

NORTH CAROLINA COUNCIL ON DEVELOPMENTAL DISABILITIES (NCCDD)	
<i>BUDGET LINE ITEM DESCRIPTIONS</i>	
STAFF SALARIES/WAGES	
(Description: Salaries/Wages only for staff hired by the applicant organization to work specifically on the initiative. This may include professional staff, interns, paraprofessionals, and/or part-time/hourly employees.)	
FRINGE BENEFITS	
(Description: Fringe Benefits only for staff hired working on the initiative may include FICA, Unemployment, Worker's Compensation, Health Insurance and/or Retirement Benefits.)	
SUPPLIES & MATERIALS	
(Description: Supplies and materials may include consumable items that are essential to the program. Examples of allowable supplies include office supplies, computer supplies, medical supplies, furniture, directories and/or journals.)	
EQUIPMENT	
(Description: Equipment should possess both of the following characteristics: it is not consumable or expendable and has an expected useful life of longer than one year. Examples of allowable equipment include communication, computers, laptops, iPads, printers, office, assistive technology, medical, vehicles, scientific, and others.)	
STAFF TRAVEL	
(Description: Travel costs only for staff hired as identified in the budget that is deemed reasonable and necessary to conduct project activities. Examples of staff travel include staff mileage relating to program operations, lodging, air fare, conference registration fees and meals.)	
UTILITIES	
(Description: The cost associated with water, electricity, gas, telephone, and services.)	
CONTRACTED SERVICES/SUBCONTRACTING	
(Description: Contracted Services may include essential services which cannot be met by other program staff which specifically relate to the work of the program. Examples of contracted services may include consultants/contractors, photocopy services, consultants/contractors travel and fiscal services. The Contracted Services line item must be itemized based on the subcontract agreement. The Council must provide approval prior to grantee entering into any contracts. A copy of the contract must be included.)	
MEDIA/COMMUNICATIONS	
(Description: The cost incurred for advertising, audio visual presentations, multimedia, tv, radio presentations, logos, promotional items, publications, public service announcements and ads, reprints, text translation into another language, websites, and web materials.)	
RENT/COST OF SPACE	
(Description: The rent/cost of space may include rent or lease of office space, equipment, furniture, vehicles, and meeting or conference space cost to be used specifically for the program.)	
PROFESSIONAL SERVICES	
(Description: Professional services are those services offered by agencies in areas such as legal, IT, accounting, payroll and security.)	
DUES AND SUBSCRIPTIONS	
(Description: Dues includes approved dues for company memberships in professional organizations and subscriptions includes the cost of subscriptions to newspapers, magazines, and periodicals.)	
OTHER	
(Description: The Other category may include audit services, service payment such as stipends, costs incurred for conferences, postage/mail, internet, printing/copies, training/meetings, cleaning/janitorial, license fees, incentives, participants insurance and bonding and any other services or expenses that will not fit into another category.)	
INDIRECT COST	
(Description: Indirect cost rates negotiated with the Department of Health and Human Services Regional Comptroller or other similar federal agency may be used to compute allowable indirect costs. Expenditures included as indirect costs may not be duplicated elsewhere in the budget. A copy of the Negotiation Agreement must be included with the grant application. Indirect/overhead costs may not exceed 15% of the total project cost or \$20,000, whichever is less.)	

INDIRECT COSTS

An **Indirect Cost** is any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives. It is not subject to treatment as a direct cost. After direct costs have been determined in a contract budget or other work/activity, indirect costs are those remaining to be allocated. An indirect cost shall not be allocated to a final cost objective if other costs incurred for the same purpose in like circumstances have been included as a direct cost. In simpler terms, indirect costs are those costs not readily identified with a specific project or organizational activity but incurred for the joint benefit of both projects or activities. Indirect are normally grouped into common pools and charged to benefiting objectives through an allocation process or indirect cost rate. Indirect costs include costs which are frequently referred to as overhead expenses (rent and utilities) and general and administrative expenses (officers' salaries, accounting department costs and personnel department costs). An indirect cost rate is simply a device for determining fairly and expeditiously the proportion of general (non-direct) expenses that each project or activity will bear. It is the ratio between total indirect costs of an applicant and some equitable direct cost base. The indirect cost base or bases (that is, the denominator(s) of the fraction producing a rate) should be selected so as to permit an equitable distribution of indirect costs to the benefiting cost objective.

There are three basic types of indirect cost rates: (1) Provisional/Final; (2) Predetermined; and (3) Fixed with a Carry-Forward provision. The distinguishing difference between the rates lies not in how they are developed or the type of costs they represent, but rather in whether and how they are adjusted to reflect actual costs.

