

A GUIDE FOR INDIRECT COST DETERMINATION
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October 2021

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A Guide for Indirect Cost Rate Determination

Based on the Cost Principles and Procedures
Required by 2 CFR Part 200, Subpart E & Appendix IV
for Non-profit Organizations
and by the Federal Acquisition Regulation -
Parts 31.2 and 42.7 for Commercial Organizations



U.S. Department of Labor
Cost & Price Determination Division
Office of Strategy & Administration/OSPE/
OASAM

For additional Information: [Contact Us](#)

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PREFACE

This Guide has been prepared by the Cost & Price Determination Division (CPDD), to assist non-profit and commercial organizations (non-Federal entities) in understanding the requirements for the determination of indirect costs on **cost reimbursable** grants, contracts, and other agreements awarded by the U.S. Department of Labor (DOL).

An indirect cost rate is established on the basis of a Federally approved indirect cost rate proposal and supporting documentation submitted by organizations. Indirect costs allocable to DOL programs should be reimbursed if an organization has a Federally approved rate. Reimbursement, however, is subject to any administrative limitations established in the grants and/or contracts.

The formats provided in this guide are the preferred formats of CPDD, but are not strictly required, as some other formats may be acceptable. The actual content of the exhibits and samples may vary between organizations.

An indirect cost rate is simply a device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each program should bear. Note that indirect costs are incurred for common or joint objectives and cannot be readily identified with a particular grant, contract or other activity of the organization. An indirect cost rate is the ratio between the total indirect expenses and some direct cost base. The indirect cost allocation methods used by each organization depend on its own structure, program functions, and accounting system.

Prior to the preparation of an indirect cost rate proposal and supporting documentation; and, to be in accordance with the procedures described in this Guide, the applicable cost principles should be reviewed.

2 CFR Part 200, Subpart E & Appendix IV, establish the Federal requirements for the determination of allowable and unallowable direct and indirect costs for nonprofit organizations.

The Federal Acquisition Regulations (FAR), Part 31.2, "Contracts with Commercial Organizations", establishes the Federal requirements for the determination of allowable and unallowable direct and indirect costs. FAR Part 42.7 "Indirect Cost rates" provides guidance on cognizance for indirect rate determination among other relevant topics. Commercial entities must follow these regulations.

Access to the above regulations is available our [CPDD's website](#).

The Office of Inspector General randomly audits indirect cost rate proposals. The results of their audits have indicated a need for better controls and procedures on charging indirect costs to Federal awards. Section IV of this Guide, provides examples of problems disclosed during such audits which are presented here to help avoid future problems.

All inquiries for additional information should be directed to CPDD. Visit our [Contact Us](#) website for details or send an email to OSPE-CPDD@dol.gov.

VICTOR M. LOPEZ
Chief
Cost & Price Determination Division

Section I

General Information

This section includes the following information:

- A. Definition of Indirect Costs
- B. Types of Indirect Rates
- C. Determination of Indirect Cost Rates and Cost Allocation
- D. Submissions of Indirect Cost Proposals
- E. Approval of Indirect Cost Proposals
- F. Negotiated Indirect Cost Rate Agreement (NICRA)
- G. Disputes
- H. Reimbursement of Indirect Costs
- I. Retention of Records

A. Definition of Indirect Costs

According to 2 CFR Part 200.1, indirect costs or otherwise indirect F&A costs are define as:

§200.56 Indirect (facilities & administrative (F&A)) costs.

Indirect (F&A) costs means those 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. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

B. Definition and types of Indirect Rates

An indirect cost rate is simply a device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each program should bear. An indirect cost rate is the ratio between the total indirect expenses and some direct cost base.

The CPDD typically negotiates provisional and final indirect cost rates. There are also predetermined and fixed rates which may be suitable for certain negotiation scenarios and organizations. All of these types of rates are described in §2 CFR, Appendix IV, C.1. See also below:

1. Provisional rate or billing rate means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on awards pending the establishment of a final rate for the period.
2. Final rate means an indirect cost rate applicable to a specified past period which is based on the actual costs of the period. A final rate is not subject to adjustment.

Note that a final indirect cost rate is established after an organization's actual costs are known, typically a fiscal year. Once established, a final indirect cost rate is used to adjust the indirect costs claimed.

The use of provisional and final rates will likely result in final audited expenditures being higher or lower than those reported for awards, which are

terminated during the organization's fiscal year. A final rate may be issued as a provisional rate in the ensuing year, adjusted for anticipated changes in funding levels or costs.

3. **Predetermined Rate:** Means an indirect cost rate, applicable to a specified current or future period, usually the organization's fiscal year. The rate is based on an estimate of the costs to be incurred during the period. A predetermined rate is not subject to adjustment. A predetermined rate may be used on awards where there is reasonable assurance that the rate is not likely to exceed a rate based on the organization's actual costs,
4. **Fixed Rates with carry-forward:** Means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

Provisional and final rates are preferred by most nonprofit organizations for the following reasons:

- a) Actual indirect costs are allocated to program objectives in the year incurred, creating accurate cost information;
- b) There are no prior year indirect costs carried into a future year to burden new or continuing funding;
- c) All indirect costs are properly funded in the fiscal year incurred, creating no profit or loss for the organization;
- d) The organization's accounting system must determine actual costs each year, a capability that ultimately must exist to synchronize accounting, budgeting, and cost allocation; and
- e) The actual cost of services or programs is determined annually and is therefore available for purposes of internal management and informed budgeting.

10% De minimis rate – 2 CFR 200.414(f) provides for this type of rate, see description below. It is noted that this office **does not** approve this type of rate. It is up to the grant officer approval.

In addition to the procedures outlined in the appendices in [paragraph \(e\)](#) of this section, any non-Federal entity that does not have a current negotiated (including provisional) rate, except for those non-Federal entities described in appendix VII to this part, 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. No documentation is required to justify the 10% de minimis indirect cost rate. As described in [§ 200.403](#), 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.

According to §200.1, MTDC is defined as:

MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts 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 and subcontract in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

Possible 4-year extension of previously negotiated rates - 2 CFR 200.414(g), states the following:

(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.

CPDD's policy – We will consider non-Federal entities requests for these extensions on a case by case basis.

C. Determination of Indirect Cost Rates and Cost Allocation

Non – Profits - The three basic methods for calculating indirect cost rates are explained in 2 CFR, Appendix IV, B2 through B4. These methods are:

- Simplified,
- Multiple Rate, and
- Direct Allocation methods.

Examples of the Simplified and Direct Allocation methods are shown on Exhibits D and E in Section III of this Guide.

2 CFR, Appendix IV, B.5., also provides for the use of Special Indirect Cost Rates. A single indirect cost rate for all activities of the organization may not be appropriate when work under the Federal program is conducted in an offsite location and the level of administrative support is different than other programs.

For an organization that receives more than \$10 million in Federal funding of direct costs in a fiscal year, a breakout of the indirect costs into two components; **Facilities and Administration**, as defined below, is required. The rate shall be stated as a percentage which the amount of **Facilities and Administration** is, of the applicable distribution base used for each component. Each indirect cost rate negotiation agreement shall identify the development of each indirect cost pool component as well as the overall indirect cost rate. See definitions below and example available in Exhibit E-2 of Section III of this guide.

1. **"Facilities"** is defined as depreciation and use allowances on buildings, equipment and capital improvements; interest on debt associated with certain buildings, equipment and capital improvements; and operations and maintenance expenses.
2. **"Administration"** is defined as general administration and general expenses such as the director's office, accounting, personnel, library expenses and all other types of expenditures not listed specifically under one of the subcategories of "Facilities", (including cross allocations from other pools, where applicable).

Commercial Organizations – The above requirement is not applicable to commercial organizations.

D. Submissions of Indirect Cost Proposals

Prior to the preparation of an indirect cost rate proposal and supporting documentation, the following cost principles should be review to determine if the costs proposed are reasonable, allowable, and allocable to the Federal government:

Non-profit Organizations	2 CFR Part 200, Subpart E & Appendix IV
Commercial Organizations	Federal Acquisition Regulation (Part 31.2 & 42.7)

An incurred cost, or final indirect cost rate proposal, together with the supporting documentation listed in Section II.C., must be developed and submitted on an annual basis to the CPDD no later than **six months** after the close of the organization's fiscal year, unless an exception is approved by the CPDD. For organizations with no prior approved indirect cost rate, a budget (or provisional) proposal must be submitted no later than **three months** after the effective date of the DOL award.

Indirect cost rate proposals need to be submitted via email to the assigned cost negotiator (see our [Contact Us](#) website) or to the following email address: OSPE-CPDD@dol.gov.

Refer to Section II-4 for checklist of required documentation, and Section III for Examples of Exhibits to support the indirect cost proposal.

E. Approval of Indirect Cost Proposals

Unless different arrangements are agreed to by the agencies concerned, the Federal agency with the largest dollar value of awards with an organization will be designated as the cognizant agency for the negotiation and approval of the indirect cost rates.

