

Indirect Cost Handbook

Information, Guidance, and Maximum Indirect Costs Worksheet



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Introduction

This handbook provides information and guidance on indirect costs as well as a worksheet for calculating the maximum in indirect costs that may be claimed for a grant administered by the Texas Education Agency (TEA). This guidance is in effect with the 2013–2014 school and grant year and beyond.

This handbook was developed in collaboration with TEA's Division of Federal Fiscal Compliance and Reporting, which administers the implementation of indirect cost rates for state and federal grants, and the Division of Federal and Fiscal Monitoring, which monitors compliance with grant requirements.

Definition of Indirect Cost

Indirect costs are normally charged to grant programs through the indirect cost rate. Grantees must be consistent in treating costs as direct or indirect. Once a cost is treated as direct or indirect, it must be treated that way for all projects and activities, regardless of the source of funding.

The following definitions of indirect cost are drawn from the Office of Management and Budget (OMB) circulars cited:

- [OMB Circular A-21—Cost Principles for Educational Institutions](#) (applicable to institutions of higher education [IHEs]): Facilities and administrative [i.e., indirect] costs are those that are incurred for common or joint objectives and therefore cannot be identified readily with a particular sponsored project, an instructional activity, or any other institutional activity. (Section E.1)
- [OMB Circular A-87—Cost Principles for State, Local, and Indian Tribal Governments](#) (applicable to local educational agencies [LEAs], including independent school districts [ISDs], education service centers [ESCs], and *all* open-enrollment charter schools): Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. (Section F.1)

NOTE: The definitions in the Texas Financial Accountability System Resource Guide; [Financial Accounting and Reporting](#), January 2010, and the US Department of Education [Cost Allocation Guide for State and Local Governments](#) align with the definition found in [OMB Circular A-87](#).

- [OMB Circular A-122—Cost Principles for Non-Profit Organizations](#) (applicable to nonprofit organizations [NPOs]): Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. (Section C.1)

Current, Approved Indirect Cost Rate

Grantees must have a current, approved federal indirect cost rate to charge indirect costs to the grant. The indirect cost rate is calculated using costs specified in the grantee's indirect cost plan. Those specified costs may not be charged as direct costs to the grant under any circumstances. Refer to the [Indirect Cost Rates](#) page of the TEA website for a current listing of 2013-2014 indirect cost rates by ISD and open-enrollment charter school.

Beginning with requests for indirect cost rates for the 2014-2015 school year:

- ISDs will continue to submit the Exhibit J-2: Schedule for the Computation of Indirect Cost Rates (due March 14, 2014) within the ISD's Annual Financial Report to receive their indirect cost rate until further notice.
- For open-enrollment charter schools, the SC5010 (due April 7, 2014) will serve as the charter school's request for an indirect cost rate and contain the sending district data used to calculate the indirect cost rate.
- ESCs receive their indirect cost rate annually from TEA if they submit the indirect cost rate request, a cost allocation plan, and supporting documentation by the deadline designated by TEA.
- IHEs, NPOs, and other governmental entities receive their approved indirect cost rate from their cognizant federal agency. If a current, approved rate is not already on file with TEA's Division of Federal Fiscal

Compliance and Reporting, the grantee must immediately contact its cognizant agency to determine a rate. If it is determined that TEA is the cognizant agency, the grantee must immediately [contact TEA's Division of Federal Fiscal Compliance and Reporting](#) to begin the process of determining a rate.

Restricted and Unrestricted Indirect Cost Rates

Two indirect cost rates are calculated and used, the restricted rate and the unrestricted rate:

- The restricted rate is used for grant programs to which the supplement, not supplant provision applies.
- The unrestricted rate is used for grant programs to which supplement, not supplant does not apply.

Supplement, not supplant provisions basically require that grantees use state or local funds for all services required by state law, State Board of Education (SBOE) rule, or local policy and prohibit those funds from being diverted for other purposes when federal funds are available. Federal funds must supplement—add to, enhance, expand, increase, extend—the programs and services offered with state and local funds. Federal funds are not permitted to be used to supplant—take the place of, replace—the state and local funds used to offer those programs and services.

A supplement, not supplant provision applies to all federally and state-funded grant programs administered by TEA, unless specifically stated in the request for application. Therefore, grantees will most commonly use the restricted rate.

Limitation of Administrative Costs

Indirect costs are part of administrative costs. For most grant programs, administrative costs are limited to a certain percentage of the total grant award. If administrative costs are limited to 5%, for example, the total direct administrative costs plus indirect costs claimed for the grant cannot exceed 5%.

