



USAID
FROM THE AMERICAN PEOPLE

AN INDIRECT COST RATE GUIDE FOR NON-PROFIT ORGANIZATIONS

Cost Principles and Procedures
Required by 2 CFR 200

Prepared by the
Bureau for Management
Office of Acquisition and Assistance
Cost Audit and Support Division
Overhead, Special Cost, and Closeout Branch

TABLE OF CONTENTS

This Indirect Cost Rate Guide (Guide) has been prepared to assist non-profit organizations understand the requirements for the determination of indirect cost rates for application on cost reimbursable grants and other agreements awarded by the United States Agency for International Development (USAID). If USAID is the cognizant Agency and issues a Negotiated Indirect Cost Rate Agreement (NICRA), the rates will apply to all Federal cost reimbursable awards.

The Office of Management and Budget (OMB) published Title 2 of the Code of Federal Regulations Part 200 (2 CFR 200), titled “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” to streamline the Government-wide guidance on Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards. The administrative requirements and cost principles apply to new awards authorized on or after December 26, 2014.

1. GENERAL INFORMATION

	<u>Page</u>
A. Overhead, Special Cost and Closeout Branch	3
B. Indirect Cost Rates Issued to Foreign NGOs	3
C. Definition of Indirect Costs and Indirect Cost Rate	3
D. Types of Indirect Cost Rates	5
E. One Time Extension	6
F. Determination of Indirect Cost Rates and Cost Allocation	7
G. Submission of Indirect Cost Proposal	8
H. Approval of Indirect Cost Proposal	9
I. Procedures for Establishing the NICRA	9
J. Negotiated Indirect Cost Rate Agreement (NICRA)	11
K. Changes to the Established Indirect Cost Rate Methodology	12
L. Disputes	12
M. Limitations Effecting Reimbursement of Indirect Costs	13
N. Ceiling Indirect Cost Rates	13
O. Adjusting Indirect Cost Billings	14
P. Retention of Records	14
Q. OCC Workload Distribution	14

2. PREPARING AN INDIRECT COST RATE PROPOSAL

	<u>Page</u>
A. Overview of Submission Requirements	15
B. Preliminary Steps for First Time NICRA Submission	16
C. Preparation of Indirect Cost Rate Proposal	17
D. Indirect Cost Rate Allocation Bases	19
E. Indirect Cost Proposal Checklist for First Time NICRA	20
F. Indirect Cost Proposal Checklist for Subsequent NICRAs	23
G. Indirect Cost Proposal – M/OAA/CAS/OCC’s Review Procedures	26

3. EXAMPLES OF EXHIBITS TO SUPPORT AN INDIRECT COST PROPOSAL

	<u>Page</u>
A. Personnel Cost Worksheet	27
B. Personnel Activity Report	28
C. Statement of Total Costs	30
D. Simplified Allocation Method	30
E. Multiple Allocation Method	32
F. Direct Allocation Method	35
G. Model Cost Policy Statement	37
H. Statement of Treatment of Paid Absences	39
I. Lobbying Cost Certificate	40
J. Certificate of Indirect Costs	41
K. List of Grants with the Period-of-Performance	42

APPENDICES

	<u>Page</u>
I. Negotiated Indirect Cost Rate Agreement (NICRA) (Sample)	43
II. Frequently Asked Questions	46
III. Indirect Cost Rate Proposal Checklist for First Time NICRA	51
IV. Indirect Cost Rate Proposal Checklist for Subsequent NICRA	55
V. Deviation from the Negotiated Indirect Cost Agreement Letter (Sample)	60

1. GENERAL INFORMATION

A. Overhead, Special Cost and Closeout Branch

When the U.S. Agency for International Development (USAID) provides the majority of a non-profit organization's Federal funding, it is the cognizant Federal agency for negotiating the organization's indirect cost rates. All Federal agencies are required to use the rates and methodology negotiated by USAID and the related organization.

The Overhead, Special Cost, and Closeout Branch (M/OAA/CAS/OCC), within the Cost Audit Support Division, Office of Acquisition and Assistance, within the Bureau for Management is the central unit authorized to negotiate indirect cost rates with concerns awarded contracts, grants or cooperative agreements by USAID. M/OAA/CAS/OCC establishes Negotiated Indirect Cost Rate Agreements (NICRA) for U.S. and foreign organizations with awards issued by the Bureau for Management's, Office of Acquisition and Assistance (M/OAA) in Washington, DC.

B. Indirect Cost Rates Issued to Foreign NGOs

Responsibility for the negotiation and issuance of NICRAs for foreign organizations, with no awards issued by USAID/Washington's M/OAA, rests with the Mission (and handled by the Agreement Officer) providing the majority of the entities' funding. A foreign organization is an organization located in a country other than the United States that is a non-profit and tax exempt under the laws of its country of domicile and operation. The cognizant Mission initially negotiates, and subsequently updates, the NICRA on a company-wide basis; not per grant/award. M/OAA/CAS/OCC provides support and guidance to Agreement Officers (AO) and Agreement Officer's Representatives (AOR) at Missions regarding the negotiation of NICRAs as requested. If the foreign entity has an award issued from Washington, M/OAA/CAS/OCC will negotiate and issue the issuance of a NICRA. Once a NICRA is issued, either by a Mission or M/OAA/CAS/OCC, this NICRA will apply to all Federal awards.

C. Definition of Indirect Costs and Indirect Cost Rate

Indirect Costs

According to 2 CFR 200, Subpart F, Appendix IV, Section A.1:

"Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective."

2 CFR 200, Subpart A, Section 200.56 defines Indirect (facilities & administrative (F&A)) costs for "Major nonprofit organizations":

"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 must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.”

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

“Major nonprofit organizations” are defined in 2 CFR 200, Subpart E, Section 200.414(a) as those which receive more than \$10 million dollars in direct federal funding.

Indirect costs are applied equitably across all of the business activities of the organization according to the benefits each gains from them. Some examples of indirect costs are office space rental, utilities, and clerical and managerial staff salaries. To the extent that indirect costs are reasonable, allowable and allocable, they are a legitimate cost of doing business payable under a U.S. Government contract or grant.

Indirect Cost Rate:

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. The indirect cost rate is designed to provide a method for full cost recovery, and it is an equitable, logical and consistent process for allocating costs not directly associated with a single grant/contract, project or cost objective.

An indirect cost rate is calculated as a percentage by dividing the total allowable indirect costs by an equitable distribution base, as an example:

Indirect pool	<u>\$150,000</u>
Distribution base	<u>\$776,700</u>
Indirect cost rate	<u>19.31%</u>

Please refer to Section 1.F. below titled “Determination of Indirect Cost Rates and Cost Allocation” for information on the base of application.

D. Types of Indirect Cost Rates

2 CFR 200, Subpart F, Appendix IV, Section C.1.b., c., d., and e identifies and defines the following indirect cost rates:

Provisional

A **provisional** rate or billing rate is a temporary indirect cost rate applicable to a specified period and is used for interim billings pending the establishment of a final rate for the period.

USAID predominantly uses the provisional and final indirect cost rate methodology when negotiating rate agreements.

2 CFR 200, Subpart F, Appendix 4, Section C.2.f. states that provisional and final rates must be negotiated where neither predetermined nor fixed rates are appropriate. Predetermined or fixed rates may replace provisional rates at any time prior to the close of the organization's fiscal year. If that event does not occur, a final rate will be established and upward or downward adjustments will be made based on the actual allowable costs incurred for the period involved.

To prevent substantial overpayment or underpayment of indirect cost during the fiscal year, a revised provisional rate may be requested by the organization.

After USAID issues a final indirect cost rate, M/OAA/CAS/OCC will establish a provisional rate for the next fiscal year. When an organization considers the final indirect cost rate to be a reasonable estimate of its rate for coming year, it will be established as the new provisional rate. If this is not the case, an organization provides a detailed forecast to support the rate they consider more accurate.

Final

A **final** indirect cost rate is applicable to a specified past period based on the actual costs of the period. A final indirect cost 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.

Predetermined

A **predetermined** indirect cost rate is 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 negotiated for use on Federal awards where there is reasonable assurance, based on past experience and reliable projection of the organization's costs, that the

rate is not likely to exceed a rate based on the organization's actual costs.

Fixed

A **fixed** rate is an indirect cost rate with 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.

Fixed rates may be negotiated where predetermined rates are not considered appropriate. A fixed rate, however, must not be negotiated if (i) all or a substantial portion of the organization's Federal awards are expected to expire before the carry-forward adjustment can be made; (ii) the mix of Federal and non-Federal work at the organization is too erratic to permit an equitable carry-forward adjustment; or (iii) the organization's operations fluctuate significantly from year to year.

10% De minimis

The 10% De minimis rate may be elected by an organization that has never received a negotiated indirect cost rate

2 CFR 200, Subpart E, Section 200.414 (f) specifies that any non-Federal entity that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely.

As described in 2 CFR 200, Subpart E, Section 200.403, Factors affecting allowability of costs, costs must be consistently charged as either indirect or direct costs, but may not be double charged or inconsistently charged as both. If chosen, this methodology once elected must be used consistently for all Federal awards until such time as a non-Federal entity chooses to negotiate for a rate, which the non-Federal entity may apply to do at any time.

See Appendix II of this guide titled, "Frequently Asked Questions," for additional information on the 10% De minimis rate.

E. One-Time Extension

A one-time extension of a currently negotiated rate may be approved for up to a 4-year period.

2 CFR 200, Subpart E, Section 200.414 (g) states that any non-Federal entity that has a federally negotiated indirect cost rate may apply for a one-time extension of a current negotiated indirect cost rate 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.

F. Determination of Indirect Cost Rates and Cost Allocation

2 CFR 200, Subpart F, Appendix IV, Section B. identifies the following specific methods for allocating indirect costs.

- **Simplified allocation**

2 CFR 200, Subpart F, Appendix IV, Section B.2.a., states that where an organization's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (i) separating the organization's total costs for the base period as either direct or indirect, and (ii) 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 awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected.

This method should also be used where an organization's major functions benefit from its indirect costs to approximately the same degree, and may be used where the level of Federal awards to an organization is relatively small.

- **Multiple allocation base**

2 CFR 200, Subpart F, Appendix IV, Section B.3.a, states that where an organization's indirect costs benefit its major functions in varying degrees, indirect costs must be accumulated into separate cost groupings. Each grouping must then be allocated individually to benefitting functions by means of a base which best measures the relative benefits.

