
Grants Management Helpful Hints

Indirect Cost Rates

Indirect costs are the costs incurred by an organization that are not readily identifiable with a particular project or program but are nevertheless necessary to the operation of the organization and the performance of its programs. The costs of operating and maintaining facilities, depreciation, and administrative salaries, are examples of the types of costs that are usually treated as indirect costs.

In theory, all such costs might be charged directly. Practical difficulties, however, will normally preclude this approach. The indirect costs are therefore grouped into common pools and distributed to the organization's programs or cost centers through a cost allocation process. The end product of this allocation process is an indirect cost rate (or rate for each pool) which is then applied to individual financial assistance awards to determine the amount of indirect costs chargeable to the awards.

Indirect Cost Rate Definitions

INDIRECT COST RATE: The ratio, expressed as a percentage, of an organization's total indirect costs (numerator) to its direct cost base (denominator). The base can be defined as salaries and wages, modified total direct costs, or some other financial number that provides for an equitable distribution of indirect costs to the benefiting activities. When a rate is established for a specific cost center, the rate represents the ratio of the total allowable indirect costs allocated to the activity to the direct base costs of the activity.

FIXED INDIRECT COST RATE WITH CARRY-FORWARD: A permanent rate established for a given period to permit reimbursement of indirect costs for that period. Typically, the calculation of this type of rate is based on an organization's most recently audited financial statements, which form the basis for a rate proposal to be applied to a subsequent period. The difference between the estimated costs used to establish the fixed rate and the actual costs of the period covered by the rate is "carried forward" as an adjustment to the rate computation of the following period.

INDIRECT COST PROPOSAL: The documentation prepared by a grantee organization to substantiate its claim for the reimbursement of indirect costs. This proposal provides the basis for review, audit, and negotiation leading to the establishment of the organization's indirect cost rate(s).

RATE AGREEMENT: The document that formalizes the establishment of indirect cost rates and provides information on the proper application of the rates.

AWARD: The term "award", includes grants, cooperative agreements, and other forms of financial assistance.

COGNIZANT FEDERAL AGENCY: The Office of Management and Budget (OMB) is responsible for assigning federal agencies to serve as cognizant for purposes of review and approval of indirect cost (and other) rates for organizations receiving financial awards. The Office of Federal Financial Management is the responsible unit within OMB. Each organization is assigned to a single federal agency which acts on behalf of all federal agencies in rate negotiations, and is referred to as the cognizant agency. This is the agency to which organization's indirect cost proposals are submitted. For organizations not specifically assigned a federal cognizant agency by OMB, federal agency cognizance shall be based on largest dollar value of direct federal awards (not pass-through awards) provided to the organization. Once established, a change of cognizant agency will not be addressed unless there is a major long-term shift in the dollar volume of federal awards to the organization.

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

We don't have an indirect cost rate, can we just do a minimum rate of 10%?

YES! For awards issued after December 2014, entities that have NEVER had a no cost rate agreement with the federal government (with a few exceptions) can elect to charge a minimum rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. 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.

How can I negotiate a rate?

If your entity needs to negotiate a rate with NOAA, please follow these steps outlined in [2 CFR Part 200, Appendices III-VII and Appendix IX](#). The negotiation process is very detailed and can easily take 3 – 6 months. If you receive most of your federal money from a federal agency outside of NOAA, please contact that agency for information on how to negotiate a rate.

Negotiation of Rates

NOAA will review the indirect cost proposals submitted by grantee organizations and, based on these reviews, will negotiate appropriate indirect cost rates with the organizations. If additional information or an audit is deemed necessary, NOAA or an auditor working for the Agency will notify the organization of the specific requirements necessary to complete the review of the grantee's submission.

The results of each negotiation will be formalized by an indirect cost Rate Agreement signed by the appropriate NOAA official and an authorized representative of the grantee organization. Each Rate Agreement will include the following provisions:

- a. The agreed upon rate(s) and information directly related to the use of the rate(s) (e.g., type of rate, effective period, direct cost base, etc.)
- b. The treatment of fringe benefits as either direct or indirect costs.
- c. General terms and conditions of the Agreement.
- d. Special terms and conditions of the Agreement (if any). *
- e. Additional information (if necessary) that may be needed by the users of the Agreement (e.g., the direct charging of a type of cost that is normally treated as indirect by other grantees). *
- f. * This information will normally be included in the "Special Remarks" subsection of the Agreement.
- g. Please talk to your Federal Program Officer for more information if you would like to negotiate an indirect cost rate with NOAA. Indirect cost rate proposals can be sent via e-mail or mail to Lamar Dwayne Revis, Grants Officer, National Oceanic and Atmospheric Administration, 1325 East West Highway, 9th Floor, Silver Spring MD 20910, or lamar.revis@noaa.gov.

For more Information on Indirect Cost Rates

Requirements for development and submission of indirect (F&A) cost rate proposals and cost allocation plans are contained in 2 CFR Part 200, Appendices III-VII and Appendix IX as follows:

[Appendix III to Part 200—Indirect \(F&A\) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education \(IHEs\);](#)

[Appendix IV to Part 200—Indirect \(F&A\) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations;](#)

[Appendix V to Part 200—State/Local Government wide Central Service Cost Allocation Plans;](#)

[Appendix VI to Part 200—Public Assistance Cost Allocation Plans;](#)

[Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals;](#)

[Appendix IX to Part 200—Hospital Cost Principles](#)