Limit on Indirect Costs

Regardless of the restricted or unrestricted indirect cost rate that has been approved for a grantee, the amount of indirect costs that may be claimed is limited depending on whether the grant is federally or state funded.

Use the following table to determine the appropriate indirect cost rate (either restricted or unrestricted) to use in the indirect cost calculation.

Grant Is Federally Funded	Grant Is State Funded
Use the lesser of the following: <ul style="list-style-type: none"> • Your current, approved indirect cost rate, or • 8% 	Use the lesser of the following: <ul style="list-style-type: none"> • Your current, approved indirect cost rate, or • 15%

Examples

- The grant is federally funded, and supplement, not supplant applies, so the restricted indirect cost rate is used. The grantee's restricted indirect cost rate is 9.403%, which is greater than 8%. Therefore, when calculating indirect costs, the grantee will use the restricted indirect cost rate of 8%.
- The grant is state funded, and supplement, not supplant applies, so the restricted indirect cost rate is used. The grantee's restricted indirect cost rate is 1.34%, which is less than 15%. Therefore, when calculating indirect costs, the grantee will use the restricted indirect cost rate of 1.34%.

- The grant is federally funded and supplement, not supplant does not apply. The unrestricted indirect cost rate must be used. The grantee’s unrestricted indirect cost rate is 17.51%, which is greater than 8%. Therefore, when calculating indirect costs, the grantee will use the indirect cost rate of 8%.
- The grant is state funded and supplement, not supplant does not apply. The unrestricted indirect cost rate must be used. The grantee’s unrestricted indirect cost rate is 14.695%, which is less than 15%. Therefore, when calculating indirect costs, the grantee will use the unrestricted indirect cost rate of 14.695%.

How to Document Compliance for an Auditor

An LEA should charge indirect costs to a grant program no more than the maximum allowable amount based on their restricted or unrestricted indirect cost rate. If selected for a TEA monitoring or grant review, staff will examine grant documentation and financial records such as detailed general ledgers maintained by the LEA to ensure that the LEA did not exceed the indirect costs rates approved by TEA.

Maximum Indirect Costs Worksheet

With input from the grantee, this worksheet automatically calculates the **maximum** that may be claimed in indirect costs for a grant administered by TEA. Any amount calculated for indirect costs is an estimate only. Indirect costs are claimed based on **actual** expenditures declared on the expenditure reporting system, regardless of whether you have included indirect costs on the Program Budget Summary in the original application or amendment.

Complete the worksheet as follows:

- Yellow indicates a cell where input is required. After entering input, tab to the next yellow cell.
- Light gray indicates a table cell where an automatic calculation takes place; no input is required.
- Dark gray indicates a table cell that corresponds to instructions; no input is required.

For a tabular view of all exclusions by grantee type, refer to Table A: Costs That Must Be Excluded from the Indirect Cost Calculation, following this worksheet.

This worksheet is based on guidance from OMB circulars A-21, A-87, and A-122; US Department of Education *Cost Allocation Guide for State and Local Governments*; and the Texas Financial Accountability System Resource Guide, Financial Accounting and Reporting, January 2010. Other costs than those listed may apply; refer to the preceding guidance.

#	Description	Amount
1.	Enter the total costs budgeted for the grant program:	\$0.00
2.	Refer to the Restricted and Unrestricted Indirect Cost Rates section to determine whether to use the restricted or unrestricted rate. If you must use a restricted rate and the following costs are budgeted in your application, enter the budgeted amount. If you must use an unrestricted rate, enter 0.	
a.	Function 51, 6100-6400: Operations and plant maintenance related to performance of the grant	\$0.00
3.	Line 2a is subtracted from line 1 and the result entered here. This is your total budgeted cost less restricted rate exclusions.	\$0.00

