Purpose:
To provide guidance and set forth standards on the development and negotiation of an Indirect Cost Rate (ICR) as required under 2 CFR Part 200, and 2 CFR Part 2900 Department of Labor (DOL) exceptions.

Background:
The Office of Management and Budget (OMB) has streamlined the Federal government's guidance on administrative requirements, cost principles, and audit requirements for Federal awards. These modifications are a key component of a larger Federal effort to more effectively focus Federal resources on improving performance and outcomes while ensuring the financial integrity of programs funded under Title I of the Workforce Innovation and Opportunity Act (WIOA). The reform of OMB guidance is set to improve the integrity of the financial management and operation of Federal programs and strengthen accountability for Federal dollars by improving policies that protect against waste, fraud, and abuse.

Recipients and sub-recipients must establish and maintain effective internal controls, in relation to Workforce Connections' awards, that provide reasonable assurance that awards are being managed in compliance with Federal statutes, regulations, State and local policies procedures, and the terms and conditions of the award.

Any organization awarded Federal cost reimbursable grants and contracts, also having more than one source of funding (including direct Federal funding), must have an ICR.

Policy:
Workforce Connections (WC), as a government entity, has opted to use a cost allocation plan to allocate indirect costs in lieu of a negotiated indirect cost rate. The cost allocation of indirect costs will be performed on a monthly basis and will be considered to be actual when performed. WC will follow the requirements and guidance of the federal cognizant agency, if WC has any direct federal awards, or DETR WISS, in this process. WC will review, revise (if necessary) and submit the cost allocation plan or cost allocation proposal for approval annually, or as required, to the appropriate upper tier agency. This cost allocation plan or proposal describes in detail the allocation methodology in effect for that period.

WC must review and approve an ICR in order for its sub-recipients to recapture indirect costs. ICRs must be negotiated no later than 90 days after the receipt of new funds from WC. Approved ICRs by WC must be approved as soon as funds become available to the sub-recipient. All sub-recipients must have an approved federally recognized ICR negotiated between the sub-recipient and the Federal Government or, if no such rate exists, either an ICR negotiated between WC and the sub-recipient, or a de minimis cost rate in accordance to established requirements under 2 CFR Part 200.
I. General Provisions
   A. The Uniform Administrative Requirements, Cost principles, and Audit Requirements, for Federal awards codified under Title 2 CFR Part 200, assigned specific duties to the pass-through entities for sub-recipient monitoring and management under §200.330 – §200.332. Consistent with 2 CFR Part 200.331 (a) (4) WC must ensure that every sub-award of Federal funds from WC to its sub-recipients must include, among other elements listed in this part, an approved federally recognized ICR negotiated between the sub-recipients and the Federal government or, if no such rate exist, either a rate negotiated between WC and the sub-recipient, or a de minimis ICR as defined in 2 CFR Part 200.414 (b).

   B. All sub-recipients claiming indirect costs (IC) incurred on Federal awards, contracts, and cooperative agreements must comply with one of the following:
      1. WC will accept/approve any federally negotiated ICR. Sub-recipients must submit a copy of the Federal approval letter to WC no later than 30 days after the receipt of new funds from WC;
      2. Any sub-recipient that has never had a negotiated ICR may elect to use a de minimis rate of 10% of modified total direct costs (MTDC), which may be used indefinitely, consistent with 2 CFR Part 200. Sub-recipients must submit a written notification to WC indicating this decision. WC may request additional information and/or support documentation as appropriate or necessary; and
      3. Sub-recipients may choose to negotiate an ICR with WC following the established procedures in this policy.

   C. An ICR is established on the basis of an approved ICR proposal and supporting documentation submitted by sub-recipients. Indirect costs allocable to DOL programs should be reimbursed if a sub-recipient has a negotiated rate. Reimbursement, however, is subject to any administrative limitations established in the sub-award and/or contract agreements.

   D. An ICR is simply a device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect costs each program should bear. Please note that indirect costs are incurred for common or joint objectives and cannot be readily identified with a particular award, sub-award, or other activity of the organization. An ICR is the ratio between the total indirect expenses and some direct cost base.

   E. The indirect cost allocation methods used by each sub-recipient depend on its own administrative structure, program functions, and internal accounting system.
F. Indirect costs allocated through an ICR or the de minimis rate must be properly classified as administrative or programmatic in nature for those entities subject to cost classification requirements (including, but not limited to, direct grantees, one-stop operators and Local Workforce Development Boards (LWDB)). Per the one-stop technical assistance guide, the following is the methodology required for determining the portion of indirect costs chargeable to the administration and program under cost categories for any given WIOA program:

1. Review all the costs included in the indirect pool and label them as program or administrative costs based on the WIOA definition;
2. Calculate the proportion (percentage) of total costs for each of the two categories;
3. Calculate the total dollar amount of indirect costs attributable to the particular WIOA program (i.e., apply the negotiated indirect cost rate to the specified base);
4. Apply the percentages calculated in step two (2) to the total dollar amount of indirect costs to establish the dollar amount that is to be recorded/reported as administrative costs and the amount that is program costs for that particular program.
5. Indirect costs may not be attributed to administrative or programmatic classifications using any other methodology.