The indirect costs allocated to each function are then distributed to individual Federal awards and other activities included in that function by means of an indirect cost rate(s).

- **Direct allocation method**

2 CFR 200, Subpart F, Appendix IV, Section B.4.a, states that some nonprofit organizations treat all costs as direct costs except general administration and general expenses. These organizations generally separate their costs into three basic categories: (i) General administration and general expenses, (ii) fundraising, and (iii) other direct functions (including projects performed under Federal awards).

Joint costs, such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each Federal award or other activity using a base most appropriate to the particular cost being prorated

Specific instructions on the computation of indirect cost rates with the conditions on when to use each method are contained in 2 CFR 200, Subpart F, Appendix IV, Section B.

- **Special indirect cost rates**

2 CFR 200, Subpart F, Appendix IV, Section B.5 also provides for the use of Special Indirect Cost Rates. In some instances, a single indirect cost rate for all activities of an organization or for each major function of the organization may not be appropriate, since it would not take into account those different factors which may substantially affect the indirect costs applicable to a particular segment of work.

The rate methodology selected by an organization needs to match a business' operations. The allocation base should best represent the causal relationship between costs being allocated and the final cost objectives (awards, fundraising, lobbying, etc.).

The allocation base selected by the non-profit organization must be:

- reasonable and consistently applied to direct costs,
- supported by accurate and current data,
- appropriate to the particular cost being distributed, and
- one which results in an accurate measure of the benefits provided to each activity of the organization.

G. Submission of Indirect Cost Rate Proposal

First Time NICRA Submissions

Per 2 CFR 200, Subpart F, Appendix IV, Section C.2.b., organizations that do not have a NICRA with the Federal government are required to provide their initial indirect cost proposal immediately but no later than 3 months after the effective date of the Federal award which first incorporates indirect cost rates. Note that Section 2 of the Guide identifies steps to prepare an indirect cost rate proposal. Grantees should send their submission to NON-PROFIT-ICR-PROPOSAL@USAID.GOV.

Prior to the preparation of an indirect cost rate proposal and supporting documentation, the cost principles in 2 CFR 200, Subpart E should be reviewed to determine if the costs proposed are reasonable, allowable and allocable. In addition, 2 CFR 200, Subpart A, Section 200.57 defines an indirect cost rate proposal as the documentation prepared by a non-Federal entity to substantiate its request for the establishment of an indirect cost rate.

Refer to Section 2.E. “Indirect cost Proposal Checklist for First Time NICRA” of this guide for the required documentation.

Subsequent NICRA Submissions

Grantees that already have a NICRA are required to submit their audited financial statements and single audit in accordance with 2 CFR 200, Subpart F, Section 512(a)(1) and certified indirect cost rate proposal to USAID within the earlier of 30 days after receipt of the auditor’s report, or nine months after the close of each fiscal year. Grantees should send their submission to [NON- PROFIT-ICR-PROPOSAL@USAID.GOV](mailto:NON-PROFIT-ICR-PROPOSAL@USAID.GOV).

A grantee that expends less than \$750,000 during the entity's fiscal year in federal awards is exempt from the single audit required by 2 CFR 200, Subpart F, Section 501(d). Nonetheless, 2 CFR 200, Subpart F, Appendix IV, Section C.2.c. requires organizations to submit audited financial statements and the certified indirect cost rate proposal within six months after the close of the fiscal year.

Prior to the preparation of an indirect cost rate proposal and supporting documentation, the cost principles in 2 CFR 200, Subpart E should be reviewed to determine if the costs proposed are reasonable, allowable and allocable. In addition, 2 CFR 200, Subpart A, Section 200.57 defines an indirect cost rate proposal as the documentation prepared by a non-Federal entity to substantiate its request for the establishment of an indirect cost rate.

Refer to Section 2. F. “Indirect Cost Proposal Checklist for Subsequent NICRAs” of this guide for the required documentation.

H. Approval of Indirect Cost Proposal

The Federal agency with the largest dollar value of Federal awards with an organization will be designated as the cognizant agency for indirect costs for the negotiation and approval of the indirect cost rates unless different arrangements are agreed to by the Federal agencies concerned. Once an agency is assigned cognizance for a particular nonprofit organization, the assignment will not be changed unless there is a shift in the dollar volume of the Federal awards to the organization for at least five years.

I. Procedures for Establishing the NICRA

These procedures are broken down into two sections. The first set of procedures is for an organization seeking its first NICRA and the second set is related to the issuance of subsequent NICRAs.

An organization which does not yet have a NICRA but wishes to propose indirect cost should follow the steps below and explain in response to any award applications that no NICRA yet exists because this will be its first prime USG award. The indirect cost rates will then be

reviewed for propriety by M/OAA/CAS/OCC and the Contracting/Awarding officer will be advised of approved rates after negotiation with the organization. If the organization subsequently wins the award a NICRA will then be issued. Conversely, if the organization is not successful in securing the award, no NICRA will be issued.

First Time NICRA Submissions

After receiving the indirect cost proposal M/OAA/CAS/OCC will perform the following steps:

- Confirm that the organization has a USAID prime award that includes indirect cost rates.
- Determine if USAID is the federal cognizant agency, i.e. USAID provides the majority of the organization's funding from the Federal government. If not, USAID does not have the authority to negotiate the organization's rates.
- Follow up, after reviewing the indirect cost proposal, with questions, and/or concerns – and may request additional documentation, and/or narrative responses, in support of the proposal (for more detailed steps see Section 2.G., “Indirect Cost Proposal – M/OAA/CAS/OCC’s Review Procedures,” of this guide.)
- Special attention will be given to the choice of the individual indirect cost rate allocation bases to ensure they result in an equitable allocation of indirect costs to final cost objectives.
- Document meetings, telephone conversations, and e-mails.
- Make any agreed upon changes, and request any revised, and/or supporting documentation.
- Submit a draft NICRA to the organization for their review of the indirect cost rate methodologies, and obtain their concurrence.
- Issue the NICRA.

Note that NICRAs are not issued to sub-awardees since there is no legal relationship between USAID and the sub-awardee. Responsibility for the negotiation of indirect cost rates for sub-awardee's rests with the prime recipient.

M/OAA/CAS/OCC will be the federal cognizant agency for the issuance of the NICRA until the organization no longer has USAID prime awards, or the preponderance of funds shifts to another U.S. federal agency and cognizance has been transferred.

Subsequent NICRA Submissions

This section of the guidance applies to organizations that are requesting new provisional rates for future periods and/or the finalization of provisional rates for past periods.

- Grantees that already have a NICRA and wish to finalize indirect cost rates for a prior period are required to submit their audited financial statements and single audit in accordance with 2 CFR 200, Subpart F, Section 512(a)(1) and certified indirect cost rate proposal to USAID within the earlier of 30 days after receipt of the auditor's report, or nine months after the close of each fiscal year. This audit and certified indirect cost proposal will serve as the primary basis for the negotiation of final rates for the audited period.
- After USAID issues a final indirect cost rate, M/OAA/CAS/OCC will establish a provisional rate for the next fiscal year. When an organization considers the final indirect cost rate to be a reasonable estimate of its rate for coming year, it will be established as the new provisional rate. If this is not the case, an organization must provide a detailed forecast supporting the desired rate(s). Further, if at any time during the fiscal year an organization determines that its current provisional rate is no longer accurate and materially misstated it should advise M/OAA/CAS/OCC accordingly. If adequately supported, a revised provisional rate will be issued.
- Follow up, after reviewing the indirect cost proposal, with questions, and/or concerns – and may request additional documentation, and/or narrative responses, in support of the proposal (for more detailed steps see Section 2.G., “Indirect Cost Proposal – M/OAA/CAS/ OCC’s Review Procedures,” of this guide.)
- Review changes in the indirect cost rate allocation bases for propriety, if applicable. Note - changes in allocation bases need to be approved on a prospective basis.
- Document meeting, telephone conversations, and e-mails.
- Make any agreed upon changes, and request any revised, and/or supporting documentation.
- Submit a draft NICRA to the organization for their review of the indirect cost rates methodology, and obtain their concurrence.
- Issue the NICRA.

J. Negotiated Indirect Cost Rate Agreement (NICRA)

2 CFR 200, Subpart F, Appendix IV, Section C.2.g states that the result of each negotiation must be formalized in a written agreement between the cognizant agency for indirect costs and the

nonprofit organization. The Negotiated Indirect Cost Rate Agreement shall specify: (a) the final rate(s), (b) the base(s) to which the rate(s) apply, and (c) the period(s) for which the rate(s) apply. The Negotiated Indirect Cost Rate Agreement shall not change any monetary ceiling, obligation, or specific cost allowance or disallowance provided for in each grant or contract between the parties.

2 CFR 200, Subpart E, Section 200.414 (c) (1) states that the negotiated rates must be accepted by all Federal awarding agencies. Appendix I of this Guide contains a sample of the NICRA used by USAID.

K. Changes to the Established Indirect Cost Rate Methodology

An organization is required to provide written notification to the indirect cost negotiator prior to implementing any changes which could affect the applicability of the approved rates. Any changes in accounting practice to include changes in the method of charging a particular type of cost as direct or indirect and changes in the indirect cost allocation base or allocation methodology requires the prior approval of the M/OAA/CAS/OCC. Failure to obtain such prior written approval may result in cost disallowance.

L. Disputes

Failure by the parties to agree on any final rate(s) under this provision is considered a dispute within the meaning of the Standard Provision, "Disputes." If a dispute arises in a negotiation of an indirect cost rate between the cognizant agency for indirect costs and the nonprofit organization, the dispute must be resolved in accordance with the appeals procedures of the cognizant agency for indirect costs. A sample is as follows:

The Agreement Officer (AO) decides any dispute between the organization as defined in 2 CFR 200.86, and USAID arising under an assistance award. The AO's decision is final unless the recipient appeals the decision.

As outlined in 2 CFR 700.15, if the organization disagrees with the AO's final decision, the organization may appeal the AO's decision to the USAID's Deputy Assistant Administrator, Bureau for Management, or designee. Send the appeal to the Deputy Assistant Administrator, Bureau for Management, U.S. Agency for International Development, Management Bureau, 1300 Pennsylvania Ave, NW, Washington, D.C. 20523. A copy of the appeal must be concurrently furnished to the AO. No hearing will be provided.

The appeal must be in writing and must be postmarked within thirty (30) calendar days of receipt of the AO's final decision. The organization must include all relevant and material evidence to support its position and must provide a copy of the appeal to the AO.

