



OFFICE OF
HOUSING COUNSELING

U.S. Department of Housing and Urban Development Office of Housing Counseling



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Examples of Computing Indirect Costs Using the
10% De Minimis

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**Facilitated By
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Topics



1. Definition of Indirect Cost Rates
2. 10% De Minimis Indirect Cost Rate
3. Criteria for Selecting De Minimis Rate
4. Modified Total Direct Cost
5. Components of Modified Indirect Cost
6. Unallowable and Excluded Cost
7. Computing Indirect Cost (Examples)
8. Other Considerations, Pass-Thru, Sub-Recipients
9. Retention of Records
10. Frequently Asked Questions



Indirect Costs

What Are Indirect (F&A) Costs?



According to the Uniform Grant Guidance, 2 CFR Part 200 §200.56

Indirect costs *“are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective...”*

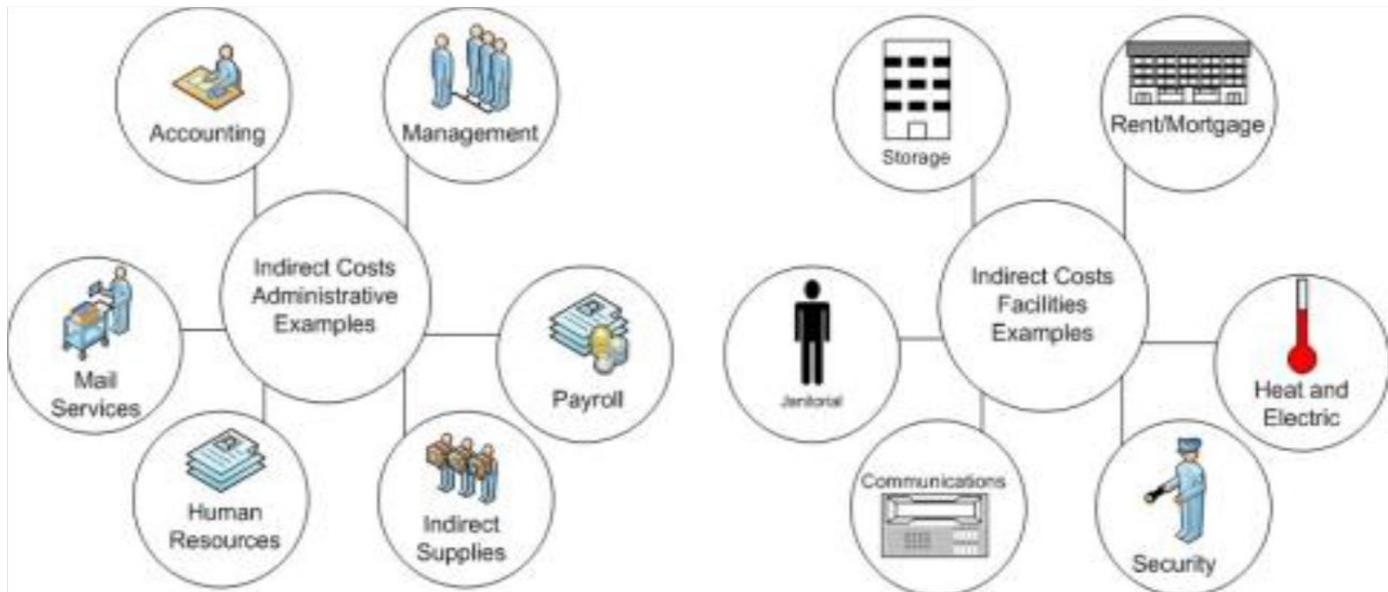
There are two broad categories: “Facilities” and “Administration

- 1. Facilities** - depreciation of buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.
- 2. Administration** - general administration and general expenses not listed specifically under one of the subcategories of “Facilities,” including cross allocations from other pools.

What Are Indirect (F&A) Costs?



The figure below shows several examples of indirect administrative costs and facilities costs.



10% De Minimis Rate

10% De Minimis Rate



Uniform Grant Guidance allows non-Federal entities to elect a 10% indirect cost rate to be applied to a Modified Total Direct Cost (MTDC) Base.

