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

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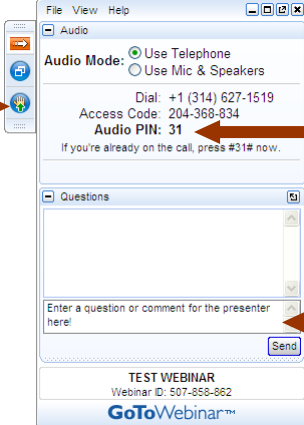
What Impact Does the New Guidance Have on the Treatment of Indirect Costs?

Will the 10% De Minimis Indirect Cost Rate Work for Our CAA?

What is the Best Option for Calculating Our CAA's Indirect Cost Rate?

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 90ET0441-01. 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.

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Estimating and Reconciling Indirect Costs

CAPLAW Indirect Cost Series –Part 3

March 4, 2015

Workshop Leader: Kay Sohl



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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**

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Uniform Guidance: 3 Ways to Recover Indirect Costs

- **NICR** -Negotiated Indirect Cost Rate
- **10%** de minimis indirect cost rate
- **Direct charging** through cost allocation

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Estimating & Reconciling Essential for All 3 Methods

- Agency-wide all **inclusive fiscal year** budget
- Identification of **direct** and **indirect costs**
- Tracking **actual** costs
- **Comparing** actual costs to budget plan

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Timeframe for 10% de Minimis Rate

- 10% de Minimis **does not require negotiation**, continues indefinitely
- Available only to entities that have never had NICR
- Critical to estimate your actual indirect cost rate using Modified Total Direct Cost method before deciding to use the 10% rate

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Negotiated Indirect Cost Rate Basics

- NICR **requires negotiation** with federal cognizant agency
- NICR awarded for **specific time period**
- Multiple permissible methods to propose calculating NICR

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Timeframe for NICRs

- **Provisional rate: temporary**, based on estimated costs-**subject to adjustment**
- **Final rate: based on actual costs**
- **Predetermined rate: not** subject to adjustment
- **Fixed rate with carry forward:** adjustment made in **future periods**

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Extension Available only for Predetermined and Final Rates

- May only request extension for **current (not expired) rate**
- May request **up to 4 year** extension period – permitted to request fewer than 4 years
- Once extension granted, cannot be **renegotiated**
- Submit request for extension **60 days prior** to due date of next indirect cost rate proposal

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Fixed Rates with Carry Forward may not be Extended

- To obtain **benefit of extension provisions**, must first **negotiate a Final or Predetermined Rate**
- Must **resolve the carry forward provision** for the last year of the Fixed Rate with the cognizant agency

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Pros & Cons of Extension

Pros

- Reduce time required for submission of proposals
- Streamline budget planning

Cons

- Significant expansion/contraction of direct costs cause fluctuations in actual indirect cost rate
- May limit ability to recover actual indirect costs

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Quick Review:

All Indirect Cost Rates:
Based on a Fraction

Numerator = Indirect Costs

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Denominator = Direct Costs

- Must make choices about both

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Why Choice of Method Matters

- Produce **different** indirect cost **rates**
- May **increase/decrease share** of indirect costs assigned to each program/award
- May make regular **comparison of actual to planned rate** more or less time consuming

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Numerator Choices for NICR

- *Direct Allocation Method*

Indirect = Admin costs **only**

- *Simplified Allocation Method*

Indirect = **Admin plus facilities & other shared costs**

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More Numerator Choices

- **Multiple Rate** – involves use of multiple Indirect Cost Pools
- **Special Rate**- used to address distorting factors – typically negotiated with larger entities

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Only Allowable Indirect Costs in Numerator

- All methods of computing the Indirect Cost numerator require **excluding unallowable indirect costs**
- **Example:**
 - Alcohol served at Board functions

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3 Choices for the Direct Cost Base (Denominator)

- **Direct Salaries & Wages** (including compensated absences)
- **Total Direct Salaries & Wages** (including employer PR tax & fringe benefits)
- **Modified Total Direct Cost: MTDC**

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All Bases Must Include All Direct Costs

- **Direct cost base:** must include direct costs funded through **private sources** as well as fed sources
- Must include direct costs that are **unallowable** for federal funds
- Use of **Modified Total Direct Costs** as **base** requires exclusion of some direct costs

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Implications for Estimating & Reconciling

- Direct Salaries or Total Direct Salaries may be more **predictable** and **readily available** for comparison than MTDC
- All methods rely on **estimating benefit provided** by shared costs. May perceive some methods as **more closely reflecting benefit** provided

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Key Exception 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
- <https://cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf>

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10% Statutory Admin Cost Limit

TOTAL Expenses	Unallow indirect costs	Excluded direct costs	Indirect costs	MTDC	award 1 direct	award 2 direct	award 3 direct	non-fed direct cost
4,450,000	10,000	40,000	800,000	3,600,000	1,000,000	1,740,000	660,000	200,000
Indirect Rate .222			-800,000	800,000	222,222	386,667	146,667	44,444
Admin > 10% Statutory Limit					-122,222			122,222
Unallow indirect costs	-10000							10,000
Excluded costs		-40000					40,000	
Total Costs	0	0	0		1,100,000	2,126,667	846,667	376,666

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Choices in Using Your Indirect Rate

1. Apply your **NICR rate** to appropriate **direct cost base** for reporting & draw downs
2. Calculate your **actual indirect cost rate** throughout the year (using your approved rate method) and **use actual rate for** reporting & drawn downs