Immediately upon receiving an appeal, the Deputy Assistant Administrator, Bureau for Management, or designee, and the AO must forward the appeal to the Bureau for

Management, Office of Acquisition and Assistance, Compliance Division (M/OAA/C) at compliance@usaid.gov. M/OAA/C will:

- consult with other divisions within M/OAA as needed before preparing a recommendation for the deciding official; and
- coordinate a review by General Counsel

Within sixty (60) calendar days of receiving the appeal, M/OAA/C must notify the recipient of the status (i.e., denied, approved, or more time is needed). The AO must place a copy of the final decision in the award files.

A decision under this provision by the Deputy Assistant Administrator, Bureau for Management is final.

M. Limitations Effecting Reimbursement of Indirect Costs

Reimbursement of indirect costs are subject to the submission of an indirect cost rate proposal, availability of funds, statutory and administrative restrictions, and the approval of the USAID Grant Officer or authorized representative.

It is USAID's policy that grantees that agree to an indirect cost rate ceiling that is less than the government-wide NICRA rate in a contract or grant for cost sharing or other reasons shall not recoup the amounts occasioned by the reduction in the rates on other agreements with the U.S. Government.

Therefore, the organization must agree in writing not to recoup the reduction in the rates on other awards with the U.S. Government - the reduction must be taken from other non-governmental sources of revenues. In any instance where an indirect cost rate other than that specified in the NICRA is used in an award, the grantee is required to acknowledge the above stipulations by providing a written acknowledgement to USAID. Refer to Appendix V for a sample of a deviation letter from the NICRA.

N. Ceiling Indirect Cost Rates

Grants providing for ceilings as to the indirect cost rates or amounts will be subject to the ceilings stipulated in the grants or other agreements. The ceiling indirect cost rates or the indirect cost rates cited in grants or agreements, whichever is lower, will be used to determine the maximum allowable indirect costs on the grants or agreements.

Be aware that the NICRA does not change any monetary ceiling, obligation or specific cost allowance or disallowance provided for in each award between the parties. Therefore, care needs to be taken to ensure that amounts claimed do not exceed award limitations or indirect cost rate ceilings.

O. Adjusting Indirect Cost Billings

Indirect cost rates identified in the NICRA apply to all cost reimbursable awards that incorporate provisional indirect rates. For awards that incorporate these indirect cost rates, the organization needs to promptly submit adjustment billings/vouchers or final vouchers for all cost reimbursement grants, contracts or other agreements.

Audit adjustments need to be clearly delineated to be readily identifiable for verification by this office. Care needs to be taken to ensure that amounts claimed do not exceed award limitations or indirect cost rate ceilings. The final indirect cost rates are negotiated based on the audited actual indirect cost rates.

P. Retention of Records

2 CFR 200, Subpart D, Section 200.333(f)(1) and (2), "Retention requirement for records" states the following:

(f) Indirect cost rate proposals and cost allocations plans. This paragraph applies to the following types of documents and their supporting records: indirect cost rate computations or proposals, cost allocation plans, and any similar accounting computations of the rate at which a particular group of costs is chargeable (such as computer usage chargeback rates or composite fringe benefit rates).

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

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

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.

Q. OCC Workload Distribution

Below are the names, email addresses and telephone numbers of the Contract Specialist responsible to negotiate each organization's indirect cost rate agreement (NICRA). Note that responsibility for each specific organization is based on the first letter of its name, i.e. ABC, Inc. is handled by Lynn Brown and Help the Poor, Inc. is handled by Judith Almodovar, etc.

TITLE & LOCATION	NAME & RESPONSIBILITY	EMAIL ADDRESS	TELEPHONE NUMBER
Branch Chief SA-44, 822-B	James Davis	JaDavis@usaid.gov	202-567-4613
Contract Specialist SA-44, 820-I	Judith Almodovar D,H,O, P, Q,R & V	JAlmodovar@usaid.gov	202-567-4663
Contract Specialist SA-44, 820-G	Angela Baldwin S, T, U, W, X, Y & Z	ABaldwin@usaid.gov	202-567-4207
Contract Specialist SA-44, 820-C	Lynn Brown A, B, & F	LyBrown@usaid.gov	202-567-4658
Contract Specialist SA-44, 820-F	Catrina Burgess E, & I	CBurgess@usaid.gov	202-567-4662
Contract Specialist SA-44, 820-E	Heartwill Doughan C, & G	HDoughan@usaid.gov	202-567-4661
Contract Specialist SA-44, 822-C	Ramon Santos J, K, L, M, & N	RSantos@usaid.gov	202-567-4612
Management Analyst SA-44, 820-H	Tanya Broadnax Closeout	TBroadnax@usaid.gov	202-567-5118

2. PREPARING AN INDIRECT COST RATE PROPOSAL

A. Overview of Submission Requirements

Federal award recipients that recover administrative overhead costs through the use of an indirect cost rate (ICR) must submit an annual ICR proposal to:

- Establish a provisional rate to charge estimated indirect costs to an award for future periods and
- Establish a final ICR for a prior fiscal year.

Note on accounting system:

The organization must have an established accounting system prior to being awarded a grant or contract with a federal government agency. 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 2 CFR 200, Subpart D, Section 200.302, Financial Management.

B. Preliminary Steps for First Time NICRA Submission

Prior to the preparation of an indirect cost rate proposal and supporting documentation, the cost principles established by 2 CFR 200, Subpart E, Cost Principles, should be thoroughly reviewed. If indirect costs are allowed under the terms of the award, the entity will then be ready to prepare an indirect cost rate proposal beginning with the following steps:

- **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.
- **Review federal and non-federal funding:** Review the federal and non-federal expenditures to determine the amount associated with federal programs being funded.
- **Review the Accounting Structure:** Obtain a chart of accounts, or some other list of accounts for your organization, which identifies the specific direct and indirect accounts.
- **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. Please refer to sample Cost Policy Statement included in Section 3.G of this guide.
- **Determine Indirect Cost Rate Structure:** 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.
- **Reconcile to Financial Statements:** Reconcile the indirect cost rate proposal to the audited financial statements.
- **Submission and Review of Rate Proposal:** Submit the indirect cost proposal to M/OAA/CAS/OCC at the e-mail referenced in section 1.G. of this guide. The Contract Specialist within M/OAA/CAS/OCC will follow up, after reviewing the indirect cost

proposal, with questions, and/or concerns – and may request additional documentation, and/or narrative responses, in support of the indirect cost proposal. The Contract Specialist will document any meeting and/or telephone conversations, and e-mails during the review process. The entity provides any changes, and submits any revised and/or supporting documentation as requested by M/OAA/CAS/OCC. Once the review is completed, USAID will then issue and provide the Negotiated Indirect Cost Rate Agreement (NICRA).

- **Implementation:** An organization must utilize the NICRA approved provisional indirect cost rates when preparing proposals once a NICRA is signed by both parties. The final indirect cost rates negotiated in the NICRA are used for administratively closing federal awards and adjusting billings for prior periods. Maintain documentation for audit purposes – refer to Section 1.P entitled, “Retention of Records,” of the guide.

C. Preparation of Indirect Cost Rate Proposal

First Time Provisional NICRA Submission

Prepare the indirect cost rate proposal by using the Indirect Cost Rate (ICR) Proposal Checklist for First Time NICRAs included in Section 2.E. of this guide and included as a stand-alone document in Appendix III.

Prepare the following documents, and have them signed by the Executive Director, or other designated official with the organization’s signature authority (examples of each of these can be found in Section 3 of this guide.)

- a. Statement of Treatment of Paid Absences
- b. Lobbying Cost Certificate in accordance with 2 CFR 200, Subpart E, Section 200.450(c) 2 (vi)
- c. Certificate of Indirect Costs in accordance with 2 CFR 200, Subpart F, Appendix IV, Section D

Compile all remaining documentation identified in the indirect cost proposal checklist.

Reconcile the indirect cost rate proposal to the audited financial statements.

Subsequent NICRA Submissions to Establish Final and Provisional Indirect Cost Rates

Documentation and steps needed to revise provisional indirect cost rates:

Prepare the indirect cost rate proposal using the Indirect Cost Rate (ICR) Proposal Checklist for Subsequent NICRAs included in Section 2.F. of this guide.

Generally, an organization uses the prior year’s final indirect cost rates as the new provisional

(until amended) rates when an organization believes the final rates represent a reasonable estimate of the next years expected actual rates. If an organization believes the future rates will be materially different than the previous finalized rates, it should propose the more accurate provisional rates with adequate supporting documentation and rationale.

Provide detailed indirect cost rate calculations based on estimated costs for the applicable fiscal year.

Provide any input related to any anticipated changes in business volume, organizational structure, and/or indirect rate structure for the new fiscal year.

Provide a comparison, by major cost element, of the proposed provisional rates to prior year final and year-end actual rates. Explain significant variances for all cost elements.

Provide a Certificate of Indirect Costs in accordance with 2 CFR 200, Subpart F, Appendix IV, Section D.

Documentation and steps needed to finalize indirect cost rates:

Prepare the following documents, and have them signed by the Executive Director, or other designated official with the organization's signature authority (examples of each of these can be found in Section 3 of this guide.)

- a. Lobbying Cost Certificate in accordance with 2 CFR 200, Subpart E, Section 200.450(c) 2 (vi)
- b. Certificate of Indirect Costs in accordance with 2 CFR 200, Subpart F, Appendix IV, Section D

Compile all remaining documentation identified in the indirect cost proposal checklist, such as:

- Applicable audited financial statements including any affiliated organizations, and 2 CFR 200, Subpart F, Section 200.500, Audit Requirements. Financial statements must be reconciled to the indirect cost rate calculations. Include the level of transaction testing performed by the independent auditor on direct and indirect costs claimed.
- A reconciliation schedule for each indirect cost pool and allocation base showing each reclassification and adjustment to the financial statements to arrive at the cost pools and allocation bases. Each reclassification and adjustment must be explained in notes to the reconciliation schedule.

D. Indirect Cost Rate Allocation Bases

The rate methodology selected by an organization needs to match a business' operations. The allocation base should best represent the causal relationship between costs being allocated and the final cost objectives (awards, fundraising, lobbying, etc.).

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.

- **Fringe benefits rate.** This indirect cost rate allocates employee benefits such as payroll taxes, vacation, sick, retirement, health care, bonus, deferred compensation, insurance, etc.).

