



Indirect Cost Rate Proposal (ICRP) Tool Kit
(State and Local Government Agencies)

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Introduction

The Federal Motor Carrier Safety Administration (FMCSA) developed this “Tool Kit” to assist State and Local government agencies in the preparation, submission, and review of indirect cost proposals (ICRP). An ICRP is the documentation that serves as the basis for the determination of the organization’s indirect cost rate. This Tool Kit contains informational guidance, forms, samples, and templates that can be used to meet the indirect cost proposal documentation standards required by 2 CFR Part 225 (formerly Office of Management and Budget (OMB) Circular A-87) and also establishes the cost principles for:

1. Determining allowable direct and indirect costs, and
2. Approving indirect cost rates and indirect cost rate agreements.

Indirect costs are those incurred for common or joint purposes that benefit multiple Federal and non-Federal activities and cannot be associated with specific programs without an effort disproportionate to the cost. Examples of indirect costs are:

- Payroll Services
- Human Resources
- Procurement
- Accounting
- Executive Administration
- Facilities/Occupancy/Maintenance

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 the ratio of allowable indirect expenses over a direct cost base that assigns a share of indirect costs in relation to benefits received. The cost principles allow recipients to use indirect cost rates under grants to reimburse themselves for these costs. Organizations may, and often do, choose to not claim indirect costs in order to use a greater share of the grant for direct costs. However, any proposed claims for indirect costs are assessed according to whether or not an indirect cost rate agreement exists with the Cognizant Agency. We hope the information in the toolkit helps you put together and properly document an indirect cost rate proposal.

For further information or technical assistance on the indirect cost process please contact the Grants Management Help Desk at FMCSA_GrantMgmtHelpDesk@dot.gov.

**Indirect Cost Rate Proposal Information Checklist
(State and Local Government Agencies)**

- 1. **Contact person information** (preferably the person who prepared the proposal)
 - Entity Name and mailing address
 - Employer Identification Number (EIN)
 - Point-of Contact Name and position title
 - Email address (very important)
 - Phone & fax numbers
 - Entity's Internet website address
- 2. Cost Policy Statement providing background information and cost charging policies and practices (see Exhibit A).
- 3. Reconciliation of indirect cost rate proposal to audited financial statements, expenditure reports or approved budgets (see Exhibit B).
- 4. Indirect cost rate calculation detailing total direct and indirect expenses by function and cost category, (use the simplified method using illustration 6-1 in OMB Circular A-87 Implementation Guide C-10 as shown in Exhibit C).
- 5. A schedule of fringe benefits by type and amount with an explanation of how the benefits are allocated.
- 6. Certificate of Indirect Costs signed on behalf of the State or Local government by an official at the Chief Financial Officer level or above (see Exhibit D).
- 7. Organization chart showing the structure of the agency during the proposal period.
- 8. Capitalization policy, along with equipment use allowance or depreciation schedules.
- 9. Financial data (audited financial statements, formal budgets, accounting reports, etc.) upon which the rate is based.
- 10. Approved Statewide Cost Allocation Plan (Section I schedule), if State central service costs are included in the indirect cost rate proposal.
- 11. A listing of grants and contracts identified by Catalog of Federal Domestic Assistance (CFDA) number, Federal agency, total dollar amount, and the period of performance.
- 12. Schedule of unused leave payments to separating employees.
- 13. Schedule of all sub-awards, including names and amounts. The schedule should reflect the amounts over \$25,000 excluded from the base calculation. (For modified total direct cost (MTDC) calculation only).

Exhibit A:

ABC STATE / LOCAL GOVERNMENT AGENCY
MODEL COST POLICY STATEMENT

This is an example of a Cost Policy Statement for State and Local government agencies seeking reimbursement for indirect costs under Federal awards. The Cost Policy Statement should be tailored to each organization's specific structure.

