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# Quick Reference Guide on Restricted Indirect Costs and Cost Allocation Plans for IDEA Part C Grants

*CIFR's quick reference guides assist states and other stakeholders in better understanding the basics of fiscal reporting requirements set forth in the Individuals with Disabilities Education Act (IDEA). The guides may be developed in collaboration with other national technical assistance centers. This informal guidance does not represent an interpretation of IDEA by the Office of Special Education Programs or the U.S. Department of Education.*

## What are the requirements for Part C funds regarding indirect costs?

Federal IDEA Part C funds assist states in implementing a coordinated system that provides early intervention services for infants and toddlers with disabilities from birth through age 2 and their families. Part C funds are allocated to states through a formula that is based on census figures of the number of children birth through age 2 in the general population. Annually, each state's lead agency (LA) must submit a grant application to the U.S. Department of Education, Office of Special Education Programs (OSEP), to receive its Part C funding.

The grant application requires the LA to indicate whether it intends to charge indirect costs (defined in the next paragraph) to its Part C grant. LAs are not required to charge indirect costs, but if an LA does intend to, it must indicate on the grant application that it has a restricted indirect cost rate or uses a cost allocation plan with indirect costs calculated on a restricted basis (see text box). In charging indirect costs, the LA must follow the federal requirements and receive prior approval from its cognizant agency (i.e., the federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals) and the U.S. Department of Education's Indirect Cost Division.

## What are direct and indirect costs for Part C?

Although there is no universal rule for determining whether a cost is direct or indirect, there are guidelines based on the Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (commonly called "OMB Uniform Guidance") that should be considered when making a determination about indirect costs.

### Requirement regarding indirect costs

- "(2) If approved by the lead agency's cognizant Federal agency or by the Secretary, the lead agency must charge indirect costs through either –
- (i) A restricted indirect cost rate that meets the requirements in 34 CFR 76.560 through 76.569; or
  - (ii) A cost allocation plan that meets the non-supplanting requirements in paragraph (b) of this section and 34 CFR part 76 of EDGAR.
- (3) In charging indirect costs under paragraph (c)(2)(i) and (c)(2)(ii) of this section, the lead agency may not charge rent, occupancy, or space maintenance costs directly to the part C grant, unless those costs are specifically approved in advance by the Secretary."

**34 CFR §303.225(c)(2)-(3)**

The majority of Part C funds are spent on costs that can be directly attributed to implementing the requirements of Part C. These are known as direct costs (2 CFR §200.413). Examples of direct costs include those for personnel (all direct salaries and wages, applicable fringe benefits), materials and supplies, services, travel, professional development, contracts with local agencies for the provision of early intervention services, and costs associated with implementing and maintaining an Interagency Coordinating Council.

Some expenses, however, cannot be reliably attributed to the Part C program as direct charges. These costs may include a portion of facilities and administration costs associated with agencywide functions such as human resources, accounting, payroll, information technology or procurement units serving the state's LA. Such indirect costs typically benefit multiple programs within the LA.

### What is an indirect cost rate and a restricted indirect cost rate?

An indirect cost rate is a method for determining the amount of indirect costs that can be charged to a grant or project. IDEA Part C funds are intended to primarily support services and activities that directly benefit infants and toddlers with disabilities and their families. Therefore, LAs that want to use their Part C grant to support indirect costs must use a restricted indirect cost rate to comply with the statutory requirement to supplement, not supplant, nonfederal funding. The restricted indirect cost rate is calculated by limiting the types of administrative expenditures included in the indirect cost rate. LAs that charge indirect costs to their Part C grant must use a restricted indirect cost rate formula that meets the requirements included in 34 CFR §§76.564 and 76.565.

### Why are restricted indirect cost requirements important for Part C?

Restricted indirect cost requirements are important for Part C programs because they establish uniform standards of allowable, reasonable, and allocable costs, as defined in 2 CFR §200.403 through 200.405. IDEA requires that federal funds be used to supplement and not supplant state and local funds. To ensure that Part C funds are not being used in place of (i.e., supplanting) other state and local funds available to cover administrative and operation costs, restricted indirect cost requirements for Part C exclude some indirect costs commonly included in non-IDEA grants.

