Ins and Outs of Indirect Costs Under the Super Circular Webinar Series

- **February 18**: Will the 10% De Minimis Indirect Cost Rate Work for Our CAA?
- **February 25**: What is the Best Option for Calculating Our CAA’s Indirect Cost Rate?
- **March 4**: Does Our CAA Effectively Estimate and Reconcile Indirect Costs?

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This Webinar Series is part of the Community Services Block Grant (CSBG) Legal Training and Technical Assistance (T/TA) Center. It was created by Community Action Program Legal Services, Inc. (CAPLAW) in the performance of the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services Cooperative Agreement – Grant Award Number 98ET0441-01. Any opinion, findings, and conclusions or recommendations expressed in this material are those of the author(s) and do not necessarily reflect the views of the U.S. Department of Health and Human Services, Administration for Children and Families.
**Webinar Control Panel**

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  - Only enabled if you have entered your Audio Pin!

- **Enter Your Audio Pin**

- **Enter questions & comments here**

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**Uniform Guidance Impact on Indirect Costs**

**CAPLAW Indirect Cost Series – Part 1**

**February 11, 2015**

**Workshop Leader: Kay Sohl**

[www.kaysohlconsulting.net](http://www.kaysohlconsulting.net)
OMB’s Big Changes

- Revisions in requirements for nonprofits & state & local governments receiving federal funds
- Includes federal $$$ obtained through agreements with state, local, and federal governments
- & federal $$$ provided through agreements with other nonprofits

OMB’s Uniform Guidance
2 CFR 200

- Originally published in Code of Federal Regulations on December 26, 2013
- Federal agency implementing regs published on December 19, 2014
- Effective for awards that begin on or after 12/26/14 & audits of fiscal years beginning after 12/26/14
Uniform Guidance Replaces OMB Circulars

- A-110 & A-122
- A-87 & 102
- A-21
- A-133

*But the circulars remain in effect for awards with start dates before 12/26/14 & audits for fiscal years beginning before 12/26/14*

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Uniform Guidance

- Guides all awards and sub-awards to recipients & sub-recipients
- Deals with “contractors” (i.e. vendors) only as they do business with recipients & sub-recipients
Grants/Awards/ & Cooperative Agreements

- Federal $$$ are provided to achieve a public benefit

- “Recipient” is a governmental or nonprofit entity that receives $$$ directly from a Federal Agency

- “Sub-Recipient” is an entity that receives federal $$$ from a “Recipient”

Key Distinction

- Federal requirements distinguish $$$ in grants/awards/ & cooperative agreements from

- $$$ in “vendor” agreements now called “contracts”

- Substance not name of agreement determines applicability
Headline News!

- Indirect costs
- Pass-through requirements
- Personnel Cost documentation
- Procurement
- Computers < $5,000 are “supplies”
- Single audit threshold - $750,000

Exceptions to Uniform Guidance

- Federal statutes override Uniform Guidance
- Federal agencies may have statutory authority to limit or disallow certain costs
- Link to list of federal agency responses to Uniform Guidance
Big Change for Indirect Costs

- All federal agencies & pass-through entities must accept approved NICR - negotiated indirect cost rate

- Pass-thru entities are required to either allow sub-recipients to negotiate indirect rate or use a flat indirect rate of 10% of MTDC (modified total direct costs)

What’s in Indirect Costs?

- Administrative costs which benefit the whole organization are indirect costs

- Indirect Costs may also include facilities & other shared costs
Indirect Costs

- Costs which benefit multiple programs and functions
- Includes but not limited to Administrative costs
- Too costly to track the exact benefit to each program or function – benefit must be estimated

Administrative Functions

- Board support
- Overall strategic direction
- Financial management
- HR management
- IT management
Administrative Costs

Costs of performing administrative functions:

- Admin costs that benefit whole agency function as indirect costs
- Administrative costs that benefit a single cost objective may be treated as direct costs (program management costs)

“Recovering Costs”

- Uniform Guidance allows the recipient of funds to charge allowable costs to the award
- Other costs are deemed unallowable and cannot be charged to the award
Options under Uniform Guidance

- All federal agencies & pass-through entities must accept approved NICR - negotiated indirect cost rate
- Pass-thru entities are required to either allow sub-recipients to negotiate indirect rate or use a flat indirect rate of 10% of MTDC (modified total direct costs)
- Administrative/shared costs allocated & charged as direct costs

Pass-Through Rate Negotiation

- May negotiate indirect cost rates with sub-recipients but do not have to
- If you negotiate indirect rates with sub-recipients, you must follow Uniform Guidance rules
Challenges for Pass-Through Entities

- Must permit sub-recipients to recover indirect costs
- If total funds available do not increase, result will be reduction in $$$ for direct program costs

