Indirect Costs and the Uniform Grant Guidance: What to Expect

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Total Cost of Federal Awards

- Direct: 90%
- Indirect: 10%
Costing Options:

1. Direct Charge
2. Cost Allocation Plan (CAP)
3. Indirect Costs/Facilities and Administrative (F&A) Costs
What are Direct Costs?

- Costs that can be identified specifically with a particular final cost objective
- “Cost objective” means a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.
  - EX. Compensation of employees for effort on the performance of the award; materials and equipment; travel expenses
What are Indirect Costs?

• Costs incurred for common or joint purposes
• Cost cannot be readily and specifically identified with a particular cost objective without effort disproportionate to the results achieved
  • EX: Accounting; Human Resources; Payroll; Legal Division; Utilities
• Facilities and Administration (A-21, A-122)
  • Facilities costs include: depreciation and use allowances on buildings, capital improvements, operation and maintenance, library expenses, etc.
  • Administrative costs include: normal administrative expenses and other types of expenditures not listed specifically under the facilities category
How To Get An Indirect Cost Rate?

• Non-federal entities apply to “cognizant agency.”
• Unless specified by OMB, generally the “cognizant agency” is the federal agency with the preponderance of direct funding.
• “Cognizant agency” authority may be delegated to nonfederal agencies
  • For example, SEAs have methodology approved through “delegation authority” from ED. LEAs apply to SEA.
How Are Indirect Costs Charged to Federal Awards?

• Calculation: It’s a fraction!!
• Top: “Indirect Cost Pool”
• Bottom: “The Base”
  • Can be “Total modified direct cost base” or “Salaries and Wages”, etc.
Top: Indirect Cost Pool

• EX: Accounting; Personnel; Legal; Utilities
• All employees must be paid with non-federal funds (even though giving some benefit to federal programs)
  • Would not keep time distribution records (as long as not split between indirect and direct)
Bottom: “Modified Total Direct Cost Base”

• All direct costs (All federal and non-federal expenses)
  • Must show benefit to federal program
• Minus:
  • equipment
  • alterations/renovations,
  • portion of each subaward exceeding $25,000 (i.e., only first $25k is included in base)
• **Salaries and Wages Base**
  - Total salaries and wages, minus the salaries and wages included in the indirect cost pool

• “Other base which results in an equitable distribution”
Applying the Rate

• Apply rate (percentage) *to the base*
• E.g., if your rate uses MTDC, apply to your current year direct costs minus cap expenditures, etc., NOT entire grant!
• That “reimbursement” has no federal accountability
Reimbursement Wrong Way/Right Way: E.g., Modified Total Direct Cost Base (MTDC)

<table>
<thead>
<tr>
<th>Incorrect Calculation</th>
<th>Correct Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Award</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>$4,000,000</td>
<td></td>
</tr>
<tr>
<td>Rate Applied</td>
<td>20%</td>
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<tr>
<td>Indirect costs</td>
<td>$800,000</td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Direct Costs</td>
<td>$3,350,000</td>
</tr>
<tr>
<td>Less: Equipment</td>
<td>($100,000)</td>
</tr>
<tr>
<td>Less: Subcontract</td>
<td>($2,550,000)</td>
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<tr>
<td>Plus: first $25,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>MTDC Base</td>
<td>$750,000</td>
</tr>
<tr>
<td>Rate Applied</td>
<td>20%</td>
</tr>
<tr>
<td>Indirect costs</td>
<td>$150,000</td>
</tr>
</tbody>
</table>
Applying the Rate - Frequency

- Can claim indirect costs periodically (monthly, quarterly, annually)
- Must be based on actual expense already incurred (i.e., couldn’t take all at beginning of year)
Consistent Treatment

NO Double Dipping!!!!
Administrative costs may be direct OR indirect

**Administrative Cost Cap**
- Limit applies against total grant amount
- Grantee should list administrative costs in budget breakout
All costs of administrative activities count towards the administrative cost cap

- Must review Indirect Cost pool and identify which costs meet program definition of administrative
  - Admin cap will NOT limit indirect costs associated with programmatic / non-administrative costs!!!
Uniform Grants Guidance
## What is Superseded?

