NATALIE METZGER-SMIT: : Hi, everybody. Welcome to the ESG-CV office hours for state recipients. We'll get started in just a minute while folks jump on. All right, hi, everybody. Thank you for joining today's office hours for ESG-CV state recipients. My name is Natalie Metzger-Smit. I'm a technical assistance provider for TAC And today, we are going to be talking about indirect costs. Next slide.

All right, just a few housekeeping and announcements I want to make, today's training is recorded. And a link to the recording, along with a copy of the PowerPoint, will be sent to everybody who joined us today on the call. And then, as always, we do have an archive of the state recipient office hours on the HUD website. And this PowerPoint, materials, chat, Q&A, and the PowerPoint itself will be posted on the HUD website. And that link will be sent out to you, as well, within the next couple of days.

Next slide, today we are honored to have MDG Associates to present us on the indirect costs. We have Tyler Bridges that is going to be presenting, and he has support from Rudy Munoz, David Munoz, and then obviously, myself. Next slide, just want to go over a few announcements. I know many of you are busy and starting to wrap up things before we leave for the Christmas holidays if you are taking vacation. So wanted to let you all know that technical assistance providers are still working really rapidly to get these products out to you on the latest and greatest guidance from vaccine planning and distribution.

Also, new products have recently been published in areas around HMIS, using HMIS to solve complex fund source problems around EHVs, client-informed data collection best practices, introduction to Home-ARP for CoCs, unit acquisition strategies and examples to support housing development, and finally, allocating ESG-CV to support strategies to prevent and respond to COVID. All of these products can be found on the HUD website under the homelessness assistance and diseases web page.

Next slide, and with that, I am going to turn it over to Tyler to kick us off for today's indirect cost training.

TYLER BRIDGES: All right, thank you so much. Welcome, everybody. Very happy to have you here today, and we're going to dive right in. We have a lot to cover today. The training is broken into two parts. So the first part of the training will cover direct versus indirect costs, key terms, indirect cost methods. And then we'll pause for a brief Q&A. It'll be about 10 minutes where we will answer the questions that were submitted via Zoom. And then the second part, we'll cover how to calculate indirect costs, more key terms, and then looking at how indirect costs fit into administration costs and activity delivery costs, followed by one final Q&A.

OK, so the requirements regarding direct and indirect costs are located in the uniform administrative requirements at 2 C.F.R. 200 and, more specifically, the cost principles at 2 C.F.R. 200.414 through 415. And then additional resources will be provided at the end of this training. So first, we'll look at the definition and examples of direct costs and indirect costs. So there's no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the ESG-CV award.

Therefore, it's essential that each item of cost incurred for the same purpose be treated consistently in like circumstances, either as a direct cost or an indirect cost, in order to avoid possible double-charging of federal awards. So direct costs are costs that can be identified specifically with a particular final cost objective. And we'll talk about what a cost objective is in just a moment. This means, when looking at direct costs, that you can tie a string between the cost and the action or outcome.

Indirect costs, on the other hand, are costs incurred for a common, or joint, purpose benefiting more than one cost objective, and are not readily assignable to the cost objectives specifically benefited. So this means that a particular action or outcome is split between more than one funding source, so like your ESG-CV funding source and maybe your regular ESG program, or CDBG, things like that. And again, remember, every cost must be treated as either direct, or indirect, and never both. So let's quickly look at the term cost objective.

A cost objective, and this comes from 2 C.F.R. 200, is a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, and the like. So what we've done here is we've taken some of those key terms, and we're going to break it down into some real application here. So with respect to the ESG-CV award, if a cost benefits a particular ESG-CV funded public service program, then the cost objective in that instance is in fact that public service program.

If the cost, and we're talking about an indirect cost here that's benefiting more than one cost objective, if that particular cost benefits the entire ESG-CV grant, then the final cost objective is all of the activities funded by the ESG-CV grant. And then other cost objectives can also be a particular contract, subrecipient agreement, or a local government's particular department or division. So now that we've defined cost objectives, let's turn back to direct versus indirect costs. Put another way, direct costs are those costs incurred specifically for the ESG-CV award and are not otherwise treated as indirect costs.

So examples of direct costs can include payroll costs incurred to administer the ESG-CV award, costs incurred by grantee's subrecipients performing services solely for the ESG-CV award, the purchase of supplies and equipment used solely for the ESG-CV award, or direct awards to eligible beneficiaries for eligible ESG-CV activities. Now, let's look at indirect cost. So examples of indirect costs include rent and utility costs, accounting and administrative staff costs, internal auditing pools, or excuse me, internal auditing costs or motor pools, and computers and software.

So again, you can begin to see how these types of costs inherently benefit more than just one funding source if your agency has more than one funding source funding your staff operations and the activities that you carry out. Again, a cost may be direct with respect to some specific service or function but indirect with respect to another. So for the ESG-CV program, and this is important, indirect costs are reimbursable as a percentage of direct costs. We will discuss this in more detail in just a moment, but it's important to begin to understand the relationship between direct and indirect costs.

So the following illustrates an example of differentiating direct costs from indirect costs. And so starting from the left to right, we have three examples here. If staff member A is fully dedicated to the ESG-CV award, then 100% of their salary and fringe benefits, such as health care, et cetera, are applicable to the ESG-CV award. And so that's a direct cost. Likewise, if staff member B works on the ESG-CV award and another federal grant, then that employee's costs can be split on a pro-rata basis, using their hours spent per grant documented on their timesheets.

Again, that's a direct cost because you have the direct hours they spent on the ESG-CV award versus the other funding sources. Costs incurred by a grantee's payroll and human resources departments, however, are indirect costs since those departments provide services for all of the grantees employees, or the subrecipient's employees, regardless of their role, function, or funding source. And so those are indirect costs. Those costs are real costs, but they're spread across the entire subrecipient, or grantee, entity.