The following are samples of fringe benefits bases of application:

- ✓ Total direct and indirect labor dollars excluding leave (vacation, sick, and holidays)
- ✓ Total direct and indirect labor dollars including leave (vacation, sick, and holidays)
- **Overhead rate.** This indirect cost rate allocates expenses related to the management or supervision of activities or cost that benefit more than one final cost objective (*e.g.*, division middle management, supervisors, project leadership benefiting multiple awards, site rent, etc.). Typically these are costs that would not be incurred if it was not for the awarded contract or grant.

The following are samples of overhead bases of application:

- ✓ Direct salaries and wages including (or excluding) all fringe benefits.
- ✓ Direct salaries and wages including vacation, holiday, sick pay, and other paid absences excluding all other fringe benefits.
- **General & Administrative (G&A) rate.** This indirect cost rate allocates expenses associated with the management and administration costs that benefit the organization as a whole (*e.g.*, accounting department, chief executive officer).

The following are samples of G&A bases of application:

Simplified Allocation Base:

The simplified allocation base includes all direct costs (labor, travel, ODC, subaward, etc.) fundraising, and exclude G&A expenses.

Modified Total Direct Cost (MTDC):

Modified Total Direct Cost (MTDC) excludes equipment, capital expenditures, participant support costs and the portion of each subaward 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.

The proposed allocation base(s) is subject to negotiation and approval by USAID. The grantee is required to provide written notification to the indirect cost negotiator prior to implementing any changes which could affect the applicability of the approved rates.

Ensure All Appropriate Costs Are Included in the Base of Allocation(s)

2 CFR 200, Subpart E, Section 200.413 (f), states that the costs of activities performed by the non-Federal entity primarily as a service to members, clients, or the general public when significant and necessary to the non-Federal entity's mission must be treated as direct costs whether or not allowable, and be allocated an equitable share of indirect (F&A) costs. Some examples of these types of activities include:

- Maintenance of membership rolls, subscriptions, publications, and related functions,
- Providing services and information to members, legislative or administrative bodies, or the public,
- Promotion, lobbying, and other forms of public relations,
- Conferences except those held to conduct the general administration of the non-Federal entity,
- Maintenance, protection, and investment of special funds not used in operation of the non-Federal entity. See also 2 CFR 200, Subpart E, Section 200.442, Fundraising and investment management costs, and
- Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans, and financial aid.

E. Indirect Cost Proposal Checklist for First Time NICRA

The checklist below addresses the documentation to provide and steps needed when an organization is seeking a NICRA for the first time. This checklist is also included in Appendix III, "Indirect Cost Rate Proposal Checklist for First Time NICRA," and includes the basic instructions to complete and submit an indirect cost rate proposal.

Indirect Cost Rate Proposal (ICR) Checklist for First Time NICRA

1. Contact person information (preferably the person who prepared the ICR):
 - Entity name and mailing address
 - Employer identification number (EIN)
 - Point of contact name and position title
 - Email address
 - Office telephone number
 - Entity's internet website address, if any
2. For each type of rate proposed provide a detailed rate calculation to include the pool of expenses, the base of application, and all unallowable costs.
3. Provide a comparative analysis of indirect cost pools and bases by detailed account to prior fiscal year actual costs.
4. Entity's written policy for allocating and identifying direct and indirect costs, i.e. cost allocation methodology.
5. Written policies and procedures for screening unallowable costs.
6. Description of the allocation base used in each rate calculation.
7. Prior year audited financial statements including any affiliated organizations, and the single audit in accordance with 2 CFR 200, Subpart F, Section 200.512(a)(1). For small businesses, supporting documentation can include "reviewed" financial statements with the associated indirect cost calculations. If a small business has clearly established indirect cost rates, pools and bases that an external CPA firm has validated, this should be sufficient for the recognition of indirect cost rates under the award. The statements must be reconciled to the indirect cost rate(s) calculation. Include the level of transaction testing performed by the independent auditor on direct and indirect costs claimed.
8. Reconciliation schedule for each indirect cost pool and allocation base showing each reclassification and adjustment to the financial statements to arrive at the cost pools and allocation bases. Each reclassification and adjustment must be explained in notes to the reconciliation schedule.
9. Copy of IRS Form 990.

10. Indicate which, if any, of the following the organization used to establish executive compensation, and provide the following supporting documentation:

- Compensation Committee
- Independent compensation consultant
- Written employment contract
- Compensation survey or study
- Approval by the board or compensation committee

Provide the amount of executive compensation paid to the top 5 executives.

11. Description of accounting system.

12. Breakdown of indirect salaries by position title, amount and indirect percentage.

13. Breakdown of fringe benefits.

14. Description of non-profit's timekeeping system and a copy of a completed time sheet, if applicable, when an employee works on multiple activities or cost objectives.

15. Treatment of paid absences and signed statement of treatment of paid absences.

16. A schedule that summarizes total cost by line item expenditure, which should include , but not be limited to:

- Total expenditures (reconcilable to the audit if using actual numbers)
- Exclusion with footnote explanation
- Direct and indirect costs
- Indirect cost rate calculation and federal percentage

17. A list of subawards under your prime awards (required for Modified Total Direct Cost (MTDC) base only). Please provide a schedule showing the amount excluded under each subaward.

18. Schedule of all awards grouped by funding agency with majority federal funding listed on top.

19. Did your organization receive **more than \$10 million in federal funding of direct costs** in the fiscal year(s) in which you are requesting an indirect cost rate?

_____ Yes. 2 CFR 200, Subpart F, Appendix IV, Section B.2.e. states “...a breakout of the indirect cost component into two broad categories, Facilities and Administration as defined in subparagraph A.3 of this appendix is required. The rate in each case must be stated as a percentage which the amount of the particular indirect category (i.e., Facilities or Administration) is of the distribution base identified with that category”.

_____ No. The breakdown is not required.

20. Organization chart.
21. Signed certificate of indirect costs.
22. Signed lobbying certificate.
23. A copy of the IRS letter granting nonprofit status.
24. A copy of the organization’s severance policy.
25. A copy of the organization’s bonus policy.
26. Submit ICR to NON-PROFIT-ICR-PROPOSAL@USAID.GOV

F. Indirect Cost Proposal Checklist for Subsequent NICRAs

The checklist below addresses the documentation to provide and steps needed when seeking a revised provisional rate and/or final rates. This checklist is also included in Appendix IV, “Indirect Cost Rate Proposal Checklist for Subsequent NICRAs,” and includes the basic instructions to complete and send your revised provisional or final indirect cost rate proposal.

Indirect Cost Rate Proposal (ICR) Checklist for Subsequent NICRAs

1. Contact person information (preferably the person who prepared the ICR):
 - Entity name and mailing address
 - Employer identification number (EIN)
 - Point of contact name and position title
 - Email address
 - Office telephone number
 - Entity’s internet website address, if any

2. For each type of rate proposed provide a detailed rate calculation to include the pool of expenses, the base of application, and all unallowable costs.
3. Provide a comparative analysis of indirect cost pools and bases by detailed account to prior fiscal year actual costs.
4. Description of the allocation base used in each rate calculation if it has changed.
5. Applicable audited financial statements including any affiliated organizations, and the single audit in accordance with 2 CFR 200, Subpart F, Section 200.512(a)(1). The statements must be reconciled to the indirect cost rate(s) calculation. Include the level of transaction testing performed by the independent auditor on direct and indirect costs claimed.
6. Reconciliation schedule for each indirect cost pool and allocation base showing each reclassification and adjustment to the financial statements to arrive at the cost pools and allocation bases. Each reclassification and adjustment must be explained in notes to the reconciliation schedule.
7. Copy of IRS Form 990.
8. Indicate which, if any, of the following the organization used to establish executive compensation, and provide the following supporting documentation:
 - Compensation Committee
 - Independent compensation consultant
 - Written employment contract
 - Compensation survey or study
 - Approval by the board or compensation committee

Provide the amount of executive compensation paid to the top 5 executives.

9. Description of changes in accounting or cost allocation methods made since that last submission.
10. Breakdown of indirect salaries by position title, amount and indirect percentage.
11. Breakdown of fringe benefits.
12. Treatment of paid absences and signed statement of treatment of paid absences if it has changed.

13. A schedule that summarizes total cost by line item expenditure, which should include , but not be limited to:
 - Total expenditures (reconcilable to the audit if using actual numbers)
 - Exclusion with footnote explanation
 - Direct and indirect costs
 - Indirect cost rate calculation and federal percentage
14. A list of subawards under your prime awards (required for Modified Total Direct Cost (MTDC) base only). Please provide a schedule showing the amount excluded under each subaward.
15. Depreciation schedule if depreciation is included as indirect costs.
16. Schedule of all awards grouped by funding agency with majority federal funding listed on top.
17. Did your organization receive **more than \$10 million in federal funding of direct costs** in the fiscal year(s) in which you are requesting an indirect cost rate?

_____ Yes. 2 CFR 200, Subpart F, Appendix IV, Section B.2.e. states “...a breakout of the indirect cost component into two broad categories, Facilities and Administration as defined in subparagraph A.3 of this appendix is required. The rate in each case must be stated as a percentage which the amount of the particular indirect category (i.e., Facilities or Administration) is of the distribution base identified with that category”.

_____ No. The breakdown is not required.

18. Signed certificate of indirect costs.
19. Signed lobbying certificate.
20. Submit ICR to NON-PROFIT-ICR-PROPOSAL@USAID.GOV

As a reminder, the indirect cost rate proposal must not include expressly unallowable costs identified in 2 CFR 200, Subpart E, Sections 200.420 through 200.475.

Title 2 of the Code of Federal Regulation Part 200 (2 CFR 200), titled “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” establishes the federal requirements for the determination of allowable and unallowable direct and indirect costs, and is available at the following website: <http://www.ecfr.gov>

G. Indirect Cost Proposal – M/OAA/CAS/OCC’s Review Procedures

Some issues that may be raised by an M/OAA/CAS/OCC indirect cost rate negotiator during, or after, the review of an indirect cost rate proposal, usually result from non-profit organizations not following the required procedures. Knowing these procedures while preparing an indirect cost rate proposal, may make the review process more efficient and timely.

