

Webinar Presentation



Indirect Costs and Cost Allocation Plans

*By Karen Norris, Principal
Kanoco Consulting*

*Prepared for
Governor's Office of Planning and Research
State of California*



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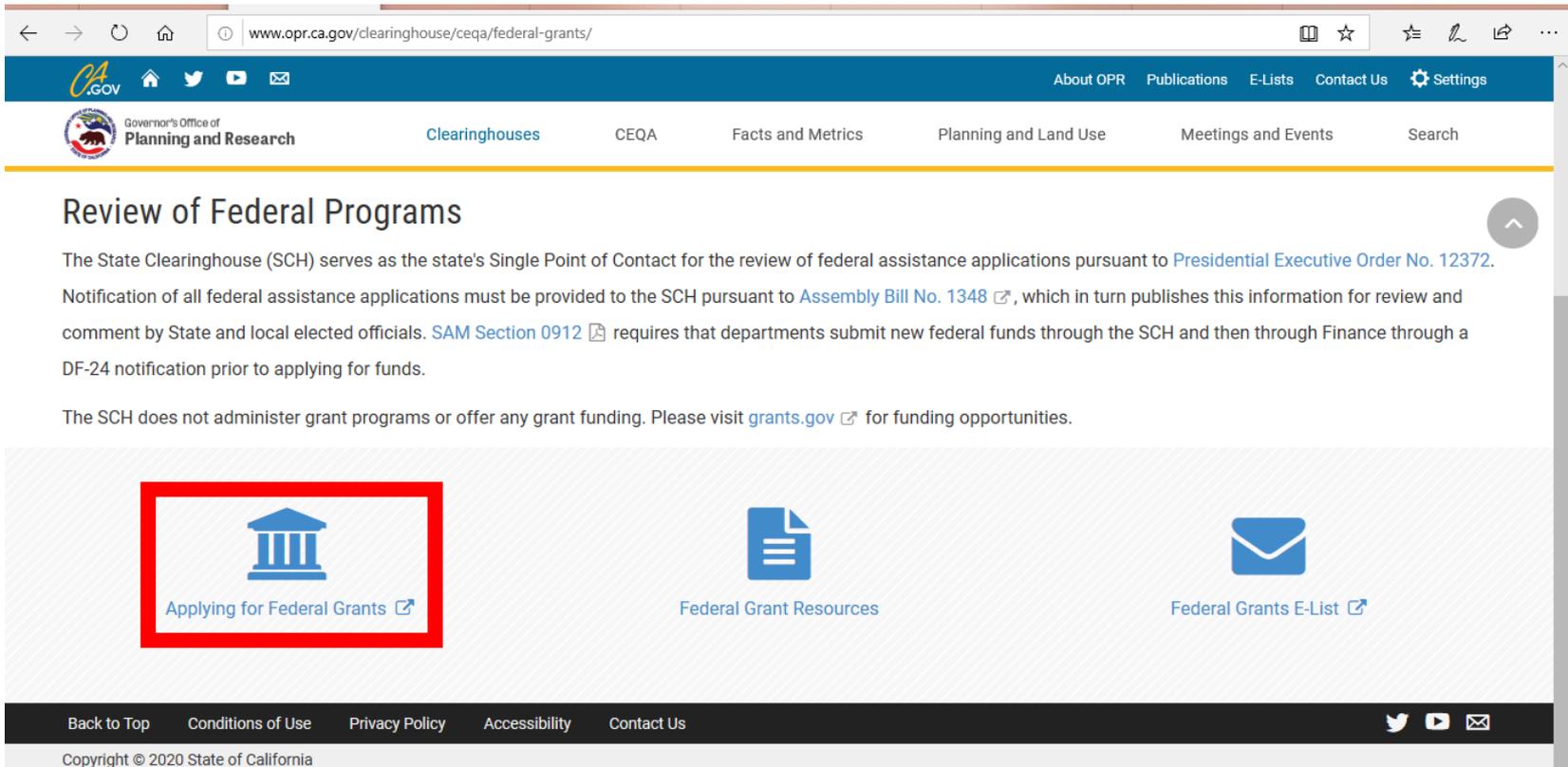
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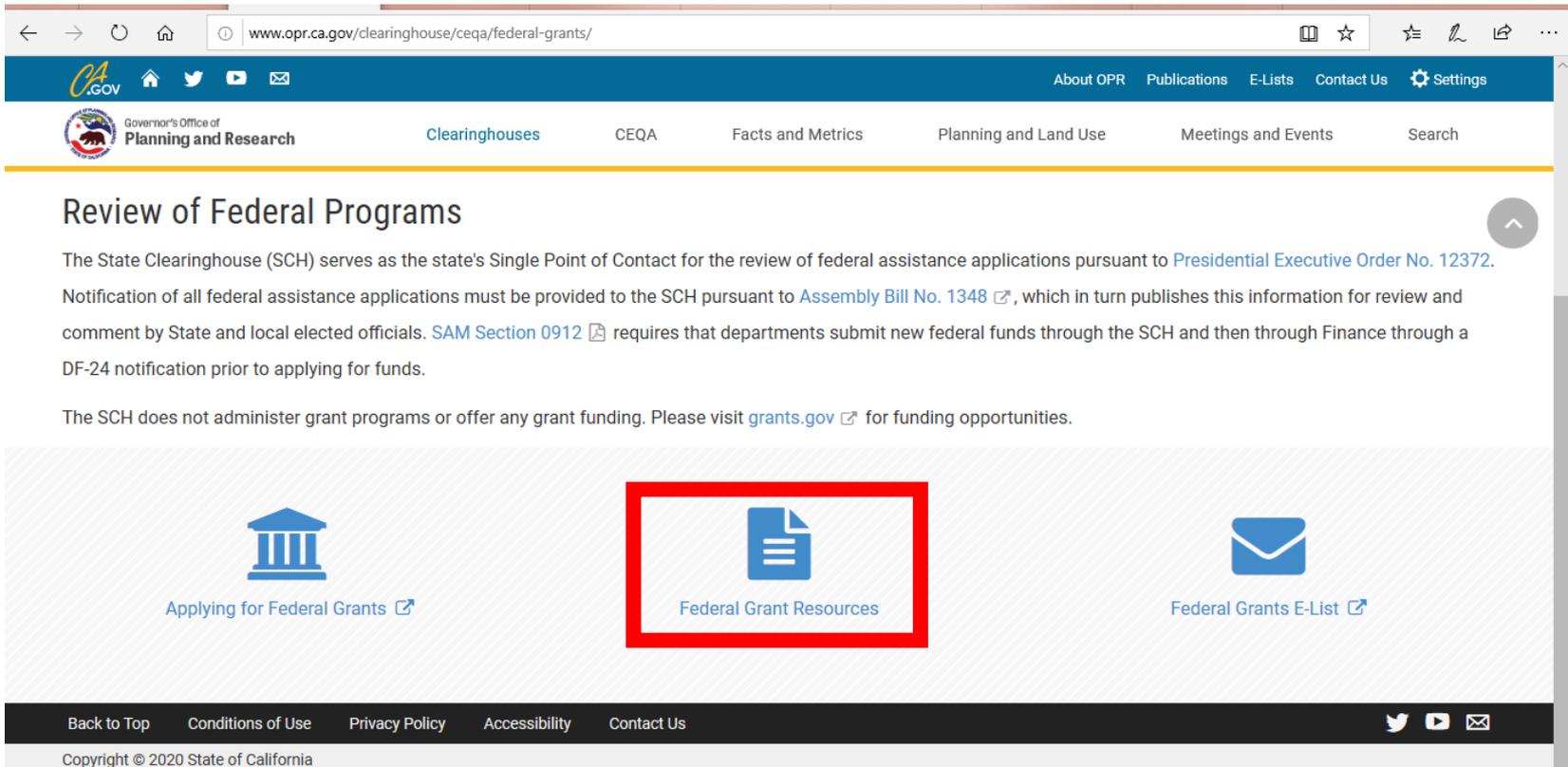