A **Provisional rate** is to be used until a final rate has been determined. Cost principles clearly state that provisional rates are intended as a temporary measure for "interim reimbursement" pending the establishment of a final rate for that period. Provisional rates require retroactive adjustments to the final rate, which is later set, based on actual allowable costs incurred during the period. If the final (actual) rate is less than the provisional rate, the difference is owed back to the federal funding agency. On the other hand, if the final rate is higher than the provisional rate (an unusual occurrence), additional federal funds may be recovered if they are available at the time of adjustment. **A contract with a provisional rate must remain open until a final rate has been established and all costs settled based on the final rate.**

A **Predetermined** rate is firm; it cannot be adjusted. Therefore, before such a rate is approved, it must be assured that the actual rate is equal to or less than the predetermined rate, or that any overpayment that may occur when the rates are converted to dollars will be immaterial. If a contract provider agrees to recover less indirect costs than it is entitled to under federal cost principles may find the predetermined rate attractive because there is no after-the-fact adjustment and it knows how much indirect it will recover.

The **Fixed Rate with Carry-Forward** has all the attributes of the other two rate types, but none of their disadvantages. A contract provider can adjust its estimated rate to an actual rate and it is not necessary to recover (or pay back) retroactive adjustments as it would with a provisional/final rate, or commit itself to an underrecovery of costs as it might with a predetermined rate.

A copy of the indirect cost rate approved by the Federal cognizant agency must be attached. Where circumstances do not allow for the designation of a Federal cognizant agency, an indirect cost rate may be established as described in the following paragraphs. Under no circumstances can indirect costs in excess of the approved rate or amount be claimed for reimbursement or matching purposes. State agencies, if approved by the Office of State Budget and Management, may recover or be reimbursed for a portion of allowable indirect costs and utilize the unrecovered portion as certified public expenditures, or match, for the non-federal share of costs required under such a contract.

Many non-governmental entities receive federal funds/grants directly from a federal agency. The Federal cognizant agency approves (or disapproves) such an entity's indirect cost rate(s) on behalf of all federal agencies that provide funds to that organization. Once the Federal cognizant agency approves the rate, it is expected to be accepted by other agencies when determining the amount of indirect costs applicable to

their contracts and programs. As a general rule, the cognizant agency is the federal agency that provides the largest amount of funds to a non-governmental entity over a certain period of time. Therefore, if a non-governmental entity receives funding directly from a federal agency (or agencies), the Federal cognizant agency shall be established. The Federal cognizant agency may provide technical assistance and guidance to entities on how to prepare a proposal requesting establishment and approval of an indirect cost rate.

In situations where a non-governmental entity does not receive funds directly from a federal agency and where no Federal cognizant agency is designated, an indirect cost rate may be established using criteria and cost principles outlined in the applicable federal circular. Under these conditions, a person or firm, preferably one knowledgeable of this subject should establish the rate. This person or firm should not be associated with the audit firm that conducts an audit of the entity's records. Once a rate has been established, this person or firm should certify in writing to the non-governmental entity that the rate has been established in accordance with the applicable federal circular and that the documentation should be maintained and made available to any auditor requesting such information. The entity should also provide a copy of the letter to any and all agencies with whom they contract and from whom they wish to claim reimbursement of indirect costs.

Depending upon the type of organization, the following federal circulars/regulations apply:

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| • State, Local and Indian Tribal Governments | OMB Circular A-87 & ASMB C-10 |
| • Educational Institutions | OMB Circular A-21 |
| • Hospitals | 45 CFR Part 74 |
| • Private Non-Profit Organizations | OMB Circular A-122 |
| • For Profit Organizations (other than hospitals) | 48 CFR Part 31 |

The narrative above for Indirect Costs was written by Jack Chappell and revised as of June 19, 2002, October 1, 2002 and January 28, 2003.

Day to Day application:

If the contract budget includes indirect (or administrative) costs:

1. A Provider may include indirect costs in the contract budget for reimbursement if they have a (1) Predetermined indirect cost rate (not subject to adjustment); (2) Fixed rate (no recovery, over or under required) or (3) Provisional rate which requires adjustment to actual at a later time when actual costs have been determined by audit.
2. Review the contract funding source to determine possible limitations regarding administrative costs. Indirect costs are also considered administrative costs and must be considered when a federal funding source limits total administrative costs. That is, the total of direct administrative costs plus indirect costs cannot exceed limitations established by federal regulations for administrative purposes.
3. Official documentation of indirect cost is one of the two following documents and should cover at a minimum the period of the contract:
 - a. Official document from the cognizant federal agency approving the indirect cost rate or
 - b. In the absence of a cognizant federal agency, the official letter or document from the independent source (not the Provider) approving the rate.
4. The Division should verify the indirect costs computation. Official documentation should include the basis for the determination and any line items (such as equipment or subcontract costs over \$25,000) that are excluded from the determination. The Provider should not compute indirect costs on excluded line items or those with dollar limitations.
5. A copy of the official indirect cost documentation must be attached to the executed contract.

Note: Providers should be made aware of possible limitations on indirect costs and that official documentation must be submitted prior to the processing of their contract.