*“Cost Allocation Plans (CAPS) may be necessary when substantial direct costs of programs consist of joint or common cost distributions and/or when the nature of the grantee’s activities is such that direct costs cannot be adequately determined with reasonable precision.”*

Source: Indirect Cost Group. (2019). Cost Allocation Guide for State and Local Government, page 16.

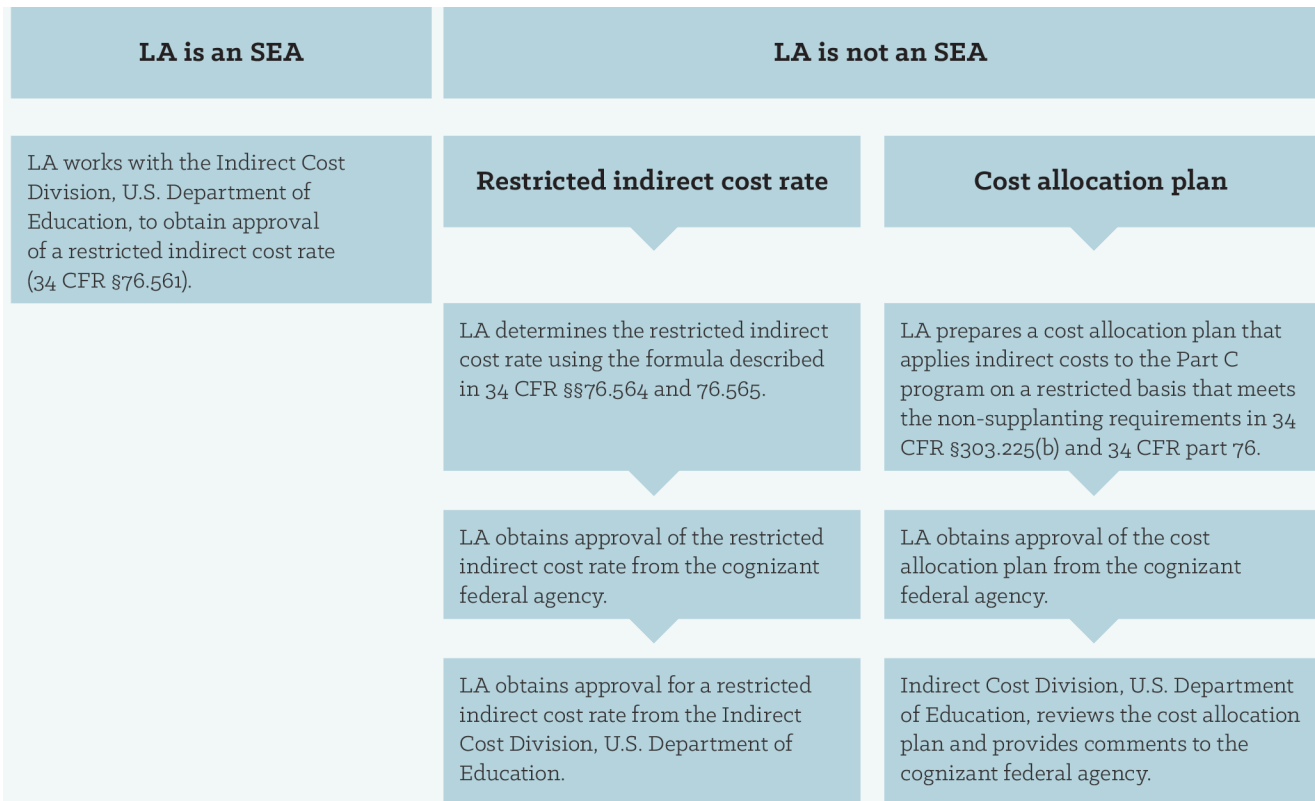
### What is a cost allocation plan for Part C?

If the state's LA is not the state educational agency (SEA), the LA has an option of charging indirect costs to the Part C grant through a cost allocation plan. A cost allocation plan distributes allowable agencywide direct and indirect costs across several programs or projects within the LA. The plan identifies the methods for sharing costs across agency programs or projects. When an LA is not an SEA and has a cost allocation plan, charges must be calculated on a restricted basis.

