

II. FISCAL SECTION
1400 Indirect Cost Certification

1401 Definitions

Indirect Costs are defined as costs incurred by the *Network* Contractor not directly or exclusively associated with the project’s deliverables such as overhead or allocated expenses.

Indirect costs shall be classified into two broad categories; “Facilities” and “Administration.” Facilities are defined as depreciation and use allowance on buildings, equipment and capital improvements, and operations and maintenance expenses. Administration is defined as general administration and general expenses such as director’s office, accounting personnel, administrative personnel, bookkeeping and payroll services, janitorial services, insurance, and audit expenses.

Indirect costs are determined through a variety of rates or “cost allocation plans” that detail how the costs are to be shared by the funding agency. Normally, the agency that has the largest dollar amount involvement with the specific Contractor assigns the indirect cost rate. Example: If the majority of the organizations funding comes from CDC, the indirect rate negotiated with CDC would be the applicable indirect cost rate.

1402 Indirect Methodology

If the Contractor has a federally-negotiated rate, that rate is the one to be used for calculating the indirect costs line item. The indirect cost rate indicated on both the Federal and State budgets must be identical and must match the federally-negotiated rate of the contracting organization. If the indirect costs are based on a modified amount, please identify what expenses are not included in the calculation to arrive at the total indirect costs amount indicated in the budget.

If the indirect cost rate stated is not the same on both the Federal and State budgets, the contractor will be required to submit a justification to the CM detailing the reason for the difference.

For colleges and universities, since most nutrition education services normally occur off-campus, the off-campus rate is considered most appropriate. If the majority of the nutrition education activities will be conducted on-campus, then the on-campus rate will be allowed.

Some agencies do not have a federally-negotiated indirect cost rate. For these Contractors to charge indirect costs, they must submit a cost allocation plan to the *Network* for review and approval.

There are two methods for calculating indirect cost rates for agencies that do not have federally-negotiated indirect cost rates:

1. Simplified allocation method.
2. Multiple allocation method.

1403 Simplified Allocation Method

Simplified allocation method is to be used when the Contractor’s functions benefit from its indirect costs to approximately the same degree.

To calculate:

1. Separate your total costs for the fiscal year as either direct or indirect.
2. Divide the total indirect costs by the total direct costs.
3. Both indirect and direct costs should exclude capital expenditures and unallowable costs.
4. The resulting percentage is applied to each budget as their share of the indirect costs.

The methodology must be submitted to *Network* for approval prior to reimbursement. Contractors should submit "Sample Certification Form for Indirect Costs **Simple Allocation Method**" depending on methodology (Form A20).

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

1404 Multiple Allocation Method

Multiple allocation method is to be used when the Contractor's functions benefit from its indirect costs to varying degrees.

1. Usually meant for a larger **Contractor**.
2. Various costs are pooled and then allocated to the various contracts.

The methodology must be submitted to the *Network* for approval prior to reimbursement. Contractors should submit "Sample Certification Form for Indirect Costs **Multiple Allocation Method**" depending on methodology (Form A21).

The rate cannot exceed 26% of Total Modified Direct Costs (Total Direct Costs less subcontractors and equipment) or 25% of Total Personnel Costs.

1405 Supporting Documentation Requirements

Network Contractors are required to provide **annual** supporting documentation of indirect cost rates in order to be reimbursed for indirect costs. For Contractors using a **Federally**-negotiated rate, this supporting documentation should be in the form of a letter from the cognizant agency that has approved the indirect rate. A cognizant agency is a federal agency that has been identified by the Office of Management and Budgets (OMB) that is responsible for establishing indirect cost rates. This information can generally be obtained from the Contractor's fiscal department, as they will have worked with the cognizant agency to determine the indirect rate for their other funding sources. See OMB Circular for appropriate agency type. (A-122 Cost Principles for Non-Profit Organizations, A-87 Cost Principles for State, Local and Indian Tribal Governments, or OMB Circular A-21, Cost Principles for Education Institutions). OMB Circular can be found at: <http://www.whitehouse.gov/omb/circulars/index.html> .

Contractors using simple allocation methods must have on hand as documentation the prior year expenditure to date information. Contractors using multiple allocation method must be able to provide expenditure-to-date information by allocation category/pool.