs can be identified with a particular final cost objective with relative ease.
- Cost Objective means a function, contract, grant or other activity for which cost data are needed and for which costs are incurred.

Typical costs include:

- Compensation for employees working on an award
- Fringe benefits
- Materials and Supplies
- Travel
- Contractual
- Participant Support Costs

Types of Direct Costs



Manufacturing materials



Employee wages



Freight

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Indirect Costs

- Indirect costs are costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.
- Examples of Indirect (F&A) costs:
 - Accounting
 - Human Resources
 - Payroll
 - Utilities



How are Indirect Cost Rates Calculated?

$$\text{IDC Rate} = \text{Total Indirect Costs} / \text{Direct Cost Base}$$

Direct Cost Base Options:

- Modified Total Direct Costs (MTDC)
- Direct Salaries
- Direct Salaries and Fringe Benefits



The base chosen should result in each award bearing a proportionate share of the indirect costs relative to the benefits received from those costs

Indirect Cost Rate Proposal

- Audited financial statements
- Signed Certificate of Indirect Costs
- Signed Lobbying Certificate, if required
- Indirect rate calculation
- Rate information - rate type(s) and fiscal year(s)
- Schedule of Total Expenditures
- Indirect Personnel Justification
- Schedule of Expenditures of Federal Awards
- Depreciation Schedule
- [IDC Proposal Checklist](#)



Cognizant agency for indirect costs.

The Federal Cognizant agency is responsible for reviewing, negotiating, and approving indirect cost rates on behalf of the entire federal government.

The cognizant agency is the Federal agency that provides the largest dollar value of **direct** Federal awards

Once designated as the cognizant agency for indirect costs, the Federal agency must remain:

- Three years for nonprofits

- Five years State & Local Governments

- Five years for colleges and universities

Governmental entities assigned to a specific cognizant agency

In addition, the following Federal agencies will continue to be responsible for the indicated governmental entities:

- *Department of Health and Human Services* - Public assistance and state-wide cost allocation plans for all states (including the District of Columbia and Puerto Rico), state and local hospitals, libraries and health districts.
- *Department of the Interior* - **Indian tribal governments, territorial governments,** and state and local park and recreational districts.
- *Department of Labor* - State and local labor departments.
- *Department of Education* - School districts and state and local education agencies.
- *Department of Agriculture* - State and local agriculture departments.
- *Department of Transportation* - State and local airport and port authorities and transit districts.
- *Department of Commerce* - State and local economic development districts.
- *Department of Housing and Urban Development* - State and local housing and development districts.
- ***Environmental Protection Agency* - State and local water and sewer districts.**

Negotiated Indirect Rates

- **Provisional** – temporary rate established for a given period of time to permit funding of indirect costs until a final rate is approved for that period.
- **Final** – based on the actual audited costs during the fiscal year. Not subject to adjustment unless it's later determined that the approved rate included unallowable costs.
- **Fixed (with carryforward)** – rates established for a specific future period based on estimated costs for that period, and the difference between the estimated costs and the actual costs of the period are carried forward as an adjustment to the rate computation of a subsequent period.
- **Predetermined** – based on the estimated costs to be incurred and can be negotiated for a period of two to four years. Except under very unusual circumstances, this type of rate is not subject to adjustment.

De Minimis rate

- In accordance with 2 CFR 200.414(f), recipients without a current negotiated indirect cost rate are eligible to use the de minimis rate of 10% of their modified total direct costs (**MTDC**).
 - Exception: state and local governmental departments or agency units that receive more than \$35 million in direct Federal funding per fiscal year are not eligible for the 10% de minimis rate.
- **MTDC**: All direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward. **MTDC excludes** equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs, and the portion of each subaward in excess of \$25,000.

De Minimis rate Vs. Negotiated rates

De Minimis Rate	Negotiated rates
Decreases administrative burden	Increases administrative burden because of the costs associated with preparing IDC proposals and negotiating indirect cost rates.
Helps recipients reduce uncertainty in their indirect cost recovery	Negotiated rates can fluctuate so there can be more uncertainty regarding indirect cost recovery
Can be used indefinitely	Requires a current negotiated rate
No documentation is necessary to justify the rate	Indirect cost proposals must be prepared to support their negotiated rate
May cause the recipient to under recover indirect costs	Allow recipients to recover their actual indirect costs

Indirect Cost Rate Proposals

The indirect cost proposal is due annually and must be submitted to your cognizant federal agency within six months following your fiscal year closeout. For example:

- Fiscal year ends on September 30 - indirect cost proposal is due by March 31
- Fiscal year ends on December 31 - is due by June 30
- Fiscal year ends on June 30 - indirect cost proposal is due no later than December 31

EPA does not solicit proposals.