Pass-Through Entities Cannot

- Force or entice sub-recipients to accept an indirect cost rate that is lower than their approved NICR or the 10% de minimis rate
- Cannot award points or preferences to applicants with lower indirect rates
3 Ways to Recover Administrative Costs

1. Federally Negotiated Indirect Cost Rate
2. 10% de Minimis Rate
3. Direct Cost Charging method

CAPLAW Webinars

2/18  10% de Minimis Rate
2/25  NICR Choices
3/4   Estimating & Reconciling Indirect Costs
NICR

- Negotiated Indirect Cost Rate
- Obtained through negotiation with cognizant federal agency
- Must have direct federal award in order to obtain a NICR

NICR: Multiple Methods to Compute

All A-122 NICR methods continue to be allowed by Uniform Guidance:
- Simplified Allocation Method
- Multiple Allocation Base Method
- Direct Allocation Method
Indirect Cost Rates
(Both NICR and 10% de Minimis)

• Based on a fraction in which
• Numerator = Indirect Costs
• Denominator = a “base”
• Resulting % will be applied to the base to determine indirect costs which may be charged to awards

Defining the Numerator

• Indirect costs = costs for which benefit cannot be determined directly
• 2 distinct methods permitted for NICR
  1. Indirect = Administrative Costs
  2. Indirect = Admin + Facilities
Defining the “Base”

Three Choices for NICR Proposals:
- Total Direct Personnel Costs
- Total Direct Salaries & Wages
- Modified Total Direct Costs

De Minimis 10% Rate Basics
- Only available to organizations that have never had a NICR
- No negotiation required
- Modified Total Direct Costs must be used as the base for the calculation
Computing & Using the 10% Rate

- **Numerator** is total allowable Indirect Costs
- **Denominator** = Modified Total Direct Costs
- **Rate** is applied to Modified Total Direct Costs for each cost center

Computing MTDC Indirect Cost Rate

\[
\text{Indirect Costs} \div \text{Modified Total Direct Costs} = \text{Indirect Cost Rate}
\]
Computing MTDC
\[ D = A - (B+C) \]

A. Total Costs
B. Direct Exclusions & Unallowable Costs
C. Indirect Costs
D. Modified Total Direct Costs

Modified Total Direct Cost

§ 200.68

- Indirect costs expressed as a % of modified total direct costs
- Total direct costs include all direct costs whether or not they are funded with Federal $$
- Total Direct costs includes unallowable direct costs
MTDC Direct Cost Base excludes:

- Equipment & capital expenditures
- Participant support costs
- Portion of each sub-award in excess of $25,000
- Other costs that would distort distribution of indirect costs

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| Total Indirect | 400,000                |
| MDTC           | 4,000,000              |

Indirect rate 0.10
Applying Indirect Cost Rate

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Must Allocate Indirect Costs to All Cost Objectives that Benefit

- Includes allocation to unallowable cost centers
- Example: Lobbying cost objective is generally unallowable but must be allocated share of indirect & other common costs
Preparing to Use the 10% de Minimis Indirect Rate

- Identify your indirect costs
- Determine whether to include Facilities costs as well as Administrative costs in indirect category
- Create MTDC worksheet

Key Preparation ???

- Are our Indirect Costs actually greater than 10% of Modified Total Direct Cost?
- Are our Indirect Costs actually less than the 10% MTDC?
- How will we handle requirements for fair allocation of indirect costs to all cost centers?
One More Alternative

1. Federally Negotiated Indirect Cost Rate
2. 10% de Minimis Rate
3. Direct Cost Charging method

Direct Charging Shared Costs

• Cost allocation plan documents an allowable method to estimate the benefit of shared costs to a federal award

• Shared costs are allocated according to cost allocation plan and the appropriate portion of the cost is charged to federal award as direct cost
Allocation Choices

• One **Shared Cost Center** to collect all shared costs & allocate through single line journal entry

• **Multiple Shared Cost Centers** to collect costs to be allocated using different methods

• Allocate **transaction by transaction**

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Direct Cost Challenges

• Finding defensible **allocation method**

• Constant **flux** in allocated costs as programs expand and contract

• **Difficult to explain** why shared costs are charged as direct

• Under Uniform Guidance, **certain costs may only be charged as indirect** (i.e., using NICR or 10% rate)
Auditor Views Differ

- Some auditors are comfortable with charging allocated shared costs as direct costs
- Other auditors challenge the basis for allocation of some costs – such as Executive Director compensation
- Others resist charging shared costs directly altogether

HELP!!!!
COFAR FAQ & Webinars

- Council on Financial Assistance Reform (COFAR)
- FAQ updated November 2014
- Recorded webinars for download
- https://cfo.gov/cofar/
More Help

- Department of Labor
- Guide to Negotiating Indirect Cost Rates 2015

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Feb 25th  NICR Choices
March 4th  Estimating & Reconciling Indirect Costs
SAVE THE DATE
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