



**U.S. Department of Housing and Urban
Development
Office of Housing Counseling
Understanding Indirect Cost Rates
and Cost Allocation Plans**

November 5, 2015

12:00 PM

Facilitated by

Booth Management Consulting, LLC

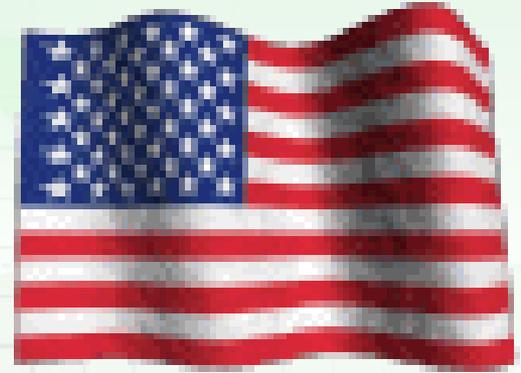
7230 Lee Deforest Drive, Suite 202, Columbia, MD 21046

FACILITATED BY:
Robin Booth, CPA

BMIC
BOOTH MANAGEMENT CONSULTING, LLC

Training Topics

- Regulations, Definitions and Terminology
- OMB Omni Circular Subpart E Cost Principles – general concepts
- Allowable, Allocable and Reasonable costs
- Direct versus Indirect (Facilities and Administration)
- Types of Indirect Cost Rates
- Indirect Cost Rate vs Cost Allocation Plan
- Implementing the 10% De Minimis Rate
- Frequently Asked Questions



REGULATIONS, DEFINITIONS AND TERMINOLOGY



OMB OMNI “SUPER” CIRCULAR

The screenshot shows a web browser window displaying the eCFR website. The browser's address bar shows the URL: www.ecfr.gov/cgi-bin/text-idx?SID=ed90f54836feb6a994f657188eb05e33&node=2:1.1.2.2.1&rgn=div5. The website header includes the GPO logo and the text "U.S. GOVERNMENT PUBLISHING OFFICE | Keeping America Informed". The main content area is titled "ELECTRONIC CODE OF FEDERAL REGULATIONS" and features a red banner stating "e-CFR Data is current as of March 3, 2015". Below this, the breadcrumb trail reads "Title 2 → Subtitle A → Chapter II → Part 200". The current page is "PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS". The "Contents" section lists various subparts, with "Subpart A—Acronyms and Definitions" selected. A list of acronyms follows, including terms like "Acronyms", "Definitions", "Acquisition cost", "Advance payment", "Allocation", "Audit finding", "Auditee", "Auditor", "Budget", "Central service cost allocation plan", "Catalog of Federal Domestic Assistance (CFDA) number", "CFDA program title", "Capital assets", "Capital expenditures", "Claim", "Class of Federal awards", "Closeout", "Cluster of programs", "Cognizant agency for audit", "Cognizant agency for indirect costs", "Computing devices", "Compliance supplement", "Contract", "Contractor", "Cooperative agreement", and "Cooperative audit resolution". The left sidebar contains navigation links for "FDsys: GPO's Federal Digital System", "Browse", "Simple Search", "Advanced Search", "Search History", "Search Tips", "Corrections", "Latest Updates", "User Info", "FAQs", "Agency List", "Incorporation by Reference", and "e-CFR Main Page". The Windows taskbar at the bottom shows several open applications, including "logistics slides...pptx", "IC_Overview_Fi...ppt", "DOL Guide to l...pdf", "USAID Guide t...pdf", "FA Site Visit F...docx", and "FA Site Visit F...docx". The system clock indicates the time is 11:14 AM on 3/5/2015.

GAO U.S. Government Publishing Office
<http://www.ecfr.gov/cgi-bin/text-idx?SID=ed90f54836feb6a994f657188eb05e33&node=2:1.1.2.2.1&rgn=div5>

OMB OMNI “SUPER” CIRCULAR

• Subpart E—Cost Principles

• GENERAL PROVISIONS

• \$200.400 Policy guide.

