



MEMORANDUM

Date: August 9, 2019

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator 

Re: **Indirect Cost Recovery Questions**

At your request, I am responding to indirect cost recovery questions that surfaced during and after the August 6, 2019 Board of Supervisors Meeting.

What kind of costs can be recovered as indirect costs for grants?

A uniform response cannot be provided for this question if a grant is exclusively funded with private or State monies. In these cases, the answer is highly variable depending on the agency or foundation.

A uniform response can be provided, however, if the grant award is federal. Federal grant awards allow non-federal entities to recover indirect costs through the application of an indirect cost rate. Federal regulations governing indirect cost recovery are found in 2 C.F.R. Part 200, sometimes referred to as the *Uniform Guidance*. Appendix VII to Part 200 specifically addresses indirect cost recovery by local governments. Here, indirect costs are defined as "those that have been incurred for common or joint purposes." Examples of such costs include, but are not limited to, the general administration of accounting and personnel services; depreciation on buildings and equipment; and costs related to operating and maintaining facilities.

Currently, Pima County develops indirect cost rates for its departments using the "simplified method" described in Appendix VII to Part 200. The equitable distribution base for this calculus is personal service costs—i.e., salaries and wages as well as applicable fringe benefits.

What is the process to modify a grant to include indirect costs?

According to the federal regulations of 2 C.F.R. Appendix VII to Part 200, Pima County does not have to submit its indirect cost rate proposal to a federal cognizant agency because, according to the most recent Single Audit, the County received less than \$35 million in direct Federal funding. Instead, the County is required to develop and maintain a departmental indirect cost rate proposal in accordance with the requirements of Appendix VII. These requirements basically obligate Pima County to produce its most recent departmental indirect cost rate proposal and related back-up documentation to the federal funder or pass-through entity in order to request indirect cost recovery either at the application stage, or, further into the process, with a budget modification request. The only exception to this is when the

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federal awarding agency has obtained approval to disallow indirect cost recovery. Such an exception must be stated in the awarding agency's grant announcement—i.e., the Notice of Funding Opportunity (2 CFR §200.414(c)(4)).

Is there a specific indirect cost rate that should be applied to federal grant awards?

Pima County's departmental indirect cost rate proposal includes different indirect cost rates for each of its major departments. Additionally, the indirect cost rate for each department can only be applied to the type of grant costs used in the County's "simplified method" distribution base: i.e., salaries and wages as well as applicable fringe benefits. Therefore—just for example—if a Pima County department was required, per a Board of Supervisors grant acceptance condition, to pursue indirect cost recovery, it would apply its departmental indirect cost rate only to grant costs relating to salaries, wages, and fringe. If no such costs were allowed by the federal award—e.g., the award was for equipment only—then indirect cost recovery would be inapplicable.

CHH/mp

c: Jan Leshner, Chief Deputy County Administrator
Tom Burke, Deputy County Administrator for Administration
Regina Kelly Director for Grants Management and Innovation