Specifically, §2 CFR 200.414 (f) states:

“.....any non-Federal entity that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10% of modified total direct cost (MTDC) which may used indefinitely.....”

****Appendix VII to Part 200 describes non-Federal entities that are not eligible for this rate.**

Criteria for Selecting the 10% De Minimis Rate



1. Non-Federal entity has never received a negotiated indirect cost rate.
2. Rate must be used indefinitely once elected and must be used consistently for all Federal awards until such time the entity chooses to negotiate for a rate.
3. Cost composition of the MTDC must comply with §200.403 Factors affecting allowability of cost.
4. Non-Federal entities receiving over \$35 million in direct funding are prevented from selecting this rate. See Appendix VII to Part 200-States and Local Government and Indian Tribe Indirect Cost proposals, paragraph (d)(1)(b).
5. Documentation supporting the methodology (as set forth in 2 CFR Part 200.403) used to determine the MTDC (as set forth in 2 CFR Part 200.68) should be provided as part of the Grantee's budget and retained for audit in accordance with records retention requirements.

Modified Total Direct Costs (MTDC)

Modified Total Direct Cost



MTDC is the appropriate applicable base for utilizing the 10% de minimis rate.

According to §2 CFR 200.68, it is composed of:

“All direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, sub-awards and sub-contracts up to the first \$25,000 of each sub-award or sub-contracts (regardless of the period of performances under the award).”

**Cost must be identified specifically with a particular sponsored program or can be directly assigned to such activities relatively easily with a high degree of accuracy.

*** Must be necessary and reasonable for the performance of federal award and be consistent with policies and procedures that apply uniformly to both federal and non-federal activities of the grantee in accordance with §200.403.

Composition of MTDC (cont.)



- **Direct Salaries and Wages:** All remuneration paid or currently accrued by the organization for employees working on the federally funded program during the grant period is allowable: **(a)** the compensation to individual employees is reasonable for the work performed directly on the award charged; **(b)** is consistently applied to both government and non-government activities, and; **(c)** the charges for work performed are documented in an auditable format easily distinguishable from other unrelated wages.
- **Direct Administrative and Clerical Salaries and Wages:** Salaries of administrative or clerical staff may be requested as direct costs as mandated by §200.413 **(c)** when: **(a)** They are an integral part of the project or program, and; **(b)** The estimated percent of effort for specific individuals are justified in the budget proposal.

Composition of MTDC (cont.)



Applicable Fringe Benefits: Allowable as a direct cost in proportion to the salary charged to the award, to the extent that such payments are made under formally established and consistently applied organizational policies.

If the entity does not have a fixed “fringe benefit rate,” then actual charges for the following should be used in estimating these cost to the extent possible:

- (1) Employee Retirement Contributions
- (2) Employer Paid Taxes (Local, State, Federal, Medicare, Social Security, Unemployment Contribution)
- (3) Employee Paid Employee Health Benefit
- (4) Employee Paid Employee Tuition Benefit

Composition of MTDC (cont.)



- **Services Contract/Consultant Fees:** allowable when reasonable in relation to the objectives of the services rendered and applicable to the program objectives.
- **Salary limitation for consultants:** For FY 2018 funds, reimbursement for payment of the salary of a consultant, whether retained by the Federal government or the Grantee, should be at a rate no more than the equivalent of General Schedule 15, Step 10 base rate. FY 2018 is \$136,659. The hourly rate is \$65.48.
- **Materials and Supplies:** Defined as tangible property. Items (including computing devices) costing less than \$5,000 per unit, or other lower equipment threshold, as well as consumable materials and supplies, are allowed if costs can be documented as allocable and essential to the program/grant. **Note: For the FY2018 CHC Grant, HUD is not allowing costs for supplies.**

Composition of MTDC (cont.)



- **Travel Cost:** Expenses for transportation, lodging, subsistence, ground travel, and related items incurred by grant personnel and outside consultants employed for the program who are on travel status on business related to a Federally supported program are allowable as prescribed in the *Governing Cost Principles*.
- **Subawards/Subcontracts:** Cost for the first \$25,000 of each of the program sub-awards are included in calculation, regardless of the period of performance.

