

Frequently Asked Questions (FAQ's)

Questions about Cognizance:

1. ***How can I determine who is my cognizant agency responsible to establish my indirect cost rate(s)?***

For commercial, for-profit companies and nonprofit organizations, the Federal agency that provides the most funding is the cognizant agency responsible to establish indirect cost rates (see FAR 42.003(a) and 2 CFR 200 Appendix IV, (c)(2)).

2. ***I have been selected for funding, and I want to establish an indirect cost rate with NIFA. What is the first step in the process?***

NIFA must first determine if it is the cognizant Federal agency responsible to establish indirect cost rates (see FAR 42.003(a) and 2 CFR 200 Appendix IV, (c)(2)). Accordingly, prepare a schedule of current and pending Federal funding received (grants and contracts).

The list should identify: (a) Federal agency; (b) type of award (grant or contract); (c) whether the organization is the prime recipient or a subrecipient; (d) award amount; (e) effective period; (f) whether the award is current or pending; and (g) whether the award is fixed-price or cost reimbursable. Submit the schedule of Federal funding via e-mail to IndirectCostInquiries@nifa.usda.gov. The e-mail's subject line should read, "Request to Determine if NIFA is Cognizant".

If cognizant, NIFA will explain the next steps in the process. If not, NIFA will direct you to your cognizant agency.

3. ***My company received a Small Business Innovation Research (SBIR) Award from NIFA. My cognizant agency is the Department of Defense (DOD). I provided NIFA a copy of my approved indirect cost rates from DOD. However, NIFA adjusted the rates. Why?***

Many DOD contractors and recipients of SBIR funding incur Independent Research & Development (IR&D) costs. NIFA does not fund IR&D costs (see SBIR 2015 Terms and Conditions, Article 6). As a result, NIFA must remove IR&D costs and adjust the rates for use on NIFA's awards.

4. ***I received a large grant from another Federal agency thus making them my cognizant agency. However, they did not negotiate an indirect cost rate with me, but rather issued a "billing rate" for use only on their award. Will NIFA accept my cognizant agency's award-specific billing rate as authoritative so as to allow indirect cost recovery on my NIFA grant?***

No. NIFA follows the Uniform Guidance (UG) found at 2 CFR PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS*. The UG requires an approved Negotiated Indirect Cost Rate Agreement (NICRA) or de minimis rate to obtain indirect cost reimbursement (see 2 CFR 200.414).

Questions about Available Indirect Cost Options:

5. ***Am I required to have a Negotiated Indirect Cost Rate Agreement (NICRA) in order to obtain full indirect cost reimbursement?***

Yes. NIFA follows the Uniform Guidance which requires a NICRA to obtain indirect cost reimbursement in excess of the 10% de minimis rate, subject to any statutory limitations on indirect cost recovery (see 2 CFR 200.414).

6. What are all my options for obtaining indirect cost reimbursement?

- a. *Waive indirect cost recovery and request only direct research costs.* If this option is selected, the organization need only work with their grants specialist to review the award budget and make any adjustments to ensure only direct research costs are requested.
- b. *Elect a 10% de minimis indirect cost rate.* Organizations that have never received a *Negotiated Indirect Cost Rate Agreement (NICRA)* are eligible to elect a 10% de minimis indirect cost rate (see 2 CFR 200.414(f)). If selected for award and this option is selected, the organization should submit an e-mail to our mailbox at: IndirectCostInquiries@nifa.usda.gov. The e-mail's subject line should read, "*Election of the 10% De Minimis Indirect Cost Rate*". When electing the 10% de minimis indirect cost rate, the organization's email **must affirm** it has never received a NICRA and therefore is eligible to receive the de minimis rate. NIFA monitors the mailbox, reviews organizations' emails and issues a 10% de minimis indirect cost rate to each eligible organization.
- c. *Request full recovery of indirect costs (NIFA is not the cognizant agency).* If selected for award, organizations that already possess a Negotiated Indirect Cost Rate Agreement (NICRA) from their cognizant federal agency (i.e., the agency that provides the most funding) may budget for full indirect cost recovery using the rates approved in the NICRA, subject to programmatic or statutory limitations. Organizations should submit a copy of the NICRA to their grants specialist in support of budgeted indirect costs.
- d. *Request full recovery of indirect costs (NIFA is the cognizant agency).* If selected for funding and this option is selected, NIFA must first determine if NIFA is the cognizant federal agency responsible to establish negotiated indirect cost rates (see FAR 42.003(a) and 2 CFR 200 Appendix IV, (c)(2)). Accordingly, the organization should prepare a schedule of current and pending federal funding received (grants and contracts). The list should identify: (a) Federal agency; (b) type of award (grant or contract); (c) whether the organization is the prime recipient or a subrecipient; (d) award amount; (e) effective period; (f) whether the award is current or pending; and (g) whether the award is fixed-price or cost reimbursable. Submit the schedule of federal funding via e-mail to IndirectCostInquiries@nifa.usda.gov. The e-mail's subject line should read, "*Request to Determine if NIFA is Cognizant*".