- Determine that the applicable cost principles stated in 2 CFR 200 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 each indirect cost rate calculation provided by the organization. Assure that the indirect cost rate calculation is in accordance with the accepted rate methodology.
- Determine that the proposal reconciles with the supporting audit, official budget and 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 executive compensation of the top five executives for reasonableness.
- Review severance payments for reasonableness.
- 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.
- Review the grant budget and payments, or grantee records, for a 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 Agreement Officer for any problems he/she may be aware of relating to the charging of costs

3. EXAMPLES OF EXHIBITS TO SUPPORT AN INDIRECT COST PROPOSAL

A. Example - Personnel Cost Worksheet

Fill in: Organization's Fiscal year

Employee Name	Annual Salary (a)	FICA	State UI	Worker's Comp.	Health Insurance	Bonus	Retirement	Total Benefits (b)	Total Personnel Costs (a+b)
James Spears	\$60,000	\$4,311	\$240	\$600	\$2,400	\$15,000	\$4,800	\$27,351	\$87,351
Joan Silver	22,000	1,683	240	220	2,400	1,000	1,760	7,303	29,303
Rick Angus	45,000	3,443	240	450	2,400	5,000	3,600	15,133	60,133
Stephanie Galileo	90,000	6,885	720	900	7,200	2,000	7,200	24,905	114,905
Mary Richardson	120,000	9,180	960	1,200	9,600	2,000	9,600	32,540	152,540
Burt Gomez	35,000	2,678	240	350	2,400	1,500	2,800	9,968	44,968
Albert Gallagher	15,000	1,148	240	150	1,400	1,000	1,200	5,138	20,138
Susan Spears	25,000	1,913	480	250	4,800	1,500	2,000	10,943	35,943
Kathy Smith	40,000	3,060	240	400	2,400	5,000	3,200	14,300	54,300
Michael Wilson	60,000	4,590	720	600	7,200	700	4,800	18,610	78,610
David Willis	45,000	3,443	240	450	2,400	5,000	3,600	15,133	60,133
Steve Peters	45,000	3,443	240	450	2,400	5,000	3,600	15,133	60,133
Kent Brown	12,000	918	240	120	1,200	500	960	3,938	15,938
TOTAL	\$614,000	\$46,695	\$5,040	\$6,140	\$48,200	\$45,200	\$49,120	\$200,395	\$814,395

Leave absence such as vacation, holiday, sick leave, and other paid absences were included in salaries.

Note: Salaries and fringes included in this exhibit are for illustrative purposes only.

Labor is the most significant cost incurred by an organization. Therefore, the organization should have internal controls in place regarding labor costs incurred that are evident, well defined, regularly maintained and updated as necessary, and verify effectiveness.

Note that 2 CFR 200, Subpart E, Section 430(i)(1), *Standards for Documentation of Personnel Expenses*, indicates that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records, among other conditions disclosed in this section, must be supported by a system of internal control which provides

reasonable assurance that the charges are accurate, allowable, and properly allocated; and are incorporated into the official records of the non-Federal entity. They should also support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Also, 2 CFR 200, Subpart E, Section 430(i)(3) states that in accordance with Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR part 516), charges for the salaries and wages of nonexempt employees, in addition to the supporting documentation described in this section, must also be supported by records indicating the total number of hours worked each day.

B. Example - Personnel Activity Report

The organization must maintain a time distribution system for use by employees whose time is charged to more than one cost objective. Payroll documentation should be maintained to support the charging of salaries as direct or indirect.

Type of Employee: (Direct/Indirect) _____ Pay Period Reporting for: _____
 Employee Name: _____ Department: _____
 Position Title: _____ Telephone number: _____

Summary of work hours	Dates						
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Direct Program/Grant:							
Grant No. 1							
Grant No. 2							
Grant No. 3							
Indirect activities:							
Overhead							
G&A							
Non-Work hours:							
Holiday Pay							
Annual leave taken							
Sick leave taken							
Admin. leave taken							
Total hours							

	Original time sheet never submitted because	
	Correction to original submission (copy attached)	
	Other reason	

I hereby certify that this report correctly reflects all time worked by me for the pay period indicated.

Employee signature/date: _____
 Approved by (name/title): _____
 Approved date: _____

Reliability and accuracy of an organization’s labor charging system is essential. Whether an organization has an automated or manual **personnel activity reporting system** there must be procedures, controls and an audit trail of documentation to support the labor costs.

The following is a list of some of the elements that must be provided for in the labor charging system:

- Employees have sole access for entering own time.
- Employee signature and Supervisor approval of labor hours (verifiable whether your timekeeping is electronic or manual) are evident.
- Labor hour changes are initialed, dated, authorized, and documented.
- Timekeeping is performed in accordance with company policies and procedures
- The hours recorded in the timesheet are reconciled to payroll and job cost system.

The direct labor amount must be supported by the organization's labor distribution report, and internal accounting system. These amounts should also tie to the general ledger labor accounts and the financial statements. If applicable, a reconciliation spreadsheet should be provided to support the organization's claimed labor cost.

The 2 CFR 200.430(i), "Standards for Documentation of Personnel Expenses", states that charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated, and be incorporated into the official records of the non-Federal entity. These records must support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. Examples of unallowable activities include: services to members, maintenance of membership rolls, public relations, lobbying, and fund raising.

C. Example – Statement of Total Costs

	Direct cost	Fringe benefits	Overhead	G&A expenses	Total costs
Direct labor	\$758,197				\$758,197
Applied fringe to Direct labor @50.92%	386,074				386,074
Consultants	26,000				26,000
Staff travel	94,000				94,000
Subawards	175,000				175,000
ODCs	45,000				45,000
Annual leave		\$50,384			50,384
Sick leave		25,269			25,269
Holidays		30,150			30,150
FICA		100,245			100,245
State unemployment compensation		17,040			17,040
Worker's compensation insurance		13,140			13,140
Medical insurance		168,200			168,200
Pension		105,120			105,120
Indirect labor			\$72,500	\$170,000	242,500
Applied fringe to Indirect labor @50.92%			36,917	86,564	123,481
Indirect travel			15,000	5,000	20,000
Supplies			7,000	4,000	11,000
Office equipment			2,000	15,000	17,000
Telephone			10,000	14,500	24,500
Printing and reproduction			7,500	3,500	11,000
Insurance			6,000	7,500	13,500
Entertainment			750	1,100	1,850
Postage and delivery			1,500	3,900	5,400
Depreciation				8,800	8,800
Bad debts				10,000	10,000
Total	\$1,484,271	\$509,548	\$159,167	\$329,864	\$2,482,850

D. Example - Simplified Allocation Method

Where an organization's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (i) separating the organization's total costs for the base period as either direct or indirect, and (ii) 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 awards. The rate should be expressed as the percentage of allowable indirect costs to the allocation base costs selected. This method should also be used where an organization has only one major function encompassing a number of individual projects or activities, and may be used where the level of Federal awards to an organization is relatively small.

Single indirect cost rate:

<u>Indirect expenses:</u>	<u>Indirect Cost</u>
Indirect labor (Overhead + G&A expenses)	\$242,500
Applied fringe on indirect labor @ 50.92%	123,481
Indirect travel	20,000
Supplies	11,000
Office equipment	17,000
Telephone	24,500
Printing and reproduction	11,000
Insurance	13,500
Entertainment	1,850
Postage and delivery	5,400
Depreciation	8,800
Bad debts	10,000
Subtotal	<u>\$489,031</u>
<u>Less unallowable:</u>	
Bad debts	(10,000)
Entertainment	(1,850)
Total allowable indirect expenses (a)	<u>\$477,181</u>
 <u>Base of application:</u>	 <u>Base Cost</u>
Direct labor	\$758,195
Applied fringe on Direct labor @ 50.92%	386,074
Consultants	26,000
Travel (directly in support of an award)	94,000
Subawards	175,000
ODCs	45,000
Total base of application (b)	<u>\$1,484,271</u>
Indirect cost rate (a/b)	<u>32.15%</u>

The base of allocation for this example is total costs excluding indirect expenses.

E. Example - Multiple Allocation Method

Where an organization's indirect costs benefit its major functions in varying degrees, indirect costs must be accumulated into separate indirect cost pools. Each indirect cost pool must then be allocated individually to benefitting functions by means of a base which best measures the relative benefits. Often an entity will have a fringe rate, overhead rate and G&A rate or just a fringe rate and another single indirect cost rate (overhead/G&A).

Fringe benefits indirect cost rate:

<u>Fringe benefits pool:</u>		<u>Fringe Cost</u>
Annual leave		\$ 50,384
Sick leave		25,269
Holidays		30,150
FICA		100,245
State unemployment compensation		17,040
Worker's compensation insurance		13,140
Medical insurance		168,200
Pension		105,120
Total fringe benefits pool	(a)	<u>\$509,548</u>
<u>Base of application:</u>		<u>Base Cost</u>
Direct labor		\$758,197
Overhead labor		72,500
G&A expense labor		170,000
Total fringe benefits base	(b)	<u>\$1,000,697</u>
Fringe benefits rate	(a/b)	<u>50.92%</u>

The fringe benefits pool included annual, sick, and holiday leave.

The fringe benefits base of application is total direct and indirect labor dollars. There are instances when the allocation base will include annual, sick, and holiday leave as part of the base of application. The decision to use either method will depend on the grantee's accounting system.

Overhead indirect cost rate:

<u>Overhead pool expenses:</u>	<u>Overhead Cost</u>
Overhead Labor	\$72,500
Applied fringe on Overhead labor @ 50.92%	36,917
Indirect travel	15,000
Supplies	7,000
Office equipment	2,000
Telephone	10,000
Printing and reproduction	7,500
Insurance	6,000
Entertainment	750
Postage and delivery	1,500
Subtotal	<u>\$159,167</u>
Less unallowable:	
Entertainment	(750)
Total allowable overhead pool (a)	<u>\$158,417</u>
<u>Base of application:</u>	<u>Base cost</u>
Direct Labor	\$758,197
Applied fringe on Direct labor @ 50.92%	386,074
Total overhead base (b)	<u>\$1,144,271</u>
Overhead rate (a/b)	<u>13.84%</u>

The base of allocation is direct labor dollars and applicable fringe.

General and Administrative (G&A) expense rate:

G&A expenses:		<u>G&A Cost</u>
G&A Labor		\$170,000
Applied fringe on G&A labor @ 50.92%		86,564
Indirect travel		5,000
Supplies		4,000
Office equipment		15,000
Telephone		14,000
Printing and reproduction		3,500
Insurance		7,500
Entertainment		1,100
Postage and delivery		3,900
Depreciation		8,800
Bad debts		<u>10,000</u>
	Subtotal	<u>\$329,864</u>
Less unallowable:		
Entertainment		(1,100)
Bad bets		<u>(10,000)</u>
	Total allowable G&A pool (a)	<u>\$318,764</u>
Base of application:		<u>Base Cost</u>
Direct Labor		\$758,197
Applied fringe on Direct labor @ 50.92%		386,074
Consultants		26,000
Staff travel		94,000
Subawards		175,000
ODCs		45,000
Overhead expenses		<u>159,167</u>
	Total G&A base	<u>\$1,643,438</u>
	G&A rate (a/b)	<u>19.40%</u>

The G&A expenses are those that have been incurred for the overall general executive and administrative offices of the organization and other expenses of a general nature which do not relate solely to any major function of the organization. This category must also include its allocable share of fringe benefit costs, operation and maintenance expense, depreciation, and interest costs. Some examples of this category include central offices, such as the director's office, the office of finance, business services, budget and planning, personnel, safety and risk management, general counsel, and management information systems costs.

