



Fact Sheet

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Indirect Cost Rate

An Indirect Cost Rate is the percentage of an agency's indirect costs to its direct cost base and is a standardized method of charging individual programs for their share of indirect costs.

COPS Office Grant Programs

If a COPS Office applicant is requesting indirect costs under a program that allows those costs, a copy of the applicant's most current, signed, federally-approved Negotiated Indirect Cost Rate Agreement must be included with the application. If the rate agreement is expired at the time of application, the applicant must submit a copy of the indirect cost rate proposal that was sent to the cognizant federal agency to demonstrate that the rate is under review. If your agency is awarded indirect costs under the COPS award, your agency may not draw down funding for indirect costs until the approved rate agreement is submitted to the COPS Office. Additionally, if the rate agreement expires or changes during the award period, the grantee must inform the COPS Office and submit the new rate agreement to the COPS Office.

What are indirect costs?

Indirect Costs are costs that are incurred for common or joint purposes and are not readily assignable to a particular project, but are necessary to the operation of the agency and the performance of the project. Examples of indirect costs include those incurred for facility operation and maintenance, depreciation, and administrative salaries. Indirect Costs must adhere to the standards set forth in the applicable Office of Management and Budget (OMB) Costs Principles for your entity, 2 C.F.R. Part 225, Appendix E (state, local, and Indian tribal governments), 2 C.F.R. Part 230, Appendix A (nonprofit organizations), or 2 C.F.R. Part 220, Appendix A (educational institutions).

What is an indirect cost rate?

An indirect cost rate is the percentage of an agency's indirect costs to its direct cost base and is a standardized method of charging individual programs for their share of indirect costs.

There are several types of indirect costs rates:

1. **PROVISIONAL RATE** is a temporary rate applicable to a specified time period which is used for funding, interim reimbursement, and reporting of indirect costs pending establishment of a final rate for that period.
2. **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.
3. **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.
4. **FINAL RATE** is applicable to a specified past period that is based on the actual costs of the period. A final rate is not subject to adjustment.

How does an agency establish an indirect cost rate?

If an applicant 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 the applicable OMB Costs Principles for your entity, 2 C.F.R. Part 225, Appendix E (state, local, and Indian tribal governments), 2 C.F.R. Part 230, Appendix A (nonprofit organizations), or 2 C.F.R. Part 220, Appendix A (educational institutions).

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, 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, in writing, 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 Grant Program Specialist for help determining when a budget modification is necessary.

If the agency experiences an increase or a decrease in their 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 plan in writing to the COPS Office for approval. The agency must request a modification to its indirect cost rate by submitting a letter on official letterhead that includes:

- ORI number
- Grant number
- A copy of the new approved rate

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 award that your agency received. Please contact your COPS Grant Program Specialist or COPS Program Manager to obtain Modified Budget Detail Worksheets and 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 grant period regarding indirect costs rate?

Before the COPS Office officially closes out your agency's award, changes between your approved final indirect cost rate and approved provisional indirect cost rate must be reconciled. If your agency drew down excess funding for indirect costs as a result of the reconciliation, your agency must promptly return the overpayment and submit a revised Federal Financial Report (SF-425) to the COPS Office.

Other Important Factors

- To support the indirect cost rate agreement, awardees are responsible for ensuring independent audits are conducted in accordance with existing federal auditing and reporting standards set forth in OMB Circulars A-133 and A-122. 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, awardees may be selected for a site visit, an Office-Based Grant Review (OBGR), or may need to address an alleged noncompliance complaint during a compliance review by the COPS Grant Monitoring Division. Therefore, awardees 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 Grant Owner's Manual or COPS Award Owner's Manual or contact your COPS Grant Program Specialist or COPS Program Manager.

For more information about COPS Office programs, please call the COPS Office Response Center at 800.421.6770, or visit COPS online at www.cops.usdoj.gov.