Indirect Costs Decoded

A Webinar for CSP Grantees

April 29, 2020  |  Virtual Presentation

carterschoolcenter.ed.gov
About the NCSRC

National Charter School Resource Center (NCSRC) provides technical assistance to Federal grantees and resources supporting charter sector stakeholders. NCSRC is funded by the U.S. Department of Education (ED) and managed by Manhattan Strategy Group in partnership with WestEd.
Agenda

1. Session Overview
2. Cognizant Agencies
3. Allowability of Costs
4. Direct Costs vs. Indirect Costs
5. Indirect Costs in Practice
6. Processes for Establishing Indirect Costs
7. Doing the Math
8. Additional Resources
Session Objectives

You will leave this session with a better understanding of...

- The role of the U.S. Department of Education and grantees in establishing Indirect Cost rates,
- The difference between Indirect and Direct Costs,
- How Indirect Costs relate to your grant, and
- Where to go for help with Indirect Costs.
On the Call Today

• Kathryn Meeley, Group Leader, Charter School Programs, Department of Education
• Andre Hylton, Director, Indirect Cost Division, Department of Education
• Courtney Leigh Beisel, National Charter School Resource Center
Keep an Eye Out for Nuggets!
Attendee Poll

Never have I ever...

...negotiated an Indirect Cost Rate.
Cognizant Agencies
What is a Cognizant Agency?

- Federal agency that provides the largest dollar amount of direct Federal awards
- The cognizant agency changes if another Federal agency provides the largest amount of direct Federal awards or the Federal funds are provided by a pass-through agency (e.g., For State Entity [SE] subgrantees, the cognizant agency is often State Education Agencies [SEAs]).
- Nonprofit Organizations – Three consecutive years
- States and Local Government Entities – Five consecutive years
- Exceptions:
  - Institutions of Higher Education (Dept. Health and Human Services and Dept. of Defense’s Office of Naval Research)
  - Indian Tribal Governments (Dept. of Interior)
  - Again, if sub-recipient entity does not have direct Federal awards, then the pass-through entity is the cognizant agency for Indirect Costs.
Who’s Responsible for What in Establishing Indirect Cost Rate?

**Entity**

Submit Indirect Cost Rate Proposal or Cost Allocation Plans for review, negotiation, and approval (within six months of the end of the entity’s fiscal year)

**Cognizant Agency**

Review, negotiate, and approve Indirect Cost Rate Proposal and Cost Allocation Plans on behalf of all Federal government agencies
For Grantees Determining Their Own Indirect Rate

1. Grantee receives direct Federal award.
2. Grantee submits their Indirect Cost Rate Proposal to the Department within the time period stated in the award terms and conditions.
3. The Department reviews, negotiates, and approves an Indirect Cost Rate Agreement.
SEs as Pass-Through Entity Related to Indirect Costs

SE Grantee receives direct Federal award

SE Grantee subawards* to charter schools

An approved Federally-recognized Indirect Cost Rate exists between the charter school and the Federal Government or SE Grantee.

An approved Federally-recognized Indirect Cost rate does NOT exist.

An Indirect Cost Rate is negotiated between the SE grantee and the charter school (in compliance 2 § C.F.R. 200.331)

A de minimis Indirect Cost Rate is established as defined in §200.414 Indirect (F&A) costs, paragraph (f)

* A subaward is for the purpose of carrying out a portion of a Federal award and creates a Federal assistance relationship with the subrecipient. (2 § C.F.R. 200.330 Subrecipient and contractor determinations)
Allowability of Costs (Direct and Indirect)
Cost Principles

Uniform Guidance (UG) 2 § C.F.R. 200 Subpart E

• Nonprofit, Institutions of Higher Education, State, and Local Government Entities
  • Exception: Appendix VIII Nonprofit Organizations Exempted From Subpart E—Cost Principles of Part 200

Pro Tip: Bookmark the uniform guidance for easy access!

https://www.ecfr.gov/cgi-bin/text-index?SID=6214841a79953f26c5c230d72d6b70a1&tpl=/ecfrbrowse/Title02/cfr200_main_02.tpl
Why Cost Principles Matter...