If cognizant, NIFA will notify the organization to submit a complete Indirect Cost Proposal (ICP) package to RecipientsICPs@nifa.usda.gov. The contents of a complete ICP package are identified on NIFA's indirect cost webpage located at: <http://nifa.usda.gov/indirect-costs>. Please note the process for establishing a Negotiated Indirect Cost Rate Agreement (NICRA) can take up to six months (180 days) from the time NIFA receives the ICP. Also, NIFA may issue the award, but withhold funds budgeted for indirect costs pending completion of the indirect cost rate negotiation process. Upon completion of the negotiation process, NIFA will notify the organization if a modification to the grant budget is necessary.

7. My cognizant agency refuses to negotiate an indirect cost rate and issue a Negotiated Indirect Cost Rate Agreement (NICRA). What should I do?

We recommend elevating the issue within the hierarchy of your cognizant agency until you obtain the NICRA. You may also consider informing the Office of Management and Budget (OMB) that your cognizant agency refuses to issue a NICRA. Address your concerns to Gil Tran at OMB

(htran@omb.eop.gov or Hai.M.Tran@omb.eop.gov). Without a NICRA, NIFA can offer only two indirect cost options as follows:

- a. *Waive indirect cost recovery and request only direct research costs.* With this option, you need only work with your NIFA Grants Specialist to review adjust the award budget to include only direct research costs.
- b. *Elect a 10% de minimis indirect cost rate.* Organizations that have never received a *Negotiated Indirect Cost Rate Agreement* (NICRA) are eligible to elect a 10% de minimis indirect cost rate (see 2 CFR 200.414(f)).

Questions About OMB's 10% De Minimis Rate:

8. Who is eligible to receive the 10% de minimis rate?

Recipients and subrecipients of Federal awards that have never before received a Negotiated Indirect Cost Rate Agreement (NICRA) are eligible to receive the 10% de minimis rate (see 2 CFR 200.414(f)).

9. How is the 10% de minimis rate applied?

The 10% de minimis is applied to Modified Total Direct Costs (MTDC). MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000 (see 2 CFR 200.68 and 200.414(f)).

10. Is the 10% de minimis rate available to consultants and vendors?

No. The 10% de minimis rate is available only to recipients and subrecipients of Federal awards (compare 2 CFR 200.22 and 2 CFR 200.23 with 2 CFR 200.69, 2 CFR 200.86, 2 CFR 200.93 and 2 CFR 200.414).

11. My organization received an award directly from NIFA, and therefore we are considered the prime recipient. We have several subrecipients who are requesting indirect costs. As the prime recipient, are we responsible to establish subrecipients' indirect costs?

Yes. As the prime recipient you are responsible to approve your subrecipients' indirect costs (see 2 CFR 200.331(a)(4)). Prime recipients have three options as follows:

- a. The prime recipient must accept subrecipients' Federally-negotiated indirect cost rates, if available (i.e., the Negotiated Indirect Cost Rate Agreement - NICRA);
- b. The prime recipient can negotiate an indirect cost rate with subrecipients in accordance with the requirements of the Uniform Guidance found at 2 CFR PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS*;
- c. The prime recipient can approve subrecipients' use of the 10% de minimis rate.

With all three (3) options, prime recipients should maintain documentation to support their approval of subrecipients' indirect cost requests.

12. My cognizant agency issued to my organization a 50% "billing rate" for use only on one award. NIFA follows the UG and will not accept my cognizant agency's award-specific

billing rate as authoritative so as to allow indirect cost recovery on my NIFA grant. However, may I receive the 10% de minimis rate on NIFA's grant?

Recipients of Federal awards that have never before received a Negotiated Indirect Cost Rate Agreement (NICRA) are eligible to receive the 10% de minimis rate (see 2 CFR 200.414(f)). Therefore, if your cognizant agency has not issued a NICRA, you may be eligible for the de minimis rate. However, please be aware that you must apply the de minimis rate to all awards, including the award currently allowing a 50% billing rate (see 2 CFR 200.414(f)). As a result, we recommend elevating the issue within the hierarchy of your cognizant agency until you obtain the NICRA. You may also consider informing the Office of Management and Budget (OMB) that your cognizant agency refuses to issue a NICRA. Address your concerns to Gil Tran at OMB (htran@omb.eop.gov or Hai.M.Tran@omb.eop.gov).

Questions About Indirect Cost Negotiation and Calculating an Indirect Cost Rate:

13. *How long does it take to negotiate an indirect cost rate?*

The process for establishing a Negotiated Indirect Cost Rate Agreement (NICRA) can take up to six months (180 days) from the time we receive the Indirect Cost Proposal (ICP).

