



Fact Sheet

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Indirect Cost Rate

COPS Office programs

If you are requesting indirect costs under a COPS Office program that allows those costs, a copy of your agency's most current, signed, federally approved Negotiated Indirect Cost Rate Agreement must be included with your application or it must be noted in your budget narrative that you have never received an indirect cost rate. If the rate agreement is expired at the time of application, then you must submit a copy of the indirect cost rate proposal that was sent to your cognizant federal agency to demonstrate that the rate is under review. If your agency is awarded indirect costs under the COPS Office award, your agency may not draw down funding for indirect costs until the approved rate agreement or an approved extension is submitted to the COPS Office. In addition, if your agency's rate agreement expires or changes during the award period, you must submit the new rate agreement or approved one-time extension from your cognizant federal agency to the COPS Office.

What are indirect costs?

Indirect Facilities & Administrative (F&A) costs are costs incurred for a common or joint purpose benefiting more than one cost objective. They are not readily attributable to the cost objectives that are being benefited. To facilitate equitable distribution of indirect expenses to the specific cost objectives, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefited cost objectives on bases that will produce equitable results in consideration of relative benefits derived. See 2 C.F.R. § 200.56 in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as adopted by the U.S. Department of Justice in 2 C.F.R. § 2800.101.

What is an indirect cost rate proposal?

An indirect cost rate proposal is the documentation prepared by a nonfederal entity to support its request for the establishment of an indirect cost rate as described in Appendix III to 2 C.F.R. Part 200 Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutes of Higher Education (IHEs) through Appendix VII to 2 C.F.R. Part 200 States and Local Government and Indian Tribe Indirect Cost Proposals. See 2 C.F.R. § 200.57 in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as adopted by the U.S. Department of Justice in 2 C.F.R. § 2800.101.

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There are several types of indirect costs rates:

- **Final rate** is applicable to a specified past period that is based on the actual costs of the period. A final audited rate is not subject to adjustment.
- **Fixed rate** has the same characteristics as a predetermined rate except that the difference between estimated costs and actual allowable costs of the covered period is carried forward as an adjustment for a future period.
- **One-time extension** allows your agency to apply for a one-time extension of a negotiated indirect (F&A) cost rate. The negotiated cost rate may be extended for up to four years. Once your cognizant federal agency has approved an extension for indirect costs, you must abide

by the rate for the agreed-upon time period. No further negotiations regarding indirect cost rates may occur until the extension has expired. At the end of the extension period, you must negotiate a new indirect cost rate.

- **Predetermined rate** is applicable to a specified current or future period and is not subject to adjustment. A predetermined rate may be used where there is reasonable assurance that the rate is not likely to exceed a rate based on the agency's actual costs. Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant federal agency.
- **Provisional rate** is a temporary rate applicable to a specified time period that is used for funding, interim reimbursement, and reporting of indirect costs pending establishment of a final rate for that period.
- **De minimis indirect cost rate** provides the option for certain nonfederal entities that have never received a negotiated indirect cost rate to accept a flat rate of up to 10% of modified total direct costs (MTDC).

How does an agency establish an indirect cost rate?

If your agency does not have a previously established indirect cost rate, your agency can obtain a rate by contacting your agency's cognizant federal agency, which will review all documentation and approve a rate for the covered time period. For more information on the submission and documentation of indirect cost rate proposals, please refer to 2 C.F.R. § 200.414 (e) and Appendices III – VII to 2 C.F.R. Part 200.

To identify your cognizant federal agency, please visit:

For units of state and local government: U.S. Department of Health and Human Services

<http://rates.psc.gov/fms/dca/s&l1.html>

For Tribal Governments: U.S. Department of Interior

<http://www.aqd.nbc.gov/Services/tribal.aspx>

For nonprofit organizations: U.S. Department of Health and Human Services

<http://rates.psc.gov/fms/dca/orgmenu.html> and

<http://rates.psc.gov/fms/dca/np1.html>

For educational institutions: U.S. Department of Health and Human Services

<http://rates.psc.gov/fms/dca/c&u.html>

What should an agency do if its indirect cost rate expires or changes during the award period?

If your agency's approved indirect cost rate agreement expires during the award period, a current approved rate agreement must be obtained by the cognizant federal agency and submitted to the COPS Office. The agency must advise the COPS Office of any changes to its approved indirect cost rate during the award period and, if necessary, request a budget modification that reflects the rate change. Please contact your COPS Office Grant Program Specialist or Program Manager to determine when a budget modification is necessary.

If the agency experiences an increase or a decrease in its indirect cost rate, it should submit the new rate to the COPS Office within 30 days of the change.

What documentation is required by the COPS Office if an agency's indirect cost rate changes?

If an agency's indirect cost rate changes, it is required to submit a copy of the new approved rate to the COPS Office and must request a modification to reflect any rate change.

Can an agency reprogram indirect costs to direct costs?

Reprogramming requests of indirect costs to direct costs are administered through the budget modification process for the specific COPS Office award that your agency received. Please contact your COPS Office Grant Program Specialist or COPS Office Program Manager to obtain guidance on any additional requirements that may apply to your modification request. The COPS Office will then evaluate your request and notify you, in writing, of our decision.

Please be advised that if your agency's revised indirect cost rate is lower than the rate approved at the time of award and a formal budget modification was not approved, excess indirect cost rate funds should not be drawn down and will be deobligated at closeout.

What should an agency expect at the end of the award period regarding indirect costs rate?

If a provisional indirect cost rate is in effect at grant closeout, the awardee shall proceed with closeout but will complete an expenditure analysis upon receipt of the approved final indirect cost rate to determine if an adjustment is necessary. If the awardee drew down excess COPS Office funding for indirect costs, the awardee must return the overpayment to the COPS Office and submit a revised Federal Financial Report (SF-425). If the awardee incurred additional indirect costs, the awardee may request a budget modification if the award is still open and award funds are available. If the awardee returns or draws down COPS Office funding, the awardee will submit a revised final Federal Financial Report (SF-425).

Other important factors

To support the indirect cost rate agreement, recipients are responsible for ensuring independent audits are conducted in accordance with existing federal auditing and reporting standards set forth in 2 C.F.R. Part 200, Subpart F - Audit Requirements in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as adopted by the U.S. Department of Justice in 2 C.F.R. § 2800.101. A copy of the audit report must be submitted to the cognizant federal agency to support the indirect cost rate agreement.

In accordance with ensuring proper award management and use of funding awarded through the COPS Office, recipients may be selected for a site visit or an enhanced office-based grant review (EOBGR) or may need to address an alleged noncompliance complaint during a compliance review by the COPS Office Grant Monitoring Division. Therefore, recipients must adhere to proper accounting practices and recordkeeping to ensure all necessary documentation is available for review if requested by the COPS Office. Noncompliance may result in the repayment of misused funds, suspension of funds, or other remedial actions available by law until the noncompliance is resolved.

Contact the COPS Office

If you have any questions regarding the federal requirements that guide indirect cost rates, please refer to the applicable COPS Office Award Owner's Manual or contact your COPS Office Grant Program Specialist or Program Manager.

For more information about COPS Office programs, please contact the COPS Office Response Center at 800-421-6770 or by e-mail at AskCopsRC@usdoj.gov or visit the COPS Office online at www.cops.usdoj.gov.