Excluded Cost from MTDC



§2 CFR 200.68 specifically excludes the following cost from the determination of MTDC:

- **Equipment:** defined as an item of property that has an acquisition cost of \$5,000 or more and an expected value of more than one year.

Generally, equipment is excluded from the modified cost base, so if you have something with a short service life (<1 year), even it costs more than \$5,000, you are better off not including it in the MTDC.

- **Capital Expenditure:** buildings, land, office equipment and furnishings, alterations and renovations, telephone networks, and motor vehicles.

Excluded Cost from MTDC



Subawards/Subcontracts: Portion of each sub-award and sub-contract exceeding \$25,000 regardless of the period of performance.

Other costs to exclude:

1. Rent
2. Scholarships and Fellowships
3. Participant Support Cost



Unallowable Costs



Unallowable Costs are costs related to doing business that the government will not reimburse as part of Federal awards. See Subpart E-Cost Principles of the Uniform Guidance. Unallowable costs cannot be charged to Federal awards and should be excluded from billings, claims, or budget proposals.

Common unallowable costs include:

- §200.422 Advisory Councils
- §200.423 Alcoholic Beverages
- §200.426 Bad Debts
- §200.434 Contributions and Donations
- §200.434 Entertainment
- §200.441 Fines and Penalties
- §200.442 Fundraising and Investment Management Costs (Unless specified in Grant)
- §200.449 Interest
- §200.450 Lobbying
- §200.451 Losses on awards or contracts
- §200.455 Organizational Costs (unless pre-approved)
- §200.467 Selling and Marketing Costs (except as direct costs)

Ineligible Costs for CHC Grant



Costs Not Eligible for Reimbursement under FY2018 NOFA

- Salaries and fringe for time not spent performing eligible activities (client education; oversight, compliance, and quality control; supervision of housing counseling staff; housing counselor training, marketing and outreach; and counselor certification)
- Fringe without corresponding salary costs
- Unspecified “administrative costs” not related to the performance of eligible activities
- Travel not related to eligible activities
- Rent and utilities, including unspecified “overhead”
- Phone
- Internet
- Postage
- Supplies (general office supplies, furniture)
- Technology/equipment (hardware like computers, printers, cell phones)

Applying the 10% De Minimis Rate

Computing Indirect Cost



Example Budget #1

Excluded Costs - Grant Award - \$305,000

Budget Line Items	Direct Cost
Salary- Janet Brown Counselor	\$50,000
Salary- Jack Black Admin	\$50,000
Fringe Benefits	\$25,000
Travel	\$10,000
Training	\$10,000
Marketing/Outreach	\$20,000
Subaward-A Grantee	\$75,000
Subaward-B Grantee	\$20,000
Subaward-C Grantee	<u>\$25,000</u>
Total Direct Cost	<u>\$285,000</u>

Computing Indirect Cost



Example Budget #1

Computing the Indirect Cost Using the 10% De Minimis Rate

Step 1: Determine the MTDC

Costs Excluded

a) Portion of each subcontract in excess of \$25,000.

Subaward	Award Amount	MTDC Eligible	Excluded Amount
Subaward-A Grantee	\$75,000	\$25,000	\$50,000
Subaward-B Grantee	\$20,000	\$25,000	\$0
Subaward-C Grantee	<u>\$25,000</u>	<u>\$25,000</u>	<u>\$0</u>
Totals	<u>\$120,000</u>	<u>\$75,000</u>	<u>\$50,000</u>

b) Marketing/Outreach \$20,000 – Eligible as a direct expense not eligible for computing the MTDC

Computing Indirect Cost



Example Budget #1 Step 1: Determine the MTDC Grant Award - \$305,000

Budget Line Items	Direct Cost	Exclude	MTDC
Salary- Janet Brown Counselor	\$50,000	\$0	\$50,000
Salary- Jack Black Admin	\$50,000	\$0	\$50,000
Fringe Benefits	\$25,000	\$0	\$25,000
Travel	\$10,000	\$0	\$10,000
Training	\$10,000	\$0	\$10,000
Marketing/Outreach	\$20,000	(\$20,000)	\$0
Subaward-A Grantee	\$75,000	(\$50,000)	\$25,000
Subaward-B Grantee	\$20,000	\$0	\$20,000
Subaward-C Grantee	<u>\$25,000</u>	\$0	<u>\$25,000</u>
Total Costs	<u>\$285,000</u>	<u>(\$70,000)</u>	<u>\$215,000</u>

Computing Indirect Costs



Example Budget #1

Computing the Indirect Cost Using the 10% De Minimis Rate

Step 2: Determine the Indirect Cost

Multiply the 10% De Minimis Rate by the MTDC determined in the first step.