The CPDD will negotiate and approve indirect cost rates when the DOL is the cognizant Federal agency. Indirect costs can only be charged to a grant or contract based on a Negotiated Indirect Cost Rate Agreement (NICRA) approved by the CPDD. However, the approval of indirect costs by the CPDD is not intended to identify the circumstances or dictate the extent of Federal participation in the financing of particular grants or contracts.

F. Negotiated Indirect Cost Rate Agreement (NICRA)

The approval will be formalized by a rate agreement signed by the Chief, CPDD (or its designee) and an authorized representative of the organization. Each agreement will include:

1. The approved rate(s) and information directly related to the use of the rates, e.g., type of rate, effective period, and distribution base;
2. The treatment of fringe benefits as either direct and/or indirect costs
3. General terms and conditions; and
4. Special remarks, e.g., composition of the indirect cost pool.

An example of an indirect cost agreement is provided in Appendix I of this Guide.

G. Disputes

When the CPDD and the non-Federal entity cannot reach an agreement on an acceptable indirect cost rate, the CPDD will make a unilateral determination of the rate(s) and will notify the organization. The CPDD or the grant/contract officer will advise the organization of its right to appeal the determination and will provide information about the appeal procedures to follow upon request.

H. Reimbursement of Indirect Costs

Reimbursement of indirect cost is subject to the submission of an indirect cost rate proposal (see part D of this Section), availability of funds, statutory and administrative restrictions, and the approval of the DOL Grant/Contract Officer or authorized representative.

Certain DOL grants and contracts include ceilings for reimbursement of indirect costs and/or administrative costs. When the amount otherwise allocable as indirect costs exceeds the amount allowable under the terms and conditions of the grant/contract agreement, the excess amount may be used to satisfy cost-sharing or matching requirements. However, the differences may not be shifted to another Federal grant or contract unless specifically authorized by legislation.

I. Retention of Records

If the indirect cost rate proposal, cost allocation plan, or other computation is to be submitted to the Federal Government (or to the grantee) to form the basis for negotiation of a rate(s), there is the 3-year retention requirement from the date of such submission.

If the indirect cost rate proposal, cost allocation plan, or other computation is not required to be submitted to the Federal Government for negotiation purposes, then the 3-year retention period for its supporting records starts from the end of the fiscal year (or other accounting period) covered by the indirect cost rate proposal, cost allocation plan, or other computation.

For regulatory basis on “retention of records” for non-profits, see 2 CFR 200.334 (f)(1)(2).

For regulatory basis on “retention of records” for commercial organizations, see the Federal Acquisition Regulation Part 4 – Administrative Matters, Subpart 4.703 Policy.

If any litigation, claim or audit is started before the expiration of the 3-year period, the records shall be retained until all litigations, claims or audit findings involving the records have been resolved.

SECTION II

Guidelines for Preparing Indirect Cost Rate Proposals

Note: Non Federal entities (Grantees/Contractors) must have an established accounting system prior to being awarded a grant or contract from DOL or any other agency in the Federal government. The accounting system must provide adequate internal controls to safeguard assets, insure fund accountability by cost category, assure accounting data accuracy and reliability, promote operating efficiency, and comply with Government requirements and accounting procedures.

For reference purposes, see the Standards for Financial Management in 2 CFR.302 for nonprofit organizations. Also, see evaluation of accounting systems referenced in [FAR Part 9.106](#) and the [Standard Form 1408](#) applicable to contractors.

- - -

This section includes the following information:

- A. Preliminary Steps
- B. Indirect Cost Allocation Bases
- C. Indirect Cost Rate Proposal Checklist
- D. Indirect Cost Proposal – Review Procedures
- E. Administration Limits and Indirect Cost Claims

A. Preliminary Steps

Prior to the preparation of an indirect cost rate proposal and supporting documentation, the applicable cost principles should be thoroughly reviewed.

Nonprofit organizations must follow 2 CFR Part 200, Subpart E & Appendix IV.

Commercial organizations must follow the Federal Acquisition Regulation Parts 31.2 and 42.7.

If indirect costs are allowed in the grant or contract award, the entity will then be ready to prepare an indirect cost rate proposal based on the following steps:

1. Organization Review

- If one does not already exist, prepare a formal organizational chart(s), or a rough draft version, and provide any information or material explaining the various services and/or functions for each unit.
- Determine which units are indirect (administrative) functions of the organization.
- Determine the services that are allowable and allocable to Federal grants and contracts per the applicable cost principles.

2. Review Federal and Non-Federal Funding

- Review the Federal and non-Federal outlays to determine programs being funded; verify with the appropriate staff.
- Prepare a list of all funded programs in detail as to the amount or percent of reimbursement of direct and indirect cost and any restrictions or references to statutes or regulations.
- Determine at what organizational level the various funded programs apply. Illustrate the list of funded programs on a copy of the organization chart.

- Contact the Federal agency which provides the most funds regarding the procedures for the submission, review and approval of indirect cost rates.

3. Review the Accounting Structure

- Obtain a chart of accounts, or some other list of accounts for your organization, in which the actual dollars expended can be related to various programs and/or organization structure.
- Reconcile the accounting structure to the organization chart.
- If necessary, determine changes to implement an indirect cost rate system of billing.

4. Prepare a Cost Policy Statement

- Develop a written policy that outlines the costs considered as direct, the costs considered to be indirect, and the rationale to support those costs. A sample cost policy statement is available in Section III.

5. Prepare an Indirect Cost Rate Proposal

- Determine which method is best for the organization, i.e., direct cost allocation or simplified, and whether special indirect cost rates are required, i.e. on-site, off-site, fringe benefit rate for full-time vs. part-time. In selecting the appropriate method, the organization should consider the following:
 - a. Organizational structure
 - b. Level of Federal funding
 - c. Reports generated from their accounting system
 - d. Availability of data on square footage, number of transactions, employees, purchase orders, etc.
 - e. Additional effort and cost required to achieve a greater degree of accuracy.
- Prepare the indirect cost rate proposal following the examples shown in Section III.
- Prepare a Certificate of Indirect Costs and have signed by the Executive Director, or other designated official with organization's signature authority (see Section III for a sample).
- Compile all remaining documentation required by the cognizant Federal agency. Non-federal entities that need submit proposals to CPDD should follow the checklist on page II-4.
- Reconcile the indirect cost rate proposal to the audited (if applicable) financial statements.

6. Obtain Cognizant Agency Approval

- Submit proposal to cognizant agency;
- Cognizant agency may follow up after review with questions, and/or concerns – and may request additional documentation, and/or narrative responses, in support of the proposal.
- Document meeting and/or telephone conversations, e-mails and faxes.
- Make any agreed upon changes, and submit any revised, and/or supporting documentation requested by cognizant agency.
- Receive Negotiated Indirect Cost Rate Agreement.

7. Implementation

- Prepare claims using the lower of either the approved rate, or the ceiling rate for your grant or contract.
- Use final, predetermined, or fixed with carry forward rate(s) included in indirect cost rate agreement for close-out purposes.
- Maintain documentation for audit purposes – see page I-4 for Retention of Records.

B. Indirect Cost Rate Allocation Bases

The following allocation bases are acceptable examples for use when indirect costs are allocated to benefiting cost objectives by means of an indirect cost rate. Typical allocation bases are below to calculate an indirect cost rate. See also see Exhibit E for Suggested Allocation Bases on non-labor costs.

1. Direct salaries and wages including (or excluding) all fringe benefits.
2. Direct salaries and wages including vacation, holiday, sick pay, and other paid absences but excluding all other fringe benefits.
3. According to 2 CFR §200.1, Modified Total Direct Costs (MTDC), is defined as:

All direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts 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.

4. For commercial entities, total costs less G&A expenses.

The selection of an appropriate allocation method should be based upon the commonality of costs to all cost objectives. In general, a correlation exists between the incurrence of administrative effort with the expenditures for direct labor. In most cases, a direct labor base will produce an equitable distribution of indirect costs. However, where the ratio of direct labor to total direct costs varies significantly from program to program, an "adjusted" total direct cost base should be used in allocating costs to benefiting programs.

The proposed allocation base(s) is subject to negotiation and approval by CPDD. Any modifications to the "approved" base require prior written approval. Failure to obtain such written approval may result in cost disallowances.

C. Indirect Cost Rate Proposal Checklist – non-profit and commercial organizations

See next page.

Note:

- Please submit separate electronic files as part of proposal corresponding with checklist items to your assigned cost negotiator or to this office at OSPE-CPDD@dol.gov.
- Ensure that **no** personal identifiable information (PII; Ex. social security numbers) is submitted with the proposal.
- For **item # 2**, please submit one Excel workbook or similar format.
- Examples of exhibits supporting the proposal are available in Section III of this guide.

