

# U.S. DEPARTMENT OF AGRICULTURE National Institute of Food and Agriculture



## Commercial, For-Profit Indirect Cost Training – One Rate Method



# What You Need To Understand Indirect Cost Rates (ICR):

- Know 3 reasons to be concerned about ICRs
- Know 3 definitions relevant to ICRs
- Know 3 steps to calculate an ICR
- Know 3 ways to check the grant budget for errors involving ICRs



# Know 3 Reasons To Be Concerned About ICRs

1. Grantees will expect the Govt. to pay a fair share of indirect costs associated with each grant
2. The Govt. benefits from a grantees indirect costs so the Govt. should pay its fair share of indirect costs
3. ICRs provide for a uniform method of funding indirect costs and a fair allocation of indirect costs to all projects



# Know 3 Definitions Relevant to ICRs

1. Indirect cost
2. Direct cost
3. Unallowable cost



# Know 3 Definitions

## Definition #1:

- Indirect Cost - An expenditure that is not easily identified with a specific project.
  - Executive salaries
  - Admin. personnel (Acct, Payroll, etc.)
  - Rent
  - Utilities
  - Depreciation
  - Professional fees (audit, legal)



# Know 3 Definitions

## Definition #2:

- Direct Cost - An expenditure that is easily identified with a specific project.
  - Direct salaries and wages (research personnel)
  - Materials and supplies
  - Travel
  - Consultants
  - Subcontracts
  - Equipment



# Know 3 Definitions

## Definition #3:

- Unallowable costs - expenses for which the Govt. will not reimburse a grantee

- Advertising
- Bad debts expense
- Entertainment costs
- Interest
- Federal income taxes
- Contributions/donations
- Fines and penalties

(\* ) Unallowable costs for commercial, for-profit organizations = FAR Part 31.2

[https://www.acquisition.gov/far/current/html/Subpart%2031\\_2.html#wp1095552](https://www.acquisition.gov/far/current/html/Subpart%2031_2.html#wp1095552)



# Know 3 Steps to Calculate an ICR

1. Obtain expenses from financial statements or accounting records.
2. Categorize expenses as either indirect, direct, or unallowable.
3. Divide total allowable indirect costs by total allowable direct costs to calculate the indirect cost rate.

[Do a sample indirect cost rate](#)

[Check your answers](#)



# Know 3 Ways to Check the Grant Budget for Errors Concerning the ICR

1. Did the grantee use the correct indirect cost rate?
2. Did the grantee apply the indirect cost rate to the correct base (i.e., direct cost categories)?
3. Make any necessary corrections to the proposal budget – check your answers