\$200.401 Application.

BASIC CONSIDERATIONS

• \$200.402 Composition of costs.

\$200.403 Factors affecting allowability of costs.

\$200.404 Reasonable costs.

\$200.405 Allocable costs.

\$200.406 Applicable credits.

\$200.407 Prior written approval (prior approval).

\$200.408 Limitation on allowance of costs.

\$200.409 Special considerations.

\$200.410 Collection of unallowable costs.

\$200.411 Adjustment of previously negotiated indirect (F&A) cost rates containing unallowable costs.

DIRECT AND INDIRECT (F&A) COSTS

• \$200.412 Classification of costs.

\$200.413 Direct costs.

\$200.414 Indirect (F&A) costs.

\$200.415 Required certifications.

SPECIAL CONSIDERATIONS FOR STATES, LOCAL GOVERNMENTS AND INDIAN TRIBES

• \$200.416 Cost allocation plans and indirect cost proposals.

\$200.417 Interagency service.

SPECIAL CONSIDERATIONS FOR INSTITUTIONS OF HIGHER EDUCATION

• \$200.418 Costs incurred by states and local governments.

\$200.419 Cost accounting standards and disclosure statement.

GENERAL PROVISIONS FOR SELECTED ITEMS OF COST \$200.420 - \$200.475

Component of Costs

OMB Omni Circular Subpart E, §200.402 Composition of costs.

$$\begin{aligned} & \text{Direct Costs} \\ & + \\ & \text{Indirect (F\&A) Costs} \\ & - \\ & \text{Credits} \\ & = \\ & \text{Total Costs} \end{aligned}$$



What are Direct Costs?

§200.413 Direct costs (a) General. Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs. See also §200.405 Allocable costs. Examples are:

- Direct Salaries
- Administrative Salaries (if all conditions are met in §200.413 (c))
- Supplies and Materials
- Travel

What are Indirect (F&A) Costs?

OMB Omni Circular, Subpart E, [§200.414 Indirect \(F&A\) costs](#)

- **Indirect costs** “Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective...”
- Two broad categories - “Facilities” and “Administration.”
 - **Facilities** - depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.
 - **Administration** - general administration and general expenses not listed specifically under one of the subcategories of “Facilities” including cross allocations from other pools.

What are Credits?

Receipt or negative expenditure type transactions, which offset or reduce expense items that are allocable to grants or contracts as direct or indirect costs.

Examples include:

- Purchase discounts, refunds, rebates or allowances
- Sales of scrap or incidental services
- Adjustments of overpayments or erroneous charges

Why emphasize this?



COST PRINCIPLES



Cost Principles

To be chargeable to a Federal grant/contract, indirect costs must be:

Allowable



Reasonable

Allocable

To Be Allowable

- Be reasonable and allocable
- Conform to any limitations or exclusions set forth in the cost principles or the award
- Be consistent with policies and procedures afforded all activities of the organization
- Be accorded consistent treatment
- Be determined in accordance with GAAP
- Be adequately documented

Are Costs Allowable?

OMB Omni Circular, Subpart E, **§200.420 Considerations for selected items of cost.**

- Establishes principles for determining allowability of costs
- Examples of costs expressly unallowable:
 - **§200.423 Alcoholic beverages.**
 - **§200.426 Bad debts.**
 - **§200.428 Collections of improper payments.**
 - **§200.434 Contributions and donations.**
 - **§200.435 Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements.**
 - **§200.438 Entertainment costs.**
 - **§200.441 Fines, penalties, damages and other settlements.**
 - **§200.442 Fund raising and investment management (unless prior written approval from the Federal awarding agency)**



Are Costs Allocable?