Proposals are processed on a first-in, first-out basis.



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6.2 Proposed Rates

- **If an applicant has submitted a proposed rate to its cognizant agency, EPA requires the inclusion of IDCs in the budget of the award, subject to adjustment once the proposed rate is approved.** Proposed rates do not qualify as approved IDC rates, and recipients must not draw down IDCs without an approved IDC rate in place, as described in section 6.1.
- **With the exception of exempt governmental agencies, applicants must demonstrate to EPA that they have submitted proposed IDC rates to their cognizant agencies prior to award** or use the 10% de minimis rate in order for IDCs to be included in the budget.
- **If an applicant does not plan to use the 10% de minimis rate, and in the absence of proof of an IDC rate proposal submitted with the application, it is the responsibility of the Grants Management Office (GMO) to ensure that a proposal has been submitted, and that the IDCs budgeted are aligned with the proposed rate and base.**

Nonprofit Recipient

Appendix IV to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations (B)(2)(c)

The distribution base may be total direct costs (excluding **capital expenditures and other distorting items, such as subawards for \$25,000 or more**), direct salaries and wages, or other base which results in an equitable distribution. **The distribution base must exclude participant support costs as defined in §200.1.**

Institute of Higher Education

Appendix III to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs) (C)(2)

Indirect (F&A) costs must be distributed to applicable Federal awards and other benefitting activities within each major function **on the basis of modified total direct costs (MTDC)**, consisting of all salaries and wages, fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period covered by the subaward). MTDC is defined in § 200.1.

Institute of Higher Education

Fixed Rates for the Life of the Sponsored Agreement

- Except as provided in paragraph (c)(1) of § 200.414, **Federal agencies must use the negotiated rates in effect at the time of the initial award throughout the life of the Federal award.** Award levels for Federal awards may not be adjusted in future years as a result of changes in negotiated rates. “Negotiated rates” per the rate agreement include final, fixed, and predetermined rates and **exclude provisional rates.** “Life” for the purpose of this subsection means each competitive segment of a project. A competitive segment is a period of years approved by the Federal awarding agency at the time of the Federal award. If negotiated rate agreements do not extend through the life of the Federal award at the time of the initial award, then **the negotiated rate for the last year of the Federal award must be extended through the end of the life of the Federal award.**

State & Local Governments & Indian Tribes

Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals (C)(2)

c. The distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, subcontracts in excess of \$25,000, participant support costs, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution.

Exempt Governmental Agency

In accordance with 2 CFR Part 200, Appendix VII(D)(1)(b), an exempt governmental agency is a **state or local governmental department or agency that receives up to and including \$35,000,000 in direct Federal funding per the department or agency's fiscal year.** Exempt governmental agencies are **NOT** required to submit IDC proposals to their cognizant agency for approval unless the cognizant agencies request that they do so. Tribal governments are **not** considered exempt governmental agencies.

EPA will accept proposed rates from these agencies as long as the agencies represent to EPA that they have **prepared IDC rate proposals**, and approval by their cognizant agencies is not required.

What is an Indirect Cost Negotiation Agreement?

A document that formalizes the indirect cost rate negotiation process.

- This document contains:
 - The type of rate(s) negotiated;
 - The effective period(s) of the rate(s);
 - The location(s) to which the rate(s) is/are applicable;
 - The program(s) to which the rate(s) is/are applicable;
 - The base(s) used to distribute indirect costs; and
 - The indirect cost negotiation agreement must be signed by the recipient and their Federal cognizant Agency.

Indirect Cost Rate Agreement (MTDC Base)

SECTION I: RATES

Start Date	End Date	Rate Type	Rate	Base	Location	Applicable To
7/01/2021	6/30/2022	Final	18%	(A)	All	All Programs
7/01/2023	6/30/2024	Provisional	18%	(A)	All	All Programs

(A) Base: all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). The base **excludes** equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000.