And they're not readily assignable just to the ESG-CV award or any other particular funding source. OK, so now let's test your knowledge. Using the table, identify whether or not each example cost in the left column is a direct cost or an indirect cost. We'll give you just a moment here to read it over, and then we'll go over the answers on the next slide, so maybe 30 seconds.

OK, so here's the answers. How did you do? Let's go through these together. Payroll costs incurred to administer the ESG-CV award are direct costs since the costs are directly and solely attributable to the ESG-CV award. The same is true for the purchase of supplies and equipment used solely for the ESG-CV award and direct awards to eligible ESG-CV beneficiaries for eligible ESG-CV activities. Rent and utility costs and accounting and administrative staff costs are indirect costs since these costs are not directly attributable to the ESG-CV award, but rather are attributable to multiple funding sources.

Finally, computers and software can be a direct cost if solely used for the ESG-CV award, or indirect if used to perform tasks or services for multiple funding sources. So just, again, remember, every cost must be treated as a direct cost, or an indirect cost, but never both. OK, so now that we better understand the definition of, and difference between, direct and indirect costs, let's now look at indirect cost methods. For an ESG-CV grantee or subrecipient to charge indirect costs to an award, one of three indirect cost methods must be followed.

The three methods are the 10% de minimis rate, a negotiated indirect cost rate, or a cost allocation plan. First, we will look at the de minimis rate. Grantees and subrecipients may elect to charge a de minimis rate of 10% of modified total direct costs, or MTDCs, which may be used indefinitely. And this is the easiest method to use. If chosen, this methodology, once elected, must be used consistently for all federal awards until the grantee or subrecipient chooses to negotiate for an indirect rate.

Finally, no documentation is required to justify or support the use of the 10% de minimis rate. So you don't have to provide supporting documentation showing that it did, in fact, cost 10%. It's just a flat, easy-to-use 10% rate. Next, let's look at cost allocation plans, which are limited to states, local governments, and Indian tribes and cannot be used by non-profit organizations. Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, and the like to operate agencies on a centralized basis.

So again, we talked about human resources or payroll, for example, that serves the entire agency or government unit. Since federally supported awards, like the ESG-CV program, are performed within the individual operating agencies, cost allocation plans provide the process whereby these central service costs can be identified and assigned to benefiting activities on a reasonable and consistent basis. So what is a cost allocation plan? A cost allocation plan is an accounting report that calculates agency-wide indirect costs to departments and grants that receive services from other departments.

It is also a document that identifies and explains the distribution of allowable direct and indirect costs and declares the allocation methods used for distribution. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records. The third method, negotiated indirect cost rates, are like cost allocation plans, but instead represent the indirect costs originating in each department or agency of the governmental unit carrying out federal awards, as opposed to central governmental services.

Unlike cost allocation plans, they can also be used by non-profits. A separate indirect cost rate is usually necessary for each department or agency claiming indirect costs under federal awards. Grantees and subrecipients wishing to claim indirect costs under federal awards must prepare an indirect cost rate proposal to support those costs. The indirect cost rate proposal is used to calculate the rate, which is expressed as a percentage, that can be applied to a program or grant to determine the amount that can be recovered and to justify the establishment of the indirect cost rate.

So now taking a step back and looking at all three methods again, the following thresholds are important for establishing when each of the three methods are required or not allowed to be used. So with respect to cost allocation plans, each local government receiving $100 million or more in direct federal funding is required to submit a cost allocation plan to its cognizant agency for indirect costs on an annual basis. We will discuss what a cognizant agency is in just a moment. Agencies that receive $35 million or more and direct federal funding must submit an indirect cost rate proposal to their cognizant agency for indirect costs.

And finally, agencies that receive, again, $35 million or more in direct federal funding may not use the 10% de minimis rate. So if you fall over that $100 million threshold, and you are a government agency, but not a non-profit, then you must submit a cost allocation plan. You cannot use the de minimis or the other method. And agencies that receive $35 million or more must submit an indirect cost rate proposal and cannot use de minimis. So only those agencies that receive $35 million or less in direct federal funding are allowed to use the minimis rate, and only if they do not have a current and effective negotiated rate through one of the other two methods.

OK, so what is the cognizant agency? A cognizant agency is the federal agency responsible for reviewing, negotiating, and approving cost allocation plans and indirect cost rate proposals. All negotiated rates must be approved by the grantee's cognizant agency. A grantee's cognizant agency is the federal agency that awards the most funds to the grantee, and if awards provided by HUD represent the largest amount of funds awarded by federal agencies, the grantee should submit their proposed indirect rates to their CPD representative.

OK, so subrecipient agreements, each recipient agreement must include requirements and provisions for charging indirect costs, including the indirect cost rate. Grantees should require some recipients to first submit supporting documentation for one of the three methods prior to executing a subrecipient agreement and requesting reimbursement for indirect costs. Before we conclude our discussion on indirect costs, just remember the following. Grantees and subrecipients that are able to allocate and charge 100% of their costs directly may do so.

And claiming reimbursement for indirect costs is never mandatory. Further, grantees cannot require subrecipients to use one method over another or prohibit the reimbursement of indirect costs. So the following illustrates the point that grantees cannot require subrecipients to use one indirect cost method over another. This is because grantees and recipients alike must select one method and use that method uniformly across all federal awards. So if a subrecipient receives federal funding from two different agencies, and those agencies each utilize a different indirect cost method, both agencies cannot require the subrecipient to utilize their preferred method without violating the requirement that one method be used consistently for all federal awards.

The illustration simply shows that it doesn't matter which method each grantee's subrecipient and sub-tier subrecipients use, so long as they select one method and use it consistently across all federal awards. OK, before we get to Q&A, just some key takeaways. This wraps up the first part of today's training, and we are definitely ahead of schedule so we'll have more time for Q&A in just a moment. But the following are some questions, or key takeaways, for grantees to consider. First, are any of our subrecipients, so if we're the grantee, are any of our subrecipients seeking reimbursement for indirect costs?

And if so, which indirect cost method does each of our subrecipients use? And finally, what is each subrecipient's indirect cost rate? OK, now I'll pause. Before we move to the second part of our training, we'll take some questions.

