



FAQ on Recovering Shared and Indirect Costs

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Nearly five years after the Office of Management and Budget (OMB) issued the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), there continues to be significant misunderstanding of and confusion around the use of cost allocation plans and indirect cost rates. To help clarify what the Uniform Guidance does and does not require of federal grant recipients, CAPLAW is issuing the following set of frequently asked questions assembled from consultations we received. This resource addresses the recovery of shared costs through cost allocation plans and indirect costs using indirect cost rates. It also highlights key differences between the two methods of cost recovery in an effort to assist a grantee in deciding which methods are best suited for its community action agency (CAA).

This FAQ is not authorized or approved by the federal Office of Community Services (OCS) or by OMB and does not constitute legal or financial advice. It includes references to OMB's version of the Uniform Guidance (2 C.F.R. Part 200) as well as to a set of Frequently Asked Questions¹ issued by the federal Council on Financial Assistance Reform (COFAR), the group that oversaw the development of the Uniform Guidance and continues to oversee its implementation.

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1. Under the Uniform Guidance, what options does a federal grantee have for recovering indirect costs and shared costs?

Federal grantees have the option of using a cost allocation plan to recover shared direct costs,² and/or they may recover indirect costs through the use of an indirect cost rate, which can either be a federally negotiated indirect cost rate³ or the de minimis (10%) rate.⁴

2. What is a cost allocation plan?

A cost allocation plan is an accounting plan that details how a grantee's shared direct costs will be allocated to its different funding sources. It provides the grantee with a way to document its reasonable basis for allocating **direct costs** across cost objectives (i.e., across its various awards, programs, and activities). **Direct costs** are costs that can be identified specifically with a particular final cost objective, such as a federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.⁵

3. Does the Uniform Guidance allow CAAs to use cost allocation plans?

Yes, under the Uniform Guidance, a CAA may choose to use a cost allocation plan to directly charge all or a portion of its costs to its federal award.

4. Can a CAA use a cost allocation plan if direct costs are shared between a grantee's federal awards?

Yes, all federal grantees and subrecipients, including CAAs, are permitted to charge shared direct costs to their federal awards through cost allocation. The Uniform Guidance explicitly allows for the recovery of direct costs that benefit two or more projects or activities (i.e., shared direct costs) using the following "direct cost allocation principles":

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section [the prohibition against cost shifting to overcome fund deficiencies or restrictions imposed], **the costs may be allocated or transferred to benefitted projects on any reasonable documented basis** (emphasis added).⁶

This provision applies to all non-federal entities—nonprofits as well as state and local governments. A non-federal entity documents its cost allocation methodology through a cost allocation plan.

5. What is an indirect cost rate?

An indirect cost rate is the methodology a non-federal entity uses to allocate **indirect costs** across cost objectives (i.e., grants, programs, or organizational functions that benefit from the indirect costs). **Indirect costs** are "costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved."⁷ In other words, it would be cost-prohibitive or otherwise impractical or impossible to allocate indirect costs using a cost allocation plan.

An indirect cost rate is expressed as the ratio of the grantee's indirect costs to the grantee's chosen direct cost base. For nonprofit grantees, an indirect cost rate is either negotiated with a federal funding source by using one of the methodologies specified in Appendix IV to Part 200 in the Uniform Guidance,⁸ or the grantee may be eligible to use the **de minimis rate**,⁹ which is equal to 10% of the non-federal entity's modified total direct costs.

For additional information about the different types of indirect cost rates available to CAAs under the Uniform Guidance, ways to calculate and negotiate a rate, and how to reconcile indirect cost rates with statutory administrative cost limits, view webinars from CAPLAW's [Ins and Outs of Indirect Costs Under the Super Circular Webinar Series](#) and review CAPLAW's [Indirect Cost Webinar Series FAQ](#).

6. Are there any costs that can only be recovered as indirect costs?

Yes. "Because of the diverse characteristics and accounting practices of nonprofit organizations, it is not possible to specify the types of cost which may be classified as indirect (F&A) cost in **all** situations" (emphasis added).¹⁰ However, the Uniform Guidance does specifically identify a handful of costs which, under certain circumstances, may **only** be recovered as indirect costs and thus **only** by grantees that have an indirect cost rate. Examples of such costs include proposal costs,¹¹ publication and printing costs not identifiable with a particular cost objective,¹² and costs incurred for ordinary and normal rearrangement and alteration of facilities.¹³ This means that OMB has determined that the benefit of these costs to different funding sources is not readily identifiable without disproportionate effort, and thus can only be recovered if the grantee has an indirect cost rate.

7. Are non-federal entities that receive federal grant funds required to use indirect cost rates?

No, the Uniform Guidance does not require non-federal entities receiving federal grant funds to use indirect cost rates. It specifically permits all federal grantees and subrecipients to charge shared costs using reasonable, documented cost allocation methodologies.