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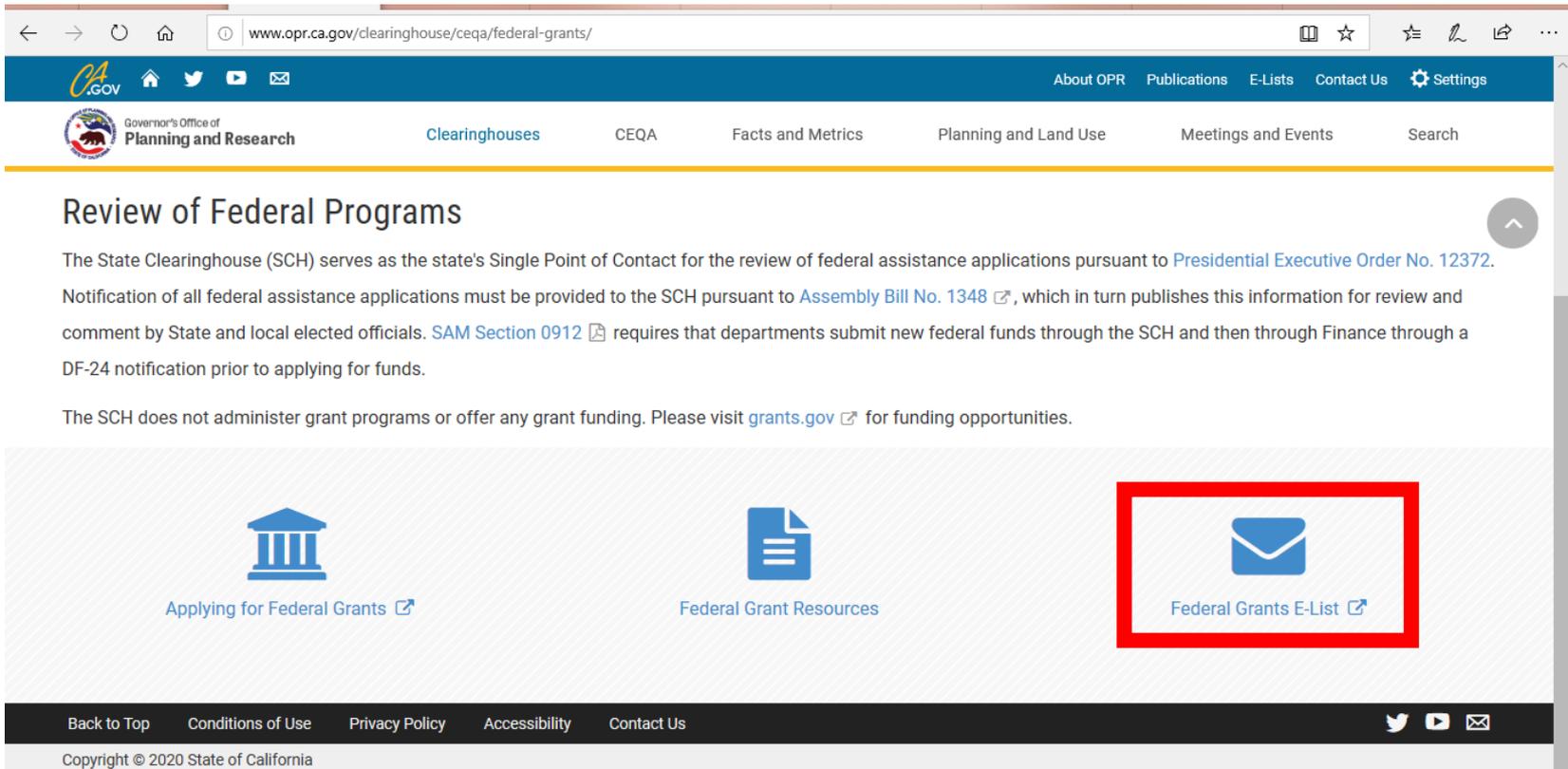
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Attendee Polls



