

Guidance for Indirect Cost Rate Allocation Plans – CDBG Guidance

This memo is written to provide general guidance in establishing Indirect Cost Rate Allocation Plans for agencies contracting with the Office of Economic and Workforce Development for **CDBG funded activities**.

“Indirect Costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective” (OMB Circular A-122).

Simply stated, they are organizational costs that cannot be isolated to an individual program or contract.

Indirect Costs usually cover expenses related to Administration. **Administration type indirect costs** are defined as general administration and general expenses such as central offices, executive director’s office expenses and/or time that are not related to a specific program, office of finance or accounting, budget and planning, personnel and safety, general counsel, management information systems, and all other expenses of a general nature which do not relate solely to any major function of the organization.

Calculation of indirect rates:

Where an organization’s major functions benefit from its indirect costs to approximately the same degree, a simplified allocation method may be used. The organization shall accumulate the total costs for a fiscal year (usually from an audited financial statement) and then separate the indirect costs from the direct costs. The allowable indirect costs are then divided by the total direct costs, resulting in an indirect rate expressed as a percentage.

Example: total costs for a fiscal year is \$110,000. Of these costs \$100,000 are direct costs and \$10,000 are allocated as indirect costs. $\$10,000 \text{ divided by } \$100,000 = .10 \text{ or } 10\%$.

The organization would then apply 10% as its indirect rate for that fiscal period.

Indirect rates are not allowable on aid payments and other direct voucher payments.

The Office of Economic and Workforce Development will request the indirect cost allocation plan once an agency has been selected to receive funding. The Office of Economic and Workforce Development will keep the indirect cost allocation plans on file. The Agency may request to modify the indirect rates at any time based upon submitted financial data but the rate may not exceed 12%.