I. General Accounting Policies

A. Basis of Accounting – Accrual Basis

B. Fiscal Period – July 1 through June 30

C. Allocation Basis – Simplified Allocation Method

D. Indirect Cost Allocation Base – Total direct costs less equipment, alterations and renovations, flow-through funds, and the portion of each sub-award in excess of \$25,000.

E. Fringe Benefit Allocation Base – (If ABC State/Local Government Agency uses a fringe benefit rate, it would describe the fringe benefit allocation base here.)

F. ABC maintains adequate internal controls to insure that no costs are charged both directly and indirectly to Federal awards.

G. ABC accumulates all indirect costs and revenues in accounts titled "Indirect Cost Expense" and "Indirect Cost Revenue," respectively.

II. Description of Cost Allocation Methodology

A. Salaries and Wages

1. **Direct Costs** – The majority of ABC's employees direct charge their salary costs since their work is specifically identifiable to specific Federal awards or other activities of the organization including unallowable activities such as lobbying.

2. **Indirect Costs**

Employees in the following offices are charged as 100% indirect: *(Please identify by object class/code)*

➤ Chief Executive Officer

➤ Deputy Chief Executive Officers *(Please specify)*

- Accounting
- Procurement
- Data Processing
- Human Resources
- Payroll Processing

3. **Mixed Charges and Split-Funded Employees**

The following employees may be charged to both direct and indirect activities:

- *(Provide a List of Employees)*

When an individual employee works on more than one grant program, or is funded partially out of direct costs and partially out of indirect costs, the employees maintain time distribution records; ABC charges employee compensation based on these records. The time distribution records coincide with the pay periods, and are signed by the employee and the employee's supervisor.

Release time costs (vacation leave earned, sick leave used, and paid holidays) (specify which ones) are considered part of salary costs (if they are treated as fringe benefits, please so state). Since such costs are part of salary, the recipient does not claim release time costs as separate charges. ABC's accounting system records release time as a direct or indirect cost in the same manner that salary costs are recorded. Vacation leave earned but not used during each fiscal year is treated as a cost incurred during the period the leave is earned.

B. Fringe Benefits

ABC contributes the following fringe benefits for its employees:

- Federal Insurance Contributions Act (Social Security).
- Employee State pension.
- Unemployment insurance.
- Health insurance.
- Dental insurance.
- Other (*PLEASE SPECIFY*).

Since ABC's accounting system tracks fringe benefit costs by individual employee and charges those costs directly or indirectly in the same manner as salary and wage costs are recorded, recipient does not need to have a fringe benefit rate established. (If not, please describe how fringe benefit costs are accumulated in the pool for the fringe benefit rate.)

In accordance with Office of Management and Budget Circular A-87 (codified at 2 CFR Part 225), Appendix B Section (11)(d)(3), payments to separating employees for unused leave are treated as indirect costs (not direct costs) when computing the indirect cost rate.

For more specific guidance on fringe benefit rate calculations it is advised that you contact your Cognizant Agency for assistance.

C. Travel

Travel costs are charged either as direct or indirect depending upon the predominant purpose of the trip. Auditable travel vouchers support all claimed travel costs. Travel costs are normally limited to those allowable under the Federal Travel Regulations. ABC identifies unallowable travel costs (e.g., first class airfare, excessive lodging costs, and alcoholic beverages) and does not charge them as direct to Federal awards or as indirect to any indirect cost pool.

D. State Board Expenses / General Costs of Government

All salaries, expenses, fees, and other remuneration costs for any State Board or Councils are treated as direct (base) costs when computing the indirect cost rates (both restricted and unrestricted). None of these expenses are charged as direct costs to federal awards.

E. Supplies and Materials

Office supplies and materials are charged as direct costs to the individual awards that use the supplies and/or materials. Supplies and materials used by staff engaged in allowable indirect activities are treated as indirect costs.

F. Statewide Costs

Section I SWCAP costs are treated as indirect costs.

G. Occupancy

Occupancy costs include office and/or facility space rental, depreciation or building use allowance, utilities, custodial services, buildings and grounds services, security services, and other costs related to occupancy of the space used by the recipient.

