TO: All State Directors  
Rural Development

ATTENTION: Single Family Housing Program Directors  
Self-Help Coordinators, and Area Directors

FROM: Richard A. Davis  
/s/ Bryan Hooper  
for  
Acting Administrator  
Rural Housing Service

SUBJECT: Section 523 Indirect Cost Negotiations  
Department of the Interior, Interior Business Center

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance concerning the subject Interagency Agreement (IA) and to clarify when an organization is required to submit a request for an indirect cost rate agreement. The IA provides information to meet the requirements of RD Instruction 1944-I, “Self Help Technical Assistance Grants” and 2 CFR 200.

COMPARISON WITH PREVIOUS AN:

This replaces RD AN No. 4252 (1944-I) dated February 23, 2007 which has expired.

BACKGROUND:

This AN serves as notice that the cognizant agency for indirect cost negotiation will remain the United States Department of Agriculture (USDA) Rural Housing Service (RHS), but the servicing agency for processing indirect cost rate proposals and issuing and extending indirect cost rate agreements will be the United States Department of the Interior (DOI).

EXPIRATION DATE:  
June 30, 2018

FILING INSTRUCTIONS: 
Preceding RD Instruction 1944-I
RHS entered into a new interagency agreement effective March 3, 2016 with the DOI, Interior Business Center. This agreement provides for DOI to negotiate, issue, and extend current indirect cost rate/cost allocation plans on behalf of RHS for Section 523 Mutual Self-Help Grant Applicants. States should provide this policy to their grant applicants so they may work directly with DOI for approval.

Grantees claiming reimbursement of indirect costs on the Section 523 Self-Help Technical Assistance Grants are required to have current negotiated indirect cost rate agreements with their federal cognizant agency which may not necessarily be DOI. For example, if Health and Human Services (HHS) is a Section 523 Grant applicant’s cognizant agency because they provide the largest source of funding to the entity, then the applicant will need to provide a copy of HHS’s rate approval with their grant application.

**IMPLEMENTATION RESPONSIBILITIES:**

**Cost Allocation Plans and Indirect Cost Rates**
Historically, RHS has allowed nonprofit organizations and governmental departments to use a Cost Allocation Plan (CAP) in lieu of an indirect cost rate. With the release of 2 CFR 200, it has been made evident that an indirect rate will be more appropriate for the majority of Section 523 Grantees. Under certain situations, governmental departments or agencies may request to use a CAP in lieu of an indirect rate agreement but this must be requested only in limited circumstances and be due to the nature of that entity’s federal award. CAPs used by governmental agencies will be reviewed by DOI on a case-by-case basis to determine if indirect cost rates can be issued instead.

For nonprofit organizations, the approval of a CAP in lieu of indirect cost rate will be phased out over the next fiscal period. Starting in FY 2017, nonprofit organizations will be required to obtain indirect cost rates. In the extremely rare situation where a Non-Federal entity can appropriately allocate and charge 100% of their costs directly to their 523 grant and indirect costs are not claimed, approval from DOI is not necessary; however, DOI may review proposals of these types on a case-by-case basis to determine if indirect cost rates can be issued.

RHS Staff should review specifically line item ‘j. Indirect Charges’ found in Section B (6) on Standard Form 424-A, ‘Budget Information- Non-Construction Programs’ to determine if the applicant is proposing to charge indirect costs to the grant. If the applicant does not show any charge to the grant for indirect costs, the proposed budget should be reviewed to determine if an indirect cost rate should be utilized. Regional Technical and Management Assistance (T&MA) providers should be consulted to assist the agency in making the determination as to when an applicant’s cost allocation plan should be submitted to DOI.

**Indirect Cost Rate Negotiation**
For organizations that have previously negotiated indirect cost rate agreements, it is the responsibility of each grantee to submit a new indirect cost proposal to their Federal cognizant agency for indirect cost within 6 months after the close of each fiscal year. 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 rate for a period of up to four years. The extension is subject to the review and approval of the federal cognizant agency for indirect costs.
Organizations that have not previously established an indirect cost rate with a Federal agency must submit an initial indirect cost rate proposal immediately after the organization is advised that a Federal award will be made and in no event later than three months after the effective date of the Federal award, unless they elect to charge the de minimis rate of 10% modified total direct cost (MTDC). Any non-federal entity that has never received a negotiated indirect cost rate, except for those described in 2 CFR 200 Appendix VII paragraph (d)(1)(B), may elect to charge a de minimis rate of 10% modified total direct cost (MTDC) which may be used indefinitely.

Resources and Contacts
Grantees should be informed that they may request assistance from DOI in preparing their indirect cost proposals. For detailed information and guidance on preparation of Indirect Cost Proposals grantees may visit the DOI web site at https://www.doi.gov/ibc/services/finance/indirect-cost-services. Grantees requesting funding during the period of this agreement should be advised to prepare and submit proposals to DOI at least 90 days prior to the desired grant closing date; or provide a copy of its approved indirect cost rate agreement to RHS with their grant application.

Under the terms of the Interagency Agreement, Rural Development State Offices must notify the DOI Interior Business Center if grantees do not have a federally approved indirect cost rate agreement, or in certain cases a federally approved cost allocation plan. The contact information for the DOI, Interior Business Center is:

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For questions pertaining to this AN, please contact Andria Hively, Finance & Loan Analyst for the Single Family Housing Direct Loan Division at (360)753-7724.