<table>
<thead>
<tr>
<th>Rule</th>
<th>Description</th>
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<tbody>
<tr>
<td>A-102</td>
<td>Administrative Rules State / Local</td>
</tr>
<tr>
<td>A-110</td>
<td>Administrative Rules Postsecondary/ Nonprofit</td>
</tr>
<tr>
<td>A-87</td>
<td>Cost Rules – State / Local</td>
</tr>
<tr>
<td>A-21</td>
<td>Cost Rules – Rules – Postsecondary</td>
</tr>
<tr>
<td>A-122</td>
<td>Cost Rules – Nonprofit</td>
</tr>
<tr>
<td>A-133</td>
<td>Audit Rules (&gt;$750,000)</td>
</tr>
</tbody>
</table>
Who is covered?

• All “nonfederal entities” expending federal awards
Who crafted the changes?

• “COFAR”
  • Council on Financial Assistance Reform, and Key Stakeholders
  • www.cfo.gov/cofar
• Published by OMB
Key Dates:

- **Feb 1, 2013**: NPRM
- **Dec 19, 2013**: Final
- **Dec 26, 2013**: Federal Register
- **June 26, 2014**: Agencies Submit Draft Changes
- **Aug 29, 2014**: COFAR Releases FAQs
- **Dec 26, 2014**: Final Regulations Published
COFAR FAQs: New awards and incremental funding after 12/26/14

- Applications for awards made after 12/26/14 should be developed in accordance with UGG
- Indirect cost rates will be developed in accordance with UGG when due to be re-negotiated
- Actual cost proposals may be submitted on UGG when due for fiscal years beginning after 12/26/14 (even if developed based on actual costs from FY 2014).
Inconsistency Between Program Statute and Circular

• If federal program statute or regulation differs from the uniform grant guidance, then statute / regulation governs.

• EX: Restricted Rates for Education Grants!!!!!
Definitions

• “Administration” is defined as general administration and general expenses such as the director’s office, accounting, personnel, and all other types of expenditures not listed specifically in “Facilities”
  • Nonprofits – includes library expenses
  • IHEs – library expenses included in “Facilities”

• “Facilities” is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses
Selected Items of Cost

- **Advisory Council** allowed only if authorized by statute OR as an indirect cost where allocable to federal awards, 200.422
- **Bonding** costs required in the general conduct of operations, 200.427(c)
- **Proposal costs** should normally be treated as indirect costs (may be charged directly only with prior approval by federal agency), 200.460
- **Rearrangement and reconversion** of facilities are allowable as indirect costs, 200.462
Selected Items of Cost

- **Depreciation** is the required method for allocating the cost of fixed assets to periods
  - Use Allowance method no longer allowed
- **Unused leave** payments must be charged indirectly, 200.431(b)(3)(i)*
- **Actual claims** for workers comp, unemployment compensation, severance pay, and similar employee benefits are allowable provided that they are allocated as indirect costs, 200.431(e)(3)*

*Clarification if nonfederal entity uses cash basis of accounting or if nonfederal entity uses specific identification for fringe benefits, FAQs
NEW: Consistent Application of Negotiated ICRs

- Federal agencies must accept a non-federal entity’s negotiated indirect cost rate.
- A different rate may be used for a class of Federal awards or single Federal award only if:
  - Required by statute or regulation, e.g. ED Restricted Rates, or
  - Approval of Federal awarding agency head (per delegations authority) based on documented justification
- Further, deviations from negotiated rates must be publicly availability, established in policies, and included in announcement of funding opportunity
- Federal awarding agency must notify OMB of any approved deviation
  - Section 200.414(c)
NEW: De Minimis Rate

• Non-federal entities may receive a de minimis indirect cost rate of 10% of MTDC if the non-federal entity never had a negotiated indirect cost rate.
  • Received without any review of actual costs
  • De minimis rate is allowable for use indefinitely