- If an item of costs is not listed in the Cost Principles, it does not imply the costs are allowable.

- To determine allowability, the treatment of a similar or related items of costs must be assessed.
Allowability of Costs

- A cost is allowable if it is:
  - Necessary and reasonable for performance of the Federal award
  - Consistent with policies and procedures
  - Accorded consistent treatment (either Indirect/Direct)
- Conforms to limitations or exclusions set forth in the principles or Federal award
- Be determined in accordance with GAAP except for State, Local, and Indian
- Not be included as a cost or used to meet cost sharing or matching requirements
- Be adequately documented
  - Uniform Guidance 2 §C.F.R. 200.403 “Factors Affecting Allowability of Costs”
PULSE CHECK

Are you following the presentation thus far?

Yes? No?

Have questions? Type them in the questions box.
Direct Costs Vs. Indirect Costs
Characteristics of Direct Administrative Costs

**Salaries, benefits, and other expenses from the recipient’s staff**

- Managing overall program, program coordination, and office functions, including the salaries of the executive director, project director, and/or project evaluator
- Preparing program plans, school curriculum, and requests for applications
- Monitoring subgrants or school’s progress and spending
- Developing systems and procedures, for assuring compliance with program requirements
- Preparing annual performance reports and participating in quarterly check ins
- Evaluating program results against stated objectives
Characteristics of Direct Administrative Costs (continued)

Examples of non-labor costs for direct administration include the following:

• Costs for goods and services required for the administration of the program, including the rental or purchase of equipment, utilities, office supplies, and postage, and the rental and maintenance of office space

• Travel costs incurred for official business in carrying out program management, such as the Project Directors’ Meeting
What is the most commonly asked question by grantees about Direct Costs and what guidance do you provide?
Methods for Allocation of Costs

Simplified Allocation Method

- Federal awards < $10 million
- Major functions benefit from its Indirect Costs to approximately the same degree
- Allocation of Indirect Costs equitable distribution base

Direct Allocation Method

- Federal awards > $10 million
- Major functions benefit from its Indirect Costs in varying degrees
- Joint costs are prorated using an allocation basis that accurately measures the benefits provided to each Federal award or other activity
Direct Allocation Method Joint Costs Distribution Basis

- **Accounting** - Number of transactions processed
- **Auditing** - Direct audit hours
- **Budgeting** - Direct hours of identifiable services of employees of central budget
- **Building lease management** - Number of leases
- **Data processing** - System usage
- **Disbursing service** - Number of checks or warrants issued
- **Employees retirement system administration** - Number of employees contributing
- **Insurance management service** - Dollar value of insurance premiums
- **Legal services** - Direct hours
- **Mail and messenger** - Number of documents handled or service employees served
- **Motor pool costs including automotive management** - Miles driven and/or days used

- **Office machines and equipment maintenance repairs** - Direct hours
- **Office space use and related costs (heat, light, janitor service, etc.)** - Sq. ft. of space occupied
- **Organization and management services** - Number of employees
- **Payroll services** - Number of employees
- **Personnel administration** - Number of employees
- **Printing and reproduction** - Direct hours, job basis, pages printed, etc.
- **Procurement service** - Number of transactions processed
- **Local telephone** - Number of telephone instruments
- **Health services** - Number of employees
- **Fidelity bonding program** - Employees subject to bond or penalty amounts
Knowledge Check #1

What is an Indirect Cost?

A.) A cost that has been incurred for a specific objective.
B.) A cost that has been incurred for a common or joint purpose.
C.) A cost that is unrelated to an objective of the grant.
D.) A cost that is indirectly related to an objective of the grant.