II. Definitions
For the purpose of this policy
A. Indirect Costs
Indirect costs are those that have been incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

B. ICR
An ICR is a percentage (indirect cost pool/direct cost base) used to distribute indirect costs to all cost centers benefiting from those costs.

C. Provisional Rate:
A temporary ICR applicable to a specified period, which is used for funding, interim reimbursement, and reporting indirect costs on awards pending the establishment of a final rate for the specified period. A provisional ICR negotiated and issued by WC will be effective for one year unless otherwise specified by WC.

D. Final Rate:
Means an ICR applicable to a specified past period which is based on the actual allowable cost of the period. A final rate is not subject to adjustment.

E. Modified Total Direct Cost (MTDC):
MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $25,000 of each sub-award (regardless of the period of performance of the sub-awards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each sub-award in excess of $25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant or negotiating agency for indirect costs.
III. Submission of Indirect Cost Proposals
Sub-recipients desiring to claim indirect costs under Federal awards and wishing to negotiate a rate with WC must prepare an indirect cost rate proposal and related documentation to support those costs. The indirect cost rate proposal must be submitted on an annual basis to WC no later than 90 days after a sub-award from WC is made. The proposal and related documentation must be retained for audit in accordance with established records retention requirements.

Preliminary Steps:
A. Organization Review
1. If one does not already exist, prepare a formal organizational chart(s), or a rough draft version, and provide any information or material explaining the various services and/or functions for each unit.
2. Determine which units are indirect functions of the organization.
3. Determine the services that are allowable and allocable to Federal grants and contracts per the applicable cost principles.

B. Review Federal and Non-Federal Funding
1. Review the Federal and non-Federal outlays to determine programs being funded; verify with the appropriate staff.
2. Prepare a list of all funded programs in detail as to the amount or percent of reimbursement of direct and indirect cost and any restrictions or references to statutes or regulations.
3. Determine at what organizational level the various funded programs apply. Illustrate the list of funded programs on a copy of the organization chart.
4. Work with the cognizant Federal agency which provides the most funds or the appropriate higher tier organization regarding the procedures for the submission, review and approval of ICRs.

C. Review the Accounting Structure
1. Obtain a chart of accounts, or some other list of accounts for your organization, in which the actual dollars expended can be related to various programs and/or organization structure.
2. Reconcile the accounting structure to the organization chart.
3. If necessary, determine changes to implement an indirect cost rate system of billing.

D. Prepare a Cost Policy Statement
Develop a written policy that outlines the costs considered as direct, the costs considered to be indirect, and the rationale to support those costs.

E. Prepare an Indirect Cost Rate Proposal
1. Determine which method is best for the organization, i.e., direct cost allocation or simplified, and whether special indirect cost rates are required, i.e. on-site, off-site, fringe benefit rate for full-time vs. part-time. In selecting the appropriate method, the organization should consider the following:
   a) Organizational structure;
   b) Level of Federal funding;
   c) Reports generated from their accounting system;
   d) Availability of data on square footage, number of transactions, employees, purchase orders, etc.;
   e) Additional effort and cost required to achieve a greater degree of accuracy;
2. Prepare the indirect cost rate proposal;
3. Prepare a Certificate of Indirect Costs and have signed by the Executive Director, or other designated official with organization’s signature authority. Compile all remaining documentation required by Federal agency or higher tier; and
4. Reconcile the indirect cost rate proposal to the audited (if applicable) financial statements during the closeout process to determine the final ICR.

IV. Documentation of Proposals
The following must be included with each indirect cost proposal:
A. The rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the financial data.
B. A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rate is based. Adjustments resulting from the use of unaudited data will be recognized, where appropriate, by the Federal cognizant or higher tier agency for indirect costs in a subsequent proposal.
C. The approximate amount of direct base costs incurred under Federal awards. These costs should be broken out between salaries and wages and other direct costs.
D. A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency. (Once this is submitted, only revisions need be submitted with subsequent proposals.)

V. Appeals
In the event a dispute arises from a negotiation of an ICR between WC and the sub-recipient, the dispute must be resolved in accordance to the following procedure:
A. Any protest must be filed in writing and delivered to WC within five (5) business days of the negotiation.
B. Protest content:
   1. Name, address, contact information of the party filing the protest;
   2. Basis of the protest;
   3. Support documentation needed to validate the basis of the protest; and
   4. Form of relief requested.
C. Following the receipt of a protest WC Chief Financial Officer (CFO) shall evaluate and make a determination within 15 business days of the protest receipt.
D. To the maximum extent practicable WC shall provide for the expeditious resolution of the protest.