Who is attending today?



Indirect Costs

Learning Objectives

- Define direct and indirect costs.
- Gain awareness about changes to indirect costs.
- Recognize different indirect rates.
- Review considerations relating to indirect costs.
- Increase understanding about cost allocation plans.

Indirect Costs

A Few Words

Indirect Costs

A Few Words

The Office of Management and Budget (OMB) merged eight previously separate grant circulars into one “uniform guidance.”

There are still many provisions that are not uniform.

Indirect Costs

A Few Words

The differences are most striking in the provisions for indirect costs.

Learning Objective #1

Direct and Indirect Costs

LO1: Direct and Indirect Costs

Direct Costs (§ 200.413)

- Direct costs are those that can be identified specifically with a particular project.
- Direct costs can be accurately assigned.
 - Staff salaries.
 - Materials and equipment.
 - Travel.

LO1: Direct and Indirect Costs

Indirect Costs (§ 200.56)

- Indirect costs are shared costs that cannot be easily identified with a particular program.
- Another word for “shared” is “allocated” costs.
 - Payroll.
 - Human resources.
 - Maintenance.
 - Utilities.

LO1: Direct and Indirect Costs

Modified Total Direct Costs (§ 200.68)

- MTDC is a subset of total direct costs.
 - MTDC includes salaries, fringe benefits, materials, services, travel, and subawards up to the first \$25,000.
 - MTDC excludes equipment, capital expenditures, patient care, rentals, tuition, scholarships, participant support costs.

LO1: Direct and Indirect

Rules To Determine the Difference (§ 200.412)



- No universal rule.
- Consistent treatment.
- No double-charging as both direct and indirect.

Learning Objective #2

Changes to Indirect Costs

LO2: Changes to Indirect Costs

Acceptance of Rate (§ 200.414(c))

- Federal agencies and pass-through entities must accept a nonfederal entity's approved rate unless there is a program statute or approved agency regulation otherwise.
 - Reduces grantor ability to restrict or deny indirect costs arbitrarily.
 - Reminds nonfederal entities to check program statute, federal agency regulation, and/or state statute (as appropriate).

LO2: Changes to Indirect Costs

Pass-through Entities (§ 200.331)

- Must accept a subrecipient's approved rate, or if there is no rate:
 - Negotiate a rate (in compliance with this Part), or
 - Allow the 10 percent *de minimis* rate to eligible subrecipients.

LO2: Changes to Indirect

Extension of Rate (§ 200.414(g))



- Nonfederal entity may apply for an extension up to four years, in certain circumstances:
 - Prior written approval.
 - Revenue must be stable.
 - Extension can be requested again after four years.

LO2: Changes to Indirect Costs

Waived or Unrecovered Indirect (§ 200.306(c))

- Once a rate is approved, a nonfederal entity may elect to waive indirect costs:
 - Some or all.
 - May apply to cost sharing with prior written approval.

LO2: Changes to Indirect Costs

Attendee Poll

Federal agencies and pass-through entities:

1. Must restrict or deny indirect cost rates.
2. Must accept negotiated indirect rates.
3. May arbitrarily refuse indirect rates.
4. May arbitrarily accept negotiated indirect rates.

Learning Objective #3

Distinguish Between Different Types of Indirect Cost Rates

LO3: Types of Rates

Rates and Formulas

- There are different kinds of indirect rates.
- There are different rate formulas.
- Nonfederal entities may have more than one indirect cost rate.

LO3: Types of Rates

Types of Rates

- Provisional and Final.
- Predetermined.
- Fixed rate with carry-forward.
- *De minimis* or 10 percent flat rate.
- Facilities & Administrative (F&A).
- Fringe benefits.

LO3: Types of Rates

Provisional Rates (§ 200.414)

- Temporary, optional, estimated.
- Applied before final rate is approved.

LO3: Types of Rates

Provisional Rates (§ 200.414)

- Benefit: Enables a nonfederal entity to use a temporary, estimated indirect rate while waiting for the approved final rate.
- Risk: If the final rate is different, there would be an adjustment, specifically, excess claimed costs must be repaid.

LO3: Types of Rates

Final Rates (§ 200.414, App IV C.1.d)

- Based on actual costs from a prior period.
- Rates are proposed and negotiated each year.
- Once approved, final rates are not subject to an adjustment.
- Final rates can change from year to year.

LO3: Types of Rates

Final Rates (§ 200.414, App IV C.1.d)

- Process takes a minimum of two years.
 - FY 2018 actual costs.
 - FY 2019 develop and submit proposal.
 - FY 2020 obtain approved final rate to use.
- Can take longer, resulting in a provisional rate.

LO3: Types of Rates

Rate Data Worksheet

Indirect Costs	Direct Costs
-----	-----
-----	-----
-----	-----

Less (unallowable)	Less (unallowable) Less (adjustment for formula)
TOTAL: I	TOTAL: D

$$I/D = \underline{\quad} \%$$

LO3: Types of Rates

Predetermined Rates (§ 200.414, App IV C.1.b)

- Based on estimated, not actual costs.
- Not subject to adjustment.
- A type of fixed rate, year to year.
 - Stable, established nonfederal entity.
 - Same awards, little fluctuation year to year.
 - Actuals are compared to estimates at year end.
 - Traditionally, actuals are close to estimates.