UG (2 § C.F.R. 200.56)
Indirect Cost Examples

There are no all-inclusive lists of Indirect Costs. Depending on the prevailing circumstances, any costs may be either Indirect or Direct. The list below provides costs that are typically Indirect:

- General administrative labor
- General fringe benefits associated with administrative employees
- General professional services
- General training
- General travel
- General legal expenses
- General accounting expenses
- General office expenses and supplies
- General postage/express mail
- General printing/stationary
- General occupancy expense
- General utilities
- General telephone services
Why is this important?

Double Dipping

Direct Costs

Indirect Costs
STILL HANGING IN THERE?

Are you following the presentation thus far?

Yes? No?

Have questions? Type them in the questions box.
Putting Indirect Costs into Practice
Indirect Cost Rate Agreement

Base Description(s)
• Provides stakeholders with definitions of allowable costs within the base.

Capitalization Threshold
• Provides the entity’s threshold for capital assets.

Signatures
• The signatures of the authorized officials from the Federal Government and the entity.
Indirect Cost Rate Agreement Components

Indirect Cost Rate(s)
• The approved Indirect Cost Rate percentage associated with the entity’s fiscal year(s).

Rate Type(s)
• Provisional/Final, Fixed with Carryforward, and Predetermined

Fiscal Year(s)
• The entity’s accounting period to which the rate is applicable.
Rate Types

Provisional Rate
A temporary Indirect Cost Rate applicable to a specified period, which is used for funding, interim reimbursement, and reporting Indirect Costs on Federal awards pending the establishment of a “final rate” for that period.

Final Rate
An Indirect Cost Rate applicable to a specified past period, which is based on the actual allowable costs of the period; a final rate is not subject to adjustment.

Fixed Rate with Carryforward
An Indirect Cost Rate calculated similarly to a predetermined rate which calculates the difference between the estimated costs and the actual costs of the period; the calculated difference is carried forward as an adjustment to the Indirect Cost Rate computation of a subsequent period.

Pre-Determined Rate
An Indirect Cost Rate applicable to a specified current or future period, usually the governmental unit’s fiscal year; based on an estimate of the costs to be incurred during the period; because of legal constraints, predetermined rates are not permitted for Federal contracts; they may, however, be used for the grants or cooperative agreements.
Applicable to Program Type

- Unrestricted rate - regular rate
  2 C.F.R. 200
- Restricted rate - statutory supplement not supplant
  34 § C.F.R. 76.563 – 76.569
- Training rate - typically has a ceiling limitation of eight percent
  34 § C.F.R. 75.562

CSP is an unrestricted program.
Indirect Cost Rate Evaluation

The allowable base:
- The costs of the Indirect Cost Rate will be applied to Indirect Cost recovery (Allowable base * Indirect Cost Rate).

The “allowable base” is the key to the Indirect Cost rate.
- The allowable base is the culmination of the costs that comply with the Uniform Guidance allowability standards
- The larger the base, the lower the Indirect Cost Rate.
- The Indirect Costs recovered for the same entity may be the same with different Indirect Cost Rates due to the base type.
Base Types

• Modified Total Direct Costs (MTDC)
• Direct Salaries and Wages (SW)
• Direct Salaries, Wages, and Fringe Benefits (SWF)
Total Direct Costs, excluding:

- Costs in excess of $25,000 of each subaward
- Equipment
- Capital expenditures
- Patient care
- Tuition remission, scholarships, and fellowships
- Participant support costs
How do you know which base to use?

