

# Making Sense Out of Federal Grant Indirect Cost Recovery

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National Association of  
Development Organizations

Presented by Bob Lloyd

# The Topic of Indirect Costs

- Widely Misunderstood by:
  - Some (or Many) Awarding Agency Staff
  - Some (or Many) Recipient Program Staff
  - Most of the Media
  - Most Elected Officials
- The “Folly” of Comparing Indirect Cost Rates

# Related Terminology

- Program Costs vs. Administrative Costs
- Overhead Costs
- Facility and Administrative (F&A) Costs
- “Back Office” Activities
- “Rear Echelon Troop”

# The “Real Things”

- Direct Costs: Those that can be specifically identified with a particular final cost objective (such as a particular award, project, service, or other activity of an organization).
- Indirect Costs: Those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective (without effort disproportionate to the benefit received).  
--- A term of “accounting convenience”
- Indirect Cost Allocation Plan: A document that identifies, accumulates, and distributes indirect costs to benefiting organizational units and activities.
- Indirect Cost Rate: A device used to determine what portion of an organization’s indirect costs each activity (such as U.S. Government awards) should bear and employed in lieu of separately negotiating that portion of indirect costs with each awarding agency.

# Total Recovery under an Award

- Allowable Direct Costs  
PLUS
- Allocable Indirect Costs  
MINUS
- Applicable Credits

# Indirect Cost Cognizance

- The Cognizant Agency for Indirect Cost Negotiation
- Translation: A “knowledgeable” agency to take the lead because it has more at risk; a unit in the U.S. government agency that provides the greatest amount of U.S. government awards
- Not to be confused with the Cognizant Agency or Oversight Agency for Audit (the OIG of the predominant U.S. government funding agency)

# Elements of a Rate Agreement

- Rates
  - Type
  - Effective Period
  - Percentage
  - Locations
  - Applicability
- Limitations
- Changes
- Notification
- Special Provisions

# Types of Rates

- Provisional/Final
- Predetermined
- Fixed Rate with Carry-Forward
- Temporary “Billing” Rate
- Multiple or Off-site Rates



# How the Rate (Agreement) is Used

- The Grant Application or Contract Proposal
- Expenditure of Funds
  - Applying the Rate to the Proper Base
    - Capital Expenditure Exclusion
    - Partial Subgrant and Subcontract Exclusion
  - Handling a Rate Change at Midstream of an Award (e.g., two fiscal years/periods)
- Reporting of Claims
  - SF425
  - SF 1034

# Federal Concerns about Indirect Costs

- Overcharges Resulting from Multiple Negotiations with Individual Awarding Agencies
- Charges Skewed in Their Direction
- Burden of Negotiations
- Cost Containment

# OMB's Grant Reform-- Chronology

- 2/28/12 and 2/1/13 *Federal Registers*
- 12/26/13 *Federal Register* Final Rule (2 CFR 200)
- 6/26/14 Federal Agencies Submit Draft Regulations to OMB
- 12/26/14 Uniform Effective Date of Federal Agency Regulations
- Recipient FY's Starting After 12/26/14 Effective Date of Subpart F—Audit Requirements

# The Final Product—2 CFR 200

- Components
  - Subpart A—Acronyms and Definitions
  - Subpart B—General Provisions
  - Subpart C—Pre-award Federal Requirements
  - Subpart D—Post Award Federal Requirements
  - Subpart E—Cost Principles

# The Final Product—2 CFR 200

- Subpart F—Audit Requirements
- Appendices (I-XI)
  - Appendix III—Indirect (F&A) Cost Procedures for Educational Institutions
  - Appendix IV—Indirect Cost Procedures for Nonprofit Organizations
  - Appendices V-VII—Procedures for State, Local, and Tribal Governments

# Key Changes

- Relocation of Procedures to Appendices
- Mandating (or Encouraging) Indirect Charging of Certain Allowable Costs
- Required Recognition by Federal Agencies of Federally Negotiated Rates
- Procedures for Recognition of Subrecipient Indirect Costs

# Key Changes

- Introduction of *de minimis* 10 percent rate in lieu of negotiation
- Authorization to continue use of a negotiated rate for up to 4 years
- Specific certification language for indirect costs
- Encouragement of fixed amount and performance based awards

# Relocation of Procedures to Appendices

- Little Substantive Change
- Cost Accounting Standards Coverage
- Other Current Guidance Documents
  - HHS OASMB C-10—A Guide for State, Local and Tribal Governments
  - DOL—Indirect Cost Determination Guide



# Indirect (and Other) Charging of Certain Costs

- Examples
  - Administrative Support
  - Audit Services
  - Bonding Costs
  - Employee Health, Morale and Welfare
  - Proposal Costs
- Elimination of Use Allowance for Charging of Recipient Owned Capital Items

# Required Recognition of Federally Negotiated Rates

- Policy Reinforcement (2 CFR 200.414 (c))
- Recognition of Statutory Limits
- OMB Management of Exceptions
  - Federal Agency Submission of Justification
  - Sign-off by Federal Agency Head
- Option to Use 10% *De minimis* Rate

# Procedures for Recognition of Subrecipient Indirect Costs

- 2 CFR 200.331(a)(4)
- Indirect cost treatment must be addressed in subgrant agreement
- Pass-through entities must either:
  - Recognize federally negotiated rates
  - Negotiate a rate with a subrecipient or
  - Permit use of 10% *de minimis* rate

# Trying to Move Away from Negotiations

- OMB's "trial balloon" on "fixed" rates
  - Rationale for 10% percent *de minimis rate*
  - Rationale for extended use of negotiated rates
  - Encouragement for fixed amount and performance based awards
- 2 CFR 200.201
- OMB Memorandum 13-17

# Recovering Indirect Costs Going Forward

- In-house versus Outside Assistance?
- Specific Restriction affecting Audit Firms
  - Current: Section 305, OMB Circular A-133
  - Future: 2 CFR 200.509

# Don't Forget These...

- “Policy Guides”
- Reasonable
- Allocable
- Conform to Proper Limitations or Exclusions
- Consistently Treated
- Subject to Uniform Organizational Policies
- Incurred in Accordance with GAAP
- Not Charged Elsewhere
- Adequately Documented
- Net of Applicable Credits

# The Process

- Organizational Review
- Accounting System Review
- Current Federal Funding Review
- Documenting Cost Policies
- Preparation of Indirect Cost Allocation Plan
- Preparation (and Submission) of Indirect Cost Rate Proposal
- Possible Negotiation and Issuance of Rate Agreement
- Preparation of Claims
- Audit

# Calculation Procedures for Governments

- State or Local Wide Cost Allocation Plan
- Indirect Cost Rate Proposal
- Public Assistance Cost Allocation Plan



# Audit of Rates

- Certification of Costs by Recipient or Subrecipient
- Single Audit Procedures Contained in the OMB Compliance Supplement
  - When a NICRA is Present
  - When a NICRA is Not Present
  - Auditor Role in Calculation of Final Rates (if necessary)

# Contact Information

- Bob Lloyd  
Principal, Federal Fund Management  
Advisor <sup>TM</sup>
- E-mail: [consultlloyd@aol.com](mailto:consultlloyd@aol.com)
- Telephones: (864) 235-8680  
(202) 775-0066