- A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:
 - Is incurred specifically for the award
 - Benefits the award and other work and can be distributed based on benefits received, or
 - Is necessary for the overall operation of the organization, although a direct relationship to a particular cost objective cannot be shown
- Shifting of costs between awards to overcome funding deficiencies is not allowed

Is the Cost Reasonable?

“A cost is reasonable if, in its nature or amount, does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.”

Some considerations might be:

- Effect on Federal program dollars
- Prudence under the circumstances
- Deviations from established practices

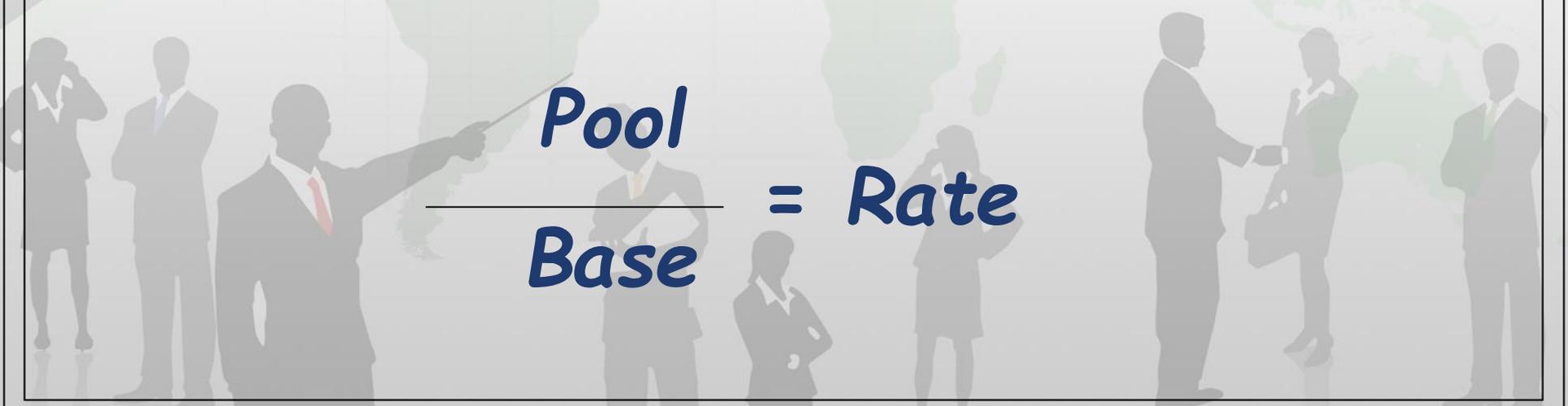


INDIRECT COST RATE



What is an Indirect Cost Rate?

- An indirect cost rate is simply a device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each program should bear. An indirect cost rate is the ratio between the total indirect expenses and some direct cost base.
- Indirect cost rates are for a specific period


$$\frac{\text{Pool}}{\text{Base}} = \text{Rate}$$

Computing a Indirect Cost Rate

Example

Indirect Cost Pool = \$ 10,000

Distribution Base = \$100,000
(Salaries & Benefits)

Indirect Cost Rate = 10%

Types of Indirect Costs Rates

Billing Rate	Rate stated in the award to allow recovery of indirect costs until an indirect cost proposal is completed and submitted.
Provisional rate	Temporary indirect cost rate used for funding, interim reimbursement, and reporting indirect costs on awards
Final rate	Based on the actual costs and not subject to adjustment.
Predetermined Rate	Negotiated rate for a specified time period not subject to adjustment.
Fixed Rates with carry-forward	Permanent rate used for budgeting, obligations, and payment of funds by awarding agencies based on actual costs adjusted for the difference between fixed and actual for any over or under recovery. Not common to nonprofits

Indirect Cost Allocation Basis

Most Common Allocation Basis:

1. Direct salaries and wages including (or excluding) all fringe benefits.
2. Direct salaries and wages including vacation, holiday, sick pay, and other paid absences but excluding all other fringe benefits.
3. Modified total direct costs ("MTDC") consisting of salaries and wages, fringe benefits, materials and supplies, services, travel, and sub-awards up to \$25,000 each or all sub-awards.