DAVID MUNOZ: All right, Tyler, so we've got a couple of questions in. I'm going to reword them a little bit so that it's more applicable to everyone, versus specific conditions. First question, is rent permitted as an indirect cost, and if so, under what conditions?

TYLER BRIDGES: Great question, so rent is an indirect cost in most instances. And so it is permitted for reimbursement under the ESG-CV grant. So if we were going back to the discussion that we just had, rent, typically for a government unit, if you're leasing an office building, and you've got a community development department, and the mayor's office, and the planning department, whatever it is, obviously, the government is receiving multiple funding sources. And so in that instance, rent is often an indirect cost because it's rent for the entire building.

It's not necessarily rent for just the ESG-CV award for those two couple of years that you received that funding source. So in that instance, it is an indirect cost. There are instances, and these are rare, where rents can be a direct cost. And that would only be in an instance where the ESG-CV funding source was the sole funding source for that space rent for that particular period of time. So if, for example, a particular public facility were rented for just ESG-CV services by a subrecipient for just that award, no other funding sources, either there was a one for one relationship between the cost of the rent and that sole funding source, then you would be able to call that a direct cost.

But again, that's rare. Almost always, rent is treated as an indirect cost.

DAVID MUNOZ: Thank you, and for those of you who have submitted questions, we're trying to address all of the questions. So I think when Tyler responds to the specific question that I brought up, it's probably going to answer two or three of the questions, even though they're worded slightly different. Next question, if a computer is purchased specifically for the ESG-CV program, or project, but it is anticipated that the computer will be kept for future programs, would this be considered a direct cost or an indirect cost?

TYLER BRIDGES: So Rudy, I'm actually going to ask for your help on this one. If it's being used solely for ESG purposes during the life of the award, that would be a direct cost. But Rudy, you'll have to help me out on depreciation and how indirect costs would work in that scenario.

RUDY MUNOZ: Yes, so it would be considered a direct cost. And as long as that specific computer continues to be utilized for an eligible activity under the ESG-CV, or ESG program, you can bill it all as a direct cost. If at some point it's going to be used for an activity that is not considered an ESG program, or a federal program that meets the same requirements of ESG, then at some point, you may have to do a pro-rata share of that cost. Hope that answers the question.

DAVID MUNOZ: Next question, if staff members are working on multiple grants or programs, is this considered a direct cost or indirect cost? And how are we to document whether they are direct or indirect?

TYLER BRIDGES: : So that is an excellent question. Those costs should be direct costs, and the reason is this. If a staff member is working on multiple programs or funding sources, then when they complete their timesheets, they should be recording every day how many hours they spent performing services or tasks under one funding source versus the others. So for example-- and I'm a consultant, I have to do the same thing. If I am working on delivering this presentation today, for example, and it's going to take two hours, then I would say on my time sheets I spent two hours delivering this presentation for a funding source.

But I still have six hours left in my day, and so I may work on other assignments I have. So the same is true for local governments, nonprofits, and even the contractors that you, a grantee, may hire, or that subrecipients may hire. Everybody who is working on the ESG-CV grant as a labor cost should be able to state how much time they spent performing a particular task. And that needs to be recorded on time sheets. And then once you have those time sheets-- and if you get paid let's say biweekly, which is very common, then if there's 80 hours in that work week and over that two week period, if you spent 20 out of your 80 hours working on the ESG-CV grant, then you would say that 20 hours of 80 hours is 25% of my time.

And if I get paid $1,000 for every two weeks, and that includes not only my salary, but my health benefits, my pension, whatever it is. Then because I spent 25% of my time on ESG-CV, and again that's per hour, per day, 25% of my time on ESG-CV, then 25% of my salary and fringe benefits, or if that's $1,000, $250 is directly attributable to the ESG-CV award. And therefore, it is a direct cost.

DAVID MUNOZ: Thank you. Next question, just to confirm, you indicated that non-profits are not allowed to utilize cost allocation plans.

TYLER BRIDGES: : Yes, in 2 C.F.R. 200, it specifically states that cost allocation plans are limited to states, local governments, and Indian tribes. But that does not mean that non-profits cannot seek reimbursement for indirect costs. It just means that non-profits can use the other two methods available, the first being the de minimis rate and the second being negotiated indirect cost rate proposals. So the de minimis rate is the one everybody can use, and it's the flat 10%. The negotiated indirect cost rate proposal is very similar to the cost allocation plan method.

It still allows you to perform your own analysis and come up with a rate that is approved by a cognizant agency and allows you to recoup your indirect costs. It just cannot be called a cost allocation plan. If you look at 2 C.F.R. 200, nearly all of the appendices cover the different methods and the rules for preparing either a cost allocation plan or an indirect cost rate proposal and the submission requirements. So if you have more specific questions on what method your agency can or cannot use, or your subrecipients can or cannot use, and what are the very specific requirements for each of those methods, you'll find all of that in the appendices of 2 C.F.R. 200.

DAVID MUNOZ: Next question, and I hope I understand this correctly. Question is rental assistance allowable as an indirect cost or a direct cost? How should we be categorizing that?

TYLER BRIDGES: So that is an excellent question. If you are providing rental assistance to a beneficiary, so this is a citizen that applied for the program or any applicant who applies to the program, and they are deemed eligible to receive this rental assistance, that is a direct cost because that is a person or a family that is receiving a direct benefit from the program. And even if it's being paid to a landlord, or if it's a motel voucher, or whatever that is, there is a direct cost. That cost is not split across multiple persons, or families per se, or even multiple funding sources.

It costs $100 for person A to receive this rental assistance, and that's direct. You can draw a string from the cost to the individual.

DAVID MUNOZ: One last question so we can move on, what type of documentation is required if we use the de minimis option for indirect costs?

