APPENDIX O
PHMSA State Underground Natural Gas Storage Safety Grants
Guidance for Indirect Cost Recovery
Revised December 2017

Summary

The purpose of this appendix is to provide guidance to all underground natural gas storage safety grant programs as to the establishment of a negotiated indirect cost rate or other options in order to collect indirect costs. This replaces any previously issued guidance. See guidance below.

Summary of Topics

- ***Overview of 2 CFR 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards***

What are an Indirect Cost Rate and Indirect Cost Proposal?

- ***What do State Programs need to do?***
- ***Where should programs go for guidance?***

Overview of 2 CFR 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

2 CFR 200 is the Federal Government Guidance on Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards. This codified regulation provides a government wide framework for grants management. 2 CFR 200 supersedes and streamlines the requirements from any previously applicable requirements under 2 CFR 225 and any previous OMB Circulars A-87 and OMB Circular A-133.

In determining whether costs are allowable or not follow these basic guidelines:

- Necessary and reasonable
- Allocable
- Authorized under state or local laws
- Not restricted by PHMSA policy
- Not otherwise restricted by statute
- All activities are charged uniformly
- Consistent treatment
- In accordance with GAAP
- Not included as a cost of another federal award
- Net of all applicable credits
- Adequately documented

What is an Indirect Cost Rate and Indirect Cost Rate Proposal?

Indirect Cost Rate

An indirect cost rate is a device for determining in an equitable manner the proportion of indirect costs for each program. An indirect cost rate assists a grantee to obtain the full cost of operating a grant or a program, not just the more easily identifiable "direct cost".

An indirect cost rate is the ratio (expressed as a percentage) of the indirect cost to a direct cost base. Indirect costs may be recovered only to the extent that direct costs were incurred. In order to determine the reimbursable amount for indirect costs, the indirect cost rate is applied to the amount of direct costs expended, NOT to the total grant award. The direct cost base can vary from state to state but each is determined in accordance with 2 CFR 200.

Per 2 CFR 200 – Appendix VII, "indirect costs include (a) the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and (b) the costs of central governmental services distributed through the central service cost allocation plan (as described in Attachment V to Part 200) and not otherwise treated as direct costs".

Indirect costs are normally charged to federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually developed for each department or agency of the governmental unit claiming indirect costs under federal awards. In addition to Appendix VII of 2 CFR 200, guidelines and illustrations of indirect cost proposals are provided in a brochure published by the Department of Health and Human Services entitled "A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation

Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government". This is also known as ASMB C-10 and is located in the State Guidelines as Appendix N.

2 CFR 200 (Guidelines Appendix G), and ASMB C-10 (Guidelines Appendix N), comprise the majority of the federal guidance for indirect costs rates and cost allocation plans. A link to ASMB C-10 is provided below:

http://rates.psc.gov/fms/dca/**asmb**%20**c-10**.pdf

Indirect Cost Rate Proposal

An indirect cost rate proposal is the documentation prepared by a governmental unit or subdivision thereof to substantiate its request for the establishment of an indirect cost rate. All pipeline safety programs desiring to claim indirect costs in their grant reimbursement must submit an indirect cost rate proposal, and have an approved indirect cost rate agreement. The proposal and related documentation must be retained for audit in accordance to record retention requirements.

Proposal submission requirements include the following:

- Identification of costs considered to be indirect
- Identification of costs used as the direct costs to assist in setting the rate
- Rate(s) Development Schedules
- Copies of Financial Data
- Organizational Charts
- Certification of the rate by an authorized official

Indirect Cost Rates Types

The indirect cost rate type is determined between the cognizant agency and the grantee. Descriptions of the differing rates are as follows:

- "Predetermined rate" means an indirect cost rate, applicable to a specified current or future period, usually the governmental unit's fiscal year. This rate is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment. (Because of legal constraints, predetermined rates are not permitted for Federal contracts; they may, however, be used for grants or cooperative agreements.) Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency. In view of the potential advantages offered by this procedure, negotiation of predetermined rates for indirect costs for a period of two to four years should be the norm in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an

informed judgment as to the probable level of indirect costs during the ensuing accounting periods.

