Recording Project-Related Indirect Cost Recovery Charges

Some award recipients, particularly those new to managing federal award funds, struggle to properly account for their indirect cost recovery (ICR) charges. The purpose of this desk guide is to review the relevant regulations and provide guidance on one approach for properly accounting for indirect cost recovery (ICR) charges. There may be other acceptable approaches; organizations should consult with their accountants prior to making any changes to their accounting practices.

Regulatory Basis:

2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, § 302 Financial Management.

(b) The financial management system of each non-Federal entity must provide for the following (see also §§ 200.334, 200.335, 200.336, and 200.337):

(1) **Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received**. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.

(2) **Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.328 and 200.329**. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the federal agency cannot require the recipient to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.

(3) **Records that identify adequately the source and application of funds for federally funded activities**. These records must contain information pertaining to Federal awards, authorizations, financial obligations, unobligated balances, assets, expenditures, income, and interest and be supported by source documentation.

(4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § 200.303.

(5) Comparison of expenditures with budget amounts for each Federal award.

(6) Written procedures to implement the requirements of § 200.305.

(7) Written procedures for determining the allowability of costs in accordance with subpart E of this part and the terms and conditions of the Federal award.

The key takeaway from subsections (b) (1), (2), and (3) bolded sections make it clear that the awardees accounting must record all award-related financial activities including both direct and indirect **expenses**. Another takeaway is that charges to federal awards must agree with corresponding expenses recorded in the awardees accounting system.

Common Situation:

- Many organizations are uncertain how to record indirect cost recovery (ICR) charges to federal awards.
- Some awardees are concerned that recording ICR charges in award-related accounts essentially double counts the underlying expenses – recorded once to the organization's administrative cost centers and a second time as an ICR charge.
- The following scenario describes the non-compliant approach that some organizations use and the implications of that approach as well as a compliant approach and its implications.

Non-Compliant Approach Used by Some Organizations:

- Organizations record award-related direct costs in program cost centers (or equivalent).
- Organizations accumulate indirect costs in their administrative cost centers (or equivalent).
- Periodically, typically at the end of a reporting period (monthly or quarterly), the organization uses its negotiated indirect cost rate, project-specific rate, or de minimis rate as applicable to calculate its ICR charges.
- Then, the organization manually adds the ICR charges to the amounts in its project-related accounting records to calculate total amounts when preparing financial reports or cash draw down requests.

This scenario is illustrated below.

	DIRECT PROGRAMS				G&A	TOTAL
	Project A	**Project B**	**Project C**	**Non-Federal**		
LABOR AND FRINGE	$70,000	$13,000	$82,000	$5,000	$15,000	$185,000
TRAVEL	$6,000	--	--	$1,000	--	$7,000
SUPPLIES	$7,000	$5,000	$4,000	$1,000	$1,000	$18,000
RENT	--	--	--	--	$20,000	$20,000
UTILITIES	--	--	--	--	$5,000	$5,000
OTHER ODCs	$7,000	$8,000	$19,000	$1,000	$2,000	$37,000
TOTAL ACCOUNTING SYSTEM	**$90,000**	**$26,000**	**$105,000**	**$8,000**	**$43,000**	**$272,000**
CALCULATED INDIRECT COST (IDC) RECOVERY CHARGES	$14,400	$4,160	$16,800	$1,280	--	--
TOTAL AWARD CHARGES	**$104,400**	**$30,160**	**$121,800**	**$9,280**		
NICRA	16%					

Issues with this approach:

- It is non-compliant because all program charges are not captured in the organization's accounting system (i.e., ICR charges are not captured in the accounting system).
- Total award reimbursement requests do not equal related Total Accounting System transactions. This would concern reviewers.
- The organization must track current/cumulative ICR charges in an "off accounting system" tracking system. This approach results in no official record in the accounting system.
- Organization managers cannot manage the award financial status directly from the accounting system but must, instead, use a separate tracking system (i.e., a spreadsheet to aggregate direct and indirect charges to the Total Award Charges).

