

# UTAH STATE BOARD OF EDUCATION

**Subject:**

INFORMATION: Indirect Cost Pool Proposal Review

**Agenda item type:**

Action Item

**Recommended Action:****Background:**

Indirect costs represent the expenses of doing business that are not readily identified with a particular grant, contract, project function or activity, but are necessary for the general operation of the organization and the conduct of activities it performs. In theory, costs like heat, light, accounting and personnel might be charged directly if little meters could record minutes in a cross-cutting manner. Practical difficulties preclude such an approach. Therefore, cost allocation plans or indirect cost rates are used to distribute those costs to benefiting revenue sources.

Looking at it another way, indirect costs are those costs that are not classified as direct. Direct costs can be identified specifically with particular cost objectives such as a grant, contract, project, function or activity. Direct costs generally include:

1. Salaries are wages (including vacations, holidays, sick leave, and other excused absences of employees working specifically on objectives of a grant or contract – i.e, direct labor costs).
2. Other employee fringe benefits allocable on direct labor employees.
3. Consultant services contracted to accomplish specific grant/contract objectives.
4. Travel of (direct labor) employees.
5. Materials, supplies and equipment purchased directly for use on a specific grant or contract.
6. Communication costs such as long distance telephone calls or telegrams identifiable with a specific award or activity.

## What is an indirect cost rate?

An indirect cost rate is simply a mechanism for determining fairly and conveniently within the boundaries of sound administrative principle, what proportions of Departmental/organization administration costs each programs should bear. An indirect cost rate represents the ratio between the total indirect costs and benefiting direct costs, after excluding and or reclassifying unallowable costs, and extraordinary or distorting expenditures. (i.e., capital expenditures and major contracts and subgrants). The indirect costs in the numerator of the equation should bear a reasonable relationship to the direct costs from the denominator. This will allow for each program or activity represented in the direct costs base to assume their fair share of indirect costs when the rate is applied.

## How are indirect cost rates determined?

The cognizant Federal agency is responsible for approving indirect cost rates for recipients based on an indirect cost proposal submission. The indirect cost proposal or cost allocation plan should:

1. Identify all the activities carried on by the Department or unit and their attendant costs. All activities must be included, regardless of the source of funds used to pay for them.
2. Incorporate those costs allocated to the departments or units through the central service cost allocation plan.
3. Classify the activities and their costs as direct or indirect.

4. Eliminate from indirect costs capital expenditures and those stipulated as unallowable by OMB Circular or program legislation.
5. Compute the rate by dividing the total remaining indirect costs by the direct cost base selected for distribution of the indirect costs. The most frequently used base is Modified Total Direct Costs (MTDC).

Step 4 will require judgement on whether to "exclude" any disallowed or distorting costs or reclassify those costs to the direct costs base. The determining factor is if the cost at issue generates overhead or benefits from indirect costs, then it should be reclassified to the base and allocated a fair share of indirect costs. Additional guidance follows on how to obtain an approved indirect cost rate.

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**Attachments:**

1. USBE Cost Policy Statement FY22
2. CERTIFICATION OF INDIRECT COSTS FY22
3. FY24 Proposed ICP Rates