Indirect Cost Proposal Checklist Non-Profits and Commercial Organizations

1. Administrative documents:
 - 1a. Organizational chart,
 - 1b. Nonprofits - Narrative explaining compliance with 2 CFR §200.430(a)(1)(2) & (3) and the standards for documentation of personnel expenses.
Commercial - Narrative explaining the standards for documentation of personnel expenses in compliance with FAR 9.106-4 and SF-1408.
For both entities, an example of an employee timesheet for a pay period, providing for distribution of hours to direct/indirect functions.
 - 1c. Signed Cost Policy Statement.
2. An indirect cost rate proposal(s) providing the following:
 - 2a. Personnel Costs Worksheet, including fringe benefits breakdown.
 - 2b. Allocation of Personnel Worksheet, providing indirect/direct time charges.
 - 2c. Fringe Benefits Worksheet,
 - 2d. Statement of Total Costs, supporting the indirect and direct costs incurred by expense category, identified by Federal agency, specific government grant, contract, and other non-government activities.
 - 2e. Statement of Indirect Costs, including indirect cost pool(s), allocation base(s), and indirect cost rate(s) proposed.
3. Audited financial statements, if available. If audited financial statements are not available, IRS Form 990 (non-profits) or compilation/review financial statements (for-profits) for the final rate proposal. Approved budget for provisional proposal, if needed. Note: The Statement of Total Costs (2d. above) must reconcile to Financial Statements. If not, please provide a reconciliation statement.
4. Certification that the indirect cost rate proposal was prepared in a manner consistent with the applicable cost principles set forth in 2 CFR Part 200, Subpart E & Appendix IV for non-profits, or the Federal Acquisition Regulation (Part 31) for commercial organizations. The certifications should be signed by the President/Executive Director, or Comptroller/CFO.
5. A listing of grants and contracts by Federal agency, subagency, program office funding source, award amount, period of performance, and the indirect cost (overhead) limitations (if any) applicable to each, such as, ceiling rates or amounts restricted by administrative or statutory regulations, applicable to the period(s) of the proposal(s). This listing must be supported with copies of the approved federal grants or contracts notification awards (1st page).

Note: For organizations receiving funding from DOL's Employment and Training Administration (ETA), please ensure that the proposed individual compensation (salary and bonus) complies with the salary limitations established in ETA's TEGL 5-06. The Office of Job Corps has similar salary limitations. See our [website](#) for additional details. Two additional proposal worksheets (see 2b. and 2d above) may be needed to show ETA and/or Job Corps rates reflecting unallowable compensation and prorated amounts. If you have any questions, contact [CPDD](#).

- Determine that the applicable cost principles (stated in the Circulars or the FAR) were followed.
- Review the organization chart for a visual picture of the flow of responsibility, identification of areas of common costs, and the location of those areas in which federally-funded activity exists
- Perform a mathematical verification of the proposal.
- Determine that the proposal reconciles with the supporting audit, official budget or financial statements.
- Review the financial statements and audit report for any indication of activities which may have been omitted from the indirect cost proposal, i.e., the omission of restricted fund costs or the existence of an affiliated organization receiving supportive service from the parent organization.
- Determine that the itemized costs in the indirect cost pool pertain to functions that are supportive of all direct activity.
- Determine that costs that are statutorily unallowable, or for reasons of non-allocability, have been eliminated from the indirect cost pool. Determine whether these unallowable or non-allocable items should be added to the distribution/allocation base.
- Determine that "pass-through" funds have been excluded from the base.
- Review and analyze direct costs for the determination of:
 - a. Consistency in charging specific items of cost.
 - b. The selection of an appropriate base for allocating indirect costs.
- a • Review the contract/grant budget and payments, or contractor/grantee records, for determination of: (if deemed feasible under the circumstances)
 - a. The direct funding of indirect costs.
 - b. Any limitations placed upon the full recovery of indirect costs, i.e. ceiling rates or amounts.
 - c. Total Federal funds involved.
- Check with the appropriate Federal Program Manager for any problems he/she may be aware of relating to the charging of costs.

E. Administration Limits and Indirect Cost Claims

Various DOL funding instruments have statutory or regulatory limitations on the costs of "administration". These costs can be both personnel and non-personnel and both direct and indirect. The costs of administration are those portions of reasonable, necessary and allowable costs associated with the overall program management and administration and which are not directly related to the provision of services to participants or otherwise allocable to the program cost objectives/categories

Based on the above information, the statutory or regulatory limitation affects the combined claims for indirect costs and direct administration costs. Generally, direct administration costs differ from indirect charges in that the latter are considered organization-wide costs.

Examples of functions that are classified as direct "administration" are as follows:

- Overall **program** management, program coordination, and office management functions, including the salaries and related costs of the executive director, project director, and project evaluator **when directly allocated**.
- Preparing **program** plans, budgets schedules, and related amendments.
- Monitoring of programs, projects, sub-recipients and related systems and processes.
- Developing systems and procedures, including management information systems, for assuring compliance with program requirements.
- Preparing reports and other documents related to the **program** requirements.
- Evaluating program results against stated objectives; and
- Performing administration services such as **program specific** payroll, accounting, auditing or legal activities.

Examples of non-labor costs for direct administration include:

- Costs for goods and services required for administration of the **program**, including such goods and services as the rental or purchase of equipment, utilities, office supplies, postage, and rental and maintenance of office space.
- Travel costs incurred for official business in carrying out **program** management and administrative activities.

SECTION III
Examples of Exhibits to Support
Indirect Cost Rate Proposals

See summary Exhibit description below and additional information further below

A.	Personnel Cost Worksheet.....	
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Introduction to Example Exhibit D Simplified Allocation Method

The **Simplified Method** is used whenever the major functions of an organization benefit from its indirect costs to approximately the same degree. The allocation of indirect costs may be accomplished by:

- (1) classifying the total cost for the base period (usually the organization's fiscal year) as either direct or indirect and
- (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base.

The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal financial assistance programs and contracts. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This method may also be used where:

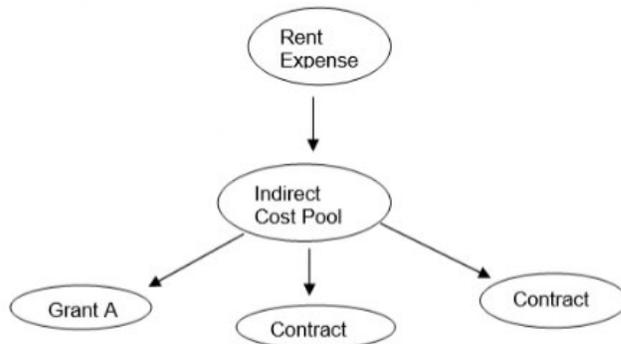
- (1) the organization has only one major function encompassing a number of individual projects or activities, and/or
- (2) where the level of Federal awards to that organization is relatively small.

Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs. However, unallowable costs must be included in the direct cost base (if they represent activities to which the indirect costs are properly allocable).

The distribution base may be:

- (1) total direct costs excluding capital expenditures and other distorting items, such as flow-through funds, the portion of each subaward in excess of \$25,000, etc.,
- (2) direct salaries and wages,
- (3) total costs less G&A expenses (commercial contractors),
- (4) another base which results in an equitable distribution.

Under the Simplified Method, for example, rent expense would be entirely classified as indirect costs and distributed to benefiting activities on one of the bases described above. A pictorial of this example is shown below:



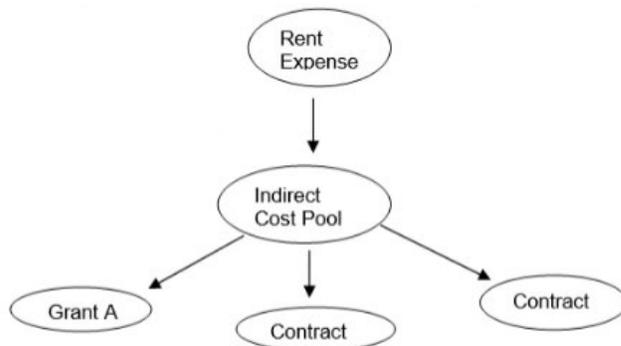
A sample format for the computation of an indirect cost rate under the **Simplified Method** follows.

Introduction to Example Exhibit E Direct Allocation Method

The **Direct Allocation Method** is used by organizations that treat all costs as direct costs except general administration and expenses. These organizations generally separate their costs into three (3) basic categories:

- (1) general administration and expenses,
- (2) fund raising, and
- (3) other direct functions (including projects performed under Federal awards).

Joint costs, such as depreciation, rental expense, operation and maintenance facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each award or other activity using a base most appropriate to the particular cost being prorated. A pictorial example of the proration of rental expense is shown below:



*** Note that the only rent expense allocated to the indirect pool is the indirect portion of rent expense as a whole.**

Under this method, indirect costs consist exclusively of general administration and general expenses. In all other respects, the organization's indirect cost rates shall be computed in the same manner as demonstrated in Exhibit D.

This method is acceptable provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or other activity. A listing of suggested allocation bases is included in Exhibit E – Suggested Allocation Bases.

A sample format for the computation of an indirect cost rate under the **Direct Allocation Method** follows.