LO3: Types of Rates

Fixed Rate with Carry Forward (App IV C.1.c)

- Stable rate, but a change occurs between estimated and actual.
- Difference is carried forward to the next year as an adjustment, rather than a repayment.
- Prior written approval.
- No four-year extension (§ 200.414(g)).

LO3: Types of Rates

***De Minimis* Rate (§ 200.414, App VII D.1.b)**

- Two eligibility requirements:
 - Never had an indirect rate (Subpart E).
 - Less than \$35M in federal funds (App VII).
- 10 percent flat rate of MTDC.
- May use indefinitely.

LO3: Types of Rates

***De Minimis* Rate (§ 200.414, App VII D.1.b)**

- No required *de minimis* rate proposal.
- Benefit: Reduced administrative burden.
- Risk: Lack of knowledge about MTDC.
- Risk: Lack of knowledge about direct and indirect costs.
 - Costs need to be consistently applied.
 - No double-dipping.

LO3: Types of Rates

***De Minimis* Rate (§ 200.414, App VII D.1.b)**

- Best practice: Create a local policy or certification about the *de minimis* rate to provide reasonable assurance that the rate would be used appropriately.

LO3: Types of Rates

***De Minimis* Rate (§ 200.414)**

- Proposed revisions to the uniform guidance would expand the use of the *de minimis* rate to more nonfederal entities.
- Pending Final Rule anticipated by year end.

LO3: Types of Rates

Attendee Poll

The *de minimis* rate is a 10 percent:

1. Flat rate based on modified total direct costs.
2. Negotiated indirect rate.
3. Flat rate based on total direct costs.
4. Negotiated rate that can be used only one year.

LO3: Types of Rates

F&A Rates (§ 200.414, App III)

- Institutions of higher education use facilities & administrative (F&A) rates due to large campuses.
 - Building costs (facilities).
 - General overhead (administrative)
 - Cap on administrative part of the rate.

LO3: Types of Rates

Fringe Benefit Rates (§ 200.431(d))

- Fringe benefits are a type of indirect rate.
- Fringe benefits are shared costs relating to employees:
 - Health benefits.
 - Different kinds of leave.
 - Retirement accounts.
 - Wellness programs, gym memberships.

LO3: Types of Rates

Fringe Benefit Rates (§ 200.431(d))

- Fringe benefits may be calculated different ways:
 - Within the overall indirect rate.
 - As a separate second rate.

LO3: Types of Rates

Section B – Budget Categories					
Object Class Categories	Year 1	Year 2	Year 3	Year 4	Total
Personnel					
Fringe Benefits					
Travel					
Equipment					
Supplies					
Contractual					
Construction					
Other					
Total Direct Charges					
Indirect					
TOTAL					

Learning Objective #4

Considerations about Indirect Cost Rates

LO4: Considerations

To Pursue or Not Pursue a Negotiated Rate

- Takes time.
- Requires knowledge and skills.
- Takes resources to prepare the proposal.
- Requires review and negotiation.
- Often subject to audit findings.
- Requires a written policy/indirect cost statement.

LO4: Considerations

To Pursue or Not Pursue a Negotiated Rate

- Not charging indirect costs allows all awarded funds to support direct costs.
 - Awarding agencies often prefer direct costs.
 - Some program staff prefer direct costs.

LO4: Considerations

To Pursue or Not Pursue a Negotiated Rate

- On the other hand, charging indirect costs helps relieve a financial burden for the recipient or subrecipient.
 - Financial staff generally prefer indirect costs.
 - Some or all indirect costs can be waived.
 - Some or all indirect costs can be used to meet cost sharing requirements.

LO4: Considerations

To Waive or Not To Waive Indirect Costs

- Once a nonfederal entity has an indirect cost rate, it can waive indirect costs, if desired:
 - Can claim a lower amount, or none.
 - Can use waived/unrecovered indirect for cost sharing, with prior written approval.
 - Can allocate more of the project funding to direct costs.