Selection of allocation method should be based upon the commonality of costs to all cost objectives and is subject to negotiations by agency.



Methods to Compute Indirect Cost Rates

Three basic methods:

- Simplified,
- Multiple Rate, and
- Direct Allocation methods (Cost Allocation Plans)

Simplified Method

Single Rate

Computation:

Total Indirect Costs (Pool)

 = Indirect Cost Rate

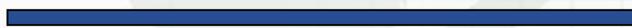
Total Direct Costs (Base)

(continued)

Multiple Rate Method

Fringe Benefit Rate Computation:

Total Fringe Benefits (Pool)



Fringe Benefit Rate

Total Labor (Direct & Indirect)

less Fringe Benefits (Base)

Indirect Cost Rate Computation:

Total Overhead and G&A Costs (Pool)



Indirect Cost Rate

Total Direct Costs (Base)

(continued)

Direct Allocation Method

STEP 1 - Do Statement...				Federal Programs				Non-Federal Programs			
Budget Category	Total Costs	Less: Direct Exclusions and Indirect Unallowables Costs	Indirect Costs (3)	Modified Total Direct Costs (MTDCs)	Total Federal Programs	Dept. of Labor	Dept. of HHS	Dept. of Education	Total Non-Federal Programs	Private Foundation	Fund-raising
	A = B+C+D	B	C	D = E+F	E				F		
Salaries	\$1,314,000		\$373,250	\$940,750	\$766,750	\$398,750	\$163,250	\$204,750	\$174,000	\$168,000	\$6,000
Fringe Benefits (30.73%)	403,746		114,686	289,060	235,596	122,522	50,161	62,913	53,464	51,620	1,844
Total Personnel Costs	1,717,746		487,936	1,229,810	1,002,346	521,272	213,411	267,663	227,464	219,620	7,844
Consultant Services	26,000		14,000	12,000	10,300	7,000		3,300	1,700	1,700	
Staff Travel	94,000		20,000	74,000	67,300	28,100	12,600	26,600	6,700	6,700	
Bad Debts	10,000	10,000 (1)									
Office Rent	170,000		32,000	138,000	113,200	46,900	27,600	38,700	24,800	22,000	2,800
Consumable Supplies	161,000		11,000	150,000	132,000	36,000	43,500	52,500	18,000	18,000	
Subcontracts	175,000	107,000 (2)		68,000	50,000			50,000	18,000	18,000	
Purchase, Lease of Equipment	82,000	22,100 (2)	10,700	49,200	39,900	16,700	8,400	14,800	9,300	9,300	
Telephone	109,400		18,600	90,800	73,600	30,900	15,400	27,300	17,200	13,600	3,600
Entertainment	1,800	1,800 (1)									
Printing and Reproduction	45,800		11,000	34,800	32,100	11,800	4,800	15,500	2,700	1,900	800
Insurance and Bonding	41,800		8,400	33,400	29,200	9,100	8,700	11,400	4,200	4,200	
Postage and Delivery	35,500		5,100	30,400	24,500	12,100	4,900	7,500	5,900	2,400	3,500
Depreciation	29,700		8,800	20,900	20,000	10,000	10,000		900	900	
Emergency Assistance	54,000	54,000 (2)									
Training Materials	82,000			82,000	76,300	36,100		40,200	5,700	5,700	
Participant Support Costs	184,000	184,000 (2)									
Total Non-Personnel Costs	1,302,000	378,900	139,600	783,500	668,400	244,700	135,900	287,800	115,100	104,400	10,700
TOTAL	\$3,019,746 (4)	\$378,900	\$627,536	\$2,013,310	\$1,670,746	\$765,972	\$349,311	\$555,463	\$342,564	\$324,020	\$18,544