- $\$215,000$ (MTDC) x 10% (De Minimis Rate) = $\$21,500$ (Indirect Costs)



Computing Indirect Cost



Step 3: Include in Budget Grant Award - \$305,000

Budget Line Items	Direct Cost
Salary- Janet Brown Counselor	\$50,000
Salary- Jack Black Admin	\$50,000
Fringe Benefits	\$25,000
Travel	\$10,000
Training	\$10,000
Marketing/Outreach	\$20,000
Subawards-ABC Grantee	\$75,000
Subawards-DCE Grantee	\$20,000
Subawards-MNO Grantee	<u>\$25,000</u>
Sub Total –Direct Cost	<u>\$285,000</u>
Eligible Indirect Costs (10% De Minimis Rate)	<u>\$20,000*</u>
Total Budget	<u>\$305,000</u>

*Although computed indirect costs is \$21,500 only include up to the approved grant award amount.

Computing Indirect Cost



Example Budget #2 Excluded and Unallowable Costs Grant Award - \$1,000,000

Budget Line Items	Direct Cost
Direct Salaries	\$450,000
Fringe Benefit	\$60,000
Travel	\$15,000
Training	\$3,000
Audits (Allocation) (a)	\$12,000
Subawards (b)	\$65,000
CMS Fees (c)	\$35,000
Marketing/Outreach (d)	\$150,000
Annual Consultant Fee (e)	<u>\$155,000</u>
Total Cost	\$945,000

Computing Indirect Cost



Exclusions

- a) Audits (assuming an approved billing methodology) allowable under the CHC, excluded from MTDC
- b) One subaward for \$65,000 amount over \$25,000 (\$40,000) excluded from the MTDC
- c) CMS Fees, allowable under the CHC, excluded from MTDC
- d) Marketing/Outreach (flyers, brochures, promotional items, not salaries and/or fringe benefits or consultant fees) allowable under the CHC, excluded from MTDC
- e) Consultant Fees (e) over the annual amount of \$136,659 for FY 18 are excluded*

***Subject to change each grant period of performance.**

Computing Indirect Cost



Example Budget #2

Computing the Indirect Cost Using the 10% De Minimis Rate

Step 1: Determine the MTDC (continued)

(c) Portion of each subcontract in excess of \$25,000.

	Award Amount	MTDC Eligible	Excluded Amount
Subaward-A	\$65,000	\$25,000	\$40,000

(f) Annual Consultant Fees

	Amount	MTDC Eligible	Excluded Amount
Consultant Fee	\$155,000	\$136,659	\$18,341

Computing Indirect Cost



Example Budget #2 Excluded and Unallowable Costs Grant Award - \$1,000,000

Budget Line Items	Direct Cost	Exclusion	MTDC
Direct Salaries	\$450,000	\$0	\$450,000
Fringe Benefit	\$60,000	\$0	\$60,000
Travel	\$15,000	\$0	\$15,000
Training	\$3,000	\$0	\$3,000
Audits (Allocation) (a)	\$12,000	(\$12,000)	\$0
Subawards (b)	\$65,000	(\$40,000)	\$25,000
CMS Fees (c)	\$35,000	(\$35,000)	\$0
Marketing/Outreach (d)	\$150,000	(\$150,000)	\$0
Annual Consultant Fee (e)	<u>\$155,000</u>	<u>(\$18,341)</u>	<u>\$136,659</u>
Totals	<u>\$945,000</u>	<u>(\$255,341)</u>	<u>\$689,659</u>

Computing Indirect Cost



Step 2: Determine the Indirect Cost

Multiply the 10% De Minimis Rate by the MTDC

$$\$689,659 \times 10\% = \$68,965$$



Computing Indirect Cost



Example Budget #2 : Expenses such as equipment, capital expenditures, rental costs, portion of awards exceeding \$25,000, and consultant fees exceeding the annual amount of \$136,659 for FY 2018 are excluded from the MTDC. Total Award Amount \$850,000.