THERE ARE SEVERAL METHODOLOGIES FOR CHARGING OCCUPANCY COSTS. Recipient needs to specifically establish and identify the one used. Any methodology used should provide an equitable distribution.

- *One methodology is to place all occupancy costs in the indirect cost pool. If so, no occupancy costs are charged as direct on any federal awards.*

- *Another methodology charges occupancy costs to direct and indirect activities based on a distribution such as square footage occupied by the employees. The areas occupied by direct employees are charged as direct costs to the employees' respective activities, and are treated as base costs when computing the indirect cost rate. The areas occupied by allowable indirect employees are part of the indirect cost pool. Section I SWCAP occupancy costs are added to the indirect cost pool.*

H. Communications

1. The cost of fax services is charged directly or indirectly based upon whether a direct activity or an indirect activity benefits from the transmission.
2. Long distance telephone calls are charged either directly or indirectly based upon whether a direct or indirect activity benefits from the call.
3. Local telephone service costs are prorated to direct or indirect activities based upon the number of telephone instruments.
4. Express mail costs are specifically identified to the program's activity incurring the cost.

I. Photocopying and Printing

Photocopy and printing expenses are prorated to each program or activity based on volume allocations.

Costs representing immaterial amounts may be allocated wholly as indirect for reasons of practicality.

J. Outside Services

Outside Professional Services costs are charged as follows:

- Annual audit and OMB Circular A-133 compliance costs are charged as indirect.
- Legal fees for specific activities are assigned to the benefiting activities.
- Legal fees pertaining to the management of the recipient (e.g., advice on personnel relations issues) are treated as indirect costs.
- Professional (including consulting) services costs are charged to the benefiting activities.

K. Capital Expenditures / Equipment

ABC identifies equipment as items with a purchase price at or exceeding \$5,000 per item. Non-capital expenditures become classified as supplies if the cost is less than \$5,000.

If an indirect cost rate has a modified total direct costs (MTDC) base, the indirect cost rate is applied to individual items with an acquisition cost under \$5,000. When using an MTDC base, capital expenditures are excluded from the base for both rate computation and rate application purposes.

- With the prior approval of the awarding agency, the initial acquisition cost of capital equipment items may be charged directly. Federal awards may not be charged depreciation for equipment paid for with direct Federal funds.
- Capital items that are not charged directly to a Federal award may be recovered through depreciation on buildings, capital equipment and capital improvements. The cost of such capital items used by allowable indirect activities is recovered through depreciation.

L. Unallowable Costs.

ABC recognizes that the following costs are unallowable as indirect and direct charges to federal awards. ABC has internal controls in place to identify these costs and charge them to "unallowable cost" accounts.

- Fund Raising
- Alcoholic Beverages
- General Government Activities
- Advertising, except for staff recruitment or property disposal
- Claims and Judgments (except workers compensation)
- Bad Debts
- Fines, Penalties, and Contributions

ABC includes all above unallowable costs that benefit from its indirect cost pool in the base (denominator) when computing its indirect cost rates.

(Signature)

(Date)

(Title)

ABC (Name and Address of Recipient)

