

**1100.1 Indirect Costs**

Indirect costs are incurred for the benefit of multiple programs, functions, or other cost objectives and therefore cannot be specifically identified with a particular program or other cost objective. The indirect cost expenditures are billed through an allocation process. Indirect costs are necessary for the general operations of your Agency. The indirect cost expenditures typically support administrative overhead functions such as accounting, payroll, facilities management, utilities, etc.

**1100.2 Indirect Costs Rate Certification**

The California Department of Public Health (CDPH) recently implemented a policy to standardize the Indirect Cost Rate (ICR) with Local Health Departments (LHD) (Appendix 24). CDPH requires LHDs to submit an ICR Annual Certification application (Appendix 25) each State calendar year to identify their ICR which will be used for all contracts with CDPH.

**1100.3 Indirect Cost Methodology**

The Indirect Cost Methodology provides a general and practical overview of how to develop and apply an indirect cost rate to ensure costs are allowable and properly classified as direct or indirect.

Allowable costs, direct and indirect, must be identified in a consistent manner. Your organization must identify indirect costs by using the same methodology to allocate certain shared costs across the entire spectrum of its Federal programs. An organization who generally participates in several Federal programs would need to determine how to allocate these indirect costs to the Federal programs.

**1100.4 Allocation**

Allocation is a mathematical calculation used to assign indirect costs of particular programs and other cost objectives, such that each program bears a portion of the indirect costs that is commensurate with the benefit received from such costs. This methodology normally involves applying a calculated indirect cost rate to a direct cost expenditure base.

**1100.5 Criteria for Allowable Costs**

The list of criteria for allowable costs should first be determined whether a cost meets the following criteria:

- Reasonable and necessary;
- Allocable and/or net of applicable credits;

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- Legal under State and Local law;
- Conforms with Federal law, regulations, and grant terms;
- Determined in accordance with Generally Acceptable Accounting Principles
- Not included as a cost or matching contribution of any other grant (except where allowed by Federal regulations); and,
- Adequately documented.

The Federal rate cannot exceed 26 percent of the total Modified Direct Costs (Total Direct Costs less subcontractors and equipment) or the rate cannot exceed 25 percent of Total Personnel Costs (Personnel and Benefits).

**1100.6 Indirect Cost Rate for Other Agencies**

Agencies other than LHDs need to submit a NEOPB Indirect Cost Proposal form (Appendix 26). The ICR is a ratio of your organizations indirect cost to its direct costs. The ICRs benefit the agency because general management and administrative costs are necessary for any program to exist.

**Example of an Indirect Cost Rate Proposal**

<b>Line Items</b>	<b>Direct</b>	<b>Unallowable</b>	<b>Indirect</b>	<b>Total Costs</b>
Personnel	140,000		8,000	148,000
Fringe Benefit	40,000		5,000	45,000
Operating Expenses	10,000		7,200	17,200
Equipment	0	0	0	0
Travel and Per Diem	8,000	500		8,500
Subcontractor	25,000	20,000		45,000
Other Costs	6,000			6,000
<b>Total Expenses</b>	<b>229,000</b>	<b>20,500</b>	<b>20,200</b>	<b>269,700</b>

Indirect Costs		Total Costs		Indirect Cost Rate
\$20,200	Divided by	\$269,700	Equals	.07489 or 7.489%