The base of application for this example is total costs excluding G&A expenses.

F. Example -Direct Allocation Method

Some nonprofit organizations treat all costs as direct costs except general administration and general expenses. Under this method, common costs such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like are pro-rated individually as direct costs to each category and to each award or other activity using a base which accurately measures the benefits provided to each award or other activity. Below are some samples of common allocation bases:

This method is acceptable provided each joint cost is prorated using an acceptable base.

Directly allocated costs

Common allocation bases

Occupancy

- Sq. ft. of programs
- Cost of programs

Property insurance

- Sq. ft. of programs
- Cost of property per dept.

Professional liability insurance

- Number of staff with professional degrees

Information technology

- Number of computers
- Number of personnel
- Hours spent per department

Human Resources

- Number of employees
- Payroll dollars

Internal audit

- Number of employees
- Hours worked per department

Maintenance services

- Sq. ft. of programs
- Actual charges

Grant administration

- Revenue of grants
- Cost of programs
- Percentage of salary charged direct

Example of allocation methodology:

Allocation of \$10,000 on compensation for personal services that benefit all awards:

Award	Direct Personnel Costs	%	Amount Allocated
1	\$20,000	13%	\$1,300
2	\$10,000	7%	\$700
3	\$30,000	20%	\$2,000
4	\$40,000	27%	\$2,700
5	\$50,000	33%	\$3,300
Total	\$150,000	100%	\$10,000

Allocation of \$4,000 on consultant costs that benefit two or more specific awards, but not all awards:

Grant	Direct Award Costs	%	Amount Allocated
1	\$120,000	30%	\$1,200
3	\$130,000	33%	\$1,320
5	\$150,000	37%	\$1,480
Total	\$400,000	100%	\$4,000

Allocation of \$10,000 facilities expenses that benefit all awards:

Award	Square Footage	%	Amount Allocated
1	300	30%	\$3,000
2	100	10%	\$1,000
3	200	20%	\$2,000
4	200	20%	\$2,000
5	200	20%	\$2,000
Total	1,000	100%	\$10,000

Try to keep the allocation as simple as possible. The measurement selected should be based on relative benefits received, and should be able to replicate the process. The accounting system structure and capabilities should also be considered.

G. Model Cost Policy Statement (CPS)

The purpose of the CPS is to establish a clear understanding between the organization and the federal government as to what costs will be charged directly and what costs will be charged indirectly. It also provides awardee personnel with a record of the awardee's practices in the event of personnel changes (only changes to accounting practices or allocation methods need be submitted after the first year).

The CPS should be tailored to fit the specific policies of each organization. Although there are different methodologies available for allocating costs, the methodology used should result in an equitable distribution of costs to programs. Organizations must have a system in place to equitable charge costs.

The CPS should include, as a minimum, the following information:

- Organization legal name, address, telephone number
- General accounting policies:
 - ✓ Basis of Accounting
 - ✓ Fiscal Period
 - ✓ Allocation Basis for Individual Cost Elements
 - ✓ Indirect Cost Rate Allocation on each indirect cost rate
 - ✓ Description of the accounting system software
- Description of Cost Allocation Methodology:
 - ✓ Direct and indirect labor
 - ✓ Executive compensation
 - ✓ Severance
 - ✓ Fringe Benefits
 - ✓ Direct and Indirect Travel
 - ✓ Board Expenses
 - ✓ Supplies and Material
 - ✓ Occupancy Expenses
 - ✓ Utilities
 - ✓ Communications
 - ✓ Photocopying and Printing
 - ✓ Outside Services
 - ✓ Depreciation
 - ✓ Unallowable Costs

Signature

Date

Title

ABC Organization
1111 Main Street
City, USA 12345

H. Statement of Treatment of Paid Absences

(A) Treatment of paid absences: Vacation, holiday, sick leave, 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 the salaries and wages. Separate claims for the costs of these paid absences are not made.

(B) Treatment of paid absences: Vacation, holiday, sick leave pay and other paid absences are included in the organization's fringe benefit rate and are not included in the direct cost of salaries and wages. Claims for direct salaries and wages must exclude those amounts paid or accrued to employees for periods when they are on vacation, holiday, sick leave or are otherwise absent from work.

(C) None of the above treatments are applicable. Here's how paid absences are treated:

I certify that the above selection is correct.

Organization: _____

Signature: _____

Name of Official (printed): _____

Title: _____

Date of Execution: _____

(Signed by the official having the authority to negotiate indirect cost rates for the organization, or by a higher level official.)

I. Lobbying Cost Certificate

I hereby certify that _____ has complied with the requirements and standards on lobbying costs in 2 CFR 200 for the fiscal year ended _____.

Organization: _____

Signature: _____

Name of Official (printed): _____

Title: _____

Date of Execution: _____

J. Certificate of Indirect Costs

The 2 CFR 200, Subpart F, Appendix IV, Section D (1) and (2) states that no proposal to establish indirect (F&A) cost rates must be acceptable unless such costs have been certified by the non-profit organization using the Certificate of Indirect (F&A) Costs. The certificate must be signed on behalf of the organization by an individual at a level no lower than vice president or chief financial officer for the organization. Each indirect cost rate proposal must be accompanied by a certification in the following form:

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 the Federal cost principles; i.e., (please check those applicable cost principles):

_____ Subpart E—Cost Principles of Part 200

(3). This proposal does not include any costs which are unallowable under applicable Federal cost principle. For example:

advertising, bad debts, 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 USAID grants/contracts 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.

I declare that the foregoing is true and correct.

Grantee: _____

Signature: _____

Printed Name of Authorized
Official: _____

Title: _____

Date: _____

K. Example - List of Grants with the Period-of-Performance

**Organization ABC
Federal Listing of Awards
Indirect Cost Proposal for the fiscal year ended
December 31, XXXX**

Grantor	Grant/Cooperative Agreement Number	Grant/Cooperative Agreement Amount	Period of Performance	Indirect Cost Limitations or CAP Limitations *	Award Type
USAID	AID-612-G-12-00074	\$5,000,000	01/01/10-12/31/13	None	Grant
USAID	AID-HPR-G-14-00002	\$300,000	01/01/11-06/30/12	None	Grant
USAID	AID-342-A-12-00123	\$3,500,000	07/01/11-06/30/14	5% of Total Award	Cooperative Agreement
USAID	AID-GDF-A-15-00030	\$1,000,000	01/01/11-12/31/12	None	Cooperative Agreement

* If applicable.

NEGOTIATED INDIRECT COST RATE AGREEMENT

DATE

ORGANIZATION

NAME

ADDRESS

CITY, STATE ZIPCODE

The rates approved in this Agreement are for use on grants, contracts and other agreements with the Federal Government to which 2 Code of Federal Regulations (CFR) 200 applies, subject to the conditions in section II.A, below. The rate(s) were negotiated by the U.S. Agency for International Development in accordance with the authority contained in Appendix IV, Paragraph C.2(a) of the CFR.

Section I: NEGOTIATED INDIRECT COST RATES

TYPE	EFFECTIVE PERIOD		INDIRECT COST RATES		
	FROM	THROUGH	FRINGE (a)	OVERHEAD (b)	G&A (c)
Final	01-01-15	12-31-15	xx.xx%	xx.xx%	xx.xx%
Provisional	01-01-16	Until Amended	xx.xx%	xx.xx%	xx.xx%

Base of Application

- (a) Total direct and indirect labor dollars
- (b) Total direct labor and associated fringe
- (c) Total costs excluding equipment, capital expenditures, participant support costs and the portion of each sub-award in excess of \$25,000 (regardless of the period of performance of the sub-awards under the award).

SECTION II: GENERAL

- A. LIMITATIONS: Use of the rate(s) contained in this Agreement is subject to all statutory or administrative limitations and is applicable to a given grant, contract or other agreement only to the extent that funds are available. Acceptance of the rate(s) agreed to herein is predicated upon the following conditions:
1. That no costs other than those incurred by the grantee or allocated to the grantee via an approved central service cost allocation plan were included in its indirect cost rate proposal and that such incurred costs are legal obligations of the grantee and allowable under the governing cost principles,
 2. That the information provided by the grantee which was used as a basis for acceptance of the rate(s) to herein is not subsequently found to be materially inaccurate,
 3. That the same costs that have been treated as indirect costs have not been claimed as direct costs, and
 4. That similar types of costs have been accorded consistent treatment.
- B. ACCOUNTING CHANGES: The grantee is required to provide written notification to the indirect cost negotiator prior to implementing any changes which could affect the applicability of the approved rates. Any changes in accounting practice to include changes in the method of charging a particular type of cost as direct or indirect and changes in the indirect cost allocation base or allocation methodology require the prior approval of the Office of Overhead, Special Cost and Closeout (OCC). Failure to obtain such prior written approval may result in cost disallowance.
- C. NOTIFICATION TO FEDERAL AGENCIES: A copy of this document is to be provided by this organization to other Federal funding sources as a means of notifying them of the Agreement contained herein.
- D. PROVISIONAL-FINAL RATES: The grantee must submit a proposal to establish a final indirect cost rate within nine months after its 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.

E. SPECIAL REMARKS:

1. Indirect costs charged to Federal grants/contracts by means other than the rate(s) cited in the agreement should be adjusted to the applicable rate(s) cited herein which should be applied to the appropriate base to identify the proper amount of indirect costs allocable to the program.
2. Grants/contracts 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 grant, contract or other agreement. The ceiling rate(s) or the rate(s) cited in this Agreement, whichever is lower, will be used to determine the maximum allowable indirect cost on the grant or contract agreement.
3. The rates hereby approved are subject to periodic review by the Government at any time their use is deemed improper or unreasonable. You are requested to advise the Government promptly of any circumstances, which could affect the applicability of the approved rates.
4. You are directed to promptly submit adjustment vouchers or final vouchers for all flexibly priced grants, contracts or other agreements. Audit adjustments should be clearly delineated so as to be readily identifiable for verification by this office. Care should be taken that amounts claimed do not exceed award limitations or indirect cost rate ceilings.