Budget Line Items	Direct Cost
Direct Salaries	\$450,000
Fringe Benefit	\$90,000
Travel	\$15,000
Sub awards (a)	\$65,000
Training	\$15,000
Credit Reports (b)	\$15,000
Annual Consultant Fee (c)	<u>\$155,000</u>
Total Cost	\$805,000

Computing Indirect Cost



Assumptions to Example Budget #2:

(a) Sub-award to one grantee for \$65,000. Exclude amount over \$25,000 ($\$65,000 - \$25,000 = \$40,000$)

(b) Credit reports are not allowable under the MDTC although eligible under the CHC

(c) Consultant Fees (e) over the annual amount of \$136,659 for FY 2018. ($\$155,000 - \$136,659 = \$18,341$)

Step 1: Identify direct cost and determine MTDC eligibility.

Total direct cost			\$805,000
Less: Sub awards in excess		(\$40,000)	
Excessive Consultant fees		(\$18,341)	
Credit Reports		<u>(\$15,000)</u>	
Subtotal			<u>(\$73,341)</u>
Modified Total Direct Cost			<u>\$731,659</u>

Computing Indirect Cost



Example Budget #2 : Expenses such as equipment, capital expenditures, rental costs, portion of awards exceeding \$25,000, and consultant fees exceeding the annual amount of \$136,659 for FY 2018 are excluded from the MTDC

Budget Line Items	Direct Cost	Eligible for MTDC
Direct Salaries	\$450,000	\$450,000
Fringe Benefit	\$90,000	\$90,000
Travel	\$15,000	\$15,000
Sub awards (a)	\$65,000	\$25,000
Training	\$15,000	\$15,000
Credit Reports (b)	\$15,000	-
Annual Consultant Fee (c)	<u>\$155,000</u>	<u>\$136,659</u>
Total Cost	<u>\$942,000</u>	<u>\$731,659</u>

Computing Indirect Cost



Multiply the De Minimis Rate determined in the first step by the Modified Total Direct Costs determined in the second step.

$$*\$731,659 \text{ (MTDC)} \times 10\% \text{ (De Minimis Rate)} = \underline{\$73,165} \text{ (Indirect Costs)}$$

This application is correct!

NOTE: Agency would have incorrectly overbilled HUD if MTDC was not adjusted:

$$*\$805,000 \text{ (MTDC)} \times 10\% \text{ (De Minimis Rate)} = \underline{\$80,500} \text{ (Indirect Costs)}$$

This application is incorrect! The 10% De Minimis Rate MUST only be applied to Modified Total Direct Costs.

Computing Indirect Cost



Total Grant Award Amount = \$850,000

Budget Line Items	Direct Cost
Direct Salaries	\$450,000
Fringe Benefit	\$90,000
Travel	\$15,000
Sub awards (a)	\$65,000
Training	\$15,000
Credit Reports (b)	\$15,000
Annual Consultant Fee (c)	<u>\$155,000</u>
Total Direct Cost	\$805,000
Indirect Cost (10% De Minimis)	<u>\$45,000</u>
Total Budget= Grant Award Amount	<u>\$850,000</u>

Although the computed indirect costs is \$73,165, you can only charge up to the grant award amount.

Other Considerations

Other Considerations



Federal Agencies, Pass-Thru, and Subrecipients

- Federal Agency: As required under §200.203 Notices of funding opportunities, the Federal awarding agency must include in the notice of funding opportunity the policies relating to indirect cost rate reimbursement, matching, or cost share.
- Pass-Thru Agency: Federal Uniform Guidance including section 200.331(a)(4) applies to Federal funds as specified in the terms and conditions of the Federal award when a pass-through entity uses Federal and non-Federal funds to make a sub-award to a nonprofit as a subrecipient.
- Non-Federal entities that are able to allocate and charge 100% of their costs directly may continue to do so. Claiming reimbursement for indirect costs is never mandatory; a non-Federal entity may conclude that the amount it would recover thereby would be immaterial and not worth the effort needed to obtain it.
- NICRA must be used, if a subrecipient already has a negotiated F&A rate with the Federal government.
- It is not permissible for pass-through entities to force or entice a proposed subrecipient without a negotiated rate to accept less than the de minimis rate.

