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PROGRAM GUIDANCE

PROGRAM: All Programs

FOR: All Tribal Government Leaders and Tribally Designated Housing Entities Board of Commissioners


FROM: Ted Key, Acting Deputy Assistant Secretary

TOPIC: Charging Indirect Costs to Federal Grants

Purpose: This Guidance provides information to program participants on how to support charging indirect costs incurred in the implementation of Federal grant programs.

Basic Requirements: Indirect costs are those common expenses shared by different departments or jobs that are difficult to assign to a particular project or grant. Examples of indirect costs:

- Administrative salaries and fringe benefits associated with overall financial and organizational administration,
- Operation and maintenance costs for centralized facilities and equipment, and
- Payroll and procurement services.

A plan must be in place for distributing indirect costs before expenses may be charged to the Federal grant programs. If an indirect cost plan is not in effect, indirect costs must be charged to the local funds of the tribe or grant recipient. If a plan is in effect but does not include a specific Federal program, the excluded program cannot be assessed indirect costs – that programs share of indirect costs must be paid for using local funds.

EXAMPLE: A tribally designated housing entity (TDHE) has an indirect cost plan in effect but has not included funding received from the Department of Energy for the Low-Income Energy Assistance Program (LIEAP). Until the indirect cost plan is modified to include the LIEAP program, the TDHE cannot charge indirect costs to that program and may not charge these costs to any other Federal award.

OMB Circular A-87 (Circular) provides the basic principles and standards for determining what costs may be applicable to Federal grants. The total cost of a Federal award is a combination of allowable direct costs plus the award's share indirect costs less any applicable credits. An indirect cost charged to a particular project or grant must be distributed on a fair share basis according to the relative benefit received.

EXAMPLE: A tribe is purchasing a new computer system for its accounting department. Thirty percent of all accounting transactions for the tribe are for its Indian Housing Block Grant (IHBG) program. The fair share of the computer system to be charged to the IHBG program would be thirty percent.

When preparing its indirect cost plan, all projects or grants or activities that benefit from the tribe's or recipient's indirect costs, including unallowable activities and services donated by third parties, must be included in the indirect cost plan. The Circular identifies two methods for distributing indirect costs to Federal grants: Fee-for-Service Arrangements and Indirect Cost Rates.

- Fee-for-Service Arrangement – This method is based on historical costs and is adjusted by actual expenses. Fees are established for central services and the cost of these services are assigned to projects, grants and activities. Accounting services could be billed based upon the number of transactions processed; motor pool services could be billed based upon the number of miles driven or the number of days used; payroll services could be billed based upon the number of employees; and local telephone service could be based upon the number of telephones.
- Indirect Cost Rate – This method establishes the ratio of total anticipated indirect cost pool to the direct cost base. The ratio is expressed as a percentage which is then applied to the direct costs of a project to determine each projects share of indirect costs.

Attachment C of the Circular, *State/Local-Wide Central Service Cost Allocation Plans*, provides the process for identifying and assigning central service costs (e.g. computer center, motor pool) to benefiting projects or grants on a reasonable and consistent basis. A central service cost allocation plan is required to be prepared by the local government to charge joint costs. This Attachment applies primarily to Fee-for-Service Arrangements.

Attachment E of the Circular, *State and Local Indirect Cost Rate Proposals*, provides the process for distributing indirect costs to benefiting projects or grants, including Federal grant programs. Any State or local government or tribe wanting to charge indirect costs through an indirect cost rate must prepare an indirect cost rate plan, including the supporting documentation. This Attachment applies primarily to Indirect Cost Rates.

Approval: A cognizant Federal agency may be assigned by OMB or may be established on the basis of the Federal agency providing the most funding that is

subject to indirect cost charges to Federal grants. OMB has designated the Department of the Interior (DOI) to be the cognizant Federal agency for Indian tribal governments. In most instances, HUD provides the largest amount of funding and would serve as the cognizant Federal agency for TDHEs.

Tribal governments: The Circular requires governmental entities that have been assigned a cognizant agency by OMB, to submit their indirect cost plans to the cognizant agency for approval. Tribal governments must submit their indirect cost plans to the DOI.

TDHEs: The Circular requires other recipients to submit their indirect cost rate plan for approval only when requested by their cognizant agency. HUD has determined that the review of indirect cost plans is appropriate during periodic monitoring of recipient performance. Unless specifically requested, TDHEs are not required to submit their indirect cost rate plan for approval.

Summary: To be eligible to charge indirect costs to Federal awards (including IHBG) the following actions must be completed:

- Prepare an indirect cost plan;
- Tribal governments must submit their plan to the DOI for approval;
- TDHEs retain their plan and must have it available for HUD review upon request;
- Follow the plan.

Indirect cost plans are prepared by a recipient's accounting professional. To assist in the preparation of the plan, the Department of Health and Human Service issued the guide, *A Guide for State, Local and Indian Tribal Governments - Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government* (ASMB C-10), on April 8, 1997 on behalf of the Federal Government. The guide is available from the Government Printing Office or on the Internet at:

<http://www.hhs.gov/grantsnet/state/index.htm>.