• If you have a restricted rate, you must use MTDC.
• If you don’t have a restricted rate, you choose your base type.
Processes for Establishing Indirect Costs and Other Guidance
How to Calculate Indirect Cost Rates

Step 1: Determine total Expenditures
Step 2: Identify allowable and excluded costs
Step 3: Determine Direct Costs
Step 4: Determine Indirect Costs
Step 5: Reconcile proposal to financial statements/expenditure reports
Step 6: Select distribution base
Step 7: Compute Indirect Cost Rate
Step 8: Complete Indirect Cost Rate Proposal and documentation check list
## Significant Indirect Cost Rate Proposal Documentation

<table>
<thead>
<tr>
<th>Exhibit</th>
<th>Description</th>
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<tbody>
<tr>
<td>A</td>
<td>Personnel Cost Worksheet</td>
</tr>
<tr>
<td>B</td>
<td>Allocation of Personnel Worksheet</td>
</tr>
<tr>
<td>B-1</td>
<td>Time Distribution Report</td>
</tr>
<tr>
<td>C</td>
<td>Statement of Employee Benefits</td>
</tr>
<tr>
<td>D or E</td>
<td>Statement of Total Costs, Indirect Cost Rate Calculation, and Distribution of Indirect Costs</td>
</tr>
<tr>
<td>E-1</td>
<td>Supplemental Statement of Total Costs (Required for nonprofit organizations receiving $10 million or more annually in direct Federal awards)</td>
</tr>
<tr>
<td>F</td>
<td>Cost Policy Statement</td>
</tr>
<tr>
<td>G</td>
<td>Certificate of Indirect Costs (Nonprofit organizations)</td>
</tr>
<tr>
<td>G-1</td>
<td>Certificate of Indirect Costs (Commercial organizations)</td>
</tr>
<tr>
<td>H</td>
<td>Listing of Federal Grants and Contracts</td>
</tr>
</tbody>
</table>
Indirect Cost Proposal Preparation

Submit Proposal to Cognizant Agency

• Nonprofit proposals are prepared in accordance with *A Guide for Indirect Costs Determination (Labor Guide)*

• Audited Financial Statements should be submitted, or if not audited, compiled or reviewed financial statements, or IRS Form 990
A Certificate of Indirect Costs

An entity’s authorized representative is required to sign and submit a certification that declares:

• Costs are allowable
• Unallowable costs are classified correctly
• Costs are allocable to Federal awards based on beneficial or casual relationship
• Authorized representatives are typically the Chief Executive Officer or one level of management below (e.g., CFO)
Sample Indirect Cost Rate Agreement

Organization:
Fake Department of Education
75 Faken Street
Fakton, FK 12834-0964

Date: June 24, 2019
Agreement No: 2019-092
Filing Reference: This replaces previous Agreement No. 2018-096 Dated: 7/12/2018

The approved Indirect Cost Rates herein are for use on grants, contracts, and other agreements with the Federal Government. The rates are subject to the conditions included in Section II of this Agreement and regulations issued by the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards under 2 CFR 200.

Section I - Rates and Bases

<table>
<thead>
<tr>
<th>Type</th>
<th>From</th>
<th>To</th>
<th>Rate</th>
<th>Base</th>
<th>Applicable to</th>
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<tr>
<td>Fixed</td>
<td>7/1/2018</td>
<td>6/30/2019</td>
<td>26.6%</td>
<td>MTDC</td>
<td>Unrestricted</td>
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<tr>
<td>Fixed</td>
<td>7/1/2018</td>
<td>6/30/2019</td>
<td>12.5%</td>
<td>MTDC</td>
<td>Restricted</td>
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<tr>
<td>Fixed</td>
<td>7/1/2018</td>
<td>6/30/2019</td>
<td>24.4%</td>
<td>MTDC</td>
<td>Unrestricted</td>
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<tr>
<td>Fixed</td>
<td>7/1/2018</td>
<td>6/30/2019</td>
<td>11.1%</td>
<td>MTDC</td>
<td>Restricted</td>
</tr>
</tbody>
</table>

Distribution Base:

Modified Total Direct Cost and

Total Direct Costs excluding equipment, capital expenditures, participant support costs, pass-through funds, the portion of each subaward (subcontract or subgrant) above $25,000 (each award; each year).
### Applicable To:

