



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Office of Sustainable Housing and Communities
WASHINGTON, DC 20410-0050

Program Policy Guidance OSHC-2011-06	
Date:	April 13, 2011
Subject:	Indirect Cost Rate Proposal Submission Procedures
Status:	Current
Applicability:	All OSHC Grantees
Related Guidance:	
Comments:	This guidance is only relevant for grantees without an already-established indirect cost rate with a federal agency.

Dear Sustainable Communities Regional or Community Challenge Grantee:

During negotiations, we requested verification of approved indirect costs rates between the grantee and any federal agency. HUD would most likely use this rate as the final rate for your FY 10 Sustainable Communities Initiative Grant. If your agency has not previously established an indirect cost rate with a federal agency, then an indirect cost rate will be established with HUD. This will establish HUD as your cognizant agency.

To simplify relations between Federal grantees and awarding agencies, The Office of Management and Budget (OMB) established the cognizant agency concept. Under this concept, a single agency represents all others in dealing with grantees in common areas. The cognizant agency for grantees is determined by calculating which Federal agency provides the most direct grant funding.

For grantees that did not have an established indirect cost rate with a federal cognizant agency, we provided a 90-day provisional rate to charge indirect costs to their FY 10 Sustainable Communities Initiative Grants (Sustainable Communities Regional and Community Challenge Planning Grants). This is a temporary rate (to extend no later than 90 days after the effective date of your grant) used for funding, interim reimbursement, and reporting indirect costs pending the establishment of a final rate.

In order to establish a final indirect cost rate on your HUD grant, as required in the terms and conditions of your cooperative agreement, you must submit an indirect cost rate proposal, to include related documentation to support those costs.

ICR proposal preparation policies and procedures: Provide written policies and procedures describing how the organization prepares the annual ICR proposal.

The following data is required to be submitted with the organization's proposal for indirect cost rate:

- 1) Cover letter indicating the requested period(s) covered by the rate(s), the type of rate(s), allocation base, etc.
- 2) The Organizational Profile and Cost Policy Statement (CPS): These documents may have been submitted initially as part of the awardee's organizational background information requirements. Only revisions need to be submitted with subsequent proposals.
- 3) Financial reports for the year under review, including:

- a) A complete copy of the audited financial statements
- b) A-133 Single Audit Report (if not available, then the organization's completed federal tax return for the year should be submitted)
- 4) Indirect cost rate (ICR) proposal:
 - a) Detailing indirect expenses by function and cost category
 - b) Detailing fund distribution of the direct cost base by function and cost category
 - c) Including a reconciliation between the proposal and the financial statements (financial report) for the applicable fiscal years. All differences must be explained
- 5) Allocation of salaries and wages: A schedule of positions, functions, and annual salaries for the people who charge time to an indirect cost function (include employees who charge 100 percent of their effort to indirect tasks as well as employees who split time between direct and indirect tasks).
- 6) Statement of employee benefits: A schedule showing the actual costs of applicable employee fringe benefit expenses (such as vacation, sick and holiday payroll taxes, employee health insurance, retirement, etc.) Fringe benefits are a consideration in the determination of the reasonableness of compensation. Note: The CPS provides a description of the treatment of fringe benefits, while the above statement shows actual costs included in the employee fringe benefit pool
- 7) Identification and description of unusual factors which affect the proposed rates (such as anticipated increase or decrease in business, non-recurring costs, etc.), or any memoranda of understanding or advance agreements which may affect the proposed rate(s).
- 8) A listing of all grants and contracts (by federal agency) that were active during the fiscal year: Include total dollar amount, period of performance, and indirect cost limitations (if any) applicable to each, such as ceiling rates or amounts restricted by administrative or statutory regulations
- 9) A completed lobbying certificate, which verifies that the organization does not include lobbying cost in indirect costs.
- 10) A completed certificate of indirect costs: Negotiated agreements and certifications must be signed by an organizational representative who has the ability to contractually bind the organization (generally the CFO, vice president, or comparable position within the organization).

Organizational profile: The purpose of an organizational profile is to gain an understanding of the basic structure of the organization and should include, at a minimum, the following components:

- 1) A statement of major activities performed at the organization, including a description of the organization's mission, services performed for the general public, member services, fundraising, lobbying, research grants and contracts, etc. (should be 1-2 pages in length)
- 2) Organizational chart(s) and any information or material explaining the various services and functions of each unit
- 3) Based on information provided in response to A above, describe which services are allowable and allocable to federal grants and contracts, under OMB Circular A-122, A-87, or FAR Part 31
- 4) Based on the information provided in B above, determine which units are indirect (administrative) functions of the organization

Cost policy statement (CPS): The purpose of a CPS is to establish a clear understanding between the organization and the federal government as to what costs will be charged directly and what costs will be charged indirectly. It also provides grantee personnel with a record of the grantee's practices in the event of personnel changes. (Only changes to accounting practices or allocation methods need be submitted after the first year.) The CPS should include the following information:

- 1) A statement on general accounting policies, including, but not limited to:
 - a) Basis of accounting (accrual or cash basis)
 - b) Fiscal year end
 - c) Method of allocating indirect costs
 - d) Statement of allocation base for the indirect cost rate
 - e) Statement of allocation base for the fringe benefits (if using a fringe benefit rate)
 - f) Accounting system software description

