



Fiscal 101



Module 5: Indirect Costs

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This is the 5th module in the Fiscal 101 series. For this module, we will be referring to Subpart E of the Uniform Guidance and Sections III and IV of the FFY 2017 IDEA Part C application. It may be useful to review your State's FFY 2017 IDEA Part C application as we go through the module.

Direct Costs

- Funds that are budgeted and expended that can be attributed to implementing the requirements of IDEA Part C.
- Funds are budgeted under Section III of the FFY 2017 IDEA Part C application.
- For the IDEA Part C grant, the majority of costs that are budgeted will be expended for direct costs.

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When we think about allowable uses of IDEA Part C funds, there are two very broad categories in how funds can be used. The first category consists of “direct costs.” Direct costs are funds that are budgeted and expended that can be attributed to implementing the requirements of IDEA Part C. An important concept related to direct costs comes from Module 4 and our discussion about use of funds, and the cost principles from the Uniform Guidance.

In that module, we discussed the concept of allocability, and the expectation that expenditures for goods and services charged to the Part C grant award should be in proportion to the benefit received by the program. Further, for those costs that are shared across multiple programs, the lead agency will need to have a methodology for determining the specific percentage of the cost that will be paid for by the Part C program.

Direct costs are budgeted under Section III of the FFY 2017 IDEA Part C application and can include a wide variety of functions and examples could include: personnel costs, professional development costs, contracts with local lead agencies for the provision of child find activities, and costs associated with implementing and maintaining the Interagency Coordinating Council.

For the IDEA Part C grant, the majority of costs that were budgeted will be expended for direct costs. Each lead agency in conjunction with its stakeholders has discretion in how best to utilize its direct costs—if their use is consistent with IDEA Part C and other applicable Federal and State requirements.

Indirect Costs (34 CFR §303.225(c))

- MUST have approval from the US Department of Education to charge indirect costs to Part C grant
- With approval, the lead agency may charge indirect costs:
 - Restricted indirect cost rate; or
 - Cost allocation plan (that charges on a restricted basis)

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The second category of costs described in the Uniform Guidance are called indirect costs. These costs are typically related to program expenditures that cannot reliably be attributed to the Part C program as direct charges. These charges are also known as facilities and administration costs, and are incurred for a “common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted.”

To clarify this definition, let’s think of some common examples of indirect costs. In thinking about your lead agency, how are the following costs determined: 1) Heating and cooling expenses? 2) Exterior building maintenance and repairs? 3) Snow removal from the parking lot and sidewalks?

If the lead agency is sharing a building with other executive branch offices, like a State department of health or department of education, these facility costs may be billed through multiple federal grants through an indirect cost rate. There is a second type of indirect costs called administrative costs. Like facility costs, these may also be included in an indirect cost rate.

Examples in your lead agency can include: 1) Human resources; 2) Information technology support services; and 3) Procurement services. Information related to the indirect cost rate that your lead agency is approved to use, and the indirect costs that your Part C program is planning to charge to the IDEA Part C grant award are located in Section IV B of the application.

Determination of Indirect Costs

- Based on data
- Cognizant agency

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How are indirect cost rates determined? Indirect cost rates are based on data submitted to the lead agency's cognizant federal agency for approval. A cognizant agency is typically the federal agency that provides the largest amount of federal funds to State office where the lead agency is located.

For example, lead agencies that are part of a State department of education will have an indirect cost rate calculated by the U.S. Department of Education, while a lead agency located in a State department of health will have U.S. Department of Health and Human Services determine its indirect cost rate.

As required by the Uniform Guidance, governmental departments or agency units that receive more than \$35 million in direct Federal funding must submit its indirect cost rate proposal to its cognizant agency for indirect costs. The cognizant agency and its negotiators will review a State agency's common or joint costs as compared to the total costs to determine the indirect cost rate.

It is important to note that indirect costs can only be charged to the IDEA Part C grant if the Lead Agency has an approved indirect cost rate in effect.

Guidelines

Click [here](#) for Cost Allocation Services (CAS) Best Practices Manual For Reviewing State and Local Governments State/Local-Wide Central Service Cost Allocation Plans And Indirect Cost Rate Proposals

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Guidelines and illustrations of central service cost allocation plans are provided in a document published by the Department of Health and Human Services (HHS). It has a long title: "Cost Allocation Services (CAS) Best Practices Manual For Reviewing State and Local Governments State/Local-Wide Central Service Cost Allocation Plans And Indirect Cost Rate Proposals" and it is available at the provided website.

Once the rates have been approved by a lead agency's cognizant agency, lead agencies need to obtain a separate rate for IDEA Part C grants. This is because the IDEA Part C grant falls under a category of Department of Education grants where funds should be supplemental in nature to other State and local funds.

This means that certain indirect costs that are included in the lead agency's cost rate with the cognizant agency are excluded in the restricted indirect cost rate.

As mentioned in the HHS manual, the cognizant agency needs to work with the US Department of Education to determine the restricted indirect cost rate. This is a very basic overview of indirect costs. If you have any questions, you are encouraged to reach out to your OSEP state lead.

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