



OFFICE OF
HOUSING COUNSELING
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U.S. Department of Housing and Urban Development Office of Housing Counseling

Examples of Computing the 10% De Minimis Rate



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Training Topics



- ❖ Definition of Indirect Cost Rates
- ❖ 10% De Minimis Indirect Cost Rate
- ❖ Criteria for Selecting De Minimis Rate
- ❖ Modified Total Direct Cost
- ❖ Components of Modified Indirect Cost
- ❖ Unallowable and Excluded Cost
- ❖ Computing Indirect Cost (Examples)
- ❖ Other Considerations, Pass-Thru, Sub-Recipients
- ❖ Retention of Records
- ❖ Frequently Asked Questions

What Are Indirect (F&A) Costs?

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

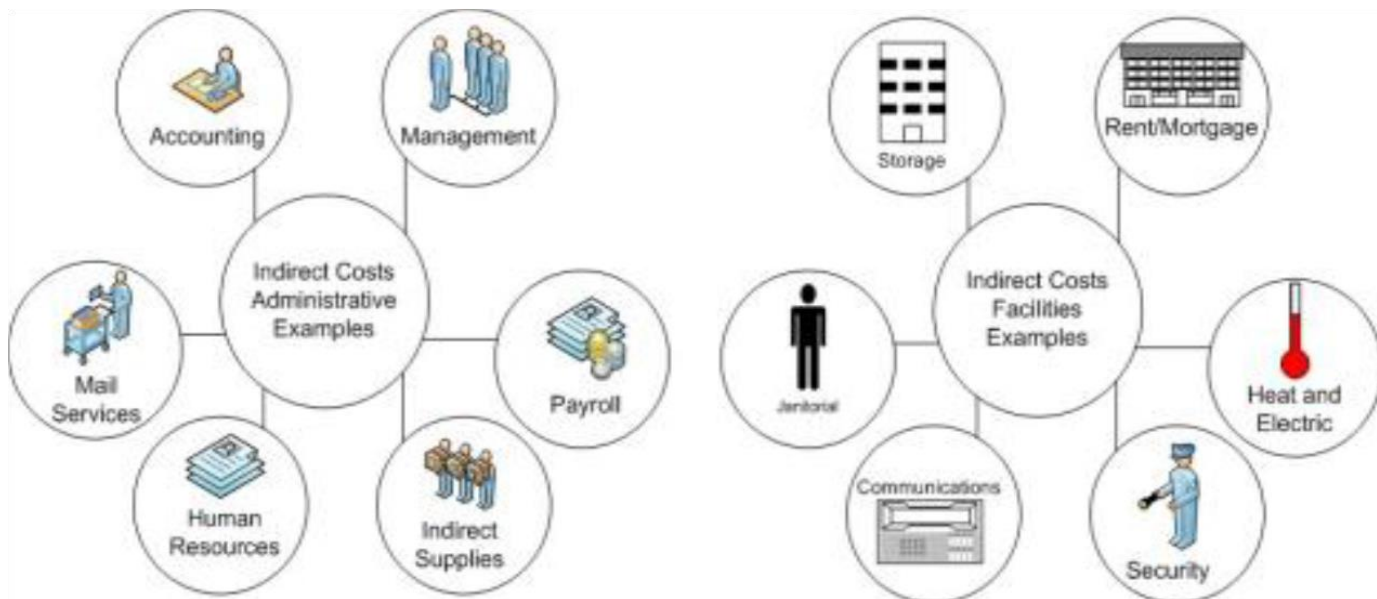
Indirect costs *“are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective...”*

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

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

What Are Indirect (F&A) Costs?

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



10% De Minimis Rate

Uniform Grant Guidance allows non-Federal entities such as the HUD-approved Housing Counseling Program intermediary 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 De Minimis Rate

- ✓ Non-Federal entity has never received a negotiated indirect cost rate.
- ✓ 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.
- ✓ Cost composition of the MTDC must comply with §200.403 Factors affecting allowability of cost.
- ✓ 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).
- ✓ 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 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'd)



- ❑ **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'd)



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, and; **(4)** Employee Paid Employee Tuition Benefit

Composition of MTDC (cont'd)



- ❑ **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 2017 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. The annual rate for FY 2017 is \$134,776 while the hourly rate is \$63.94.

- ❑ **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.

Composition of MTDC (cont'd)



- ❑ **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:**
 - **Rental Cost**
 - **Scholarships and Fellowships**
 - **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 can not 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)



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
Supplies	\$10,000
Equipment (1 Printer)	\$20,000
Subaward-A Grantee	\$75,000
Subaward-B Grantee	\$20,000
Subaward-C Grantee	\$25,000
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 (continued)

b) 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>

Computing Indirect Cost



Example Budget #1

Computing the Indirect Cost Using the 10% De Minimis Rate

Step 1: Determine the MTDC

Subtract unallowable/excluded cost from Total Direct Cost:

Total Direct Costs		\$285,000
Less:	Equipment (a)	(\$20,000)
	Subcontract in excess of \$25,000 (b)	<u>(\$50,000)</u>
	Subtotal	<u>(\$70,000)</u>
MTDC		<u>\$215,000</u>

a) Printer - Capital expenditures

Computing Indirect Cost



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.

