

Sharpening Your Indirect Cost Recovery Skills

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National Association of Development Organizations

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Presented by Bob Lloyd

The Topic of Indirect Cost

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- ▶ **Widely Misunderstood by:**
 - Some (or many) awarding agency staff
 - Some or many recipient program staff
 - Most elected officials
 - Most of the media
- **Related terminology**
 - Facilities and administrative costs
 - Program costs vs. administrative costs
 - Overhead
- **The “folly” of comparing indirect cost rates**

Sources of Federal Policy

- ▶ A word about OMB Grant Reform and the “Super Circular”
 - Indirect cost issues “aplenty”

- ▶ 2 CFR 200, Subpart E—Cost Principles
 - 2 CFR 200.400-406 General Tests
 - 2 CFR 200.414 (Indirect(F&A) Costs)
 - 2 CFR 200.420-475 Selected Items of Cost
- ▶ 2 CFR 200, Appendices V-VII

Revised Indirect Cost Policies

- **Definitions (2 CFR 200.56-57; 2 CFR 200.68)**
- **General indirect cost policies (2 CFR 409, 2 CFR 411-419)**
- **“General cost of government” (2 CFR 200.444)**
 - **Required or encouraged indirect cost charging of certain costs (example: proposal costs)**
 - **Cognizant agency involvement in innovative effort reporting and handling of performance based awards**
 - **“Performer specific” instructions (2 CFR Appendices III-VII)**

What Indirect Cost Is and Isn't

- ▶ **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.”

Defining Terms

- ▶ **Indirect cost allocation plan:** A narrative and financial document that identifies, accumulates, and distributes indirect costs to benefiting units and activities
- ▶ **Indirect cost rate:** A device used to determine what portion of an organization's indirect costs each activity (such as individual federal awards) should bear; normally employed in lieu of separately negotiating indirect cost levels with each awarding agency.

Total Recovery under a Federal Award

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➤ Allowable direct costs

PLUS

• Allowable allocable indirect costs

MINUS

• Applicable credits

The Cognizant Agency for Indirect Cost

- ▶ A single federal agency that is responsible for reviewing, negotiating and approving indirect cost allocation plans and rate proposals developed under 2 CFR 200 on behalf of all federal agencies.
- ▶ Normally, the source of the predominant amount of federal funding
 - Special rule for economic development districts
- ▶ Not to be confused with the cognizant agency for audit

The Indirect Cost Recovery Process

- ▶ Receipt of a federal award
- ▶ Organizational review
- ▶ Documenting cost policies
- ▶ Preparation of indirect cost allocation plan
- Descriptions of central services and benefit to federal programs
- Preparation of indirect cost rate proposal
- Bases for distribution of costs
- Federal suggestions
- Exclusion of unallowables and distorting factors
- Possible submission, negotiation, and issuance of rate agreement
- Preparation of claims
- Audit

Submission Rules for Local Governments

- ▶ Those receiving more than \$35 M in direct federal awards annually must submit and negotiate
- ▶ Those receiving less than \$35 M annually are not required to submit unless specifically required to do so but must prepare documents and hold for audit
- ▶ EDA's approach

Who Prepares?

- ▶ In-house capacity versus outside assistance
- ▶ Specific restriction affecting public accounting firms that perform the organization's single audit (2 CFR 200.509)
 - Annual indirect cost recovery > \$1M

Federal Agency Guidebooks

➤ Department of Interior

--- (www.doi.gov/ibc/services/finance/Indirect-Cost-Services)

➤ Department of Health and Human Services

--- (www.hhs.gov/psc)

--- A Guide for State and Local Governments (OASMB C-10)

➤ Department of Labor

--- (www.dol.gov/oasam)

--- Indirect Cost Determination Guide

Getting Down in the Weeds



Cost Policy Statement



Standard Schedules



Allocation Bases



Certification

The Cost Policy Statement

- **Direct vs. Indirect**

- **Implications for Time Sheets and Other Source Documentation**

- **Type of Cost**

- **2 CFR 200 Template (200.420-475)**

- **DOI Template**

- **Explanation of Charging Method and Rationale**

Documentary Support— Cost Allocation Plans

- ▶ Description of allocated central services
 - Cost allocated and bases
- ▶ Description of internal service funds
 - Costs billed and procedures used
- ▶ Description of self-insurance funds
 - rates actuary -determined
- ▶ Description of fringe benefit funds
 - Example: PTO
- ▶ Description of pension and post retirement health insurance plans
- ▶ Certification

Allocation Bases

- ▶ **Federal “Suggestions”**
 - **Number of FTE**
 - **Square footage**
 - **Transaction data**
 - **Actual costs**
- **Criteria**
 - **Readily available**
 - **Not burdensome**
 - **Timely**
 - **Demonstrate clear benefit**

Documentary Support— Indirect Cost Rate Proposals

- Rates proposed with supporting work sheets
- Financial data (financial statements, CAFR, executive budget)
- Amount of direct base costs (broken down by salaries and ages and other direct costs)
- Organizational chart with narrative explaining duties and responsibilities
- Summary of allocated costs from cost allocation plan
- Certificate of Indirect Costs (Appendix VII, Paragraph E(3))

Certification

- Asserted allowability
- Adjustment for unallowables
- “Beneficial or causal relationship”
- Consistent treatment
- Affirmative notification of federal agency
- Signed by responsible official
- 18 USC 1000

Elements of a Rate Agreement

- Rate type
- Effective period
- Percentage(s)
- Location(s)
- Applicability
- Limitations
- Handling of accounting changes

Types of Rates and Direct Cost Bases

- Types of Rates
 - Provisional/Final
 - Predetermined
 - Fixed with Carry Forward
 - *De Minimis*
- Types of Direct Cost Bases
 - Salaries and Wages
 - Salaries, Wages and Fringe Benefits
 - Modified Total Direct Cost (2 CFR 200.68)

Acceptance Policies

- ▶ Required federal agency acceptance of federally negotiated rates (2 CFR 200.414(c))
 - Limited exceptions
 - Required pass-through entity acceptance of federally negotiated rates (2 CFR 200.331(a)(4))
 - No exceptions
 - Pass-through entity negotiation of rates
 - Subrecipient election of the “de minimis” indirect cost rate (10% of MTDC) (2 CFR 200.414(f))

Negotiation Vulnerabilities

- Advertising and Public Relations
- Conferences
- Employee Health and Welfare
- Executive Salaries
- Legal Expenses
- Lobbying
- Rearrangement
- Travel
- “Failure to Mention...”
- Cost escalation

How the Rate is Used

- ▶ Grant application or contract proposal
 - Creation of an indirect cost “ceiling”
 - Treatment of unrecovered indirect cost (2 CFR 200.306(c))
 - Expenditure of funds
 - Applying the rate to the proper base
 - Handling of rate change in award midstream
 - Reporting of claims
 - SF 425

Audit

- *OMB's Compliance Supplement for Single Audits (Part 3B)*
- Steps when a NICRA is present
- Steps when a NICRA is not present
- Steps when the De minimis rate is used

Key Federal Contacts

- ▶ Department of Commerce, Economic Development Administration
 - Bernadette Grafton (202) 482-2917
- Department of Interior, Interior Business Center
 - Doris Jensen (916) 930-3829

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Questions

► NOW/

► LATER

--- Bob Lloyd

--- (consultlloyd@aol.com)

--- (864) 235-8680