• Section 200.414(f)
NEW: Requirements for Pass-through Entities

• Pass-through entities must provide an indirect cost rate to subrecipients, which may be the de minimis rate.
  • Section 200.331
NEW: Requirements for Pass-through Entities

FAQs:

• Not required for nonfederal subawards
• No limit on number of layers of subrecipients
• Pass-through required to reimburse indirect costs even if temporarily using state funds while waiting for Federal funds
• Advance agreement to determine single indirect cost rate for blended subawards
NEW: Requirements for Pass-through Entities

FAQs:

• Subrecipients are not required to establish ICR – may direct charge all costs

• Pass-through cannot force proposed subrecipient w/o a rate to accept less than de minimis rate

• If pass-through refuses to honor federally negotiated ICR, “remind” them of obligation under UGG
NEW: Extension of Negotiated ICR

• Entities with an approved federally negotiated indirect cost rate may apply for a one-time extension, without further negotiation subject to the approval of the negotiating federal agency.

• Extension for “up to” 4 years (may be fewer)

• Must renegotiate after extension to ensure rates continue to be based on actual costs

• Section 200.414(g)
NEW: Extension of Negotiated ICR

FAQs:

• Includes only “predetermined” and “final” rates (not “provisional” or “fixed” rates)
  • Types of Rates:
    • Provisional
    • Final
    • Predetermined
    • Fixed with carry-forward

• Fixed rate with carry-forward cannot be extended. Must first negotiate a final or predetermined rate, which then could be extended.
  • Section 200.414(g)
NEW: Extension of Negotiated ICR

FAQs:

• “Current negotiated rate” means the rate in effect (not expired) when the entity requests the extension.

• Documentation requirements to support extension “should be kept to a minimum”

• Requests submitted 60 days prior to due date of next proposal for indirect costs (later, case-by-case)
  • Section 200.414(g)
NEW: Extension of Negotiated ICR

HHS Suggested Documentation requirements:
• Most current audited financial statements
• Listing of federal awards for the last 3 years

After review, HHS will decide if a 4-year (or less) extension is warranted. Determined on case-by-case basis.
NEW: Direct v. Indirect Costs Administrative Costs

- Salaries of administrative and clerical staff should be treated as “indirect” unless all of following are met:
  1. Such services are integral to the activity
  2. Individuals can be specifically identified with the activity
  3. Such costs are explicitly included in the budget
  4. Costs not also recovered as indirect

- Section 200.413
Appendices

- Appendix III to Part 200 – Indirect (F&A) Costs Identification and Assignment, and Rate Determination for IHEs
- Appendix IV to Part 200 – Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofits
- Appendix V to Part 200 – State and Local Government and Indian Tribe-Wide Central Service Cost Allocation Plans
- Appendix VII to Part 200 – States and Local Government and Indian Tribe Indirect Cost Proposals
NEW: Indirect (F&A) Costs Identification and Assignment for IHEs

• Appendix III
• 1.3% Utility Cost Adjustment
• OMB and Federal Agencies reviewing cost implications of full reimbursement of actual costs
NEW: Indirect (F&A) Costs Identification and Assignment for Nonprofits

• Appendix IV
• Treatment of participant support costs expanded to all types of organizations
NEW: Indirect Costs Identification and Assignment for State/Local Gov’ts

- Appendix VII
- Excluded from being eligible for de minimis rate if gov’t agency receives more than $35 million in direct federal funding
So What Does All This Mean??
• To ask a question **online:**
  • Use the Q&A option in the chat box on the lower left side of your screen.

• To ask a question via **telephone:**
  • Press *1 on your touchtone phone.
  • If you are using a speaker phone, please lift the receiver and then press *1.
  • If you would like to withdraw your question, press *1.
Follow-Up Questions

If you have any remaining questions after the conclusion of today’s webinar please do not hesitate to get in touch.

Ask our webinar producer: mbarnes@columbiabooks.com

For more information and great grants related resources feel free to visit us online:

- [http://grants.complianceexpert.com/](http://grants.complianceexpert.com/) (Thompson’s subscription website, federal compliance regulations are available to all free of charge)
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