Exhibit B:
ABC STATE/LOCAL GOVERNMENT AGENCY
RECONCILIATION OF INDIRECT COST RATE PROPOSAL NO XX-XXX FINANCIAL REPORT

Account No.	Cost Center	PER EXPENDITURE REPORT				PER PROPOSAL				DIFFERENCES	
		(1) Salaries & Fringe Benefits	(2) Supplies & Materials	(3) Capital Outlay	(4) Local Assistance & Special Purpose	(5) Totals (1+2+3+4)	(6) Direct	(7) Indirect	(8) Excluded	(9) Totals	((5) less (9))
M000	State Board of Transportation	\$226,000	\$57,600	\$0	\$0	\$323,600	\$323,600	\$0	\$0	\$323,600	\$0
M100	Superintendent (or Director's) Office	342,000	98,300	10,200	0	450,500	0	440,300	10,200	450,500	0
M101	Comptroller's Office	213,300	51,900	6,700	0	271,900	0	265,200	6,700	271,900	0
M102	Personnel Office	405,900	91,700	0	0	497,600	0	497,600	0	497,600	0
M103	Procurement, Policy & Procedures	216,600	48,900	0	0	265,500	0	265,500	0	265,500	0
M104	Legal Office	234,700	65,000	9,900	0	309,600	0	299,700	9,900	309,600	0
M105	Data Systems & Services	444,400	76,200	78,900	0	599,500	0	520,600	78,900	599,500	0
M106	Public Affairs & Information	306,600	83,700	10,800	0	401,100	390,300	0	10,800	401,100	0
M107	Internal & External Audits	261,900	69,300	6,570	0	337,770	0	331,200	6,570	337,770	0
S100	State Police	894,300	384,000	7,860	0	1,286,160	1,278,300	0	7,860	1,286,160	0
S101	Public Safety Federal Grants	1,570,000	342,000	6,770	12,000,000	13,878,770	1,872,000	0	12,006,770	13,878,770	0
S102	Turnpike Enforcement	1,089,600	450,800	5,760	7,800,000	9,346,160	1,540,400	0	7,805,760	9,346,160	0
S103	Motor Vehicle Inspection	1,188,000	423,900	8,760	14,800,000	16,420,660	1,611,900	0	14,808,760	16,420,660	0
S104	Traffic Safety Commercial Vehicles	810,000	567,000	9,360	17,100,000	18,486,360	1,377,000	0	17,109,360	18,486,350	0
S105	MCSAP Federal Grants	446,000	192,900	0	0	638,900	638,900	0	0	638,900	0
S106	Highway Safety	483,000	200,100	0	9,810,000	10,493,100	683,100	0	9,810,000	10,493,100	0
S107	Drug Enforcement	727,800	239,400	6,660	5,760,000	6,733,860	967,200	0	5,766,660	6,733,850	0
S108	High Crash Corridor Grants	457,200	149,400	0	19,890,000	20,496,600	606,600	0	19,890,000	20,496,600	0
S109	Safety Data Improvement Program	972,900	429,300	11,700	1,692,000	3,105,900	1,402,200	0	1,703,700	3,105,900	0
S110	Emergency Medical Services	873,900	424,200	21,690	4,788,000	6,107,790	1,298,100	0	4,809,690	6,107,790	0
S111	Commercial Vehicle Bus Admin.	629,100	447,000	34,200	0	1,110,300	1,076,100	0	34,200	1,110,300	0
S112	Regional Service Centers	735,300	221,400	6,840	0	963,540	956,700	0	6,840	963,540	0
	Totals	\$13,528,500	\$5,114,000	\$242,670	\$93,640,000	\$112,525,170	\$16,022,400	\$2,620,100	\$93,882,670	\$112,525,150	\$0
	Subtotal Salaries & Benefits		\$13,488,500								
	Subtotal Operating		\$5,114,000								
	Financial Report Direct and Indirect		<u>\$18,642,500</u>								
	Proposal Indirect		\$2,620,100								
	Proposal Direct		\$16,022,400								
	Proposal Direct and Indirect		<u>\$18,642,500</u>								

A fundamental step in developing the ICRP review involves the reconciliation of actual cost data to the annual financial report for the organization. Because the indirect cost review measures trends in individual indirect cost and direct cost categories, the organization's indirect cost proposal must reconcile to the organization's audited financial statement by cost element. Further, function costs must be aligned to a current organizational chart to ensure all organizational activities are accounted for. An illustration of a reconciliation follows. The organization is expected to provide support or explanation for any substantive variances.