The Uniform Guidance includes provisions **permitting** non-federal entities to obtain federally negotiated indirect cost rates or to use the **de minimis** indirect cost rate, if eligible.¹⁴ However, no Uniform Guidance provision **requires** a non-federal entity to obtain and use an indirect cost rate. COFAR's FAQ explicitly addresses this:

[.331-5 Indirect Cost Rates and Entities Who Do Not Have Indirect Costs](#)

2 CFR 200.210(a)(15), 2 CFR 200.331(a)(1)(xiii) and (a)(4) all make reference to indirect cost rates as a requirement for recipients and subrecipients. Not all entities charge indirect cost rates. **Will they now be forced to establish such rates?**

No. Non-Federal entities that are able to allocate and charge 100% of their costs directly may continue to do so. Claiming reimbursement for indirect costs is never mandatory; a non-Federal entity may conclude that the amount it would recover thereby would be immaterial and not worth the effort needed to obtain it (emphasis added).¹⁵

Thus, the Uniform Guidance and COFAR FAQ make clear that non-federal entities – including CAAs – are not required to obtain an indirect cost rate and may always opt to allocate and charge costs directly, including shared direct costs, using a cost allocation plan.

8. Are federal funding sources and pass-through entities required to recognize a federally negotiated indirect cost rate and de minimis rate?

Yes. The Uniform Guidance specifically requires federal awarding agencies and pass-through entities (such as state agencies) to accept the use of federally negotiated indirect cost rates and de minimis rates.¹⁶

9. Is a cost allocation plan the equivalent of an indirect cost rate?

No, using a cost allocation plan is not the same as using an indirect cost rate. Rather, these are two different methods for recovering costs. A grantee uses a cost allocation plan to recover **shared direct costs** (shared costs that are readily assignable to benefitting cost objectives),¹⁷ while it uses an indirect cost rate to recover **indirect costs** (joint costs that are **not** readily assignable to benefitting cost objectives without undue effort).¹⁸

10. Can a CAA use both a cost allocation plan as well as an indirect cost rate?

Yes, a CAA that uses an indirect cost rate to recover indirect costs may also use a cost allocation plan to recover shared direct costs, provided that it does not seek to recover the same costs as both direct and indirect. Costs must be consistently charged as either direct or indirect costs, and may not be double-charged or inconsistently charged as both.¹⁹

11. Is a CAA required to have its cost allocation plan approved by funding sources?

No. Although the Uniform Guidance requires a nonprofit organization seeking a federally negotiated indirect cost rate to establish the rate via an agreement with its cognizant federal agency,²⁰ there is no similar provision requiring a nonprofit organization's cost allocation plan to be approved by a cognizant federal agency, a federal awarding agency, or a pass-through entity.²¹

Confusion often arises with respect to approval of nonprofit cost allocation plans, because the Uniform Guidance requires a state and major local government to have its central service cost allocation plan reviewed by cognizant federal agencies. However, this provision does not apply to nonprofit organizations.²²

A nonprofit CAA's cost allocation plan is typically approved by its board of directors as part of its fiscal policy and procedures and its cost allocation procedures are reviewed annually by its external auditor and, if applicable, as part of a Single Audit. If, as part of a monitoring, a funding source questions the way in which a CAA is allocating a cost, the funding source may ask to review the CAA's cost allocation plan. The CAA must ensure that costs charged are allowable and the cost allocation base chosen is equitable and reasonable.²³

ENDNOTES

¹ COFAR Frequently Asked Questions, Updated July 2017.

² 2 C.F.R. § 200.405(d).

³ 2 C.F.R. § 200.414(e).

⁴ 2 C.F.R. § 200.414(f).

⁵ 2 C.F.R. § 200.413(a).

⁶ 2 C.F.R. § 200.405(d).

⁷ 2 C.F.R. § 200.56.

⁸ 2 C.F.R. § 200.414(e)(2).

⁹ 2 C.F.R. § 414(f).

¹⁰ 2 C.F.R. § 200.414(b).

¹¹ 2 C.F.R. § 200.460.

¹² 2 C.F.R. § 200.461(a).

¹³ 2 C.F.R. § 200.462(a).

¹⁴ See, e.g., 2 C.F.R. § 200.414 “Indirect F&A costs” and [Appendix IV to Part 200](#) “Indirect (F&A) Costs Identification and Assignment and Rate Determination for Nonprofit Organizations.”

¹⁵ [COFAR FAQ 200.331-5](#).

¹⁶ See 2 C.F.R. § 200.331(a)(4); 2 C.F.R. § 414(c)(1).

¹⁷ 2 C.F.R. § 200.405(d).

¹⁸ 2 C.F.R. § 200.56.

¹⁹ 2 C.F.R. § 200.414(f).

²⁰ See [Appendix IV, Section C.2 – Negotiation and Approval of Rates](#).

²¹ 2 C.F.R. § 200.331.

²² 2 C.F.R. § 200.19; [Appendix V to Part 200, F.1](#).

²³ 2 C.F.R. § 200.405(d); 2 C.F.R. Subpart E, Basic Considerations.

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