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
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<tbody>
<tr>
<td>Unrestricted</td>
<td>Unrestricted rates apply to programs that do not require a restricted rate per 34 CPR 75.563 and 34 CFR 76.563.</td>
</tr>
<tr>
<td>Restricted</td>
<td>Restricted rates apply to programs that require a restricted rate per 34 CFR 75.563 and 34 CFR 76.563.</td>
</tr>
</tbody>
</table>

### Treatment of Fringe Benefits:

Fringe benefits applicable to direct salaries and wages are treated as Direct Costs. Pursuant to 2 CFR 200.431, (b), (3), Paragraph (i), unused leave costs for all employees are allowable in the year of payment. The treatment of unused leave costs should be allocated as an Indirect Cost except for those employee salaries designated as a direct cost for the restricted rate calculation.

### Capitalization Policy:

Items of equipment are capitalized and depreciated if the initial acquisition cost is equal to or greater than $1,000.
Section II Particulars

Limitations: Application of the rates contained in this Agreement is subject to all statutory or administrative limitations on the use of funds, and payments of costs hereunder are subject to the availability of appropriations applicable to a given grant or contract. Acceptance of the rates agreed to herein is predicated on the following conditions: (A) that no costs other than those incurred by the Organization were included in the Indirect Cost pools as finally accepted, and that such costs are legal obligations of the Organization and allowable under the governing cost principles; (B) the same costs that have been treated as Indirect Costs are not claimed as Direct Costs; (C) that similar types of information which are provided by the Organization, and which were used as a basis for acceptance of rates agreed to herein, are not subsequently found to be materially incomplete or inaccurate; and (D) that similar types of costs have been accorded consistent accounting treatment.

Accounting Changes: The rates contained in this agreement are based on the organizational structure and the accounting systems in effect at the time the proposal was submitted. Changes in organizational structure or changes in the method of accounting for costs which affect the amount of reimbursement resulting from use of the rates in this agreement, require the prior approval of the responsible negotiation agency. Failure to obtain such approval may result in subsequent audit disallowance.
Provisional/Final/Predetermined Rates: A proposal to establish a final rate must be submitted. The awarding office should be notified if the final rate is different from the provisional rate so that appropriate adjustments to billings and charges may be made. Predetermined rates are not subject to adjustment.

Fixed Rate: The negotiated fixed rate is based on an estimate of the costs that will be incurred during the period to which the rate applies. When the actual costs for such period have been determined, an adjustment will be made to a subsequent rate calculation to compensate for the difference between the costs used to establish the fixed rate and the actual costs.

Notification to Other Federal Agencies: Copies of this document may be provided to other Federal agencies as a means of notifying them of the agreement contained herein.

Audit: All costs (Direct and Indirect, Federal and non-Federal) are subject to audit. Adjustments to amounts resulting from audit of the cost allocation plan or Indirect Cost Rate proposal upon which the negotiation of this agreement was based may be compensated for in a subsequent negotiation.

Reimbursement Ceilings/ Limitations on Rates: Awards that include ceiling provisions and statutory/ regulatory requirements on Indirect Cost rates or reimbursement amounts are subject to the stipulations in the grant or contract agreements. If a ceiling is higher than the negotiated rate in Section I of this agreement, the negotiated rate will be used to determine the maximum allowable Indirect Cost Rate.
Sample Indirect Cost Rate Agreement – Section III

Section III- Special Remarks

Alternative Reimbursement Methods: If any Federal programs are reimbursing Indirect Cost Rates by a methodology other than the approved rates in this agreement, such costs should be credited to the programs and the approved rates should be used to identify the maximum amount of Indirect Costs allocable.