STEP 2 - Rate Calculation...		STEP 3 - Distribution to the Cost Centers										
<u>Indirect Cost Rate Calculation</u>		<u>Distribution of Indirect Costs (ICs) - (5)</u>										
Indirect Costs	\$627,536	<u>Method A (6)</u>		Allocation Base				Total				
Method A - Total Direct Salaries & Benefits	1,229,810			1,002,346	521,272	213,411	267,663	227,464	219,620	7,844	1,229,810	
Indirect Rate	51.03%			Times Indirect Rate	51.03%	51.03%	51.03%	51.03%	51.03%	51.03%		
				Equals Allocable Share of ICs	\$511,468	\$265,990	\$108,897	\$136,581	\$116,068	\$112,066	\$4,003	627,536
Indirect Costs	\$627,536	<u>Method B (6)</u>		Allocation Base				Total				
Method B - MTDCs	\$2,013,310			1,670,746	\$765,972	\$349,311	\$555,463	342,564	\$324,020	\$18,544	2,013,310	
Indirect Rate	31.17%			Times Indirect Rate	31.17%	31.17%	31.17%	31.17%	31.17%	31.17%		
				Equals Allocable Share of ICs	\$520,761	\$238,749	\$108,878	\$173,134	\$106,775	\$100,995	\$5,780	627,536
				Difference between A & B (A-B)**	(\$9,293)	\$27,241	\$19	(\$36,554)	\$9,293	\$11,071	(\$1,777)	

(1) and (2) - Refer to notes of Exhibit E for explanations.

(3) This column must be split to show multiple rate structures (G&A, onsite, offsite, if applicable).

(4) Must reconcile to the Financial Statements.

(5) Is the result of multiplying the indirect rate times the allocation base for each cost center.

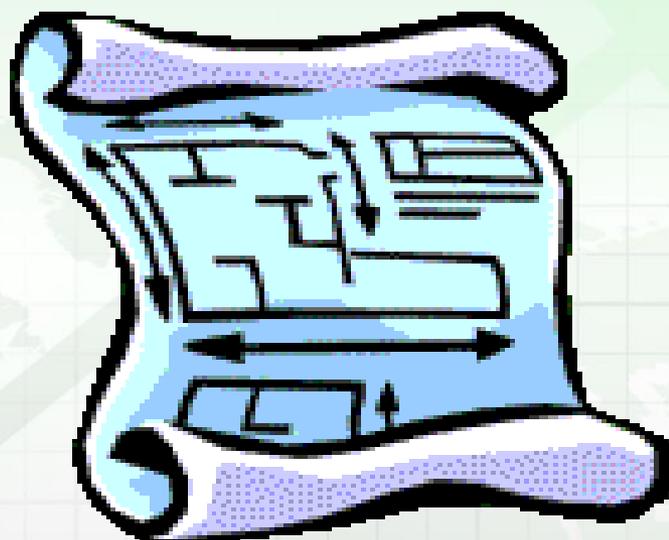
(6) For example purposes only. Other allocation methods may be proposed as long as it provides and equitable and rational distribution of indirect costs. Contact DCD for more details.

Note: The costs included in this exhibit are for illustrative purposes only.

(continued)

Common Indirect Cost Problems

- Inadequate timekeeping systems (Personnel Activity Reports)
- Inconsistent treatment and specific identification of costs
- Failure to exclude costs of "Unallowable Activities"
- Failure to offset credits
- Unacceptable indirect cost allocation base
- Failure to exclude expressly unallowable costs
- Failure to eliminate or value inter-organizational transfers and related-party transactions
- Budget limitations unsupported



COST ALLOCATION PLAN



What is a Cost Allocation Plan?

A document that identifies and explains, the distribution of allowable direct and indirect costs, and declares the allocation methods used for distribution.