LO4: Considerations

To Use or Not To Use a *De Minimis* Rate

- Must be eligible:
 - Never had an indirect rate.
 - Under \$35M threshold for federal awards.
- Based on MTDC – must understand definition
- May use indefinitely.
- No need for an indirect cost rate proposal.

LO4: Considerations

To Use or Not To Use a *De Minimis* Rate

- Must be consistent.
- Must not double-dip, double-charge.
- Best practice: Create a local policy or certification that describes how the *de minimis* rate would be applied.

LO5: CAPS

Cost Allocation Plans

LO5: CAPS

Cost Allocation Plans and Indirect Costs



- Cost allocation plans are associated with indirect costs of a larger agency and its related agencies, such as state and local governments.

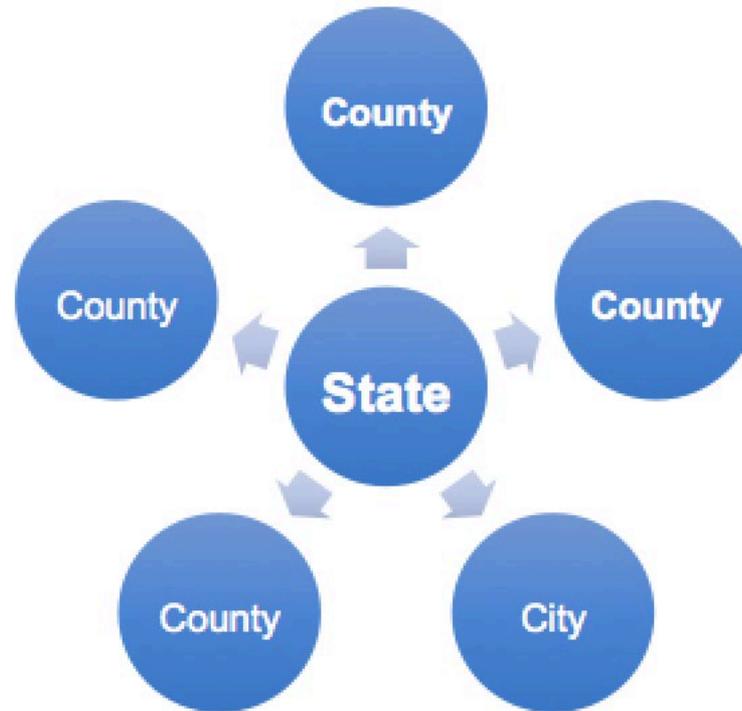
LO5: CAPS

Cost Allocation Plans and Indirect Costs

- Reminder: Indirect costs are shared costs within one organization or agency.
- Cost allocation plans are shared costs among related agencies:
 - State/county governments.
 - County/city governments.
 - Public grantors/recipients.

LO5: CAPS

State/Local



LO5: CAPS

Cost Allocation Plans and Indirect Costs

- Recipients and subrecipients of the related agencies may also be able to purchase shared services at an attractive cost.
 - Example: County snow removal or grass cutting contract.



LO5: CAPS

Cost Allocation Plans (§ 200.416, App. I, VI)

- Examples of shared costs in a cost allocation plan:
 - Motor pools.
 - Computer centers.
 - Retirement or pension plans.
 - Snow removal, grass cutting.
 - Copier paper.
 - Maintenance of websites.

LO5: CAPS

Cost Allocation Plans (§ 200.416, App. I, VI)

- For states, local, and tribal governments that provide centralized or shared services to related agencies, “there needs to be a process whereby these central service costs can be identified and assigned on a reasonable basis.”
- Cost allocation plans provide that process.

LO5: CAPS

Cost Allocation Plans (§ 200.416, App. I, VI)

- Indirect costs for larger agencies generally include:
 - Indirect costs for the agency itself.
 - Indirect costs for the shared services distributed to smaller related agencies through the Cost Allocation Plan.

Appendix V

- Appendix V A.2 includes a reference to a brochure published by HHS, *“A Guide for State, Local, and Indian Tribal Governments: Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government.”*

Appendix V

- Appendix V defines types of shared costs:
 - Allocated or assigned costs (indirect).
 - Billed costs (direct).