TYLER BRIDGES: Beautiful question, and the beauty of the de minimis method is there's no documentation required. So if you're going to use the negotiated and direct cost rates or a cost allocation plan, you actually have to perform an analysis based off your last fiscal year's finances, your profit and loss and all of that. It has to be subject to audit, things of that nature. So you're actually having to prove that this analysis has resulted in a adequate rate, whether it's 20%, 30%, 5%.

When it comes to the use of the de minimis rate, what you're saying is we inherently have indirect costs. We're not going to go through the work that it takes to perform that analysis, but rather, we're just going to elect the 10% rate. And this was created when the uniform administrative requirements went from the OMB circulars and were codified at 2 C.F.R. 200. And so this was a way that allowed agencies to quickly and easily be able to recoup indirect costs without performing the more erroneous, or the more detailed, analysis that would require with the other two methods.

So zero documentation, you just say I'm using it. I'm using the de minimis.

DAVID MUNOZ: Great, thank you. I think we can proceed to the next section, and we'll gather some additional questions for the second round of Q&A.

TYLER BRIDGES: Excellent, all right, so next, we'll talk about calculating indirect costs. So this is the second part of the training. The first part of the training really was talking about the requirements and the concepts of indirect versus direct costs, and how to apply, or excuse me, and the methods related to indirect costs. The second half of this training is really getting into how to calculate indirect costs and how to appropriately apply those costs. So this is the more hands-on if you will, part of the training.

So let's take a look now on how to calculate indirect costs. To calculate indirect costs that subrecipients may charge to the ESG-CV award. And this is true for grantees, as well, grantees must multiply what's called the allowable modified total direct costs by their agency's indirect cost rate. An indirect cost rate is a tool for determining the proportion of indirect costs each program should bear and is the ratio, expressed as a percentage, of the indirect costs. Modified total direct costs, or MTDCs, these are the predetermined direct costs subject to the indirect cost rate.

So the following illustrates how to calculate the indirect costs that subrecipients may charge to the ESG-CV award. As you can see, the indirect cost rate is not simply applied to the overall ESG-CV award, but rather, grantees must only apply the subrecipient's indirect cost rate to those certain allowable modified total direct costs incurred by the recipient under the ESG-CV subrecipient agreement. So here the definition of MTDCs is further detailed. On the left, modified total direct costs include direct salaries and wages and applicable political fringe benefits, and we just discussed that, materials and supplies, services, travel, and up to the first $25,000 of each subaward.

And this is really important here. I'll say it again, and we're going to look at it in just a moment. Only up to the first $25,000 of each subaward, it doesn't matter if that subrecipient agreement is a million dollars or a hundred million. It doesn't matter if it's a six-month agreement or a three-year agreement. Only up to the first $25,000 of each subaward are what's considered a modified total direct cost. So what isn't an MTDC? Equipment, capital expenditures, participant support costs, rental costs, and of course, the portion of each subaward that exceeds $25,000, all of those types of costs are not MTDCs, which means that you cannot apply the indirect rate to these types of costs.

Next slide, so additional considerations, just please note, although this definition that we just reviewed of MTDCs must be used for grantees and subrecipients utilizing the de minimis rate, grantees using cost allocation plans or indirect cost rate proposals as their indirect method, or indirect cost method, may use what's called a cost base to determine their indirect cost rate. And therefore, they may have a different definition of modified total direct costs. And this is complicated, but nonetheless, it's important to analyze indirect cost rates and MTDCs, or modified total direct costs, on a case-by-case basis.

So many agencies use the de minimis. And so the definition of modified total direct costs that we just reviewed is the hard and fast definition. When it comes to agencies that use cost allocation plans or indirect cost rates, they may use a different definition, just based off of the way that their agency works. And so don't always think that when you're applying an indirect cost rate that you must stick to this definition of MTDCs. OK, so let's test your knowledge.

Using the 10% de minimis method, identify the indirect cost budget based on the direct cost budget per line item of cost and the total budget, which is the combination of the direct and indirect cost budgets. The answers are provided on the next slide. So again, we'll take 20 or so seconds. We're using the de minimis rate, which is 10%. So what would be the indirect cost budget for each of these line items of cost?

DAVID MUNOZ: And Tyler, if you can slow down just a little, we got a request if you can slow down your presentation just a bit.

TYLER BRIDGES: Absolutely, thank you for the feedback. OK, so let's see how you did. Staff wages and benefits and supplies and materials are both MTDCs. And therefore, the direct costs incurred for those line items of costs are subject to the 10% de minimis plus-up to recoup indirect costs. The subrecipient agreement is also an MTDC, but only up to the first 25,000 of the subaward is an eligible MTDC. And therefore, only $2,500 can be recouped for indirect costs.

Equipment is not an MTDC, and therefore, no indirect costs can be recouped for that line item of cost. The same is true for the economic development loans, actually, excuse me, the rapid rehousing payments issued to eligible ESG-CV beneficiaries since the rapid rehousing payments are considered participant support costs. The direct and indirect costs budgets per line item of cost are summed to get the total budget per item of cost. Now, some grantees may think that $15,000 is not enough to recoup costs incurred to administer and implement the ESG-CV award.

The remainder of the training is designed to help grantees understand why indirect costs are calculated as described, and to alleviate some of their concerns. Next slide, so remember this graphic? Previously, we saw that it doesn't matter which indirect cost method each grantee subrecipient or sub-tier subrecipient uses. This time, though, we want to illustrate the importance of properly applying the indirect cost rate only to modify total direct costs and what can happen if indirect cost rates are improperly applied.

So here, we have three tiers of agencies, all utilizing the same ESG-CV grant awarded by HUD to a grantee. All six agencies are utilizing an indirect cost method and seeking reimbursement for indirect costs. So the next few slides are going to show the effects of the improper application of the 10% de minimis indirect cost method. As we saw on the graphic on the prior slide, our example has one grantee that awarded ESG-CV funds to two subrecipients. Further, the grantee's first subrecipient awarded ESG-CV funds to two subrecipients on their own.