Notes to Exhibits D, E, & E-1

- (1) Examples of expressly unallowable costs in this exhibit include entertainment expense and bad debts. Other indirect unallowable costs include lobbying costs, bad debts or allowances for doubtful accounts, fines and penalties, losses on Federal or non-Federal projects, provisions for contingencies, and charitable contributions.

Note: the costs included in the indirect cost pool (as well as direct costs) shall be net of applicable credits (2 CFR, Part 200, Subpart E, §200.402).

- (2) Examples of direct costs exclusions using the Modified Total Direct Cost (MTDC) allocation base MTDCs in this exhibit include amounts over the first \$25,000 of each subaward, purchase and lease of equipment, emergency assistance and participant support costs. See MTDC definition in 2 CFR, Part 200, Subpart A, §200.1. Details of the direct costs exclusions are as follows:
- a. The portion of subaward costs in excess of \$25,000 each. As a general rule, the organization and CPDD agrees that only the first \$25,000 of each subcontract, subgrant and professional service agreement should be included in the distribution base. This recognizes that grantees/contractors expend a minimal amount of indirect costs overseeing these subawards or subcontracts.
 - b. Equipment and other capital expenditures, such as major renovations, alterations and improvements.
 - c. Participant support costs. This represents payments for stipends, travel allowances and registration fees paid to participants (but not employees) in connection with training projects.
 - d. Payments to participating agencies, e.g. OJT contractors, (flow-through- funds). If the organization is significantly involved in the administration or oversight of the participating agencies, a special rate might be necessary for that activity.

Other information

Exclusions of direct costs for the MTDC base are only presented in this exhibit for allocation purposes; it is not related to direct costs reimbursement.

Note that if the organization's unallowable activities (lobbying, fundraising, membership) include salaries, occupy space, and benefit from the organization's indirect cost, they should be included in the direct cost allocation base for the purpose of determining the indirect cost rate and be allocated their share of the organization's indirect costs. See 2 CFR, Part 200, Subpart E, §200.413(f). This sample exhibit includes these types of costs in the base.

From the examples provided on Exhibit D or E, the data can be used to compute either an indirect cost rate based on direct salaries and wages including applicable fringe benefits, or an indirect cost rate based on modified total direct costs (MTDCs). As stated in 2 CFR, Part 200, Appendix IV, B.2.c., the distribution base may be direct salaries and wages, or another base which results in an equitable distribution to all activities that receive benefit from the indirect cost pool.

Since most organizations receiving grants are labor intensive, using a distribution base of direct salaries and wages including applicable fringe benefits is most often recommended by CPDD.

Exhibit E Suggested Allocation Bases

The allocation base selected by the non-profit organization or commercial organization must be (1) reasonable and consistently applied to direct costs or indirect costs, (2) supported by accurate and current data, (3) appropriate to the particular cost being distributed, (4) and one which results in an accurate measure of the benefits provided to each activity of the organization.

The following are suggested allocation bases for types of costs:

Allocation Bases	Types of Cost
Accounting	Number of transactions processed.
Auditing	Direct audit hours.
Budgeting	Direct hours of identifiable services of employees of central budget.
Building lease management	Number of leases.
Data processing	System usage.
Disbursing service	Number of checks or warrants issued.
Employees retirement system administration	Number of employees contributing.
Insurance management service	Dollar value of insurance premiums.
Legal services	Direct hours.
Mail and messenger	Number of documents handled or service employees served.
Motor pool costs including automotive management	Miles driven and/or days used.
Office machines and equipment maintenance repairs	Direct hours.
Office space use and related costs(heat, light, janitor service, etc.)	Sq. ft. of space occupied.
Organization and management services	Number of employees.
Payroll services	Number of employees.
Personnel administration	Number of employees.
Printing and reproduction	Direct hours, job basis, pages printed, etc.
Procurement service	Number of transactions processed.
Local telephone	Number of telephone instruments.
Health services	Number of employees.
Fidelity bonding program	Employees subject to bond or penalty amounts.

Exhibit F

**EXAMPLE: Cost Policy Statement (CPS)
for Indirect Cost Rate Proposal**

The following CPS is intended to be used as guidance for organizations that seek reimbursement for indirect costs under Federal awards. This model assumes that ABC Organization uses:

- A. the direct allocation basis to charge individual elements of costs. That is, in addition to direct costs, ABC has in place accounting procedures which enable it to direct charge some costs that would otherwise be considered indirect costs (see, for example, the description below on how the photocopy costs are charged).
- B. the direct salaries and wages including applicable fringe benefits, to allocate the indirect cost "pool".

IMPORTANT NOTE: The CPS should have a detailed description of all the cost elements in the indirect cost proposal. It should also include the cost element allocation methodology.

**COST POLICY STATEMENT
ABC ORGANIZATION/ADDRESS/PHONE**

I. General Accounting Policies

- A. Basis of Accounting - Accrual Basis
- B. Fiscal Period - July 1 through June 30
- C. Allocation Basis for Individual Cost Elements - Direct Allocation Basis
- D. Indirect Cost Rate Allocation Base - Direct Salaries and Wages including applicable Fringe Benefits.
- E. If ABC Organization needed a fringe benefit rate, it would describe its fringe benefit allocation base at this point.
- F. ABC maintains adequate internal controls to insure that no cost is charged both directly and indirectly to Federal contracts or grants. A description of the accounting system software would be described at this point.
- G. ABC accumulates all indirect costs and revenues in accounts titled, "Indirect Cost-Expense" and "Indirect Cost-Revenue" respectively.

II. Description of Cost Allocation Methodology -

A. Salaries and Wages

- 1. Direct Costs - The majority of ABC's employees direct charge their salary costs since their work is specifically identifiable to specific grants, contracts, or other activities of the organization such as lobbying, fund raising or providing services to members. The charges are supported by

auditable labor distribution reports which reflect the actual activities of employees.

2. Indirect Costs - The following staff charge 100% of their salary costs indirectly:
 - Office Business Manager
 - Secretary/Receptionist
3. Mixed Charges - The following employees may charge their salary costs to both direct and indirect activities:
 - Executive Director
 - Administrative Assistant

The distinction between direct and indirect is primarily based on functions performed. For example, when the positions shown are performing functions that are necessary and beneficial to all programs they are indirect. When functions are specific to one or more programs they are direct because they do not benefit all programs.

Auditable labor distribution records which reflect the actual activities of employees are maintained to support the mix of direct/indirect charges. The time records are certified by the Executive Director or designee.

B. Fringe Benefits

ABC contributes to the following fringe benefits for its employees:

1. unemployment insurance,
2. worker's compensation,
3. F.I.C.A., health insurance and
4. matching contributions to a defined benefit pension plan.

Treatment of Fringe Benefits: ABC's accounting system tracks fringe benefit costs by individual employee and charges those costs directly or indirectly in the same manner as salary and wage costs are recorded. ABC does not need to have a fringe benefit rate established.

Treatment of Paid Absences - Release time costs (vacation leave earned, sick leave used, and holiday pay) are considered part of salary costs. Consequently, separate claims for release time costs are not made. ABC's accounting system records release time as a direct or indirect cost in the same manner that salary costs are recorded. Vacation leave earned but not used during each fiscal period is recorded as a cost in the period earned.

C. Travel

Travel costs may be charged as either direct or indirect costs depending on the purpose of the trip.

For example:

The Executive Director of Company ABC travels to a regional office to give employees a quarterly update. This trip is indirect in nature and should be

charged as an indirect cost. However, if the Executive Director of Company ABC travels to a regional office to perform a specific task for a contract, the trip would be considered a direct cost.

D. Board Expenses

Board expenses charged on an indirect basis are for travel to/from Board meetings (limited to expenses allowed under the Federal Travel Regulations) and an annual fee of \$250 paid to each Board member.

Other Board expenses are absorbed by ABC and are not charged either directly or indirectly to Federal contracts or grants.

E. Supplies and Material

To the maximum extent possible, office supplies and materials are direct charged to the contract/grant which uses the supplies or materials.

Supplies and materials used by staff who are engaged in indirect activities will be charged on an indirect basis.

F. Occupancy Expenses

Rent - ABC occupies space it leases from Lessor Corporation. The lease provides for equal monthly payments during the term of the lease. Monthly lease costs are allocated, based on: square footage, directly and indirectly as follows:

1. Direct Costs - The cost of space occupied by staff whose salaries are directly charged is charged directly.
2. Indirect Costs - The cost of space occupied by staff whose salaries are indirectly charged is charged indirectly. The cost of space for staff whose salaries are charged on a mixed basis will be allocated on a mixed basis in the same ratio as their salaries are allocated.

The cost of space required for common areas (hallways, restrooms, and ABC's conference room) will be accounted for as an indirect cost.

ABC has developed a floor plan which identifies what areas are designated as direct and indirect charge space (based on square footage).

G. Utilities

ABC's lease includes the cost of all utilities except electricity. The cost of electricity is charged directly and indirectly in the same ratio as its space costs are charged.

H. Communications

1. A log is maintained of all fax transmissions. The cost of fax services is charged either directly or indirectly based upon whether a direct or indirect activity benefits from the transmission.
2. Long distance telephone calls are charged either directly or indirectly based upon whether a direct or indirect activity benefits from the transmission.