- "Fixed rate" means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.
- "Provisional rate" means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on Federal awards pending the establishment of a "final" rate for that period.
- "Final rate" means an indirect cost rate applicable to a specified past period which is based on the actual allowable costs of the period. A final audited rate is not subject to adjustment.
- "De Minimis rate" means a rate of 10% of modified total direct costs (MTDC) and may be used indefinitely without having a negotiated indirect rate. This rate is only available to those non-Federal entities who have never received a negotiated indirect cost rate. Any exceptions to this are found in Appendix VII to Part 200, paragraph (d)(1)(b).

Indirect Cost Rate Cap

PHMSA may implement a cap on indirect costs of 20% of total direct costs submitted for reimbursement if there is federal funding limitations and in order to substantially fund the direct costs of all programs. PHMSA will notify programs if the 20% cap on indirect cost is being implemented for a give grant year.

What do State Programs need to do?

What will each program need and when?

All state programs will need to have either an approved indirect cost rate agreement in order to be reimbursed for indirect costs or they may collect the de minimis rate of 10% of MTDC as noted above. Approved indirect cost agreements should be sent to Rex Evans at rex.evans@dot.gov.

- A grantee must have obtained a current indirect cost rate agreement from its cognizant agency, to charge indirect costs to a grant. To obtain an indirect cost rate, a grantee must submit an indirect cost proposal to its cognizant agency within 90 days after the date the Department issues the Grant Award Notification (GAN). This would be after our notice of Grant Award, or "Grant Allocation".
- If a grantee does not have a federally recognized indirect cost rate agreement, the grantee may continue to charge its grant for indirect costs at a rate of up to 10 percent of MTDC while a rate is being negotiated.

- If a grantee had a previously negotiated indirect cost rate agreement the grantee must either continue with keeping an updated agreement or will not be able to collect indirect costs.

Who will approve the indirect cost proposal?

The "Cognizant" federal agency is responsible for reviewing, negotiating, and approving the indirect cost proposals developed under 2 CFR 200 for each state. This agency is typically the federal agency from which the state agency receives the majority of their federal funding. In some cases this agency may be PHMSA and Indirect costs plans shall be submitted to Rex Evans at: rex.evans@dot.gov. We will work with those states on a case by case basis for indirect cost rate proposal approval as necessary. PHMSA/DOT will likely be the cognizant agent for most programs who have not previously secured an indirect cost rate, but it is recommended that each program consult their state grant office for initial assistance.

When is an indirect cost plan developed?

Indirect cost proposals are typically developed within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant federal agency. (See 2 CFR 200 for guidance)

Does the program have to have an "Indirect Cost Rate Agreement"?

No. If a state chooses, no plan or agreement is necessary and may collect up to a maximum of 10% of MTDC providing an indirect agreement has never been in place.

How often does a program need to have their agreement updated?

The rate period is typically outlined on the negotiated rate document, but any non-Federal entity that has a federally negotiated indirect cost rate may apply for a one-time extension of a current negotiated indirect cost rates for a period of up to four years. This extension will be subject to the review and approval of the cognizant agency for indirect costs. If an extension is granted the non-Federal entity may not request a rate review until the extension period ends. At the end of the 4-year extension, the non-Federal entity must re-apply to negotiate a rate.

Is there a cap on the amount of indirect costs a program can recover?

Yes, per program implemented policy as described above, there is a limitation of 20% of direct program costs that can be submitted for reimbursement in the pipeline safety grant program.

Where should programs go for guidance?

1. Your agency financial personnel and state grant office should be the first place you seek guidance
2. See 2 CFR 200 and ASMB C-10
3. PHMSA State Programs Contact:

Rex Evans – rex.evans@dot.gov
217-679-8495 office
217-801-8014 cell