And the grantee's second subrecipient awarded ESG-CV funds to a single recipient. In this example, all six agencies are using the 10% de minimis indirect cost rate method. Subrecipient A awarded $1 million each to its two subrecipients. Sub-tier subrecipient one was awarded $1 million to rehabilitate an emergency shelter, and the sub-tier subrecipient two was awarded $1 million to implement a public service activity. Subrecipient B awarded $1 million to its only sub-tier recipient for a rapid rehousing program.

So using the 10% de minimis method, and again we're looking at an improper example, the grantee and its subrecipients incorrectly assume that each sub-tier subrecipient can simply charge a flat rate of 10% of all direct costs for indirect costs, resulting in a total budget of $1.1 million for each sub-tier subrecipient. So that's the original $1 million to actually complete the activity, and 10% of one million is 100,000. So then they're getting an additional $100,000 to recoup indirect costs for a total budget of $1.1 million for each sub-tier subrecipient.

Next slide, then, just like its sub-tier subrecipients, the ESG grantee's two subrecipients incorrectly assume that they, too, can simply charge a flat rate 10% of costs for indirect costs, resulting in an indirect cost budget of $220,000 for subrecipient A and $110,000 a subrecipient B. And so the way that's calculated is subrecipient A has two subrecipient agreements that total $2.2 million, and so subrecipient A is assuming they get 10% of that amount, or an additional $220,000 for their own indirect costs.

And then subrecipient B is using the same assumption, which is they're going to get 10% of that one subrecipient agreement they issued, resulting in $110,000 for their indirect costs. Finally, the ESG-CV grantee themselves, the direct recipient of HUD, incorrectly assumes that they, too, can simply charge a flat rate of 10% of all direct costs for their indirect costs, resulting in an indirect cost budget of $363,000, which equals 10% of the amount of ESG-CV funds their subrecipients were awarded.

Because federal regulations do allow each agency to seek reimbursement for indirect costs, that's definitely true, this improper application of the 10% de minimis method has resulted in indirect costs consuming a whopping 25% of the entire ESG-CV award. So direct costs for the three activities, the emergency shelter rehab, the public service that was provided, and the rapid rehousing program, totaled three million. But this improper application of the 10% de minimis resulted in $1 million alone just going to what are assumed to be indirect costs.

And I can tell you this was not what federal regulators envisioned as the best use of federal funding for those in need. So before we look at how the 10% de minimis method should have been applied, let's again review those costs, those certain modified total direct costs, that are subject to the 10% de minimis indirect cost rate. The text shown in orange bold applies directly to our example. So on the left, MTDCs only include up to the first $25,000 of each subaward. And in the example we looked at, there were three sub-tier subawards and two direct subrecipient awards, so five subawards total.

And MTDCs exclude capital expenditures, participant support costs, and, of course, the portion of each subaward greater than $25,000. OK, so back to our example, let's properly apply the 10% de minimis method. First, we'll start with the sub-tier subrecipients. Subtier subrecipient one was awarded $1 million to rehabilitate an emergency shelter. Because the rehabilitation is considered a capital expenditure, as defined by 2 C.F.R. 200, the 10% de minimis rate cannot be applied to the entire $1 million.

So $0 can be recouped for that $1 million for indirect costs. However, since the $1 million awarded to subtier subrecipient two was to implement a public service program, which did not include capital improvements or direct awards to beneficiaries, then the 10% de minimis rate can be applied to the entire $1 million award. So this does, in fact, result in a total budget of $1 million and $1.1 million to subtier subrecipients one and two, respectively. So subtier one, $1 million budget because there's no additional plus-up for the 10% de minimis, whereas subrecipient two is $1.1 million because they could, in fact, recoup that 10% for indirect costs.

Now we'll look at the grantees to subrecipients. Since the 10% de minimis rate can only be applied for up to the first $25,000 of each subaward, since subrecipient A executed two subawards, one for subtier subrecipient A and the other for subtier subrecipient B, then subrecipient A can only-- excuse me, subtier subrecipient one and two is what I meant. Then subrecipient A can only recoup $5,000 for its own indirect costs, which is equal to 10% of $25,000 for each subaward.

So let me say that again because I kind of jumbled it. There are two-- subrecipient A has two subrecipients of their own. They each got $1 million. Only $25,000 of each $1 million agreement can be included as an MTDC for subrecipient A to recoup their own indirect costs. So we're not talking about their subrecipient's indirect costs. Those have already been calculated. We're talking about the subrecipient A's actual indirect cost themselves. They've got two agreements here, one for $1 million and one for $1.1 million, but because they're using the de minimis rate, and because the 10% can only apply to modified total direct costs, and because modified total direct costs only include up to $25,000 of each of those two awards, they can only get 10% of $25,000, or $2,500, as an amount they can charge to the ESG-CV grant for their own indirect costs.

And the same is true for subrecipient B. They have one recipient, and they have a $1 million award there. And because it's up to $25,000 of that $1 million award, they can charge 10% of $25,000, or $2,500, to recoup their own indirect costs. Finally, the grantee, same thing, they've got two awards, one for subrecipient A and one for subrecipient B. So again, they've got $5,000, as well, that they can recoup for their own indirect costs of the ESG-CV award. So now we see that the proper application of the de minimis rate is equal to only 4% of the total ESG-CV award, which is more than five times less than what we saw when the de minimis rate was improperly applied.

OK, so this wraps up our discussion on determining indirect costs. The following are questions, or key takeaways, for grantees to consider. First, which of my subrecipient's direct costs are MTDCs? And second, how do I determine how much each subrecipient can be reimbursed for indirect costs from their ESG-CV award? OK, next slide, this will now bring us to the final part of today's training. And this is going to cover how to classify costs as either administration costs versus activity delivery costs, and how to recoup indirect costs for each of those two cost types.

Two common misconceptions are the only way to recoup local staff payroll costs is through indirect costs, and all indirect costs must be charged to the administrative budget, or the administration cap. The next few slides are designed to dispel these misconceptions. So it's common to assume that indirect costs are automatically considered administrative costs, subject to the administrative cap, because indirect costs represent costs such as rent, utilities, and agencywide services, such as human resources and payroll.