MTDC Example

Approved rate is 18%

• Total Direct Costs in budget:	\$160,000
• Salaries/benefits:	95,000
• Supplies:	5,000
• Subawards under \$25k:	25,000
• Subawards over \$25k:	20,000
• Capital Equipment:	10,000
• Participant Support Costs:	5,000
• Modified Total Direct Costs Base:	
• = \$160,000 - \$20,000 - \$10,000 - \$5,000	
• = \$125,000 MTDC * 18% = \$22,500 (IDC)	

Indirect Cost Rate Agreement (Direct Labor Base)

SECTION I: RATES

Start Date	End Date	Rate Type	Rate	Base	Location	Applicable To
7/01/2021	6/30/2022	Final	18%	(A)	All	All Programs
7/01/2023	6/30/2024	Provisional	18%	(A)	All	All Programs

(A) Base: Direct salaries and wages, including applicable fringe benefit costs.

Treatment of Fringe Benefits: Fringe benefits applicable to direct salaries and wages are treated as direct costs.

MTDC Example

Approved rate is 18%

• Total Direct Costs in budget:	\$160,000
• Salaries/benefits:	95,000
• Supplies:	5,000
• Subawards under \$25k:	25,000
• Subawards over \$25k:	20,000
• Capital Equipment:	10,000
• Participant Support Costs:	5,000
• Total Direct Labor Costs:	
• = \$95,000 Salaries and Benefits	
• = \$95,000 * 18% = \$17,100 (IDC)	

Expired Fixed Rates

- EPA may approve a regulatory exception on a case-by-case basis, to allow a recipient to continue using an expired fixed rate with carry-forward for up to four years additional years.
- EPA cannot be your cognizant agency.
- The regulatory exception would only apply to EPA awards.
- The rate should not be more than three years past expiration, when applying for the regulatory exception.

Regulatory Exceptions for Expired Fixed Rates with Carryforward

- The instructions for submitting a regulatory exception are included in EPA's [Indirect Cost Policy Guidance for Recipients of EPA Assistance Agreements](#)
- If EPA approves its continued use, the expired fixed rate is considered an approved rate until the date that EPA sets (which may be up to four years from the expiration date, or until the recipient receives a new approved negotiated rate by its cognizant agency). The regulatory exception only applies to EPA awards.

EPA Term and Condition

18. Indirect Cost Rate Agreements

This term and condition provides requirements for recipients using EPA funds for indirect costs and applies to all EPA assistance agreements unless there are statutory or regulatory limits on IDCs. See also EPA's Indirect Cost Policy for Recipients of EPA Assistance Agreements (IDC Policy).

In order for the assistance agreement recipient to use EPA funding for indirect costs, the IDC category of **the recipient's assistance agreement award budget must include an amount for IDCs and at least one of the following must apply:**

- With the exception of “exempt” agencies and Institutions of Higher Education as noted below, all recipients must have one of the following **current (not expired)** IDC rates, including IDC rates that have been extended by the cognizant agency:
 - Provisional;
 - Final;
 - Fixed rate with carry-forward;
 - Predetermined;
 - 10% de minimis rate authorized by 2 CFR 200.414(f);
 - EPA-approved use of an expired fixed rate with carry-forward on an exception basis, as detailed in section 6.4.a. of the IDC Policy.

EPA Term and Condition (Continued)

IDCs incurred during any period of the assistance agreement that are not covered by the provisions above are not allowable costs and must not be drawn down by the recipient.

Recipients may budget for IDCs if they have submitted a proposed IDC rate to their cognizant Federal agency or requested an exception from EPA under subsection 6.4 of the IDC Policy. However, **recipients may not draw down IDCs until their rate is approved**, if applicable, or EPA grants an exception. IDC drawdowns must comply with the **indirect rate corresponding to the period during which the costs were incurred.**

This term and condition **does not govern indirect rates for subrecipients** or recipient procurement contractors under EPA assistance agreements. Pass-through entities are required to comply with 2 CFR 200.332(a)(4)(i) and (ii) when establishing indirect cost rates for subawards.