ACCEPTED: **Organization Name**

BY _____

Signature

Printed or Typed Name

Title _____

Date _____

James N. Davis
Agreement/Contracting Officer
Overhead, Special Cost and Closeout Branch
Cost, Audit and Support Division
Office of Acquisition and Assistance
U.S. Agency for International Development

FREQUENTLY ASKED QUESTIONS

General questions:

When does 2 CFR 200 become effective?

The Department of the Interior implemented 2 CFR 200 on December 26, 2014. The Administrative Requirements and Cost Principles apply to all new awards and amendments to add incremental funding on and after December 26, 2014. Applications submitted prior to but awarded after December 26, 2014 must conform to the new requirements.

What is the effective date for audit requirements?

The A-133 audit requirements have been incorporated into 2 CFR 200 in Subpart F. Subpart F applies to audits of fiscal years beginning on or after December 26, 2014.

What is the effective date for indirect cost rate development and negotiation?

Existing negotiated indirect cost rates will remain in place until they are re-negotiated. Federal agencies/non-Federal entities will use the Uniform Guidance to negotiate the new rate/generate rate proposals for recipient fiscal years starting on or after December 26, 2014. Non-Federal entities may begin to submit actual cost proposals based on the Uniform Guidance when they are due for fiscal years that begin on or after December 26, 2014.

How does the effective date impact subawards?

The requirements for a subaward flow down from the original Federal award. If the original award was made prior to December 26, 2014 and is never modified to add incremental funding after December 26, 2014, the original award terms and conditions will apply to all subawards issued under the award, regardless of their award date.

How do we propose indirect cost if we don't yet have a NICRA because this will be our first prime USG award?

An organization under this scenario should propose its indirect cost rate(s) and provide all supporting documentation, along with an explanation that no NICRA yet exists because this will be its first prime USG award.

These indirect cost rates will then be reviewed for propriety by M/OAA/OCC and the Contracting/Awarding officer will be advised of accepted rates after negotiation with the organization. If the organization subsequently wins the award a NICRA will then be issued. Conversely, if the organization is not successful in securing the award, no NICRA will be issued.

10 % De minimis indirect cost rate:

Is the 10 percent de minimis rate for new organizations which have never negotiated an IDC rate at 2 CFR 200, Subpart E, Section 200.414(f)?

Yes. Provision of the 10 percent de minimis indirect cost rate is conditioned on the non-Federal entity meeting the requirements specified at 2 CFR 200, Subpart E, Section 200.414 (f). These include limiting availability to organizations that have never received a negotiated indirect cost rate, except for those described in 2 CFR 200. Subpart F, Appendix VII, Section D.1.b., governmental department or agency unit that receives more than \$35 million in direct Federal funding must submit its indirect cost rate proposal.

Indirect cost rate extensions:

What is meant by the term “one-time”?

2 CFR 200, Subpart E, Section 200.414(g) of the Uniform Guidance states: “Any non-Federal entity that has a federally negotiated indirect cost rate may apply for a one-time extension of a current negotiated indirect cost rates for a period of up to four years.”

What is meant by the term “current negotiated indirect cost rates”?

A current negotiated indirect cost rate is the negotiated rate *in effect (i.e., not expired)* when the non-Federal entity requests a rate extension. Rate extension requests will only be considered once in a rate negotiation cycle.

For example, a non-Federal entity with a current negotiated rate for 7/1/15-6/30/16 requests an extension of that rate for 3 years, until 6/30/19. If approved by the cognizant agency for indirect costs, the non-Federal entity is required to submit a proposal and request a negotiation of an indirect cost rate for the period beginning 7/1/19.

Assuming these are predetermined rates effective until 6/30/23, the non-Federal entity could then request an extension of the current negotiated rate at the end of this approved period (6/30/23), prior to the submission of a proposal for negotiated rates in the next period. "Current negotiated rates" include only "predetermined" and "final" rates (not "provisional" or "fixed" rates).

Documentation required for establishing a NICRA:

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

The organization needs to provide a current rate calculation that shows detailed costs by cost element in both the base of application and pool of expenses, financial reports that support amounts in the rate calculation and ideally a cost policy statement that details the treatment of expenses, to ensure consistent treatment of costs as either direct or indirect expenses. In addition, the organization will need to provide rate calculations supported by financial reports for the past three years.

What does a company have to do to get an established NICRA? Does this have to be specifically done within USAID?

The organization must first receive an award that incorporates and indirect cost rate(s) from the United States Government (USG). The cognizant USG Agency is responsible for issuing the NICRA.

Time period for establishing a NICRA:

How many days does an organization 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 award. The 2 CFR 200 , Appendix IV, Section C.2.b. states the following: "A non-profit 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."

How many days does an organization 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. The 2 CFR 200 , Appendix IV, Section C.2.c. states the following: "Organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency within six months after the close of each fiscal year."

For how long does an organization need to submit annual indirect cost rate proposals based on incurred costs?

For the life of the cost reimbursable award period. For example: The organization receive a three-year grant award (July 1, 2009 through July 1, 2012). The organization's fiscal year ends on December 31st. Based on the above example, the organization would need to submit indirect cost rate proposals for the organizations' fiscal years ending December 31, 2009, 2010, 2011 and 2012.

How many days does it take the Federal cognizant agency to process an organization's indirect cost rate proposal?

The amount of time to process an indirect cost rate proposal varies and is based on the package submitted by the organization. The process could take as little as a day if the proposal includes all requested documentation. However, the process could be lengthy if the proposal does not include all requested documentation.

Direct costing versus NICRA:

If they do not have a NICRA, USAID policy for local organizations is to only allow direct costs to be budgeted. Can we require all organizations who do not have a NICRA to submit only direct costs?

Most local non-U.S. organizations have a handful of employees, few U.S. Government awards at one time and basic accounting systems. Indirect cost rates are generally not warranted unless an organization has many government awards at once necessitating a system to equitably allocate shared costs (i.e. indirect cost rates). Thus, it is generally best for local non-U.S. organizations to charge all costs direct when possible, rather than establish indirect cost rates.

However, it is ultimately up to the management of the subject organization to determine if it will establish an indirect costing system. If the organization meets the requirements for the establishment of indirect cost rates, including an adequate accounting system, then the proposed indirect cost rates should be honored. USAID does not have a preference regarding the existence of an indirect costing system. The absence of an established NICRA should not be viewed as detrimental.

Award modification based on NICRA:

Should the award be modified when the provisional indirect cost rate(s) change?

The language in most awards that speaks to the agreed upon provisional indirect cost rates and bases usually stipulates that the indirect cost rates are valid until amended. Section E.4. of USAID Negotiated Indirect Cost Rate Agreements (NICRA), Appendix I of this guide, directs organizations to promptly submit adjustment vouchers or final vouchers for all cost reimbursement grants, contracts or other agreements. Organizations are further advised that audit adjustments should be clearly delineated so as to be readily identifiable for verification, and that care should be taken that amounts claimed do not exceed award limitations or indirect cost rate ceilings.

Consequently, it is not necessarily required to process an award modification each time an organization's indirect cost rates are revised, but there is no harm in doing so.

What happens when the negotiated indirect cost rates make the total expenditures more than the obligation under the award?

When the indirect costs exceed the amount allowable under the terms and conditions of the award, the excess amount may be used to satisfy cost-sharing or matching requirements. However, the differences may not be shifted to another federal award unless it has been approved by the USAID Agreement Officer or authorized representative.

Indirect Cost Rate Proposal (ICR) Checklist for First Time NICRA

The checklist below addresses the documentation to provide and steps needed when an organization seeks a NICRA for the first time. The listing identifies the basic items to provide with the indirect cost rate proposal, such as the organization's point-of-contact, detailed rate proposals, accounting policies, identification of direct, indirect and unallowable costs and required certifications. Send your proposal for provisional indirect cost rates to USAID at NON-PROFIT-ICR-PROPOSAL@USAID.GOV.

Per 2 CFR 200, Subpart F, Appendix IV, Section C.2.b., organizations that do not have a NICRA with the Federal government are required to provide their initial indirect cost proposal immediately but no later than 3 months after the effective date of the Federal award which first incorporates indirect cost rates.

Note that M/OAA/CAS/OCC reviews the ICR proposal for compliance with applicable Federal regulations and as a result, may request additional supporting information.

Below are the names, email addresses and telephone numbers of the Contract Specialist responsible to negotiate each organization's indirect cost rate agreement (NICRA). Note that responsibility for each specific organization is based on the first letter of its name, i.e. ABC, Inc. is handled by Lynn Brown and Help the Poor, Inc. is handled by Judith Almodovar, etc.

TITLE & LOCATION	NAME & RESPONSIBILITY	EMAIL ADDRESS	TELEPHONE NUMBER
Branch Chief SA-44, 822-B	James Davis	JaDavis@usaid.gov	202-567-4613
Contract Specialist SA-44, 820-I	Judith Almodovar D,H,O, P, Q,R & V	JAlmodovar@usaid.gov	202-567-4663
Contract Specialist SA-44, 820-G	Angela Baldwin S, T, U, W, X, Y & Z	ABaldwin@usaid.gov	202-567-4207
Contract Specialist SA-44, 820-C	Lynn Brown A, B, & F	LyBrown@usaid.gov	202-567-4658
Contract Specialist SA-44, 820-F	Catrina Burgess E, & I	CBurgess@usaid.gov	202-567-4662
Contract Specialist SA-44, 820-E	Heartwill Doughan C, & G	HDoughan@usaid.gov	202-567-4661
Contract Specialist SA-44, 822-C	Ramon Santos J, K, L, M, & N	RSantos@usaid.gov	202-567-4612
Management Analyst SA-44, 820-H	Tanya Broadnax Closeout	TBroadnax@usaid.gov	202-567-5118