### Who approves a restricted indirect cost rate or cost allocation plan?

The restricted indirect cost rate or cost allocation plan must be approved by the LA's cognizant federal agency for indirect costs and the U.S. Department of Education's Indirect Cost Division. The approval process differs depending on whether the LA for Part C is or is not an SEA (see Figure 1).

**Figure 1: Process to Obtain Approval**



### What are the reporting requirements for applying restricted indirect costs to Part C grants?

Section IV.B. of the annual Part C grant application requires the state to report if it does not intend to charge indirect costs to the Part C grant or – if it does – report the status of its restricted indirect cost rate or cost allocation plan. If an LA elects to charge restricted indirect costs to the Part C grant, appropriate documentation for the status of its restricted indirect cost rate or cost allocation plan must accompany the grant application. The LA also must indicate the amount budgeted for indirect costs in Section III.F. (Totals).

### Questions for states to consider:

***Who can work with state Part C staff to help them understand their program’s restricted costs process?***

The finance office or fiscal management division of the state LA leads efforts to obtain approval of a restricted indirect cost rate or cost allocation plan. State Part C staff should familiarize themselves with who is responsible for this process within the LA and work closely with them throughout the process.

***Has the LA’s rate been calculated based on the requirements and restrictions in IDEA regulations?***

For an indirect rate to be approved by the U.S. Department of Education, the rate must be calculated using the methodology in IDEA regulations and [Education Department General Administrative Regulations](#) (EDGAR). IDEA regulations and EDGAR require excluding categories of costs that are frequently allowable in indirect rates applied to other grants. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.

***Has the LA's current restricted indirect cost rate been approved by the U.S. Department of Education?***

If the Part C staff are unaware of whether the LA has an approved rate, they should reach out to the finance staff of the LA to address the question. An LA may have an approved indirect rate, but the rate must be restricted and must be approved by the cognizant agency and reviewed by the Indirect Cost Division in the U.S. Department of Education for the purposes of Part C. If the rate has not been approved, indirect expenses cannot be charged to the Part C grant.

***Does the LA have sufficient time to negotiate a restricted rate or gain approval of a cost allocation plan prior to the deadline for the next application?***

Prior to including indirect expenses in a grant application budget, LAs should coordinate with the required federal agencies to estimate a realistic timeline for necessary steps and approvals. State Part C staff should work closely with their LA finance staff and their OSEP contact to plan a process that will allow for time to negotiate the indirect cost rate or — if an LA has a cost allocation plan and has a cognizant agency other than the U.S. Department of Education — to determine the charges calculated on a restricted basis. The LA staff should also factor in time to obtain final review from the U.S. Department of Education Indirect Cost Division.

**Resources on restricted indirect cost rates/cost allocation plans:**

- ECTA's Part C Fiscal 101 Training Modules: Module #5: "Indirect Costs" (2017)  
<https://ectacenter.org/~pdfs/topics/finance/fiscal101/Indirectcostslidesandnotes.pdf>
- OSEP Letter to Gomm (2002)  
<https://sites.ed.gov/idea/files/idea/policy/speced/guid/idea/letters/2002-4/gomm112002funds4q2002.pdf>
- OSEP Memo-99-2: Restricted Indirect Cost Rate for Part C of the Individuals with Disabilities Education Act (1999)  
<https://sites.ed.gov/idea/files/Grants-C-Memorandum-Restricted-Indirect-Cost-Rate.pdf>
- U.S. Department of Education, Office of the Chief Financial Officer: Cost Allocation Guide for State and Local Governments (2019)  
<https://www2.ed.gov/about/offices/list/ocfo/fipao/costallocationguide92019.pdf>
- U.S. Department of Education Office of the Chief Financial Officer, Office of Finance and Operations, Indirect Cost Division: So You Want to Know About Indirect Costs  
<https://www2.ed.gov/about/offices/list/ocfo/fipao/abouticg.html>

For additional resources, please visit CIFR at <http://cifr.wested.org> or contact us at [cifr\\_info@wested.org](mailto:cifr_info@wested.org).



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