3. Local telephone service costs are prorated to direct and indirect charges based upon the number of telephone instruments assigned to ABC. Each telephone instrument is identified to either an indirect or a direct activity. For example:

ABC has 50 telephone instruments assigned to it:

- (1) Nine (9) of the 50 instruments are assigned to the program funded by HHS. Therefore, 9/50ths of the monthly local service telephone charges are direct charged to the HHS grant.
- (2) Five (5) of the instruments are assigned to indirect staff. Therefore, 5/50ths of the monthly local service charges are charged indirectly.

No telephone instruments are charged on a mixed basis since the costs incurred on that basis are immaterial in amount.

4. ABC uses a meter system for postage charges. The postage meter has been programmed to identify the specific program or activity to charge costs against. Express mail costs are also specifically identified to the program or activity incurring the cost.

I. Photocopying and Printing

ABC maintains a photocopy activity log. From this log, ABC is able to prorate its photocopy expenses to each program based on the specific volume of copies made for each program.

Administrative personnel will record copies made to the benefiting program to the maximum extent practical. In situations where the photocopies being made by administrative personnel cannot be identified to a specific program and the matter being copied relates to the activities of ABC in general, the cost of such copies will be charged to the "Indirect Cost-Expense" account.

Printing expenses are charged to the benefiting activity.

J. Outside Services

ABC incurs outside services costs for its annual audit, legal fees, and for staff development specialists.

1. The cost of the annual audit is charged indirectly.
2. In general, legal fees are charged directly to the benefiting program or activity.
3. Legal fees that are not identifiable to specific direct programs are charged indirectly.

K. Capital Items

Capital expenditures are charged directly to programs only in cases where a contract or grant specifically authorizes such charges. No capital item is charged indirectly. The cost of capital items is purchased with non-Federal funds are recovered through depreciation charges. ABC's capitalization threshold is \$5,000.

L. Depreciation

The cost of capital items purchased with non-Federal funds which are used in a manner which benefits Federal programs is recovered through depreciation charged.

The cost of capital items purchased with direct Federal funds cannot be depreciated for indirect cost recovery purposes.

ABC recovers the cost of capital items using straight line depreciation methods in accordance with generally accepted accounting principles. Depreciation is charged indirectly.

M. Service to Members

The cost of activities performed primarily as a service to members, clients, or the general public are classified as direct costs and bear their fair share of indirect costs. These activities include:

1. maintenance of membership rolls,
2. subscriptions,
3. publications, and related functions, providing services and information to members, legislative or administrative bodies, or the public;
4. promotion, lobbying, and other forms of public relations;
5. meetings and conferences except those held to conduct the general administration of ABC Organization;
6. maintenance, protection, and investment of special funds not used in operation of ABC; and administration of group benefits on behalf of members or clients including life and hospital insurance, annuity or retirement plans, financial aid, etc.

N. Unallowable Costs

ABC recognizes that unallowable costs, as defined in 2 CFR Part 200, Subpart E, or the FAR (Subpart 31.205), cannot be charged to Federal awards and has internal controls in place to insure that this is followed. Examples of unallowable costs are:

1. advertising and public relations,
2. entertainment/alcoholic beverages,
3. capital expenditures,
4. defense claims by or against the Federal Government,
5. interest,
6. lobbying and fund raising.

Signature

Date

Title

ABC Organization
1111 Main Street
City, USA 12345

Exhibit G

**CERTIFICATE OF INDIRECT (F&A) COSTS – NONPROFIT ORGANIZATIONS
§2 CFR 200, Appendix IV, D**

This is to certify that to the best of my knowledge and belief:

- (1) I have reviewed the indirect (F&A) cost proposal submitted herewith;
- (2) All costs included in this proposal [**identify date**] to establish billing or final indirect (F&A) costs rate for [**identify period covered by rate**] are allowable in accordance with the requirements of the Federal awards to which they apply and with Subpart E—Cost Principles of Part 200.
- (3) This proposal does not include any costs which are unallowable under Subpart E—Cost Principles of Part 200 such as (without limitation): public relations costs, contributions and donations, entertainment costs, fines and penalties, lobbying costs, and defense of fraud proceedings; and
- (4) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the Federal awards to which they are allocated in accordance with applicable requirements.
- (5) The requirements and standards on lobbying costs (stated in 2 CFR Part 200.450) have been complied with for the fiscal year ending_____.

NEW: Applicable to proposals with incurred costs on or after August 13, 2020:

(6) The covered telecommunications and video surveillance services or equipment mentioned in Section 889 of the National Defense Authorization Act (NDAA) of 2019 and covered at [2 CFR Part 200.216](#), which are unallowable, were not charged as part of the indirect cost proposal directly or indirectly to Federal awards.

I declare that the foregoing is true and correct.

Nonprofit Organization: _____.

Signature: _____.

Name of Official: _____.

Title: _____.

Date of Execution: _____.

Exhibit G-1

**CERTIFICATE OF FINAL INDIRECT COSTS – COMMERCIAL ORGANIZATIONS
Federal Acquisition Regulation, Subpart 52.242-4**

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in this proposal (**identify proposal and date**) to establish final indirect cost rates for (**identify period covered by rate**) are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and

2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

NEW: Applicable to proposals with incurred costs on or after August 13, 2020:

3. This proposal does not include any costs associated with covered telecommunications and video surveillance, services or equipment mentioned in Section 889 of the National Defense Authorization Act (NDAA) of 2019 (Re: [FAR 4.2101](#) and [52.204-24, 52.204-25, and 52.204-26](#)).

Firm: _____

Signature: _____

Name of Certifying Official: _____

Title: _____

Date of Execution: _____

m. Unallowable Costs

ABC recognizes that unallowable costs, as defined in 2 CFR Part 200, Subpart E, or the FAR (Subpart 31.205), cannot be charged to Federal awards and has internal controls in place to insure that this is followed. Examples of unallowable costs are:

- i. advertising and public relations,
- ii. entertainment/alcoholic beverages,
- iii. capital expenditures,
- iv. defense claims by or against the Federal Government,
- v. interest,
- vi. lobbying and fund raising.

Signature

Date

Title

ABC Organization
1111 Main Street
City, USA 12345

SECTION IV

Common Indirect Cost Proposal Problems

A. Introduction

This section presents examples of some common problems with organizations. Many of these items have been disclosed in OIG audits. The problems are summarized below under the following categories:

1. Incomplete indirect cost proposals.
2. Problems with timekeeping practices
3. Consistent Treatment and Specific Identification of Costs
4. Costs of "Unallowable Activities"
5. Credits
6. Indirect Cost Allocation Base
7. Expressly Unallowable Costs
8. Inter-organizational Transfers and Related-party Transactions
9. Budget Limitations
10. Unsupported costs

B. Examples of Problems

1. Incomplete indirect cost proposals – Processing delays could be attributable to receiving incomplete proposals. We recommend using the checklist available in page II-4 of this guide to obtain the required documentation.

2. Timekeeping Practices

To be allowable, labor costs, whether charged directly or indirectly to DOL grants/contracts, must be based on accurate time records reflecting the actual activities of all employees. These records must account for the "total activity" for which employees are compensated and which are required in fulfillment of their obligations to the organization. In many cases, a timekeeping system was either not used at all or was used for payroll purposes only (time and attendance and not for labor distribution purposes). For more information, see §200.430 Compensation—personal services (a)(i), Standards for Documentation of Personnel Expenses.

3. Consistent Treatment and Specific Identification of Costs

To be allowable under DOL grants/contracts, costs must be treated consistently on all programs of the organization. OIG audits have disclosed numerous instances in which non-profit organizations have charged DOL grants and/or contracts, either directly or indirectly, for

- (1) costs specifically identifiable with programs and activities other than its DOL awards,
- (2) costs which were not treated consistently with other costs incurred for the same purpose in like circumstances.

4. Costs of "Unallowable Activities"

Problems disclosed by OIG audits which related to so-called "unallowable activities" can usually be categorized in two areas.

- (1) First, not all costs associated with "unallowable activities" were properly charged as costs to the final cost objectives for such activities.
- (2) Second, because not all such costs were direct charged to "unallowable activities" cost objectives, an appropriate share of indirect costs was not allocated to these "unallowable activities." As a result, DOL and other Federal grants and contracts were allocated a disproportionate share of the organization's indirect costs.

See 2 CFR, Part 200, Subpart E, §200.413(f) provides that the costs of certain "unallowable activities" must be treated as direct costs (e.g., charged to separate final cost objectives) and allocated an equitable share of the organization's indirect costs.

Examples of unallowable activities include: services to members, maintenance of membership rolls, public relations, lobbying, and fund raising.