Submission of Proposals: New Indirect Cost Rate proposals are necessary to obtain approved Indirect Cost rates for future fiscal years. The next Indirect Cost Rate proposal is due six months prior to the expiration dates of the rates in this agreement.
Sample Indirect Cost Rate Agreement – Section IV

Section IV – Approvals

For the Organization:
Fake Department of Education
75 Faken Street
Fakton, FK 12834-0964

Signature
Name
Title
Date

For the Federal Government:
U.S. Department of Education
OFO/OGA/ICD
550 12th Street, SW
Washington, DC 20202-4450

Signature
Name
Title
Date

Negotiator: Negotiating Bob
Telephone Number: (999) 999-9999
The Rule of 10s

Two regulations refer to 10% Indirect Cost Rates

• Temporary rate of 10% of **budgeted direct salaries and wages**
  • Grantee does not have a Federally recognized Indirect Cost Rate agreement **34 C.F.R. § 75.560 (c) General Indirect Cost Rates; exceptions.**

• De minimis rate 10% of **Modified Total Direct Cost**
  • non-Federal entity that has never received a negotiated Indirect Cost Rate **2 C.F.R. § 200.414 (f) may elect to charge**
  • **Exception** grantees that have restricted rate programs may not elect to use the De Minimis Indirect Cost Rate **34 C.F.R. §76.560 General Indirect Cost Rates; exceptions.**
  • The Secretary accepts an Indirect Cost Rate negotiated by a grantee's cognizant agency but may establish a **restricted Indirect Cost Rate for a grantee to satisfy the statutory requirements of certain programs administered by the Department.**
Doing the Math
Knowledge Check #2

Which rate is better?

a. 15.9% Modified Total Direct Cost (MTDC)
b. 19.4% Direct Salary and Wages, including Fringe Benefits (SWF)
c. 23.3% Salary and Wages (SW)
d. The rates are equivalent.
Indirect Cost Rate MTDC

**Organizational Indirect Costs** $350,000

**Direct Costs**
- Salaries and Benefits $1,800,000
- Other Direct Costs $600,000
- Exclusions – Equipment -$50,000
- Exclusions – Subawards -$150,000

**Modified Total Direct Costs** $2,200,000

Indirect Costs: General Accounting
General Utilities
General Human Resources
General Space Costs

$350,000/$2,200,000 = 15.9%
Indirect Cost Rate SWF

Indirect Cost: $350,000
Total Salaries, Wages, and Fringe Benefits: $1,800,000

$350,000 / $1,800,000 = 19.4%
Indirect Cost Rate SW

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<td>Indirect Costs</td>
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<tr>
<td>Total Salaries and Wages</td>
<td>$1,500,000</td>
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\[
\frac{\$350,000}{\$1,500,000} = 23.3\% 
\]
Indirect Cost Recovery

<table>
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<tr>
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<th>Modified Total Direct Costs</th>
<th>Direct Salaries, Wages, and Fringe Benefits</th>
<th>Direct Salaries and Wages</th>
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<tbody>
<tr>
<td>Indirect Cost Pool</td>
<td>$350,000</td>
<td>$350,000</td>
<td>$350,000</td>
</tr>
<tr>
<td>Direct Cost Base</td>
<td>$2,200,000</td>
<td>$1,800,000</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Indirect Cost Rate</td>
<td>15.9%</td>
<td>19.4%</td>
<td>23.3%</td>
</tr>
</tbody>
</table>

The rates are different, but the Indirect Cost recovery remains the same...

Even though the Direct Cost bases are different. The Indirect Cost Pool remains the same. The rates are different because the size of the different cost bases are different.
Helpful Links

Uniform Guidance 2 § C.F.R. 200Subpart E Costs Principles
United States Department of Education Cost Allocation Guide
Pop Quiz!

Which of the following were nuggets presented during this presentation?

a. No double dipping!
b. If an item of costs is not listed in the Cost Principles, it does not imply the costs is allowable.
c. If you have a restricted rate, you must use MTDC.
d. All of the above
Additional Resources

Please submit all questions regarding the material covered during this session in writing to contact-us@charterschoolcenter.org.
Response requested, please!

Help us know if we met our objectives by responding to the survey presented at the conclusion of this event.
How can you contact us?

charterschoolcenter.ed.gov

contact-us@charterschoolcenter.org
THANK YOU