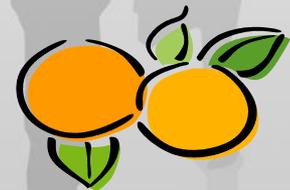
States, local governments, and public assistance programs are the only entities that can submit a cost allocation plan and it must be approved in the same manner as an indirect rate.



Cost Allocation vs Cost Reimbursement

TWO SEPARATE CONCEPTS

- Cost allocation is the measurement of allowable costs that are then allocated based on benefits received by each program/agency.
- The cost principles provide the guidance for determining a Federal program's share of both direct and indirect costs. They have no authority over the actual payment of the costs. The payment is governed by the terms of the grant document or the legislation authorizing the program.
- Cost reimbursement is the process where Federal dollars are used to reimburse grantee organizations for allowable costs.
- Use grant language/cost limitations and legislative constraints as guidelines in the payment process.



Methods of Computation

Any method of distribution can be used if it results in an equitable distribution of costs based on “**benefits received**”.

Simplified

- Federal awards are not material
- Organization has only a single function
- All programs benefit from indirect costs to about the same degree

Multiple Allocation

- All programs do not benefit to the same degree
- Preferred method for state, local government agencies
- Indirect costs are pooled and allocated to direct cost objectives based on various distribution bases

Direct Allocation

- All costs are charged directly to programs to except for general administration
- Preferred method used by a majority of nonprofit organizations
- Various bases are selected to “directly allocate” costs to programs (for example, space allocated based on square footage occupied)

Allocation versus Classification

- Allocation involves assigning costs to the benefiting objective(s) equitably. This process is covered by Subpart E.
- Classification of costs involves placing costs into some category such as administration, program, or some other category as prescribed by statute.

Direct vs. Indirect Costs

- The decision to treat a cost as either a direct cost or an indirect costs depends upon the treatment of that cost within the grantee's accounting system.
- Cost Policy Statements (CPS) provide documentation on how the grantee treats costs within the accounting system.

IMPLEMENTING THE 10% DE MINIMIS RATE



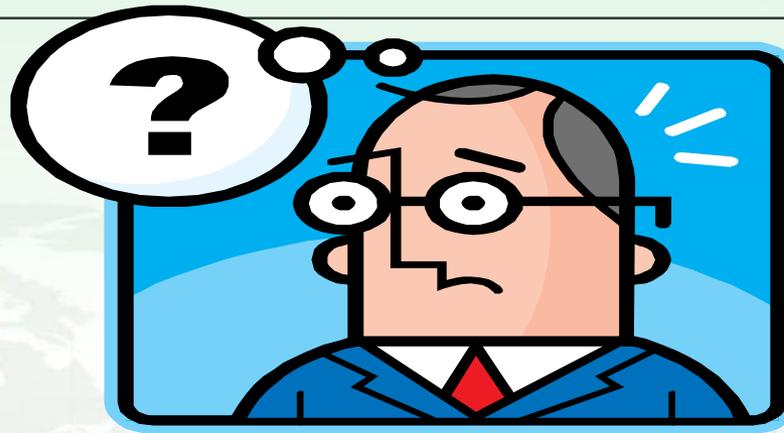
Criteria for Electing 10% MTDC Rate

§200.414 (f) - Any non-Federal entity (except as described in Appendix VII of Omni Circular) may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC)

- Never received a negotiated indirect cost rate
- Rate must be used indefinitely
- Must comply with §200.403 Factors affecting allowability of costs
- Once elected must be used consistently for all Federal awards until such time as a non-Federal entity chooses to negotiate for a rate

OHC's Implementation of 10% Rate

- Establish submission requirements for electing the rate
- Require grantee to certify to compliance with OMB Omni, Subpart D, §200.302 Financial management which includes having an adequate accounting system
- Obtain the required certifications pursuant to Subpart E, §200.415 Required certifications
- Modify financial and administrative review procedures to include the rate computation
- Train HUD staff on how to review indirect cost rate submissions



FREQUENTLY ASKED QUESTIONS



Frequently Asked Questions

Question

“What do we do if some grants/contracts do not provide for any indirect costs or provide for indirect cost rates that are lower than those established, provisional or final?”