Even if an organization's own activities, non-DOL/non-government grants and/or contracts provide for little or no reimbursement of indirect costs, the full share of indirect costs must be allocated to such grants/contracts in accordance with 2 CFR, Part 200, Subpart E, §200.405 Allocable costs (c), which states:

(c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards

5. Credits

OIG audits have disclosed that a number of non-profit organizations failed to reduce the total costs claimed under DOL grants/contracts by the amount of credits applicable to costs charged either directly or indirectly to the DOL grants/contracts. These credits were generated through various transactions, including fees for conferences held for the benefit of DOL programs, building rental operations, insurance credits or adjustments, data processing and office services performed for others, etc.

All receipts, refunds and adjustments applicable to direct costs charged to DOL grants/contracts must be credited to the DOL grants/contracts and those applicable to indirect costs must be credited to the appropriate indirect cost pools.

6. Indirect Cost Allocation Base

To meet the benefits received test, the allocation base must allocate indirect costs to all programs equitably. To ensure that this test is met, organizations must continuously evaluate whether the allocation base elements among all of its programs is proportionate to the benefits to be received from the indirect costs.

Many organizations use total direct personnel costs (salaries/wages, plus fringe benefit costs) as the allocation base to allocate indirect costs to their grants/contracts and other programs. Another cost allocation base commonly used is modified total direct costs (see definition at 2 CFR, Part 200, Subpart A, §200.1).

In most instances, one of the above bases may allocate indirect costs in reasonable proportion to relative benefits received by the various cost objectives. In some cases, they may result in allocating a disproportionate share of the organizations' indirect costs to DOL grants. Use of an inappropriate base which does not allocate indirect costs on the basis of relative benefits received could result in substantial questioned costs.

7. Expressly Unallowable Costs

Indirect costs that are unallowable are found in 2 CFR, Part 200, Subpart E, §200.420 General Provisions for Selected Items of Cost. Common examples of expressly unallowable indirect costs include: Alcoholic beverage, Bad debts, Contributions, Entertainment costs, Fund raising, and Lobbying.

8. Inter-Organizational Transfers and Related-Party Transactions

Supplies and services acquired from affiliates, related parties, and organizations under common control, must be based on the actual costs of the organizations providing the supplies and services. No profit should be included.

OIG audits disclosed that some organizations charged directly or indirectly to DOL grants/contracts, the "costs" of supplies and services which included "profits" and/or other mark-ups added by the affiliates, related parties and/or organizations under common control.

9. Budget Limitations

Non-profit organizations must adhere to any budget limitations incorporated into their grants/contracts. DOL grants/contracts limit reimbursements to grantees/contractors by incorporating a special clause titled "Budget Line Item Flexibility." This clause provides that no single line item of direct cost shall be increased or decreased in excess of 20 percent of the budget provided the total estimated cost of the grant/contract is not exceeded. The clause further provides that no increase in wages, salaries, and fringe benefits line items (including the mixture, number of hours or wages of personnel paid under the grant/contract) is permitted without the prior review and approval of the DOL Grant/Contracting Officer.

If a contract/grant specifically includes a ceiling rate(s), the indirect cost rate(s) or amount(s) which are indicated in the organization's indirect rate cost agreement, will be subject to the ceilings stipulated in the contract/grant agreement. The ceiling rate or the rate(s) cited in the organization's indirect rate cost agreement whichever is lower, will be used to determine the maximum allowable indirect cost on the contract or grant agreement.

The grantee/contractor must submit a proposal to establish a final rate within six months after their fiscal year end. Billings and charges to Federal awards must be adjusted if the final rate varies from the provisional rate. If the final rate is greater than the provisional rate and there are no funds available to cover the additional indirect costs, the organization may not recover all indirect costs. Conversely, if the final rate is less than the provisional rate, the organization will be required to pay back the difference to the funding agency.

10. Unsupported Costs

To be allowable, all direct costs and indirect costs must be adequately supported by source documentation which clearly shows the purposes and circumstance of the cost incurred. For example, canceled checks, credit card invoices and travel agents' invoices alone are not sufficient to determine whether the costs are chargeable as direct costs or indirect costs, and whether DOL grants/contracts received the benefit of the cost incurred.

In order to determine whether a cost is allowable under or allocable to a DOL grant/contract, the purpose and circumstance of the cost incurrence must be established. OIG audits disclosed that

a large number of non-profit organizations did not have adequate documentation to support the allowability/allocability of the costs claimed or proposed.

Also, verbal approval from a Contracting/Grant Officer is insufficient documentation for supporting costs under a contract/grant. Any modifications to a contract/grant must be in writing and signed by both the Contracting/Grant Officer and the contractor/grantee.

SECTION V

Typical Questions and Answers (Q&As)

1. How do we get a copy of the Indirect Cost Guide?

Visit our [website](#) to get access to our “A Guide to Indirect Cost Rate Determination”.

2. Who needs an indirect cost rate?

Any organization being awarded cost reimbursable grants and contracts, also having more than one source of funding (including direct Federal funding), needs an indirect cost rate.

3. Why do I need an indirect cost rate?

Your organization needs an indirect cost rate for: management information, to be in compliance with Federal regulations, 2 CFR Part 200, Subpart E & Appendix IV, or the FAR (whichever applies), close-out purposes, and for audit documentation.

4. Where can I find information on the applicable cost principles?

Visit our [website](#) to get access to the cost principles.

5. What is an indirect cost rate?

An indirect cost rate is a percentage (indirect cost pool/direct cost base) used to distribute indirect costs to all cost centers benefiting from those costs.

6. Which agency should approve my indirect cost rate(s) and issue a Negotiation Agreement?

Your cognizant agency is responsible for negotiating your indirect cost rate and issuing the appropriate Negotiation Agreement. Unless specifically assigned by OMB, the Federal agency with the preponderance of direct funding is normally your cognizant agency.

7. What documentation is required as part of the provisional (based on budgetary costs) or final (based on incurred costs) indirect cost rate proposal?

Please refer to our website’s “checklist”. Also available in Section II (Page II-4) of our indirect cost guide.

8. How many days do we have to submit a provisional (based on budgetary information) indirect cost rate proposal - 1st time?

All organizations must submit their initial indirect cost rate proposal to their cognizant agency within 90 days of receiving a cost reimbursable grant/contract award. For example, 2 CFR, Part 200, Appendix IV, C.2.b., states:

“b. Except as otherwise provided in §200.414 Indirect (F&A) costs paragraph (e) of this Part, a nonprofit organization which has not previously established an indirect cost rate with a Federal agency must submit its initial indirect cost proposal immediately after the organization is advised that a Federal award will be made and, in no event, later than three months after the effective date of the Federal award.”

9. How many days do we have to submit a final (based on incurred costs) indirect cost rate proposal?

All organizations must submit their final indirect cost rate proposals within 180 days of the end of your organization's fiscal year. For example: 2 CFR, Part 200, Appendix IV, C.2.c., states:

“c. Unless approved by the cognizant agency for indirect costs in accordance with §200.414 Indirect (F&A) costs paragraph (f) of this Part, organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency for indirect costs within six months after the close of each fiscal year.”

10. For how long do we need to submit annual indirect cost rate proposals based on incurred costs?

For the life of the cost reimbursable contract/grant period. For example: You receive a three-year grant award (July 1, 2019 through July 1, 2022). Your fiscal year ends on December 31st.

Based on the above example, your organization would need to submit final incurred cost proposals for the organizations' fiscal year ending (FYE):

12/31/19, 12/31/2020, 12/31/2021, and 12/31/2022.

11. How many days does it takes my Federal cognizant agency to process my indirect cost rate proposal?

The DOL's Cost & Price Determination Division (CPDD) typically issues indirect cost rate agreements within 150 days of proposal receipt pending no unforeseen negotiation issues.

12. What is the correct DOL address for submission of an indirect cost proposal?

Please send electronic versions of the proposal to your assigned cost negotiator. Visit our [Contact Us](#) website for details. Alternatively, please send the proposal to:

OSPE-CPDD@dol.gov.

13. What can the submitting organizations do to help the Federal Cognizant Agency facilitate their review of an indirect cost rate proposal?

To avoid delays, organizations should submit complete proposals. If proposals are based on actual costs, they must reconcile to financial statements. If there are any questions concerning any aspect of the proposal, contact CPDD to resolve the issue prior to formal submission. Also, if during a prior negotiation you agreed to take corrective action(s) on any issues, you must disclose the status of your action(s). Finally, you must inform CPDD about all significant organizational or accounting changes and their impact. If these actions are taken, it could save time in getting the proposal negotiated.

14. When a grantee/contractor is required by DOL to submit a closeout package prior to negotiating a final indirect cost rate, what is the procedure?

The grantee/contractor should prepare the closeout package using the approved provisional indirect cost rate and include a statement indicating that a provisional indirect cost rate was used pending negotiations of a final indirect cost rate. Upon receipt of a final indirect cost rate, the grantee/contractor must notify the applicable Federal funding agency of the final rate issued and

request an amended final closeout adjustment. Refer to 2 CFR, Part 200, Subpart D, §200.344 and §200.345 for information on closeout and post-closeout adjustments and continuing responsibilities.

15. What do we do if some grants/contracts do not provide for any indirect costs or provide for indirect cost rates that are lower than those established, provisional or final?