#	Description	Amount
4.	The total budgeted cost less restricted rate exclusions includes costs that all grantees must exclude from the indirect cost calculation. If the following costs are budgeted in your application, enter the budgeted amount(s) on lines 4a–4e:	
	a. The portion of each subcontract* that is in excess of \$25,000 (6219)	\$0.00
	b. Subgrants,* regardless of dollar amount (6290)	\$0.00
	c. Debt service (6500)	\$0.00
4.	d. Capital outlay (6600)	\$0.00
	e. Building purchase, construction, or improvements (6620)	\$0.00
5.	The excluded costs listed in lines 4a–4e are added and their total entered here.	\$0.00
6.	Line 5 is subtracted from line 3 and the result entered here. ISDs, ESCs, and all open-enrollment charter schools will use this result as their modified total direct cost. Skip to line 13, where this result is entered.	\$0.00
7.	IHEs and NPOs must exclude additional costs. If you are one of those entity types and the following costs are budgeted in your application, enter the budgeted amount(s):	
	a. Rental or lease of buildings, space in buildings, or land (6269)	\$0.00
	b. Scholarships or fellowships (6200) NOTE: For NPOs, this is not an allowable cost for federal grants.	\$0.00
8.	The additional excluded costs listed in line 7a–7b are added and their total entered here.	\$0.00
9.	Line 8 is subtracted from line 6 and the result entered here. NPOs will use this result as their total modified direct cost. Skip to line 13, where this result is entered	\$0.00
10.	IHEs must exclude a final additional cost. If you are an IHE and the following cost is budgeted in your application, enter the budgeted amount:	
	a. Tuition remission (6100)	\$0.00
11.	Line 10a is subtracted from line 9 and the result entered here. IHEs will use this result as their total modified direct cost. Skip to line 13, where this result is entered.	\$0.00
12.	YOUR TOTAL MODIFIED DIRECT COST (from line 6, 9, or 11):	\$0.00

#	Description	Amount
13.	Refer to the Limit on Indirect Costs section to determine whether to use a limited indirect cost rate. Enter the rate here as a decimal value (3.161% = 0.03161; 17.51% = 0.1751):	0.00%
14.	Line 12 is multiplied by line 13. The cents are dropped (not rounded up) and the result entered here. This is the maximum in indirect costs that you may claim for the grant.	\$0.00

* Subcontracts and subgrants may be primarily distinguished as follows:

- A contract obligates a vendor or service provider (contractor) to furnish goods or services to the buyer, who pays for and benefits from them. If the contract is for services, they are usually of a kind that the buyer would perform for itself if it had the resources. These are commonly referred to as third-party contracts.
- A grant is an agreement between an awarding agency (grantor) and a recipient of funds (grantee). The goods and services purchased with grant funds do not benefit the grantor. Instead, the funds provided by the grantor benefit the grantee, along with any grant program participants who receive program benefits. In this case, the TEA grantee (the ISD, ESC, charter school, IHE, or NPO) becomes the grantor if it awards an allowable subgrant to another organization, e.g., an IHE awards a subgrant to an LEA as part of the TEA grantee's funded project.

For a detailed description of the characteristics of grantees versus those of contractors, refer to OMB Circular A-133, Subpart B, § ____.210, Subrecipient and vendor determinations.

Table A: Costs That Must Be Excluded from the Indirect Cost Calculation

The excluded costs listed here are referenced in the applicable OMB circulars and in the US Department of Education *Cost Allocation Guide for State and Local Governments*.

Items of Cost	OMB Circular A-87 and <i>Cost Allocation Guide for State and Local Governments</i> :		OMB Circular A-122 and <i>Cost Allocation Guide for State and Local Governments</i> :		OMB Circular A-21 and <i>Cost Allocation Guide for State and Local Governments</i> :	
	School districts, ESCs, all open-enrollment charter schools, and governmental entities		Nonprofit organizations		Educational institutions, i.e., institutions of higher education	
	Type of Rate		Type of Rate		Type of Rate	
	Restricted	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted
6100—Payroll Exclude: Tuition Remission					X	X
6200—Professional and Contracted Services Exclude: 6269 - Rental or lease of buildings, space in buildings, or land			X	X	X	X
6200- Scholarships and Fellowships			X (Unallowable for Federal Grants)	X (Unallowable for Federal Grants)	X	X
6219 - The portion of each subcontract in excess of \$25,000	X	X	X	X	X	X
6290 - Subgrants, regardless of dollar amounts	X	X	X	X	X	X
6500—Debt Service Exclude: All costs in this category must be excluded prior to calculating indirect costs	X	X	X	X	X	X

Items of Cost	OMB Circular A-87 and Cost Allocation Guide for State and Local Governments: School districts, ESCs, all open- enrollment charter schools, and governmental entities		OMB Circular A-122 and Cost Allocation Guide for State and Local Governments: Nonprofit organizations		OMB Circular A-21 and Cost Allocation Guide for State and Local Governments: Educational institutions, i.e., institutions of higher education	
6600—Capital Outlay Exclude: All costs in this category must be excluded prior to calculating indirect costs	X	X	X	X	X	X
6620—Building Purchase, Construction, or Improvements Exclude: All costs in this category must be excluded prior to calculating indirect costs	X	X	X	X	X	X
Org 701 – Office of the Superintendent Exclude: All costs in this category must be excluded prior to calculating indirect costs	X		X		X	
Function 51, 6100-6400 – Operations and Maintenance of Plant Exclude: All costs in this category must be excluded prior to calculating indirect costs	X		X		X	

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