RECOVERY OF INDIRECT COSTS
SAMPLE CALCULATION

Department A administers a program, grant, or contract and is preparing to bill for services rendered.

1. Department A develops an Indirect Cost Rate Proposal (ICRP) with a 32 percent indirect cost rate as follows:

$$\frac{\text{Total department indirect + central service allocation (a)}}{\text{Total direct cost base (direct personal services costs) (b)}} =$$

$$\frac{\$2{,}660{,}000 + \$140{,}000}{\$8{,}750{,}000} = \frac{2{,}800{,}000}{8{,}750{,}000} = 32\%$$

2. The indirect cost rate applicable to central service costs is:

$$\frac{\text{Department A's central service allocation}}{\text{Total direct cost base (direct personal services costs)}} = \frac{140{,}000}{8{,}750{,}000} = 1.6\,\%$$

3. Assume total direct costs incurred for Department A's reimbursable activity during the billing period to be $350,000, of which $250,000 is for direct personal services costs and $100,000 is for other direct operating costs.

4. Billable amount for period = direct costs + indirect costs
   = ($250,000 + $100,000) + (32% x $250,000)
   = $350,000 + $80,000
   = $430,000

5a. Expected central service recovery = central service indirect cost rate x direct cost base:
   = 1.6% x $250,000
   = $4,000

—or—

5b. Expected central service recovery = $\frac{\text{Department A's central service allocation}}{\text{Total departmental indirect costs}}$ x indirect costs

$$= \frac{140{,}000}{2{,}660{,}000 + 140{,}000} \times \$80{,}000$$
$$= .05 \times \$80{,}000$$
$$= \$4{,}000$$

Summary:

Department A would collect a total of $430,000 for its reimbursed activity, $4,000 of which is attributable to central service costs.

(a) Use SWCAP for federal funded programs; use Pro Rata costs or SWCAP, whichever is greater, for non-federal funded programs.

(b) Total direct salaries and wages, total direct costs, or some other appropriate base could be substituted as the base in developing the indirect cost rate.