LO5: CAPS

Allocated (Shared, Assigned) Costs

- Shared by the larger agency with the smaller agencies within its network structure.
- No fees for the smaller agencies.
- Allocated costs are incorporated into the indirect cost rate proposal for the larger agency.
- Example: state retirement plan

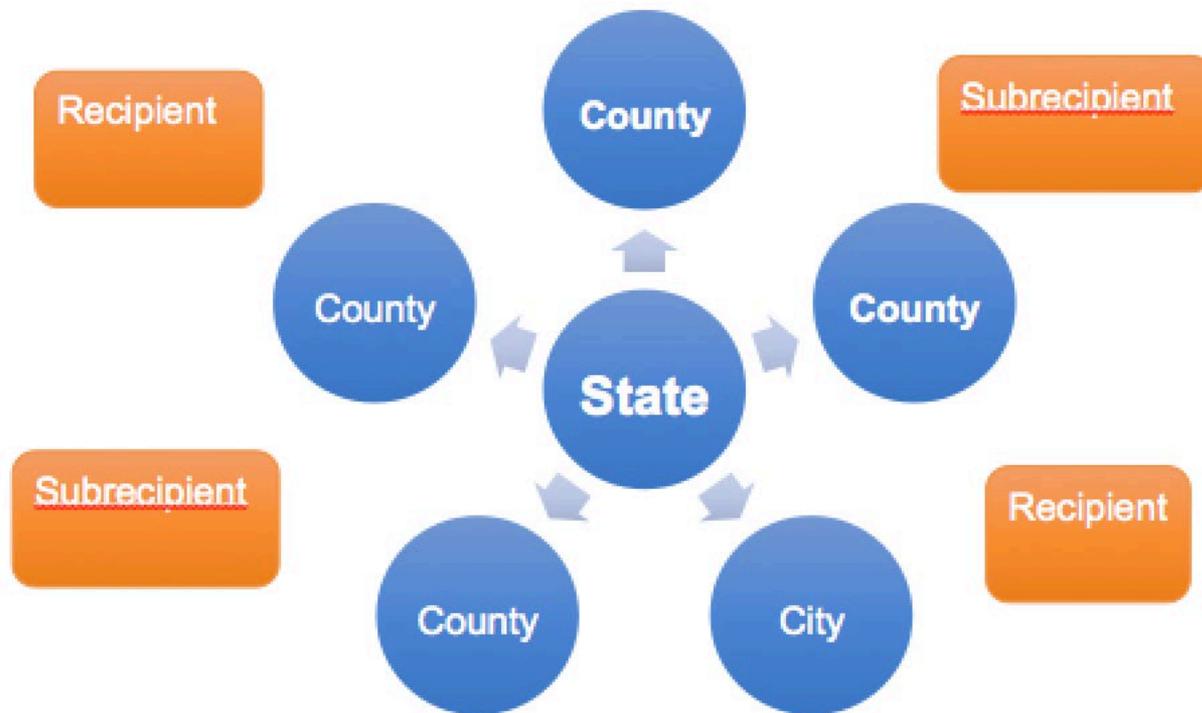
LO5: CAPS

Billed Costs

- Shared by the larger agency with related agencies outside its structure (recipients and subrecipients).
- Fee for service (**billed**).
- **Billed costs** earn revenue for the larger agency and are treated as direct costs, not indirect costs.
- Example: copier paper contract.

LO5: CAPS

With Grantees



LO5: CAPS

Benefits of Shared Services (Even When **Billed**)

- Attractive pricing.
- Approved contractors previously vetted.
- Faster delivery and processing.
- Recognized as an efficient procurement process under the uniform guidance (§ 200.318(e)).

LO5: CAPS

Risks of Shared Services

- Audit findings.
- Larger agencies must be able to document and distinguish between allocated and **billed** services under their cost allocation plans.
- Larger agencies must document revenue from **billings**.

Indirect Costs

Summary

Indirect Costs

Summary

- Different types of costs (direct/indirect).
- Different types of indirect cost rates.
- Different types of indirect rate formulas.
- Cost allocation plans provide shared services either as allocated costs (indirect) or as **billed costs** (direct) to related agencies.

Logic Models and Performance

Q & A

Friendly Disclaimer

Please be reminded:

This presentation is intended to provide general information and does not constitute legal or financial advice. Please consult with your legal and financial advisors. I hope, however, that the information helps provide some insights as you further pursue your work in the grants community.

Webinar

Prepared For



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- State of California.

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