

Section 6.2.5: Indirect Cost Negotiation and Acceptance

PURPOSE AND POLICY

Indirect costs associated with administering grant programs are those incidental costs that cannot be directly charged to a grant, referred to as F&A “Facilities” (depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses) and “Administration” (such as general administration, accounting or personnel). As such, these costs are allocated equitably to all of an organization’s activities using an indirect cost rate. The State of Arizona Accounting Manual (SAAM) [Topic 70 \(Grants\) Section 40 Indirect Costs](#) sets forth the state’s policy with regard to indirect cost rates for a federal award received by a state agency. [Uniform Guidance §200.414](#) Indirect (F&A) costs and [Uniform Guidance Appendix VII to Part 200](#)—States and Local Government and Indian Tribe Indirect Cost Proposals provide detailed information regarding indirect cost allocation for direct recipients of federal awards. For the State of Arizona, the Department of Health and Human Services (HHS) is designated by the Office of Management and Budget (OMB) as the cognizant federal agency for reviewing and negotiating indirect cost rates (and other rates) used by grantee institutions to charge federal programs for administrative and facility costs associated with conducting federal programs. This process is managed through the [Cost Allocation Services \(CAS\) Program Support Center](#).

PROCEDURE

The procedures for determining and accepting subrecipient indirect costs requests will vary.

Not all State of Arizona grant programs are federal pass-through programs and not all federal grant programs allow indirect costs. Therefore, any pass-through grant programs administered by the State of Arizona that does not allow the state to seek indirect costs, the state cannot accept indirect costs as part of the applicants’ budgets.

If the grant program funding source is non-federal (e.g. general fund or revenue from a fee generating activity), the grantor agency can determine if it will allow indirect costs and any other parameters around that acceptance such as a maximum percentage, further justification, and such.

However, if allowed by the federal program that is the source funding of the grant program and the subrecipient has established its indirect cost rate with the federal government, the grant program manager must accept the current indirect cost rate (per Uniform Guidance [§200.331](#)). The grant program manager must request a copy of the subrecipient’s negotiated indirect cost rate agreement. If using the eCivis Subrecipient Manager (SRM) tool, the applicant can upload this document to its application prior to submission.

In accordance with [2 CFR 200.331](#), if a subrecipient has never received a negotiated indirect cost rate, the grantor agency can negotiate a rate for its use with the subrecipient or accept the de minimis indirect cost rate (10%) as defined in [§200.414 Indirect \(F&A\) Costs](#), paragraph (f) can be accepted.

This de minimis rate will remain in effect until the subrecipient receives direct federal funding and thus is assigned a federal cognizant agency and possibly negotiate an indirect cost rate agreement.

If no indirect agreement is received or requested (de minimis rate) or separately negotiated, the applicant is requested to directly expense the items within the budget.