Answer

All indirect costs, using the approved rate, must be allocated to all grants/contracts regardless of any restrictions or funding limitations. Any allocable indirect costs that exceed any administrative or statutory restrictions on a specific Federal grant/contract may not be shifted to other Federal grants/contracts, unless specifically authorized by legislation. Non-Federal revenue sources must be used to pay for these unrecovered costs.

Frequently Asked Questions

Question

What agency approves and negotiates a grantees indirect rate(s)?

Answer

Uniform OMB Circular effective December 31, 2014, Appendix IV to §Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations, Section C(2), Negotiation and Approval of Rates, it states “a. Unless different arrangements are agreed to by the Federal agencies concerned, the Federal agency with the largest dollar value of Federal awards with an organization will be designated as the cognizant agency for indirect costs for the negotiation and approval of the indirect cost rates and, where necessary, other rates such as fringe benefit and computer charge-out rates. Once an agency is assigned cognizance for a particular nonprofit organization, the assignment will not be changed unless there is a shift in the dollar volume of the Federal awards to the organization for at least three years.” Accordingly, the Federal agency which your organization has the largest dollar value of Federal Awards should negotiate your rate.

Frequently Asked Questions

Question

Does HUD negotiate Indirect Cost Rates?

Answer

HUD has an agreement with the Department of Health & Human Services (HHS) under which HHS will review indirect cost proposals on HUD's behalf when approval of the indirect rate is required and HUD is the cognizant agency for indirect costs. However, there is a large backlog.

Question

What steps do I need to take to get a Negotiated Indirect Cost Rate Agreement (NICRA)?

Answer

You should notify the HUD point of contact assigned to your agency of your agency's interest on obtaining a NICRA.

Frequently Asked Questions

Question

If we accept the de minimis rate under this grant, would we now have to accept this rate for all other Federal awards that pass through our state agency?

Answer

YES. UNIFORM OMB OMNI CIRCULAR, PART §200.414 INDIRECT (F&A) COSTS.

“...., may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. As described in §200.403 Factors affecting allowability of costs, costs must be consistently charged as either indirect or direct costs, but may not be double charged or inconsistently charged as both. If chosen, this methodology once elected must be used consistently for all Federal awards until such time as a non-Federal entity chooses to negotiate for a rate, which the non-Federal entity may apply to do at any time.

Frequently Asked Questions

Question

Can grantees charge insurance, equipment or similar costs as a direct cost?

Answer

Generally insurance or similar costs are treated as an indirect expense because they benefit more than one cost objective (grant/contract). However §200.412: Classification of costs, of the Uniform OMB Circular states that: "There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards. Guidelines for determining direct and indirect (F&A) costs charged to Federal awards are provided in this subpart."

Frequently Asked Questions

Question

Can the amount of sub awards be included in the Modified Total Direct Cost (MTDC) base?

Answer

Uniform OMB Circular §200.68, Modified Total Direct Cost (MTDC), states “MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each sub award (regardless of the period of performance of the sub awards under the award).