However, since indirect costs represent a percentage of direct costs, grantees and subrecipients incurring direct costs for an ESG-funded activity can also incur indirect costs for the activity itself, as opposed to admin. This is referred to as an activity delivery cost, or an ADC. ADCs are costs incurred for the implementation, management, or oversight of an eligible activity, like reviewing beneficiary applications for eligibility. Administrative costs are costs incurred for the general management, oversight, and coordination of the ESG-CV the award and are subject to the administrative cap. OK, example ADCs include payroll costs to review applications for eligibility to receive ESG-CV assistance or paper to print applications and pens for applicants to complete those applications.

On the other hand, example admin costs include payroll costs to submit budget forms to the grantee, for example, so a subrecipient's submitting forms to you, the state, or supplies and materials to monitor your ESG-CV subrecipients. OK, so let's review our last case study of the day. This case study also assumes the 10% de minimis method is being utilized. And why we keep using the de minimis is because there's so many nuances with the other two that the definition of modified total direct costs can vary widely.

And so we would have to first set up that definition before we could actually look at a case study. And so instead, it's simpler to just look at the 10% de minimis method. OK, so in this scenario, an ESG-CV grantee is implementing a rapid rehousing program. Of the total direct cost budget of $1.35 million for rapid rehousing, $1.15 million is budgeted to make rapid rehousing payments on behalf of eligible beneficiaries. $190,000 is budgeted for staff salaries to implement the rapid rehousing program, including client intake and eligibility review.

And $10,000 is budgeted for supplies and materials, such as the cost of ink pens and paper to print and complete program application materials. Using the proper application of MTDCs, the 10% de minimis rate can only be applied to staff salaries and supplies and materials, resulting in a total budget of $1.37 million for the rapid rehousing program. As you can see, the grantee in this scenario, and this is true for subrecipients, is able to recoup $20,000 for indirect costs without those costs hitting the administrative budget cap.

Because the 10% was applied to the activity delivery costs, then the indirect costs are also activity delivery costs. Next, we'll look at the administration budget. So the ESG-CV grantee has budgeted $20,000 for new equipment and $100,000 for staff salaries to administer their entire ESG-CV program, as opposed to a particular program like the rapid rehousing program. Again, using the proper application of MTDCs, the 10% de minimis rate can only be applied to staff salaries but not equipment, resulting in a total budget of $130,000 for administration costs.

As you can see, only $10,000 of the total $30,000 budgeted for indirect costs hits the administration budget cap. So further, the indirect cost budget only amounts to 2% of the total ESG-CV award. Even though indirect costs only represent 2% of the ESG-CV award, the next slide will show how a much larger percentage of the total ESG-CV award is being utilized to pay direct costs incurred directly by the grantee. Or this all applies to subrecipients, as well. So 2% seems low. Let's see what else is going on here, essentially.

Oh wait, are we here? Yes, sorry. OK, so if you notice on the left, the cost types, which used to say direct payments, or staff and salaries, equipment, have now been converted to the type of cost, whether it's an activity cost, an activity delivery cost, or an administration cost. But the budgets and all the other dollar amounts remain the same. Direct payments to beneficiaries of the rapid rehousing program are considered direct activity costs. Staff salaries to implement the rapid rehousing program and the cost of supplies and materials used solely for the rapid rehousing program are considered activity delivery costs.

And finally, the purchase of equipment used solely for the ESG-CV grant as a whole and staff salaries to administer the entire ESG-CV award are considered administration costs. So based on this example that we just went through, 15% of the entire ESG-CV grant is budgeted for staff salaries, supplies, and materials as an activity delivery cost, and 9% of the ESG-CV award is budgeted for equipment and staff salaries as administration costs. So even though only 2% of the ESG-CV award is budgeted for indirect costs, nearly one quarter, or 24%, of the entire ESG-CV award is budgeted for direct and indirect costs, for local staff salaries, supplies, and equipment.

In other words, one out of every four ESG-CV dollars is going straight to the ESG grantee to administer and implement the ESG-CV grant for direct and indirect costs. And the remaining three out of every four dollars goes directly to benefit those impacted by COVID and in need of assistance. So this is the second to the last slide. The following are links to resources on the topics we covered today. So you've got the uniform administrative requirements at 2 C.F.R. 200. You also have two resources provided by HUD for CoC and ESG financial management, an indirect cost toolkit, and then two CPD notices.

13-07 is differentiating admin costs and activity delivery costs, and CPD notice 16-04 was the supplemental guidance that HUD published for transitioning to 2 C.F.R 200. And it talks about-- it covers a lot of the topics we cover today but also talks about indirect costs, as well. And with that, that's our last slide, and we're just about at the hour here. So we have up to 30 minutes, not sure if we'll need that full amount of time, to answer any remaining questions we have. And please, feel free to submit questions now if you have them.

DAVID MUNOZ: Thank you, Tyler. And by the way, in a comment, they also indicated that you're providing a lot of great information. So we're glad to hear that. Let's go ahead and start with some of the questions that we have received. First question, can we switch between the de minimis method of indirect cost and a cost allocation or a negotiated rate?

TYLER BRIDGES: Excellent question. Every year, if you're seeking to charge indirect costs, and you already have an approved indirect cost rate proposal or a cost allocation plan, it's already been approved by your cognizant agency, then you must allow those methods to expire before you can switch to de minimis. And oftentimes, a negotiated rate with your cognizant agency may cover up to five years. So you have to wait for that entire period to expire before you can then start using de minimis.

If you're already using de minimis and you want to switch to another method, you can do so at any time. If you are using cost allocation and you want to switch to negotiated, you'll want to just talk to your cognizant agency about that, or work with your CPD representative about determining whether or not it's more appropriate to just stop your cost allocation plan mid-cycle and begin to use the negotiated rate, instead. The most important takeaway here is that you pick one method, and you stick to it consistently for all of your federal programs. So never mix and match.