Indirect Cost Rate Proposal (ICR) Checklist for First Time NICRA	
1.	Contact person information (preferably the person who prepared the ICR): <ul style="list-style-type: none"> • Entity name and mailing address • Employer identification number (EIN) • Point of contact name and position title • Email address • Office telephone number • Entity's internet website address, if any
2.	For each type of rate proposed provide a detailed rate calculation to include the pool of expenses, the base of application, and all unallowable costs.
3.	Provide a comparative analysis of indirect cost pools and bases by detailed account to prior fiscal year actual costs.
4.	Entity's written policy for allocating and identifying direct and indirect costs, i.e. cost allocation methodology
5.	Written policies and procedures for screening unallowable costs.
6.	Description of the allocation base used in each rate calculation.
7.	Prior year audited financial statements including any affiliated organizations, and the single audit in accordance with 2 CFR 200, Subpart F, Section 200.512(a)(1). For small businesses, supporting documentation can include "reviewed" financial statements with the associated indirect cost calculations. If a small business has clearly established indirect cost rates, pools and bases that an external CPA firm has validated, this should be sufficient for the recognition of indirect cost rates under the award. The statements must be reconciled to the indirect cost rate(s) calculation. Include the level of transaction testing performed by the independent auditor on direct and indirect costs claimed.
8.	Reconciliation schedule for each indirect cost pool and allocation base showing each reclassification and adjustment to the financial statements to arrive at the cost pools and allocation bases. Each reclassification and adjustment must be explained in notes to the reconciliation schedule.
9.	Copy of IRS Form 990.
10.	Indicate which, if any, of the following the organization used to establish executive

Indirect Cost Rate Proposal (ICR) Checklist for First Time NICRA	
	<p>compensation, and provide the following supporting documentation:</p> <ul style="list-style-type: none"> • Compensation Committee • Independent compensation consultant • Written employment contract • Compensation survey or study • Approval by the board or compensation committee <p>Provide the amount of executive compensation paid to the top 5 executives.</p>
11.	Description of accounting system.
12.	Breakdown of indirect salaries by position title, amount and indirect percentage.
13.	Breakdown of fringe benefits.
14.	Description of non-profit's timekeeping system and a copy of a completed time sheet, if applicable, when an employee works on multiple activities or cost objectives.
15.	Treatment of paid absences and signed statement of treatment of paid absences.
16.	<p>A schedule that summarizes total cost by line item expenditure, which should include , but not be limited to:</p> <ul style="list-style-type: none"> • Total expenditures (reconcilable to the audit if using actual numbers) • Exclusion with footnote explanation • Direct and indirect costs • Indirect cost rate calculation and federal percentage
17.	A list of subawards under your prime awards (required for Modified Total Direct Cost (MTDC) base only). Please provide a schedule showing the amount excluded under each subaward.
18.	Schedule of all awards grouped by funding agency with majority federal funding listed on top.
19.	<p>Did your organization receive more than \$10 million in federal funding of direct costs in the fiscal year(s) in which you are requesting an indirect cost rate?</p> <p style="text-align: center;">_____ Yes. 2 CFR 200, Subpart F, Appendix IV, Section B.2.e. states "...a breakout of the indirect cost component into two broad categories, Facilities</p>

Indirect Cost Rate Proposal (ICR) Checklist for First Time NICRA	
	<p>and Administration as defined in subparagraph A.3 of this appendix is required. The rate in each case must be stated as a percentage which the amount of the particular indirect category (i.e., Facilities or Administration) is of the distribution base identified with that category”.</p> <p>_____ No. The breakdown is not required.</p>
20.	Organization chart.
21.	Signed certificate of indirect costs.
22.	Signed lobbying certificate.
23.	A copy of the IRS letter granting nonprofit status.
24.	A copy of the organization’s severance policy.
25.	A copy of the organization’s bonus policy.
26.	Submit ICR to NON-PROFIT-ICR-PROPOSAL@USAID.GOV

Indirect Cost Rate Proposal (ICR) Checklist for Subsequent NICRAs

The checklist below addresses the documentation to provide and steps needed when seeking a revised provisional rate or a final rate. The listing identifies the basic items to provide with the indirect cost rate proposal, such as the organization's point-of-contact, detailed rate proposals and required certifications. Note that some items do not need to be resubmitted when seeking revised rates unless there are changes. These items include accounting policies, identification of a cost as direct or indirect and the treatment of unallowable costs. Send your proposal for provisional indirect cost rates to the USAID at NON-PROFIT-ICR-PROPOSAL@USAID.GOV.

Per 2 CFR 200, Subpart F, Section 200.512(a)(1), organizations are required to submit their audited financial statements, single audit, and certified indirect cost rate proposal to USAID within the earlier of 30 days after receipt of the auditor's report, or nine months after the close of each fiscal year.

Note that M/OAA/CAS/OCC reviews the ICR proposal (provisional and final) for compliance with applicable Federal regulations and as a result, may request additional supporting information.

Below are the names, email addresses and telephone numbers of the Contract Specialist responsible to negotiate each organization's indirect cost rate agreement (NICRA). Note that responsibility for each specific organization is based on the first letter of its name, i.e. ABC, Inc. is handled by Lynn Brown and Help the Poor, Inc. is handled by Judith Almodovar, etc.

TITLE & LOCATION	NAME & RESPONSIBILITY	EMAIL ADDRESS	TELEPHONE NUMBER
Branch Chief SA-44, 822-B	James Davis	JaDavis@usaid.gov	202-567-4613
Contract Specialist SA-44, 820-I	Judith Almodovar D,H,O, P, Q,R & V	JAlmodovar@usaid.gov	202-567-4663
Contract Specialist SA-44, 820-G	Angela Baldwin S, T, U, W, X, Y & Z	ABaldwin@usaid.gov	202-567-4207
Contract Specialist SA-44, 820-C	Lynn Brown A, B, & F	LyBrown@usaid.gov	202-567-4658
Contract Specialist SA-44, 820-F	Catrina Burgess E, & I	CBurgess@usaid.gov	202-567-4662
Contract Specialist SA-44, 820-E	Heartwill Doughan C, & G	HDoughan@usaid.gov	202-567-4661
Contract Specialist SA-44, 822-C	Ramon Santos J, K, L, M, & N	RSantos@usaid.gov	202-567-4612
Management Analyst SA-44, 820-H	Tanya Broadnax Closeout	TBroadnax@usaid.gov	202-567-5118

Indirect Cost Rate Proposal (ICR) Checklist for Subsequent NICRAs	
1.	<p>Contact person information (preferably the person who prepared the ICR):</p> <ul style="list-style-type: none"> • Entity name and mailing address • Employer identification number (EIN) • Point of contact name and position title • Email address • Office telephone number • Entity’s internet website address, if any
2.	<p>For each type of rate proposed provide a detailed rate calculation to include the pool of expenses, the base of application, and all unallowable costs.</p>
3.	<p>Provide a comparative analysis of indirect cost pools and bases by detailed account to prior fiscal year actual costs.</p>
4.	<p>Description of the allocation base used in each rate calculation if it has changed.</p>
5.	<p>Applicable audited financial statements including any affiliated organizations, and the single audit in accordance with 2 CFR 200, Subpart F, Section 200.512(a)(1). The statements must be reconciled to the indirect cost rate(s) calculation. Include the level of transaction testing performed by the independent auditor on direct and indirect costs claimed.</p>
6.	<p>Reconciliation schedule for each indirect cost pool and allocation base showing each reclassification and adjustment to the financial statements to arrive at the cost pools and allocation bases. Each reclassification and adjustment must be explained in notes to the reconciliation schedule.</p>
7.	<p>Copy of IRS Form 990.</p>
8.	<p>Indicate which, if any, of the following the organization used to establish executive compensation, and provide the following supporting documentation:</p> <ul style="list-style-type: none"> • Compensation Committee • Independent compensation consultant • Written employment contract • Compensation survey or study • Approval by the board or compensation committee <p>Provide the amount of executive compensation paid to the top 5 executives.</p>

Indirect Cost Rate Proposal (ICR) Checklist for Subsequent NICRAs	
9.	Description of changes in accounting or cost allocation methods made since that last submission.
10.	Breakdown of indirect salaries by position title, amount and indirect percentage.
11.	Breakdown of fringe benefits.
12.	Treatment of paid absences and signed statement of treatment of paid absences if it has changed.
13.	A schedule that summarizes total cost by line item expenditure, which should include , but not be limited to: <ul style="list-style-type: none"> • Total expenditures (reconcilable to the audit if using actual numbers) • Exclusion with footnote explanation • Direct and indirect costs • Indirect cost rate calculation and federal percentage
14.	A list of subawards under your prime awards (required for Modified Total Direct Cost (MTDC) base only). Please provide a schedule showing the amount excluded under each subaward.
15.	Depreciation schedule if depreciation is included as indirect costs.
16.	Schedule of all awards grouped by funding agency with majority federal funding listed on top.
17.	<p>Did your organization receive more than \$10 million in federal funding of direct costs in the fiscal year(s) in which you are requesting an indirect cost rate?</p> <p style="padding-left: 40px;">_____ Yes. 2 CFR 200, Subpart F, Appendix IV, Section B.2.e. states “...a breakout of the indirect cost component into two broad categories, Facilities and Administration as defined in subparagraph A.3 of this appendix is required. The rate in each case must be stated as a percentage which the amount of the particular indirect category (i.e., Facilities or Administration) is of the distribution base identified with that category”.</p> <p style="padding-left: 40px;">_____ No. The breakdown is not required.</p>
18.	Signed certificate of indirect costs.

Indirect Cost Rate Proposal (ICR) Checklist for Subsequent NICRAs	
19.	Signed lobbying certificate.
20.	Submit ICR to NON-PROFIT-ICR-PROPOSAL@USAID.GOV

Deviation from the Negotiated Indirect Cost Agreement Letter (Sample)

[DATE]

[NAME], [TITLE]
[STREET], [SUITE]
[CITY], [STATE] [ZIP CODE]

SUBJECT: Deviation from the Negotiated Indirect Cost Rate Agreement (NICRA)
Grant No. _____

Dear [Grantee]:

The proposed subject grant or contract contains a deviation from the Negotiated Indirect Cost Rate Agreement (NICRA) between your firm/organization and the U.S. Government. The reduction in the agreed to NICRA rates is part of a cost-sharing or other ceiling arrangement. You must acknowledge by signing and returning this letter that the reduction in the indirect cost rates shall not be recouped on other contracts or grants with the U.S. Government. The reduction shall be taken from profit or fee.

Your signature on this letter constitutes agreement that you shall forward a copy of this letter to your auditing firm prior to their next audit under the single audit in accordance with 2 CFR 200, Subpart F, Section 512(a)(1).

An officer with the authority to bind your organization must sign and date this letter in the space indicated below. This signature indicates acceptance of and compliance with the above stated conditions. Return one (1) copy of this signed letter to the undersigned Contracting/Grants Officer.

Sincerely,

Agreement Officer

GRANTEE:

Name: _____

Title: _____

Date _____