All indirect costs, using the approved rate, must be allocated to all grants/contracts regardless of any restrictions or funding limitations. Any allocable indirect costs that exceed any administrative or statutory restrictions on a specific Federal grant/contract may not be shifted to other Federal grants/contracts, unless specifically authorized by legislation. Non-Federal revenue sources must be used to pay for these unrecovered costs.

2 CFR Part 200, Subpart E, §200.414(c), states, however:

(c) Federal Agency Acceptance of Negotiated Indirect Cost Rates. (See also §200.306 Cost sharing or matching.)

- (1) The negotiated rates must be accepted by all Federal awarding agencies. A Federal awarding agency may use a rate different from the negotiated rate for a class of Federal awards or a single Federal award only when required by Federal statute or regulation, or when approved by a Federal awarding agency head or delegate based on documented justification as described in paragraph (c)(3) of this section.
- (2) The Federal awarding agency head or delegate must notify OMB of any approved deviations.
- (3) The Federal awarding agency must implement, and make publicly available, the policies, procedures and general decision making criteria that their programs will follow to seek and justify deviations from negotiated rates.
- (4) As required under §200.204 Notices of funding opportunities, the Federal awarding agency must include in the notice of funding opportunity the policies relating to indirect cost rate reimbursement, matching, or cost share as approved under paragraph (e)(1) of this section. As appropriate, the Federal agency should incorporate discussion of these policies into Federal awarding agency outreach activities with non-Federal entities prior to the posting of a notice of funding opportunity.

16. Will DOL provide technical assistance to grantees/contractors in obtaining proper approval of the indirect cost rate from other Federal agencies and State and local units of Government?

Yes. Visit our [website](#) to get access to a partial list of other Federal cognizant agencies (FCAs). Reiterating a prior Q&A, the Federal agency providing most of the direct Federal funding is the FCA for the grantee/contractor and they should negotiate and approve indirect costs for non-Federal entities. See also Q&A # 15 above citing information from 2 CFR Part 200, Subpart E, §200.414(c), Federal Agency Acceptance of Negotiated Indirect Cost Rates.

Regarding subawards and responsibilities of pass-through entities, it is important to highlight that 2 CFR Part 200, Appendix VII, D.1., states: "...Where a non-Federal entity only receives funds as a subrecipient, the pass-through entity will be responsible for negotiating and/or monitoring the subrecipient's indirect costs." On that regard, pass-through entities must also follow guidance from [2 CFR Part §200.332 Requirements for pass-through entities](#).

17. Our grant with DOL totals \$500,000 and includes a provisional indirect cost rate of 10%. Our actual, final indirect cost rate is 13%. Will DOL provide us with additional grant funds due to our higher indirect cost rate?

DOL could provide your organization with additional grant funds due to a higher final indirect cost rate than the established provisional rate subject to funds available. Also, a grant modification may be allowed to transfer budgeted direct costs to the indirect cost category due to the increased indirect costs. This would be subject to the terms and conditions of the grant agreement, e.g. approval of grant officer, indirect cost ceilings, and administrative cost limitations. Contact your grant officer or grant officer technical representative for additional questions on this topic.

18. In the event that a grantee/contractor does not exceed the total grant/contract but exceeds the ceiling placed on the indirect cost by DOL, can the excess indirect cost be recovered?

No. The ceiling on the indirect cost was included in the agreement to limit the amount of grant/contract funds used for indirect cost purposes by the grantee/contractor. This condition was known by the grantee/contractor before any grant/contract funds were expended.

19. Can our indirect cost rate proposal be based only on Federal funds since it only represents 15% of our total revenue?

No. Your indirect cost rate proposal must be accompanied by a schedule of costs incurred for all projects, Federal and non-Federal, and the amount of the proposed allocation base must tie-in with the applicable direct cost base for all projects.

20. Accrued annual leave cost – Is it allowable under 2 CFR Part 200?

2 CFR Part 200, Subpart E, §200.403 Factors affecting allowability of costs, details that allowable costs must be determined in accordance with Generally Accepted Accounting Principles.

The Financial Accounting Standards Board issued Financial Accounting Standard Number 43 "Accounting for Compensated Absences" to establish uniformity in the accounting for annual leave pay. This standard requires employers to accrue during each accounting period the liability for compensated absences earned by employees during that period provided that all of the following conditions are met:

1. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employee's services already rendered;
2. The obligation relates to rights that vest or accumulate;
3. Payment of compensation is probable; and
4. The amount can be reasonably estimated.

The accrual of annual leave does not result in increased costs, but allows recognizing the cost in the proper accounting period to improve actual cost determination. In general, compensated absences are to be accrued in the period in which they are earned rather than when they are paid. In order for accrued leave to be an allowable cost, the personnel policies of the organization must comply with the Financial Standard Number 43.

21. What is the difference between bid and proposal costs and fund raising costs and how does a grantee/contractor treat such costs in its indirect cost proposal?

Bid and proposal costs represent the salaries, consultant fees, printing, postage, travel, etc. associated with an organization's preparation of bids, proposals and applications to perform specific tasks for remuneration under potential Federal and non-Federal grants, contracts or other agreements. An organization should treat bid and proposal expenses as allowable indirect costs subject to any limitations imposed by the Cognizant Federal agency.

Fund raising costs represent the salaries, consultant fees, printing, postage, travel, etc. associated with an organization's requests to private institutions or individuals for donation of funds for non-specific purposes. Fund raising costs are unallowable for Federal reimbursement purposes. However, this activity (cost objective) shall be allocated an appropriate share of indirect costs. Accordingly, fund raising costs are to be included in the distribution base used to compute an organization's indirect cost rate.

22. Can the audit costs under 2 CFR Part 200, Subpart F, be recovered?

Audit costs could be recovered as either direct or indirect costs in accordance with applicable cost principles and the benefits received concept. However, there is no special appropriation for audit costs. To recover audit costs, the organization must build them into the specific grant/contract documents (if direct) or into the overhead proposal (if indirect).

For more information on this topic, see language below from 2 CFR, Part 200, Subpart F:

§200.501 Audit requirements.

- (5) (a) Audit required. A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.
- (6)
- (7) (b) Single audit. A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit conducted in accordance with §200.514 Scope of audit except when it elects to have a program-specific audit conducted in accordance with paragraph (c) of this section.
- (8)
- (9) (c) Program-specific audit election. When an auditee expends Federal awards under only one Federal program (excluding R&D) and the Federal program's statutes, regulations, or the terms and conditions of the Federal award do not require a financial statement audit of the auditee, the auditee may elect to have a program-specific audit conducted in accordance with §200.507 Program-specific audits. A program-specific audit may not be elected for R&D unless all of the Federal awards expended were received from the same Federal agency, or the same Federal agency and the same pass-through entity, and that Federal agency, or pass-through entity in the case of a subrecipient, approves in advance a program-specific audit.

23. If the grantee's policy is to capitalize equipment under the \$5,000 threshold specified in 2 CFR Part 200, §200.439 (Equipment and other capital expenditures), do they need Federal approval prior to directly charging the grant with the cost of equipment?

Not from the CPDD since no indirect costs are being charged. Instead, these direct costs would need to be reviewed and approved by the grant/contract officer.

24. A grantee has contracted to update its computer network with its affiliates for a total cost of \$50,000. Since each component; i.e., monitor, printer, personal computer, software, modem, etc., costs less than the \$5,000 per unit threshold specified in 2 CFR Part 200, §200.439, can this "equipment" be charged to the indirect cost pool?

No. The components of the computer network make it useable for the purpose for which it was acquired and therefore establishes the "system" as a capital expenditure. Accordingly, this equipment can be appropriately charged to Federal grants either as a direct or indirect cost, on the basis of depreciation and the benefits received concept.

25. Can transactions with an affiliate affect allowable costs?

Yes. A problem may arise in transactions between parent organizations and their affiliates when the parent organization has an equity interest in the affiliate. When an equity interest exists, any profits made by the affiliate improve the equity interest of the parent. If an affiliate sells a good or service to the parent and the selling price includes a profit to the affiliate, the parent's equity interest in the affiliate has been increased. If the parent then includes the purchase price as a direct or indirect charge to a Federal award, it has violated the applicable cost principles that charges will be at cost and not include a profit factor.

For example, suppose your organization (the parent) obtains accounting services from an affiliate and the parent organization has an equity interest in the affiliate. The fee that the parent pays to the affiliate must be based on the cost incurred by the affiliate and the fee and should not include a profit to the affiliate.

If the fee does include a profit factor to the affiliate, the allowable part of the fee is limited to that portion which represents the cost to the affiliate exclusive of any profit factor.

This principle works in reverse as well. When an organization provides a good or service to an affiliate, the full cost of providing that good or service must be recovered from the affiliate and an appropriate credit must be applied to the indirect cost pool.

26. What is the period of time that an indirect cost rate agreement covers?

A provisional indirect cost rate is negotiated to cover a one-year period. However, because of the time lapse between the submission and approval of a rate, provisional rates are usually established by DOL for a two-year period. A final indirect cost rate agreement is negotiated to cover one fiscal year period. A new final indirect cost rate must be negotiated for subsequent fiscal years.

