INDIRECT COST RATES

• WHAT ARE INDIRECT COST RATES???
  – Indirect Cost Pool-How Deep?
  – Indirect Cost Base-How Large?
  – Indirect Cost Rate-How High?
AGENDA

• Who Are We- Indirect Cost Branch
• Definitions
• Why Indirect Cost Rates Are Needed; Including An Example
• The Negotiation Process; Including How To Start The Process
INDIRECT COST BRANCH

• The Office At NIH With The Responsibility Of Negotiating INDIRECT COST RATES With COMMERCIAL ORGANIZATIONS Receiving Awards (Grants & Contracts) With NIH
  - SBIR & STTR
TYPES OF COSTS

• DIRECT COSTS: Easily Identified With A Specific Project:
  - Direct Salaries & Wages
  - Materials & Supplies
  - Consultants & Subcontracts
TYPES OF COSTS (Continued)

- INDIRECT COSTS: Not Easily Identified With A Specific Project
  - Fringe Benefits
  - Overhead
  - G&A
FRINGE BENEFITS

• Allowances And Services Provided To Employees
  - Pd Abs (Vacation, Holiday & Sick Leave)
  - Payroll Taxes
  - Pension Plan
  - Group Ins (Health, Life & Disability)
OVERHEAD COSTS

- Indirect Costs Relating To The Performance Of A Project
  - Overhead Labor (e.g.; supervision, general meetings)
  - Fringes On Overhead Labor
  - Facility Costs & Depreciation
  - General Lab Supplies
G&A COSTS

• *Indirect Costs Associated With The Overall Management Of The Company*
  - Executive & Administrative Labor
  - Fringe Benefits On G&A Labor
  - Professional Fees (CPA)
  - Office Supplies
IDC RATES ARE NEEDED

• To Provide A Uniform Method
  – Funding Indirect Costs
  – Charging Indirect Costs

• To Provide An Equitable Allocation Of Indirect Costs Across All Projects
INDIRECT COST RATE

• *A Method For Allocating Indirect Costs To Projects*

• *Ratio Between Indirect Costs (Pool) And An Equitable Base*
TYPES OF RATES

• *Three Types Of Rates*
  – Provisional Rates
    • Based On Projections For Current FY
    • Used For Funding & Charging
  – Final Rates
    • Based On Actual Costs
    • Charges Adjusted To Reflect Final Rates
  – Ceiling Rates
    • Final Rates Cannot Exceed
INDIRECT COST RATE SYSTEMS

• One Tier System: One Pool
  – Fringe Benefits, Overhead & G&A

• Two Tier System: Two Pools - Typically
  – Fringe Benefits
  – Overhead and G&A
• *Three Tier System: Three Pools*
  – Fringe Benefits
  – Overhead
  – G&A
INDIRECT COST RATE
(Example)

• **EXAMPLE COMPUTATION - TWO TIER**
  
  – Fringe Benefit Rate
    • POOL: Pd Abs, Payroll Taxes, Pension & Group Insurance
    • BASE: Total Labor-Direct & Indirect Excluding Pd Abs
    • RATE: POOL Divided By BASE
INDIRECT COST RATE (Continued)

• EXAMPLE-CONTINUED
  – Indirect Cost Rate
    • POOL: Overhead & G&A Costs
    • BASE: Total Direct Cost Excluding Equipment & Subcontract Costs In Excess Of $25,000 Per Subcontract Per Project Period
    • RATE: POOL Divided By BASE
NEGOTIATION PROCESS
(Step 1)

• CONTACT INDIRECT COST BRANCH:
  – When: Notification Grant/Contract Is Going To Be Awarded
NEGOTIATION PROCESS
(Step 1 -Continued)

– Information Needed:

• Representative Name & E-Mail Address
• Company Name & Address
• Grant/Contract Number
• Grant/Contract Specialist’s Name
NEGOTIATION PROCESS (Step 2)

• *Indirect Cost Branch Requests Indirect Cost Proposal:*

  – Letter: Via E-mail
NEGOTIATION PROCESS
(Step 3)

• Indirect Cost Proposal Submitted
• Indirect Cost Branch Reviews Proposal
• Indirect Cost Branch Follows-up With Questions To Company
NEGOTIATION PROCESS (Step 4)

• **NEGOTIATES RATES WITH COMPANY**
  – Typically By Phone
  – Rate Agreement Is Issued Or Rate Memo Is Sent To Grant Specialist
FINALLY

• **WE ARE DONE!**
• **NOW THAT WAS NOT SO BAD!**
• **WAS IT?**
• **GUESS WHAT?**
• **WE ARE GOING TO DO IT AGAIN NEXT YEAR!**