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

- **March 4:** Does Our CAA Effectively Estimate and Reconcile Indirect Costs?

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Negotiated Indirect Cost Rate Choices - REVISED

CAPLAW Indirect Cost Series –Part 3

February 25, 2015

Workshop Leader: Kay Sohl



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OMB's Uniform Guidance 2 CFR 200

- Published at Code of Federal Regulations on **December 26, 2013**
- Implementation Regulations published on **December 19, 2014**
- Effective for awards that begin after **12/26/14** & audits of fiscal years beginning after **12/26/14**

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Big Change for Indirect Costs

- All **federal agencies** & **pass-through entities** **must accept** approved **NICR** - negotiated indirect cost rate
- Pass thru entities are **required** to either allow sub-recipients to **negotiate indirect rate** or use a **flat indirect rate of 10% of MTDC** (modified total direct costs)

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Big Change for Indirect Costs

- Uniform Guidance **permits extension** of NICR timeframe
- Alternative to negotiating every year
- **May request extension** of approved rate for up to **4 years**
- If extension granted, **may not negotiate** again until **end of extension period**

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Exceptions 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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Uniform Guidance: 3 Ways to Recover Indirect Costs

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

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Negotiated Indirect Cost Rate

- **Recipients & sub-recipients negotiate rates with their federal cognizant agency**
- **Cognizant agency is usually the entity's largest source of federal \$**
- **Sub-recipients without direct federal awards generally cannot negotiate indirect cost rates with federal agencies**

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Potential Catch 22

- 10 % de minimis rate is available to **recipients** and **sub-recipients** that have **never** had a **NICR**
- **NICR** must be **current** in order to be **protected** by “must allow” provisions of Uniform Guidance
- ??? Entities with **prior NICR** but no **current NICR** and **no direct federal award** ???

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NICR Negotiation Process

- Identify **cognizant** agency
- Clarify negotiating process
- Submit **proposed NICR** –using **estimated** costs
- Review and revise if required
- Receive **NICRA** – Negotiated Indirect Cost Rate Agreement

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NICRA Establishes Timeframe for Use of Rate

- **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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Provisional Rates Most Common for Newer or Smaller Entities

- Rate proposal uses **estimated costs** for fiscal year
- Requires **submission of audited financial info** within 6 months of the end of fiscal year
- **True-up process** used to determine if provisional rate was under or over actual rate

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Indirect Cost Rate: Based on a Fraction

Numerator = Indirect Costs

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Denominator = Direct Costs

- **Must make choices about both**

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Defining Indirect Costs

- **Must include administrative costs which benefit entire entity**
- **May include other common or shared costs which benefit entire entity:**
 - Facilities
 - Telephone/internet
 - Copiers, etc.

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Administrative Costs Include

- Accounting & fiscal management
- Board support
- HR management
- IT management
- Agency-wide strategic planning
- Executive management

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Not All Admin Costs are Indirect

- Administrative functions that benefit **only one** or a **limited number of programs/awards** may be treated as **Direct Costs**
- **Example:**
 - Accountant performing only Head Start functions

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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

More Numerator Choices

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

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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NICR using MTDC Base

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

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
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
Excluded costs		-40,000					40,000	
Unallow indirect costs	-10,000							10,000
Total Costs	0	0	0		1,222,222	2,126,667	846,667	254,444

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NICR using Total 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 & Fringe Benefits	3,600,000		600,000	3,000,000	800,000	1,500,000	520,000	180,000
Other Expenses	850,000	10,000	200,000	640,000	200,000	240,000	180,000	20,000
Total	4,450,000	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	588,000	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	1,000,000	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	588,000	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	1,213,500	2,140,000	839,000	257,500

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3 Bases Result in 3 Different Indirect Rates

- MTDC Example: **22.2**
- Total Direct Salaries Base: **26.7%**
- Direct Salaries Base: **36.4%**

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All 3 Bases Result in the Same Total Recovery of Indirect Costs

- Choice of base may impact the **indirect cost burden** charged to your distinct programs or awards
- Choice of base & resulting NICR may create more or less **resistance from private funders**

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Which Base Will Yield Highest Indirect Cost Rate ?

- Direct Salaries and Wages provides smallest denominator and yields **highest indirect %**
- Total Direct Salaries & Wages (including employer taxes & benefits) yields **next highest indirect %**
- MTDC yields **lowest indirect %**

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Impact of Numerator on Rate

- Direct Allocation Method includes **only indirect Admin Costs** in Indirect
- Simplified Allocation Method includes indirect **Admin Costs & Facilities & Common Costs**
- **Direct Method** results in smaller numerator = **lower rate**

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Indirect Cost Proposal Steps

- Develop master **schedule of all cost centers** – direct and indirect
- Identify the costs to be included in the **indirect cost center**
- Identify **direct cost center structure**:
 - Each award = a cost center
 - Each program = a cost center (which may be supported by multiple awards)

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Proposal Must Include All Costs for Agency Fiscal Year

- **Indirect costs**
 - Allowable for federal \$\$\$
 - Unallowable
- **Direct costs**
 - Allowable for federal \$\$\$
 - Unallowable
 - Includes costs met through non-federal sources

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Choices

- **Negotiate a NICR?**
- **Request extension for your NICR?**
- **Simplified or Direct Allocation method?**
- **Which Base?**
- **Seek predetermined or fixed rate?**

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Follow-up Webinar

- **March 4, 2015**
- **Estimating and Reconciling Indirect Costs**
 - Impact of over and under estimating indirect cost rates
 - Dealing with statutory limitations on admin and indirect costs

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