



**Program:** Office of Contracts Management

**Date:** November 2023

### **Policy for Indirect Cost Rate Allocation Plans**

*This policy is written to standardize and provide guidance in establishing Indirect Cost Rate Allocation Plans for Contractors/Grantees providing services to Human Services Agency (HSA).*

Historically, HSA has allowed Contractors/Grantees to allocate Indirect Costs as an additive of direct costs in a variety of formats, not to exceed 15% of direct costs as established by the Human Services Commission. This revised policy is intended to provide an equitable rate for all HSA Contractors/Grantees.

This policy is intended to help define Indirect Costs and serves as a general guideline for the application of Indirect Costs in contracting with the HSA.

“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/grant.

#### **Indirect Costs are classified within two broad categories: Facilities and Administration.**

Facilities type indirect costs are defined as depreciation and use allowances on buildings, equipment, capital improvements, operations and maintenance expenses and interest on debt associated with certain buildings that do not relate solely to any major function of the organization.

Administration type indirect costs are defined as general administration and general expenses such as central offices, director’s office, office of finance or accounting, budget and planning, personnel and safety, general counsel, management information systems, and all other expenses of a general nature that 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 base period (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 cost base, resulting in an indirect rate expressed as a percentage.

Example: total organization expenses for a fiscal year are \$110,000. Of these costs \$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 capital expenditures, aid payments, other direct voucher payments, or any stipend, subsidy or expense paid on behalf of a client (i.e. security deposit, rental payment assistance, transportation vouchers, etc.). These examples are not intended to be a comprehensive list. If an organization is uncertain whether indirect costs can be applied to a particular expense, it should consult with the HSA Contract Manager.

HSA will keep on file the indirect cost allocation plan for each Contractor/Grantees and these plans will be updated with the submittal of each year's audited financial statements. The Contractor/Grantees may request to modify the indirect rates at any time based upon submitted financial data, but the rate may not exceed 15%.