DAVID MUNOZ: All right, thank you. Next question, can a for-profit organization receive indirect costs?

TYLER BRIDGES: Oh, that's a good question. It's a hard question, and Rudy, I'm going to ask for your help here. Almost always no, maybe there's an exception. For-profits are typically the beneficiaries, or recipients, of grant funds. If you were doing an economic development loan program, the for-profit entity there is the actual beneficiary. So they're not recouping indirect costs. So with indirect costs, you're dealing mainly with grantees and subrecipients, and those are always either government agencies or non-profits.

Rudy, do you have more there?

RUDY MUNOZ: So take into account that for-profits are already including profit and overhead as part of their cost, whether it's an hourly cost or any other type of cost. So they really are not eligible for indirect costs separate to whatever their cost is because it's already incorporated into that amount if that makes sense.

TYLER BRIDGES: It does, thank you.

DAVID MUNOZ: Next question, if an agency has an indirect cost rate but doesn't request reimbursement for that cost, can they use that amount as a match for federal grants?

TYLER BRIDGES: I am not familiar with the match requirements, and so I cannot answer that question. Rudy, do you know the answer?

RUDY MUNOZ: No, no, the key takeaway here, I think for me, on this question, or what I want to make sure you're aware of, is just because you can charge indirect costs, doesn't mean you have to. We have had situations where an entity has chosen not to charge indirect cost because they know that the funds can only go so far, and they have other funding sources that are available to cover those indirect costs. Next question, if we subaward funds to five subrecipients, is the maximum we can claim as a modified total direct cost $25,000 per subaward, or is the total for the five subrecipients $25,000?

TYLER BRIDGES: It's 25,000 per subaward. So if you have five, then $25,000 times five is $125,000. And so you would be able to recoup 10% of that amount, or $12,500, so long as each subaward is equal to or greater than $25,000 each.

DAVID MUNOZ: Great, next question, are subrecipients awarded subaward-- Now, let's see. Let me rephrase this. Well, let me go on to the next one. While you answer it, I'm going to reword this one. Activity delivery costs seem very similar to direct costs in the example you provided, where you have admin and activity delivery costs. How are they distinguished? So they want to know the difference between activity delivery costs and direct costs.

TYLER BRIDGES: So activity delivery costs and administrative costs are defined by HUD program regulations. So they're ESG-CV program-specific. And all of those out there, if you're all state ESG-CV grantees, you get CDBG HOME, ESG, all of it, most likely. I'm not sure definitely. And so admin costs and ADCs are a common concept that are codified in the HUD regulations. Direct costs and indirect costs are separate and distinct. So you never want to lump the two together.

And they originate and are defined in 2 C.F.R. 200. So whether you are receiving funds from the Department of Transportation, or Health and human Services, or the Department of Education, everybody must follow 2 C.F.R. 200. And that's where you're getting direct or indirect costs. In the example that we went over, both activity delivery costs and admin costs had both direct and indirect costs. So when it came to activity delivery costs, we had a staff member who was responsible for processing applications for a rapid rehousing program.

And so they spent 10 hours, let's say, of their week helping with that program. And so they would charge their time to process those applications that's equal to the 10 hours that they actually worked, and that would be an activity delivery cost. Then on top of that, you would get to apply the 10% percentage because those direct costs, salaries and wages, are considered modified total direct costs. So not only are you getting the direct costs that it took for that person to process applications for rapid rehousing, but you're also getting the 10% plus-up to recoup your indirect costs, which would be for rent, utilities, things like that.

Now, if that same staff person spent the remaining amount of their week, so if they worked 10 hours on rapid rehousing and they spent their other 30 hours on admin, and so admin would be monitoring their own subtier subrecipients, or preparing financial invoices, or reporting to their grantee, that same staff person, again, their time, that's direct costs because they spent 10 hours directly on rapid rehousing as an activity delivery cost, and they spent 30 hours directly on admin costs. Then again, because direct employee salaries are modified total direct costs in both instances, you are going to get that 10% plus-up.

So I hope I'm answering your question. All of the costs, both admin and ADC costs, can also have direct and indirect costs. And in fact, you can never have an indirect cost without first having a direct cost. You always need a direct cost to apply a percentage in order to recoup indirect costs.

DAVID MUNOZ: All right, next question, and we may need to go back to, I believe, slide 54. So I may ask Laura to go back to slide 54. I think this is what they are referring to. The question is, is there any discussion on increasing the amount? 2% is low even with the other approved activities. I don't know if they're referring to this 2%.

TYLER BRIDGES: So I do agree that 2% is low. Let me get there, as well. OK, so this is actually a great question, and we're going to go down a rabbit hole here. What you have is a situation where you have a wrapping-- the total budget here is $1.5 million. And of that $1.5 million, $1.15 million, so more than 2/3 of the budget, is going straight out the door to eligible recipients, beneficiaries that need to be rapidly rehoused. So the MTDCs are saying, look, you do not get 10% of money you're just pushing through.

Let's say that that was just one payment. You processed one application, and you got one payment out the door. I know that's not realistic, but it's possible, especially in CDBGCB. In CDBGCB, you may have one economic development loan, for example. And 2 C.F.R. requirements, they apply uniformly to all grant programs, not one versus the other. So if it takes you only 40 hours, let's say, to process that one payment, then yes, you can get your 10% of the 40 hours it took to process it. But you don't get $115,000 on top of the 10% of the 40 hours it took because that's going to equal $150,000 to issue that one check that another business in need cannot receive.

So yes, it does seem low, but that is because two-thirds of this example are direct payments to beneficiaries, and they are not eligible MTDCs under the de minimis method. Now, if you are using a negotiated indirect cost rate or a cost allocation plan, where in your direct cost base you included direct payments to beneficiaries, that would result in a lower rate because the denominator, and this is where it gets complicated, the denominator in that case is including those millions of dollars that you're spitting out to, or excuse me, are processing on behalf of direct beneficiaries.