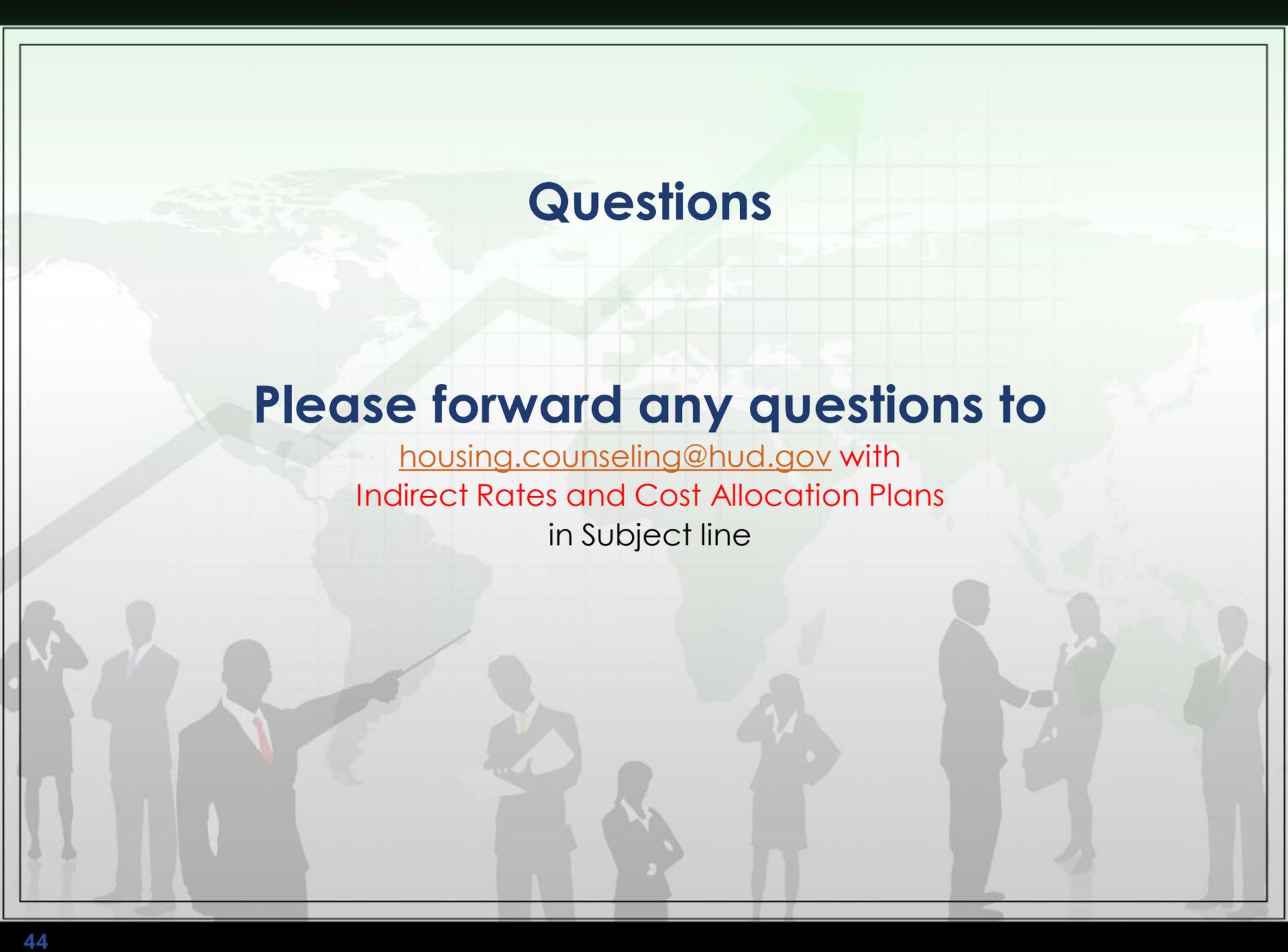
Frequently Asked Questions

Question

Can sub-grantees elect to use the 10% de Minimis rate? If so, does the pass-through agency have to accept the de Minimis rate?

Answer

Uniform OMB Circular §200.331, Requirements for pass-through entities, paragraph (4) states that for a pass-through entity to claim indirect costs they must have...." (4) An approved federally recognized indirect cost rate negotiated between the sub recipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the sub recipient (in compliance with this part), or a de Minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f)". Accordingly the sub-recipient can elect the 10% de Minimis rate and the pass-through must accept it.



Questions

Please forward any questions to

housing.counseling@hud.gov with
Indirect Rates and Cost Allocation Plans
in Subject line

THANK YOU