$$\text{❖ } \$215,000 \text{ (MTDC)} \times 10\% \text{ (De Minimis Rate)} = \underline{\$21,500} \text{ (Indirect Costs)}$$

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
Supplies	\$10,000
Equipment	\$20,000
Subawards-ABC Grantee	\$75,000
Subawards-DCE Grantee	\$20,000
Subawards-MNO Grantee	\$25,000
Sub Total –Direct Cost	\$285,000
Eligible Indirect Costs (10% De Minimis Rate)	\$20,000
Total Budget	\$305,000

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

Computing the 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
Equipment (a) short service life<1year	\$3,000
Equipment (b)	\$12,000
Subawards (c)	\$65,000
Fundraising (d)	\$35,000
Capital Outlay (e)	\$150,000
Annual Consultant Fee (f)	<u>\$155,000</u>
Total Cost	\$945,000

Computing the Indirect Cost



Assumptions to Example Budget #2:

- a) Equipment with a short service life (<1 year) and less than \$5,000 included
- b) Equipment with service life (>1 year) and it exceeds \$5,000 excluded
- c) One subaward for \$65,000 amount over \$25,000 are excluded from the MTDC
- d) Fundraising expenses, not pre-approved, excluded
- e) Capital Expenditures are excluded
- f) Consultant Fees (e) over the annual amount of \$134,776 for FY 17 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	\$134,776	\$20,224

Computing the Indirect Cost



Step 1: Determine the MTDC

Total Direct Cost		\$945,000
Less: Equipment (a)	(\$12,000)	
Subawards in excess (b)	(\$40,000)	
Capital Outlay (c)	(\$150,000)	
Fundraising (d)	(\$35,000)	
Excessive Consultant fees (f)	<u>(\$20,224)</u>	
Subtotal	<u>(\$257,224)</u>	
Modified Total Direct Cost		<u>\$687,776</u>

Computing the Indirect Cost



Step 2: Determine the Indirect Cost

Multiply the 10% De Minimis Rate by the MTDC

$$\$687,776 \times 10\% = \$68,776$$

Computing the Indirect Cost



Example Budget #2 Grant Award - \$1,000,000

Budget Line Items	Direct Cost
Direct Salaries	\$450,000
Fringe Benefit	\$60,000
Travel	\$15,000
Equipment (a) short service life<1year	\$3,000
Equipment (b)	\$12,000
Subawards (c)	\$65,000
Fundraising (d)	\$35,000
Capital Outlay (e)	\$150,000
Annual Consultant Fee (f)	\$155,000
Sub-Total Direct Cost	\$945,000
Eligible Indirect Costs (10% De Minimis Rate)	<u>\$55,000</u>
Total Budget	<u>\$1,000,000</u>

Although computed indirect costs is \$68,776; only include up to the approved grant award amount

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.



Frequently Asked Questions

Frequently Asked Questions

Q1. If we accept the de minimis rate under this grant, would we now have to accept this rate for all other Federal awards that pass through our state agency? Or, is there another option we can pursue at this time given the length of time needed in order to have an indirect cost rate approved directly by HUD? Can we manage your grant using our current cost allocation plan?

A1. Uniform Guidance, Part §200.414 Indirect (F&A) costs.

(f) In addition to the procedures outlined in the appendices in paragraph (e) of this section, any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-Federal entities described in Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals, paragraph D.1.b, may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. As described in §200.403 Factors affecting allowability of costs, costs must be consistently charged as either indirect or direct costs, but may not be double charged or inconsistently charged as both. If chosen, this methodology once elected must be used consistently for all Federal awards until such time as a non-Federal entity chooses to negotiate for a rate, which the non-Federal entity may apply to do at any time.

Frequently Asked Questions

Q2. If we accept the de minimis rate under this grant, would we now have to accept this rate for all other Federal awards that pass through our state agency?

A2. YES. UNIFORM OMB OMNI CIRCULAR, PART §200.414 INDIRECT (F&A) COSTS.

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

Frequently Asked Questions

Q3. Can the amount of subawards be included in the Modified Total Direct Cost (MTDC) base?

A3. Uniform OMB Circular §200.68, Modified Total Direct Cost (MTDC), states “*MTDC* means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each sub award (regardless of the period of performance of the sub awards under the award).

Frequently Asked Questions



Q4. Can sub-grantees elect to use the 10% de Minimis rate? If so, does the pass-through agency have to accept the de Minimis rate?

A4. Uniform OMB Circular §200.331, Requirements for pass-through entities, paragraph (4) states that for a pass-through entity to claim indirect costs they must have....” (4) An approved federally recognized indirect cost rate negotiated between the sub recipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the sub recipient (in compliance with this part), or a de Minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f)”. Accordingly the sub-recipient can elect the 10% de Minimis rate and the pass-through must accept it.

Please forward any questions to:
housing.counseling@hud.gov
with “**Examples of Computing the 10% De
Minimis Rate**” in the Subject line



THANK YOU!