- 2) Statements for each general ledger expense account (or cost element). Indicate whether each account is used to record direct or indirect expenses. For those accounts related to activities that are sometimes charged as both direct and indirect costs, indicate the circumstances under which the determination is made. Example accounts include, but are not limited to:
 - a) Salaries and wages
 - b) Fringe benefits, including:
 - i) A statement of how fringe benefits are charged (e.g. actual basis by employee, via a fringe benefit rate, etc.)
 - ii) A statement of the treatment of compensated leave costs (vacation, holiday, sick leave, etc.)
 - c) Travel
 - d) Board expenses
 - e) Supplies and materials
 - f) Occupancy expenses
 - g) Utilities
 - h) Communications
 - i) Photocopying and printing
 - j) Outside services
 - k) Capital items
 - l) Depreciation
 - m) Services to members
- 3) For each of the above general ledger accounts in which costs are allocated to more than one activity, describe the method used to allocate the costs (such as actual usage, square feet, cost of space, volume, etc.)
- 4) A statement on unallowable costs, including:
 - a) A description regarding the accounting treatment of unallowable costs
 - b) Methods and controls in place to segregate unallowable costs
 - c) List of expense accounts the unallowable costs are charged to

The proposal must be submitted to HUD via your Grant Officer for review, negotiation, and approval (within 90 days after the effective date of your grant). This will begin the review process. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute.

The results of each negotiation will be formalized in a written agreement between HUD and the grantee. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute, or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The agreed upon rates shall be made available to all Federal agencies for their use.

Notes:

- 1) For sub-grantees, the primary grantee will be responsible for negotiation and/or monitoring the sub-grantees plan.
- 2) The proposal and related documents must be prepared and retained for audit in accord with the record retention requirements in OMB Circular 133.
- 3) State administered pass-through funding from Federal sources are not considered in determining cognizant agency.
- 4) Each organization must comply with applicable federal requirements contained in federal cost principles, federal administrative standards, and federal audit requirement publications. Different requirements apply to different types of organizations:

- a) State and local governments are required to follow the cost principles contained in 2 CFR part 225 (formerly OMB Circular A-87), Federal Administrative Standards contained in 24 CFR part 85 and audit requirements contained in OMB Circular A-133.
- b) Non-profit organizations are required to follow the cost principles contained in 2 CFR part 230 (formerly OMB Circular A-122), Federal Administrative Standards contained in 24 CFR part 84 and audit requirements contained in OMB Circular A-133.
- c) Educational institutions (colleges, universities, and tribal colleges) are required to follow the cost principles contained in 2 CFR part 220 (formerly OMB Circular A-21), Federal Administrative Standards contained in 24 CFR part 84, and audit requirements contained in OMB Circular A-133.

**INDIRECT COST PROPOSAL (ICP) CHECKLIST
(Check Off Boxes Below)**

1. The ICP is supported by audited financial statements and the OMB A-133 Single Audit Report. (Please include a copy of the supporting document along with your ICP.)
2. A reconciliation of item 1 (above) to the ICP has been made and is included in this proposal.
3. Any previous understandings with the Division of Cost Allocation (DCA) have been incorporated into this ICP.
4. Unallowable expenses have been eliminated from the indirect cost pool (e.g., contributed salaries and services, interest expense, bad debts, fund-raising, advertising, independent research and development [IR&D], depreciation on Federally funded assets and lobbying costs).
5. The indirect cost rate computation base is complete (i.e., it includes all activities that benefit from the indirect cost pool). For example, fund-raising, IR&D, project cost sharing and voluntary services are included where applicable.
6. The Federal amount of the direct cost base is \$ _____. A schedule of direct federal awards is included with this submission and identifies the direct and indirect amount of each award.
7. Treatment of Paid Absences and Fringe Benefit Statements have not changed since the last indirect cost agreement.
8. We have not made any significant changes during the proposal fiscal year (i) to our accounting system or (ii) to the definition or to the accounting treatment of any expense category (e.g., a change in building/equipment costing methodology, a change in charging an expense from direct to indirect or vice
9. We have not changed the equipment capitalization threshold during the proposal fiscal year. The capitalization level is \$ _____. (If there is a change made during the proposal fiscal year, please indicate the effective date of the change and the new capitalization level in the explanation box below.)
10. For nonprofit organizations only. Interest costs included in the ICP have been determined in accordance with the requirements of the revised A-122. In addition, required documentation (e.g., needs justification lease/purchase analysis) has been submitted along
11. For nonprofit organizations only: A schedule of "Management and General" salaries by employee, job title, salary, and percentage of salary included in the indirect cost pool. This amount must reconcile to total salary amount submitted with the proposal.
12. The required "Lobbying Cost Certification" for nonprofit organizations or "OMB Circular A21 Certificate of Indirect Costs" for colleges and universities is attached.
13. A copy of a Notice of Grant Award (s) included (for first IDC submission).
14. A copy of a Tax Form 990(Required for Head Start and Grantees without audited financial statements).
15. Please provide the following information:

Official Name:	Email:
Contact Name:	Email:
Phone Number:	Fax Number:

Explanation of any numbered boxes not checked above:

Signature Date

Title Organization