A Compliant Approach (there may be others):

- Organizations record award-related direct costs in program cost centers (or equivalent). **NO CHANGE**
- Organizations accumulate indirect costs in their administrative cost centers (or equivalent). **NO CHANGE**
- Periodically, typically at the end of a reporting period (monthly or quarterly), the organization uses its negotiated indirect cost rate, project-specific rate, or de minimis rate as applicable to calculate its indirect cost recovery (ICR) charges. **NO CHANGE**
- Then, the organization records the ICR charges in an expense account called Indirect Cost Recovery Charges. At the same time, the organization posts a credit of equal amount to the General & Administrative (G&A) cost center Indirect Cost Recovery Charges line. At the organizational level, the Indirect Cost Recovery Charges line must equal zero. This prevents double counting of indirect expenses as it simply redistributes the organization's indirect costs from the G&A cost center to the projects. **CRITICAL CHANGE**

This scenario is illustrated below.

	DIRECT PROGRAMS				G&A	TOTAL
	Project A	**Project B**	**Project C**	**Non-Federal**		
LABOR AND FRINGE	$70,000	$13,000	$82,000	$5,000	$15,000	$185,000
TRAVEL	$6,000	--	--	$1,000	--	$7,000
SUPPLIES	$7,000	$5,000	$4,000	$1,000	$1,000	$18,000
RENT	--	--	--	--	$20,000	$20,000
UTILITIES	--	--	--	--	$5,000	$5,000
OTHER ODCs	$7,000	$8,000	$19,000	$1,000	$2,000	$37,000
TOTAL (BEFORE IDC RECOVERY ALLOCATION)	$90,000	$26,000	$105,000	$8,000	$43,000	$272,000
POSTED IDC RECOVERY CHARGES	$14,400	$4,160	$16,800	$1,280	$(36,640)	--
TOTAL ACCOUNTING SYSTEM	**$104,400**	**$30,160**	**$121,800**	**$9,280**	**$6,360**	**$272,000**
TOTAL AWARD CHARGES	**$104,400**	**$30,160**	**$121,800**	**$9,280**		
NICRA	16%					

Benefits of this approach:

- It is compliant because all program charges, direct and ICR recovery charges, are captured in the organization's accounting system.
- Total award reimbursement requests equal related Total Accounting System transactions.
- All current/cumulative ICR charges are recorded in the accounting system.
- Organization managers can manage the award financial status directly from the accounting system although many prefer, as a practical alternative, to use a separate tracking system (i.e., a spreadsheet). However, with this approach, accounting system information can be directly exported to the spreadsheet.
- Organizations can assess the effectiveness of their Negotiated Indirect Cost Rate Agreement (NICRA) in recovering their indirect costs. In this case, the $6,360 balance in the G&A cost center shows that the current rate is not fully covering all indirect costs. In future years, the organization may want to either cut indirect expenses or negotiate a higher rate that more fully recovers those costs.

Implementation notes:

- Awardees should seek guidance from their single auditors, CPA, or other accounting professionals/consultants if they are unsure how to properly post indirect costs (IDC) to your awards or in the accounting system (accurate financial records are the awardee's responsibility per 2 CFR 200).

- Transactions must be appropriately segregated in the awardee accounting records, i.e., separate accounts/object codes for direct, indirect, and unallowable costs.
- Indirect cost recovery charges should be posted regularly, no less frequently than quarterly. Most organizations post them monthly.
- As illustrated above, indirect cost recovery charges must be posted in project-related general ledger accounts/cost centers, i.e., not in off accounting system shadow ledgers.
- Although shadow ledgers, such as Excel spreadsheets, may be useful in calculating indirect cost recovery charges, those ledgers are not a substitute for properly posting the indirect cost recovery charges in the accounting system.
- Project cost ledgers should be able to provide summary reports of total costs incurred (both direct and indirect) and reconcile to submitted financial reports.

IMPORTANT DISCLAIMER: The approach described in this document is not an NSF requirement or recommendations. NSF offers this illustration as an example of how some organizations struggle with properly recording indirect cost recovery (ICR) charges and a possible solution. NSF strongly recommends that organizations consult with their accountants before adopting any approach for documenting indirect costs allocation and recovery in its accounting system to ensure compliance.