Exhibit C:
SAMPLE FORMAT
ABC STATE/LOCAL GOVERNMENT AGENCY
INDIRECT COST RATE PROPOSAL - SHORT FORM METHOD*
FOR THE FISCAL YEAR ENDED JUNE 30, 20XX

	Total Costs			Direct Costs		Indirect Costs
	Incurred (a)	Excludable Costs (b)	Unallowable Costs (c)	Salaries & Wages (d)	Other	
<i><u>Divisions/Bureaus</u></i>						
Commission	\$2,158,100	\$1,800,000	\$21,900	\$260,100	\$76,100	0
Traffic Control	245,200	0	12,200	187,800	45,200	0
Division of Security	255,400	0	9,600	196,700	49,100	0
Public Safety	642,300	0	51,000	476,100	115,200	0
Regional Offices	283,700	0	11,500	216,300	55,900	0
<i><u>Departmental Indirect Costs</u></i>						
Office of the Director	35,600	0	1,000	0	0	\$34,600
Financial Management	56,000	0	0	0	0	56,000
Administrative Services	61,100	0	500	0	0	60,600
Equipment Use	1,000	0	0	0	0	1,000
<i><u>Central Service Cost Allocation</u></i>						
<i><u>Plan (e)</u></i>						
Personnel	8,907	0	0	0	0	8,907
Accounting	21,622	0	0	0	0	21,622
Purchasing	2,221	0	0	0	0	2,221
Audit	1,221	0	0	0	0	1,221
Total Costs	\$3,772,371	\$1,800,000	\$107,700	\$1,337,000	\$341,500	\$186,171

Rate Calculation

$$\begin{array}{r} \text{Indirect Costs: } \$ \quad \underline{\$186,171} \\ \text{Direct Salaries \& Wages: } \$ \quad \underline{\$1,337,000} \end{array} = 13.92\%$$

*This is a sample only and is not intended to prescribe methods of charging costs.

- (a) Total Costs Incurred. This amount should be reconciled to the financial statements or other supporting documentation submitted with the proposal and would include costs billed from the Central Plan as well as departmental billed costs.
- (b) Excludable Costs. Under some Federal programs funds are provided to a Grantee and subsequently passed through to another organization which actually performs the program for which the funds are provided. There is no measurable involvement by the Grantee in the use or administration of the funds. This example illustrates such a situation. Since these funds, which are recorded as a cost in the records of the department, do not reflect the expenditure of resources, they are excluded from the computation. However, if the Grantee does in fact incur a significant amount of costs in administering the grant, then it should be assessed for its equitable share of indirect costs. This column would be normally used by States only and not by local governments.

- (c) Expenditures Not Allowable. This amount represents costs of capital expenditures and other costs which are unallowable under A-87. Unallowable costs must be allocated their share of indirect costs if they either generated or benefited from the indirect costs. In this example this is not the case.
- (d) Salaries & Wages. This amount is set out simply because it is the base upon which the indirect cost is calculated.
- (e) Central Service Cost Allocation Plan Costs. The amounts shown as allocated must agree with the amounts shown on the Central Service Cost Allocation Plan.

The SAMPLE FORMAT in Exhibit C illustrates the computation of indirect costs for programs operated within a department using the short form method. The costs of the department are categorized as indirect costs, direct costs (salaries and wages and other), and expenditures not allowable. The short form method results in the determination of a single Departmental indirect cost rate and is the preferred accounting approach when the agency's major functions benefit from indirect costs to approximately the same degree. However, if your accounting system requires a more complete costing method, please contact this office for assistance.

Exhibit D:

ABC STATE / LOCAL GOVERNMENT AGENCY

CERTIFICATE OF INDIRECT COSTS

This is a sample certification statement of a Certificate of Indirect Costs

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal dated _____ to establish billing or final indirect costs rates for the period ending or ended _____ are allowable in accordance with the requirements of the Federal award(s) to which they apply and OMB Circular A 87, *Cost Principles for State, Local, and Indian Tribal Governments*. Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct

Governmental Unit: _____

Signature: _____

Name of Official: _____

Title: _____

Date of Execution: _____