14. *I received an award from NIFA and have begun to negotiate an indirect cost rate. The negotiation is taking several months. My grant funds to cover indirect costs are being withheld pending completion of the negotiation. How can I cover my indirect costs while I wait for approval of my rates?*

The process for establishing a Negotiated Indirect Cost Rate Agreement (NICRA) can take up to six months (180 days) from the time NIFA receives the Indirect Cost Proposal (ICP). Organizations receiving Federal awards should be viable "going concerns". That is, organizations are expected to have the ability to carry out operations for one year or more. There are delays inherent to the Federal award process, and organizations must maintain adequate cash reserves to conduct operations while awaiting various approvals, such as the indirect cost negotiation process.

15. *I received an award from NIFA and have begun to negotiate an indirect cost rate. The negotiation is taking several months. My grant funds related to indirect costs are being withheld pending completion of the negotiation. Can I use available direct funding to pay for indirect costs until my rates are approved?*

No. NIFA follows the Uniform Guidance (UG) found at 2 CFR PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS*. The UG requires an approved Negotiated Indirect Cost Rate Agreement (NICRA) or de minimis rate to obtain indirect cost reimbursement (see 2 CFR 200.414 (c)(1) and (f)).

16. *NIFA is the cognizant agency responsible to establish my indirect cost rate. Am I required to use the sample indirect cost format on NIFA's indirect cost webpage?*

No. The one-rate and two-rate methods on NIFA's indirect cost webpage are examples only. Your organization may use a different method (i.e., Fringe-Overhead-G&A, DCAA's ICE model, etc.).

17. *When calculating my indirect cost rate, am I required to put unallowable costs in the base (i.e., denominator)?*

It depends. Unallowable costs involving labor and facilities must be included in the base (i.e., denominator) to absorb a fair share of unallowable costs (see 2 CFR 200.405(b) and 2 CFR 200.413(e)). Conversely, unallowable costs that merely represent an accounting adjustment should only be removed from the rate calculation (i.e., bad debts expense, interest expense, etc.).

18. Are meal costs allowable?

The only allowable meals costs should be those incurred while on official business travel (see 2 CFR 200.474). Grantees should not ask the Federal government to pay local meal costs associated with employee staff meetings, working lunches, social events or other functions (see 2 CFR 200.438).

19. My organization currently calculates fringe benefit costs (e.g., payroll taxes, unemployment insurance and health/dental insurance, retirement costs) for each employee. Is this acceptable?

It depends. A few organizations have been able to determine the amount of each type of fringe benefit cost related to a particular employee. As a result, when an employee is working on a grant, the organization can identify the allocable amount of each type of fringe benefit cost related to the employee's efforts on the grant. The organization then charges both the employee's labor cost and related fringe benefits directly to the grant. This scenario is infrequent and NIFA would need to review the calculations before approval (see 2 CFR 200.412 and 2 CFR 200.413(a)).

An easier approach would be to consider pooling all fringe benefits together and calculating an organization-wide fringe benefit rate. See the sample two-rate calculation on NIFA's indirect cost webpage. The cognizant agency can include the fringe benefit rate in the NICRA to provide an authoritative basis for fringe benefits which would avoid challenges from Federal agencies trying to verify the amount of fringe benefits included in future award budgets.

Questions About Re-Budgeting:

20. When I prepared my grant application, I budgeted for a 35% indirect cost rate. NIFA is my cognizant agency and just completed the indirect cost negotiation approving a lower rate of 20%. Am I required to re-budget?

Yes. Since your approved rate is lower than requested, you must work with your grants specialist to re-budget indirect costs to direct cost categories (see 2 CFR 200.302 (3), (4), and (5); 2 CFR 200.303 (a), (b), (c), and (d); and 2 CFR 200.344(a)(2)).

21. When I prepared my grant application, I included fringe benefits as a direct cost. Now that I received my award, I started to negotiate an indirect cost rate. I developed an indirect cost rate using the one-rate method from NIFA's website. All my fringe benefits are now part of my indirect cost rate. Do I have to submit a re-budget request?

Yes. With the one-rate method, fringe benefits are recovered through the indirect cost rate. As a result, it will be necessary to prepare a revised budget to remove fringe benefits as a direct cost to avoid an inconsistent treatment of costs and potential double recovery of fringe benefits (see 2 CFR 200.412).

Questions About Accounting System Requirements:

22. Are there specific accounting system requirements I must adhere to when I receive a Federal award?

Yes. The Award Face Sheet references all applicable terms and conditions on page one (1). Most accounting system requirements can be found in the Uniform Guidance (UG), 2 CFR PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS*. Several key requirements are identified below:

- a. Recipients must establish a unique General Ledger (G/L) account in the accounting system to capture/accumulate NIFA grant costs apart from other grants, projects and indirect costs.**

“...The financial management system of each non-Federal entity must provide for the following: (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received...(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program...(3) Records that identify adequately the source and application of funds for federally-funded activities” (2 CFR 200.302).