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More Choices

3. Use the **10% de Minimis** rate applied to the correct MTDC base for reporting and draw downs
4. Establish & use **consistent allocation methods** to **charge actual costs** benefiting entire agency to direct cost centers – **Direct Charge**

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Reconciliation with Direct Charge Method

- If **allocations** are computed using **actual data** (units of service, square feet utilized, transactions processed), no reconciliation needed.
- If **allocations** are computed based on **planned data**, must be **reconciled and adjusted to actual**

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Reconciliation – True Up Process 10% de Minimis

- Using 10% de Minimis – **no requirement** to prove you had 10%
- Must use **non-federal funds** to cover indirect costs **> 10%**
- Failure to track actual indirect cost rate could lead to “**uncovered**” indirect costs

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Reconciliation with Provisional & Final NICRs

- Required to submit **audit** & calculation of **actual indirect rate**
- **Final rate** is determined after **actual costs are known**
- **Final rate** used to **adjust** the indirect costs claimed
- **Final rate** may be issued as **provisional rate** for ensuing year

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Dealing with Adjustments to Provisional Rate

- If **actual indirect rate** > than amount reported, may be able to recover additional indirect costs from open awards
- If **actual indirect rate** < amount claimed, excess amounts deemed unallowable

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Reconciliation with Predetermined Rate

- Based on estimate of costs to be incurred during period
- **Not subject to adjustment**
- Must still maintain record of actual indirect costs

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Reconciliation with Fixed Rate with Carry Forward

- Based on **estimated costs**
- **Difference** between estimated costs and actual costs is **carried forward as adjustment** to the rate computation in subsequent period

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Next Steps

- Review current approach
- Determine if your MTDC rate is > 10%
- If you have direct federal award, evaluate negotiating NICR
- Test alternate NICR methods
- Discuss options with your auditor

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Sample Indirect Cost Rate Calculations & Applications

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NICR using MTDC Base

TOTAL Expenses	Unhallowed indirect costs	Excluded direct costs	Indirect costs	MTDC	award 1 direct	award 2 direct	award 3 direct	non-fed direct cost
4,450,000	10,000	40,000	800,000	3,600,000	1,000,000	1,740,000	660,000	200,000

Allowable Indirect	800,000
MDTC	3,600,000
Indirect rate	0.222

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Applying the MTDC Indirect Rate

TOTAL Expenses	Unallow indirect costs	Excluded direct costs	Indirect costs	MTDC	award 1 direct	award 2 direct	award 3 direct	non-fed direct cost
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Excluded costs		-40000					40,000	
Unallow indirect costs	-10000							10,000
Total Costs	0	0	0		1,222,222	2,126,667	846,667	254,444

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MTDC Direct Cost Base excludes:

- Equipment & capital expenditures
- Rental costs
- Participant support costs
- Charges for patient care
- Tuition remission
- Portion of each **sub-award** in excess of **\$25,000**
- Other costs that would distort distribution of indirect costs

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2 More Possible Bases

- **Total Direct Salaries Base** (*includes employer PR taxes, fringe benefits & paid time off*)
- **Direct Salaries Base** (*includes paid time off but not payroll taxes & benefits*)

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NICR using Total Direct Salaries Base

TOTAL Expenses	Unallow indirect costs	Indirect costs	Direct Costs	award 1 direct	award 2 direct	award 3 direct	non-fed direct cost
Salaries & Fringe Benefits		600,000	3,000,000	800,000	1,500,000	520,000	180,000
Other Expenses	10,000	200,000	640,000	200,000	240,000	180,000	20,000
Total	10,000	800,000	3,640,000	1,000,000	1,740,000	700,000	200,000

Allowable Indirect	800,000
Total Direct Salaries & Fringe Benefits	3,000,000
Indirect rate	0.267

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Applying Total Direct Salaries Base Rate

	Unallow indirect	Allowable indirect	Total Costs	award 1	award 2	award 3	non-fed
Total Direct Salaries			3,000,000	800,000	1,500,000	520,000	180,000
Allowable indirect cost		800,000					
Indirect Rate .27%		-800,000	800,000	213,333	400,000	138,667	48,000
Other Direct exp	10,000		640,000	200,000	240,000	180,000	20,000
Unallow indirect alloc	-10,000		10,000				10,000
Total Costs	0	0	1,450,000	1,213,333	2,140,000	838,667	258,000

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NICR using Direct Salaries Base

TOTAL Expenses	Total Costs	Unallow indirect costs	Indirect costs	Direct Costs	award 1 direct	award 2 direct	award 3 direct	non-fed direct cost
Salaries Only	2,640,000		440,000	2,200,000	587,000	1,100,000	380,000	132,000
Other Expenses	1,810,000	10,000	360,000	1,440,000	412,000	640,000	320,000	68,000
Total	4,450,000	10,000	800,000	3,640,000	999,000	1,740,000	700,000	200,000

Allowable Indirect		800,000
Direct Salaries Only		2,200,000
Indirect rate		0.364

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Applying Direct Salaries Base Rate

	Total	Unallow indirect	Allowable indirect	Total Costs	award 1	award 2	award 3	non-fed
Salaries Only				2,200,000	587,000	1,100,000	380,000	132,000
Allowable Indirect Costs			800,000					
Indirect Rate .36%			-800,000	800,000	213,500	400,000	139,000	47,500
Other Direct exp		10,000		1,440,000	412,000	640,000	320,000	68,000
Unallow indirect alloc		-10,000		10,000				10,000
Total Costs		0	0	4,450,000	1,212,500	2,140,000	839,000	257,500

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