27. Where can I get access to Q&As related 2 CFR 200 issued by the US Chief Financial Officers Council?

Click on the following [External Regulations and Q&A Guidance](#) which provides 2 CFR 200 Q&As published on July 2017, as well as May 2021.

APPENDIX I

NEGOTIATED INDIRECT COST RATE AGREEMENT

NON-FEDERAL ENTITY:

ABC Organization
1201 14th Street, Suite 308
Washington, DC 20210

EIN: 12-3456789

DATE: 9/24/2021

FILE REFERENCE: This replaces the agreement dated 1/12/2020

The indirect cost rate(s) contained in this Agreement are for use on grants, contracts, and other agreements with the Federal Government. This Agreement was negotiated by **ABC Organization** (non-Federal entity) and the **U.S. Department of Labor** in accordance with the authority contained in the Federal Acquisition Regulation (FAR) for commercial entities, or Title 2 of the Code of Federal Regulations, Part 200 for nonprofit and state/local entities. This Agreement is subject to the limitations in Section II, A, below.

When applicable, the rates presented in this Agreement may only be applied to: (1) cost-reimbursement contracts and (2) actual costs for materials in time-and-materials (T&M) contracts. Any indirect rates for labor costs in T&M, labor-hour and fixed-price contracts must be negotiated with the Contracting Officer during pre-award in accordance with FAR Part 15.404-1(c).

SECTION I: RATES

TYPE	APPROVAL	FROM	TO	RATE	BASE	LOCATION	APPLICABLE TO
Indirect	Provisional	07/01/2021	06/30/2023	31.75%	SW-1	Loc-1	AP-1

(SEE SPECIAL REMARKS)

BASE:

SW-1 - Total direct salaries and wages including vacation, holiday, sick pay, other paid absences, and all applicable fringe benefits.

LOCATION:

Loc-1: All Locations

APPLICABLE TO:

AP-1: All Programs

TREATMENT OF FRINGE BENEFITS: Fringe benefits are specifically identified to each employee and are charged individually as direct or indirect cost (as applicable). See Special Remarks section of this Agreement for more details.

TREATMENT OF PAID ABSENCES: Vacation, holiday, sick leave pay and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims are not made for the cost of these paid absences.

SECTION II: GENERAL

A. LIMITATIONS:

Use of the rate(s) contained in the Agreement is subject to all statutory or administrative limitations and is applicable to a given Federal award or contract only to the extent that funds are available. Acceptance of the rate(s) agreed to herein is predicated upon the following conditions:

1. No costs other than those incurred by the non-Federal entity or contractor were included in its indirect cost pool as finally accepted and that such incurred costs are legal obligations of the non-Federal entity and allowable under the governing cost principles.
2. The same costs that have been treated as indirect costs have not been claimed as direct costs.
3. Similar types of costs have been accorded consistent treatment.
4. The information provided by the non-Federal entity or contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially inaccurate by the Federal government. In such situations, the rate(s) may be subject to renegotiation at the discretion of the Federal government.
5. The rates cited in this Agreement are subject to audit.
6. Indirect costs charged to Federal grants/contracts by means other than the rate(s) cited in this Agreement should be adjusted to the applicable rate(s) cited herein and be applied to the appropriate base to identify the proper amount of indirect costs allocable to the program.
7. Contracts/grants providing for ceilings as to the indirect cost rate(s) or amount(s) which are indicated in Section I above, will be subject to the ceilings stipulated in the contract or grant agreements. The ceiling rate or the rate(s) cited in this Agreement, whichever is lower, will be used to determine the maximum allowable indirect cost on the contract or grant agreement.
8. Administrative costs consist of all Direct and Indirect costs associated with the management of a non-Federal entity's programs. Non-Federal entities should refer to their contracts/grants terms and specific program legislation for the applicable definition of Administrative Costs and any related limitations.

B. ACCOUNTING CHANGES:

This agreement is based on the accounting system purported by the non-Federal entity or contractor to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval from the Cost & Price Determination Division (CPDD). Such changes include, but

are not limited to changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. NOTIFICATION TO FEDERAL AGENCIES:

A copy of this document is to be provided by the non-Federal entity or contractor to other Federal funding sources as a means of notifying them of the Agreement contained herein.

D. DEFINITION OF RATES:

1. Final rate means an indirect cost rate applicable to a specified past period which is based on the actual costs of the period. A final rate is not subject to adjustment.
2. Provisional rate or billing rate means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on Federal awards pending the establishment of a final rate for the period.
3. Predetermined rate means an indirect cost rate, applicable to a specified current or future period, usually the organization's fiscal year. The rate is based on an estimate of the costs to be incurred during the period. A predetermined rate is not subject to adjustment.
4. Fixed rate means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

The Special Remarks section of this agreement may include a carry forward amount(s) for the applicable fiscal year(s).

E. SPECIAL REMARKS:

1. Provisional/Final Rate approval and impact to closeout adjustments:

When seeking initial reimbursement of indirect costs using the provisional/final rate methodology, a provisional proposal must be submitted within 90 days of receiving a Federal award (financial assistance, grants, cooperative agreements, and cost reimbursable contracts) that requires accounting for actual costs incurred. The non-Federal entity or contractor must submit an indirect cost rate proposal within six (6) months after the end of their fiscal year to establish a final rate.

Once a final rate is negotiated, billings and charges to Federal awards must be adjusted if the final rate varies from the provisional rate. If the final rate is greater than the provisional rate and there are no funds available to cover the additional indirect costs, the non-Federal entity or contractor may not recover all indirect costs. Conversely, if the final rate is less than the provisional rate, the

non-Federal entity or contractor will be required to reimburse the funding agency for the excess billings.

Non-Federal entities or contractors receiving a Federal cost reimbursable contract(s) - Must adhere with FAR 52.216-7(d)(2)(v), to settle final indirect cost rates typically on an annual basis:

“The contractor shall update the billings on all contracts to reflect the final settled rates and update the schedule of cumulative direct and indirect costs claimed and billed, as required in paragraph (d)(2)(iii)(I) of this sections, within 60 days after settlement of final indirect cost rates.”

In addition, the contractor shall provide to the Contracting Officer the noted cumulative costs schedule within 60 days of the execution of this agreement.

If the non-Federal entity or contractor has completed performance under any of the contracts covered by this Agreement, a final invoice or voucher must be submitted no later than 120 days from the date on which this Agreement is executed, following guidance from FAR 52.216-7(d)(5) and FAR 52.216-7(h).

Non-Federal entities receiving Federal awards (financial assistance, grants, and cooperative agreements) – Note that even if Federal awards are administratively closed prior to the settlement of final indirect cost rates, non-Federal entities still must comply with the following 2 CFR Part 200 clauses stating, in part:

§200.344 Post-closeout adjustments and continuing responsibilities

(a) The closeout of a Federal award does not affect any of the following:

- (1) The right of the Federal awarding agency or pass-through entity to disallow costs and recover funds on the basis of a later audit or other review. The Federal awarding agency or pass-through entity must make any cost disallowance determination and notify the non-Federal entity within the record retention period.
- (2) The obligation of the non-Federal entity to return any funds due as a result of later refunds, corrections, or other transactions including final indirect cost rate adjustments.

(b) 200.345 Collection of amounts due

- (a) Any funds paid to the non-Federal entity in excess of the amount to which the non-Federal entity is finally determined to be entitled under the terms of the Federal award constitute a debt to the Federal Government.
- (b) Except where otherwise provided by statutes or regulations, the Federal awarding agency will charge interest on an overdue debt in accordance with the Federal Claims Collection Standards (31 CFR parts 900 through 999). The date from which interest is computed is not extended by litigation or the filing of any form of appeal.

2. Fringe benefits include the following: FICA, FUTA, SUI, Health and Welfare Costs, Pension.
3. Equipment is defined as tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition. The capitalization threshold for equipment is_\$5,000.
4. The indirect salaries approved as part of the Rate/CAP in Section I comply with the applicable ETA TEGL 5-06 and/or Job Corps salary and bonus restrictions.

ACCEPTANCE

BY THE NON-FEDERAL ENTITY:

ABC Organization
 1201 14th Street, Suite 308
 Washington, DC 20210

 (Non-Federal Entity)

 (Signature)

 (Name)

 (Title)

 (Date)

**BY THE COGNIZANT AGENCY FOR
 INDIRECT COSTS, ON BEHALF OF THE
 U.S. FEDERAL GOVERNMENT:**

U.S. Department of Labor
 Cost & Price Determination Division
 200 Constitution Ave., N.W., S-1510
 Washington, DC 20210

 (U.S. Federal Government Agency)

 (Signature)

for
 Victor M. López

 (Name)

Chief, Cost & Price Determination Division

 (Title)

9/24/2021

 (Date)

Negotiated By: Victor Lopez
 Office Phone: (202) 693-4106
 Email: lopez.victor@dol.gov