And so your percentage is lower, and therefore, you can include that amount to recoup your indirect costs. But if you're using de minimis, you cannot, and it's for that reason. If this were a-- when we get into programs like-- some of these amounts, and your all states out there, if you're getting $50 million, $100 million, that's a lot of money. And a lot of that money is intended for folks who need the help, and if you're recouping 10%, 20%, 30% of all of that money going to somebody in need, then a lot of the money that was intended for those in need is suddenly just filling the coffers of local governments.

And I'm not saying that that's the intent, but that application would result in that outcome.

DAVID MUNOZ: Thank you. Hope that answered that question. Next question, can a contractor take both administrative costs and indirect costs? I'm not sure if the question is correct in terms of contractor, or maybe it's subrecipient.

TYLER BRIDGES: So as this is-- a similar question asked whether or not a for-profit entity can claim indirect costs. And Rudy very eloquently, and appropriately, responded that for-profit entities like consultants have already built into their rate its profit and overhead. So they should not be recouping indirect costs. A subrecipient can recoup both direct and indirect costs, but this is where it gets fuzzy. So as we discussed today-- so let's keep it simple. Only grantees, and a grantee's subrecipients, and a subrecipient's subrecipients, these are people who are actually implementing and administering the grant.

Those are the folks that can, or agencies, that can recoup indirect costs. If you're paying a contractor to build a building, or rehab an emergency shelter, or if you're paying a consultant to help you with your program requirements, those for-profit entities cannot also ask for indirect costs on top of the direct costs that they're already asking because it's built into their rates. But you have to look at whether or not the costs are modified total direct costs. So if you have, for example in that same scenario I said, contractors that are doing a rehab and consultants that are helping with administrative requirements, they're not charging you indirect costs, but you can recoup your own indirect costs on one of those two agreements.

For the contractor, since it's a capital expenditure, you cannot. But for the consultant, that's a direct administrative cost, and so yes, you can recoup the 10% on that if you're using de minimis.

DAVID MUNOZ: And I will add on to Tyler's statement. One of the keys to 2 C.F.R. Part 200 is making sure that you are utilizing the correct terminology for the different players. What is a contractor? What is a consultant? What is a subrecipient? What is a grantee? Because each of those individuals, or how you use those terms, will determine if 2 C.F.R. Is even applicable to you. As a contractor, as a consultant, 2 C.F.R. Is not applicable to you. If you are a subrecipient, a non-profit that's receiving funds from the grantee, from the entitlement jurisdiction as a subrecipient, then it is applicable to you.

At that point, the grantee is passing their responsibilities over to you as a subrecipient. So make sure that the terminology that is being used is accurate. Because when I read the question and it said can a contractor take both, I wasn't quite sure if the question was worded correctly, if it maybe should have been can a subrecipient take both administrative costs and indirect costs. I hope that clears that one up.

Next question, if a grantee awards a subrecipient $75,000 and they want to use the 10% de minimis cost rate for indirect costs, where will the reimbursement of funds come from if the grantee has awarded all of the $75,000 of the program funds to a subrecipient?

TYLER BRIDGES: So if a-- it's an excellent question. If a grantee only has $75,000 available and they award 100% of that amount to a subrecipient, then they simply have no money left to recuperate their own indirect costs. And so they cannot request it. Now, that same subrecipient, they could hit their admin line item to recoup those costs if it's not already fully accounted for with direct and indirect admin costs. So I guess, in other words, you don't have to charge indirect costs as ADCs if there's no budget available.

You can always have it hit your admin line item. But if you give out, if you allocate or award, all of your CDBG, or excuse me, ESG-CV funds to subrecipients, and you have not left any budget for your own indirect costs, then that's the answer to the question. There's just no funds available. It's just like if you spend more money administering the ESG-CV grant than you have funds available, there's still a cap, and you cannot exceed it.

DAVID MUNOZ: Thank you, Tyler. Next question, should each subrecipient grant indirect costs all add up to the 10% of the total state grant, or can each subrecipient use 10% for indirect costs of their individual grant? I'm assuming they're talking about the de minimis rate here.

TYLER BRIDGES: Yeah, if we-- let me see here which slide it was that we looked at. The one where I was showing the-- so if we can go to slide 39. Every entity, whether it's the grantee, or a subrecipient, or a subrecipient's subrecipient, is allowed to charge indirect costs. So it doesn't matter which tier, or layer, you're at. Whatever funds you got, so if the grantee gets $5 million and it gives $2.5 million to each of its subs, and then those subs each split that to their three subtier subrecipients, every entity gets to use that 10% plus-up on their modified total direct costs.

Now remember, we went through the bad example and the good example. The bad example, where we just assumed you get 10% of your entire award off the top for indirect costs, well, that multiplied really quickly because every tier and every agency is getting its 10%. And suddenly, 25% of the entire award was being consumed by indirect costs. But when we applied it properly to just modified total direct costs, then the percentage was much lower. It was 4% in the scenario that we looked at. And then again, we talked about 4% and 2% seems low.

But when you actually begin to look at direct costs, whether it's ADCs or admin, it actually can be 25%. So it's just not being recouped as an indirect cost, but you're still getting, for lack of a better word, you're getting money back to your local government. It's not as if you're bearing the burden and cost of receiving these funds and distributing them. There are eligible ways to recoup those costs.

DAVID MUNOZ: Thank you, Tyler. I don't see any additional questions in the queue. Anybody else have any questions?

NATALIE METZGER-SMIT: We still have about nine minutes so speak now or forever hold your peace. All right, well, as I said earlier, we will be sending out a PowerPoint copy of this presentation, along with the recording and the chat and Q&A to everybody who participated today. It will also be posted on the HUD archive for all state recipient office hours. I want to thank our presenters, today. We really appreciate all the knowledge and your expertise that you shared. And I thank you again for your time.

I hope you all have a happy holidays if we don't talk to you before then, and have a wonderful new year.

TYLER BRIDGES: Thank you so much, everybody, for attending.