



# State of Arizona Accounting Manual

Topic 70 Grants  
Section 40 Indirect Cost Rates

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## INTRODUCTION

Both direct and indirect costs incurred by the State in implementing and administering Federal programs or projects may be charged to the grant that funds those programs.

A direct cost is one that can be specifically attributed to a given program or project. An indirect cost is an element of overhead (such as depreciation or rent) or an administrative expense (such as accounting or personnel) that is more difficult to directly assign to, but is nonetheless essential to enable and support, a certain program or project.

Indirect costs are not normally charged directly to a Federal award, but are allocated equitably to all of an organization's activities using an indirect cost rate.

An indirect cost rate is simply a device for determining fairly and expeditiously the proportion of indirect costs that each of an organization's activities, programs and projects will bear. It is the ratio between the total indirect costs and some equitable direct cost base.

In order to recover indirect costs related to Federal awards, it is often necessary to negotiate the applicable indirect cost rate with the cognizant agency or the Federal agency providing the preponderance of funding.

## POLICIES

1. If an agency, program or project receives or is to receive money, the program administrator must determine whether the source of the funding is a Federal award.
2. Recipients of Federal awards must, before incurring obligations or expending monies, determine the nature any downstream relationship: subrecipient or contractor. (Refer to SAAM 7010 in making this determination.)
3. Federal awards may be:
  - 3.1. Subject to administrative and reporting requirements.
  - 3.2. Entitled to recover both direct and indirect costs
  - 3.3. Obligated, with respect to any subrecipient, to communicate and enforce certain operational, administrative and reporting requirements.

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4. An agency may propose an indirect cost rate with respect to any Federal award it receives. Once approved by the Federal cognizant agency, this Indirect Cost Rate Proposal must be submitted to the GAO at [Federalgrants@azdoa.gov](mailto:Federalgrants@azdoa.gov).