Overview of Budget Indirect Costs and Drawdown Indirect Costs

	Budget Indirect Costs	Drawdown Indirect Costs
Current Approved IDC Rate	✓	✓
Proposed IDC Rate submitted to cognizant agency for approval	✓	
10% De minimis Rate	✓	✓
Expired IDC Rate		

Indirect Cost Proposals

- New non-profit recipients should email their IDC proposals to EPA's IDC email box at OMS-OGD-IndirectCost@epa.gov, EPA will forward to DOI, IBC
- Non-profit recipients that have already established an IDC review/approval relationship can send proposals directly to DOI, IBC.
- State and Local Recipients should email their IDC proposals to smith.jacqueline@epa.gov
 - Exempt governmental agencies are not required to submit their IDC proposal to EPA for approval.

What rate do I use for projects that cover more than one year?

If more than one fiscal year is involved in a project, the indirect cost rate used to recover indirect costs **should change as the fiscal year changes**. The only exception is institutions of higher education, which are required to use the rates approved at the time of award throughout the life of the award.

Can a recipient request less indirect costs than the total amount allowed by its indirect cost rate?

Yes. A recipient may choose to claim less than the amount of indirect costs allowed by its indirect cost rate. However, amounts not claimed under one award may not be shifted to another award, unless specifically authorized by legislation or regulation.

Can unrecovered indirect costs be included as part of cost sharing or matching?

Unrecovered indirect costs, including indirect costs on cost sharing or matching **may be included as part of cost sharing or matching only with the prior approval of the Federal awarding agency.**

Unrecovered indirect cost means the difference between the amount charged to the Federal award and the amount which could have been charged to the Federal award under the non-Federal entity's approved negotiated indirect cost rate.

Can a Federal awarding agency or pass-through entity restrict recipients or subrecipients use of indirect costs to the de minimis rate?

No. Federal awarding agencies and pass-through entities must recognize a federally approved negotiated indirect cost rate unless there is specific authority (legislation or regulation) to limit the rate.

Can a recipient use the 10% de minimis rate instead of their current federally approved rate?

No, a recipient can only use the de minimis rate if they do not have a current approved IDC rate (2 CFR 200.414(f)). In addition, state and local agencies that receive more than \$35 million in direct federal awards are not eligible to use the 10% de minimis rate.

How is the 10% de minimis rate applied to an EPA award?

Recipients that elect to use the de minimis rate of 10% will apply the rate to their modified total direct costs (MTDC) as defined in 2 CFR Part 200.1. The de minimis rate may be used indefinitely, and no documentation is required to justify the 10% de minimis indirect cost rate.

Modified Total Direct Cost (MTDC) includes all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC **excludes** equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000.

If a federal award has an administrative limitation, do recipients still need to submit their NICRA?

Yes, the NICRA is still required when an award has an administrative limitation. The NICRA is used to calculate the total amount of allowable IDCs using the approved rate, while the administrative limitation is used to calculate the total amount of allowable administrative costs. The lessor of the two amounts can be recovered by the recipient.

Total allowable administrative costs: \$22,500

Total administrative cost limitation: \$18,000

Recipient can only recover \$18,000

Total allowable administrative costs: \$17,100

Total administrative cost limitation: \$18,000

Recipient can recover \$17,100

Indirect Cost Limitations

- [Statutory Restrictions on Indirect Costs in EPA Financial Assistance Programs](#) - this document lists the EPA Financial Assistance Programs with Statutory Restrictions on Indirect Costs.
- The new Environmental and Climate Justice Community Change Grants program (Assistance Listing 66.616) limits the amount of indirect costs to 20% of the Federal award.

Additional Resources

- [Indirect Cost Guidance for Recipients of EPA Assistance Agreements](#)
- [Indirect Cost Policy for Recipients of EPA Assistance Agreements](#)
- [EPA General Terms and Conditions](#) (Indirect Cost Rate Agreement T&C is #18)
- [Nonprofit Organizations/IBC Customer Central](#) (DOI, IBC negotiates indirect cost rates with nonprofit organizations on EPA's behalf so nonprofits should refer to DOI's IDC proposal Instructions)
- [Indian Tribal Governments /IBC Customer Central](#) (DOI, IBC negotiates indirect cost rates with Tribes)
- [Insular Areas, State, and Local Governments/IBC Customer Central](#) (state and local governmental resources on DOI, IBC's website, which are useful when preparing their IDC proposals)