Retention of Records



If the indirect cost rate proposal, cost allocation plan, or other computation is not required to be submitted to the Federal Government for negotiation purposes, then the 3-year retention period for its supporting records starts from the end of the fiscal year (or other accounting period) covered by the indirect cost rate proposal, cost allocation plan, or other computation.

For regulatory basis on “retention requirements of records” for non-profits, see §2 CFR 200.333.

Available Services

Available Services



Type of Assistance	Description	Onsite and/or Remote
Technical Assistance	<ul style="list-style-type: none"> • Develop, modify, and/or update cost policies and procedures • Indirect Cost Application and Calculation • Review Schedule of Indirect Costs • Personnel Activity Reporting and Quarterly Financial Reporting Templates • Address findings from reviews 	Onsite or Remote
Financial Analysis	<ul style="list-style-type: none"> • Grant Executive Package Review • Financial Capability Assessment • Risk Assessment • Financial Review of sub-grantees • Accounting System Review • Billing Methodology Review • Indirect Cost Methodology Review • Quarterly Financial & Personnel Activity Report Review 	Onsite or Remote

Available Services



Type of Assistance	Description	Onsite and/or Remote
Training	<ul style="list-style-type: none">• Module #1 — Overview of Grant Requirements• Module #2 — Submitting a Budget• Module #3 - Grant Financial Reporting• Module #4 — Personal Activity Reporting and Timekeeping• Module #5 — Implementing the 10% De Minimis Rate	Remote
Action Plan	<ul style="list-style-type: none">• Conduct readiness assessment of compliance with Uniform Guidance requirements (including internal control and procurement) and provide recommendations for training or technical assistance.	Remote

Requesting Services



1. **REQUEST Assistance from HUD POC:** State assistance required, person who will be the POC if approved, and availability for the assistance
2. **POC APPROVAL:** HUD POC reviews and determines for approval
3. **INITIATE ASSISTANCE:** If HUD POC approves, will submit to the HUD GTM for assistance



Frequently Asked Questions

Frequently Asked Questions



Q1. Does my organization HAVE to charge indirect costs to cost reimbursable grants?

A1. No. An organization is not required to charge indirect costs.

Q2. I am an intermediary with several subgrantees. If one of my subgrantees uses an indirect rate, do all of my other subrecipients need to use an indirect cost rate?

A2. No. Each subrecipient will make its own decision as to whether it would like to use an indirect cost rate.

Q3. Does the use of the 10% de minimis rate, increase my award for the housing counseling grant?

A3. No. Indirect costs are calculated within existing awards and are merely an option for reimbursement.

Frequently Asked Questions



Q4. If I have subgrantees, can I prevent them from using the 10% De Minimis Rate rate?

A4. No. You cannot prevent subgrantees from using an indirect cost rate that they are otherwise eligible to use.

Q5. If we choose to use the de minimis rate to receive reimbursement for indirect costs associated with housing counseling grant, would we now need to use the de minimis rate for all other federal awards that pass through our agency?

A5. Yes. Once elected, the de minimis rate must be used consistently for all federal awards.

Frequently Asked Questions



Q6. How long can the 10% de minimis rate under the Uniform Grant Guidance Circular be used (duration of utilization)?

A6. Indefinitely or until such time the organization enters a NICRA agreement or obtains an approved cost allocation plan.

Q7. Can subgrantees elect to use the 10% de Minimis rate? If so, does the pass-through agency have to accept the de Minimis rate?

A7. Yes. A subgrantee can elect the 10% de Minimis rate and the pass-through agency must accept it.

Please forward any questions to:
housing.counseling@hud.gov
with

**“Examples of Computing Indirect Costs
Using the 10% de Minimis Rate”
in the Subject line**

**Note: Only questions related to the HUD, Office of
Housing Counseling, Comprehensive Housing
Counseling grant will be accepted and responded to.**