- b. Recipients must consistently treat costs throughout the entire award process.**

Recipients must be consistent when estimating, reporting and recovering costs. Specifically, recipients must “*connect the three points of the triangle.*” That is, recipients’ treatment of direct and indirect costs must be consistent in: (a) grant applications/budgets; (b) Indirect Cost Proposals (ICP) submitted to the cognizant agency; and (c) the accounting system (see 2 CFR 200.412). Listed below are examples of inconsistent treatment of costs:

Example 1. A recipient proposed a single indirect cost rate in the Indirect Cost Proposal (ICP) submitted to the cognizant agency with all indirect costs and fringe benefits being recovered through the single indirect cost rate. However, in the grant budget and accounting system, the recipient used two rates (i.e., an indirect cost rate and a fringe benefit). The recipient did not *connect the three points of the triangle*. That is, the recipient used the two-rate method in the budget (estimating) and accounting system (recovering), but not in the ICP during negotiations (reporting).

Example 2. In the grant budget and Indirect Cost Proposal (ICP) submitted to the cognizant agency, a recipient proposed to recover all indirect costs and fringe benefits through a single indirect cost rate. However, in the accounting system, the recipient charged indirect costs, such as administrative salaries, rent, utilities, etc. directly to Federal grants. The recipient did not *connect the three points of the triangle*. That is, the recipient’s grant budget (estimating) and ICP (reporting) presented a single indirect cost rate to propose/report indirect costs. However, the recipient did not actually use a rate when recovering indirect costs in the accounting system, but rather direct-charged indirect costs (recovering).

- c. Recipients must maintain a time keeping system to support labor charges to Federal awards.**

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Records that identify adequately the source and application of funds for federally-funded activities” (2 CFR 200.302(b)).

23. We use hourly timesheets to record employees’ hours worked. How will this impact my accounting system and the preparation of my indirect cost rate proposal?

Employees’ hourly timesheets must account for all hours worked and not worked (paid absences). Unique General Ledger (G/L) account(s) (i.e., cost centers) must be established in the accounting system for all activities on which employees may work (grants, contracts, internal projects, administrative activities, etc.). Employees code their hours worked to the correct G/L accounts on their timesheets. Timesheets are entered into the accounting system and labor costs are calculated and automatically map to the correct G/L accounts.

Regarding paid absences (vacation, holiday, sick and other paid leave), recipients may not directly charge Federal awards for time not spent working on the awards (i.e., paid absences). Rather, paid absences must be allocated to all direct activities through either a fringe benefit or indirect cost rate. As a result, recipients must also establish a unique account/object code to capture/accumulate paid absences. Employees code their hours not worked (paid absences) to the correct account/object code on their timesheets. Timesheets are entered into the accounting system and labor costs are calculated and automatically map to a unique account/object code.

When preparing the Indirect Cost Proposal (ICP) to submit to the cognizant agency, the account total from the unique account/object code for paid absences is included in the numerator of either the fringe benefit or indirect cost rate for allocation to all direct activities.

“A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received” (2 CFR 200.405(a)).

24. I am the owner of a small limited liability company (LLC). I take my compensation in the form of owners’ draws. Now, that I have received a NIFA grant, are there any special considerations for my compensation and tracking my effort on the NIFA grant?

Yes. Owners’ compensation received through draws is not captured in the company’s Profit & Loss (P&L) statement, General Ledger (G/L), grant subsidiary ledgers or Indirect Cost Proposal (ICP). As a result, there is no audit trail relating to compensation on the NIFA award. Therefore, owners of LLC’s (and other closely held corporations) should receive compensation for work on Federal awards in the form of: (a) W-2 supported salaries; or (b) guaranteed payments in order to trigger expense recognition and create an audit trail for labor costs.

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25. I am employed part-time at a university and part-time at a small, commercial, for-profit research company which just received a NIFA grant. How do I account for my dual roles?

An individual may only be compensated for 100 percent effort (see 2 CFR 200.403(h)(8)). If your university appointment is less than 100 percent, you are eligible to work at both the university and commercial company. You would account for your university effort under the university’s timekeeping system. You would account for your effort with the commercial company under the company’s timekeeping system.

However, if your university appointment is a full-time (100 percent) appointment, it may be necessary for you to obtain a release letter from the university to accommodate your work at the company. Your official university appointment document and regularly generated effort reports would reflect the time you have been released to work at the company.

The contents of this document do not have the force and effect of law and are not meant to bind the public in any way. This document is intended only to provide clarity to the public regarding existing requirements under the law or agency policies.