Final Transcript

HUD-US DEPT OF HOUSING & URBAN DEVELOPMENT: Indirect Cost-External

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SPEAKERS

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PRESENTATION

Moderator	Ladies and gentlemen, thank you for standing by. Welcome to the Indirect Cost Rates conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. Instructions will be given at that time. [Operator instructions]. As a reminder, this conference is being recorded. I will now turn the conference over to our host, Ms. Virginia Holman. Please go ahead.
Virginia	Thank you, Josh, and good morning, good afternoon, everyone. Welcome to today's webinar on the Indirect Cost Rates. Before I turn it over to our instructor, I'd like to go over some logistics. I did send out handouts this morning. They are also available in the control panel on the right hand side of your screen. You just need to click on it, and it will download. Also, as Josh said, we are recording today's webinar, and in about a week, we will post the transcript, the PowerPoint,

and an audio replay number on HUD Exchange, and we will be telling you when that happens, but as I said, that's about a week away.

Assuming there is time, your instructors will take questions, probably the end of the session, so remember what you want to ask. You can also ask questions a couple other ways. Again, on the panel on the right hand side of your screen, there's a box labeled questions. You just type in your question. There is staff watching those questions and will make every effort to answer them.

Later on, after the webinar is over, and at any time in the future, if you have a question or a comment send it to housing.counseling@hud.gov, and just put the webinar topic in the subject line so we can get it to the right person.

I don't know that we're going to have a discussion period, but should there be one, make sure that your phones are muted during that.

One of the things that I did not mention is that if you registered and logged in through GoToWebinar, you will be getting a certificate probably in about 48 hours. You need to keep that for your records so that you can show someone that you have, in fact, taken that class because we don't have another record of that.

Now, let me turn it over to Blair Clarke, who will be your instructor for today. Blair.

Blair

Thank you, Ginger. Again, my name is Blair Clarke from Allmond and Company. I will be walking you guys through the Indirect Cost Rates presentation today. We're going to talk a lot about indirect costs, but we're going to talk about cost principles in general, and then kind of narrow it down to indirect cost rates.

So, I'm going to go over the cost principles, the total cost equation on how we determine cost, and then we'll get into the classification of costs and how we determine whether cost is direct or indirect and how those costs are classified. Then, we'll narrow it down into the actual indirect cost rates. We'll talk about negotiated indirect cost rates as well as the 10% de minimis. Then, finally, we'll have an example for everyone to calculate indirect cost expense using the 10% de minimis and the modified total direct cost method.

So, we'll go through all that. Hopefully, you guys will learn a lot from this presentation just about cost in general and indirect cost rates, in particular.

So, again, our course objective for this course we will discuss the requirements for establishing the indirect cost rate for charging indirect expenses to the grant award, and hopefully, by the end of this, everyone will be an expert in all things indirect cost rates.

Again, my name is Blair Clarke. I'm the assistant project manager for Allmond and Company. I also have Vanessa McCollum with me as well. She will be answering your questions in the webinar in the text box.

So, let's start with a little bit of background first. OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, this is commonly referred to as the Uniform Guidance. You'll hear me mention that a lot today. We're going to talk a lot about the Uniform Guidance and the cost principles that are stated in the Uniform Guidance. You'll also hear it referred to as a super circular as that it combined and superseded a bunch of different OMB circulars, A-87 and A-122, as well as a few others into one, giant circular that they call the super circular.

This is the overarching authoritative guidance for all federal awards issued by the federal government. This is a great resource to have saved on your computer as I reference to it a lot. I have it saved on my desktop. Whenever I have a question about anything related to grants or federal awards, that's the first place I go to answer those questions or to get more information.

So, I highly advise everyone have a copy of it or have it bookmarked on your web browser because it's used a lot in all federal awards, not just for cost principles, not just for audit requirements. There are pre-audit rules, post-audit rules, pre-award, post-award, so everything you need to know about all things federal awards is going to be in this guidance.

Like I said, we're going to reference to it a lot today. One thing about the Uniform Guidance that does happen is that it can be a little vague at times. It does reference, because it is for the entire federal government and all federal awards, it does leave some judgment up to the agencies actually issuing the awards. So, when we have circumstances where we go over things about indirect costs, and it may be a little vague, we'll have the actual housing counseling grant agreement to give a little bit more detail on things specific to housing counseling.

So, just kind of keep that in mind whenever going through the Uniform Guidance that it can be a little vague because it's for fall federal awards, and you may have to go to the actual grant agreement to get a little bit more detail for the things that you're looking for.

So, this is the section of the Uniform Guidance that we're going to talk about the most today, Subpart E, Cost Principles. We're going to go over the composition of costs, the actual total cost equation which is total cost is equal to allowable direct cost plus allocable indirect cost minus the applicable credits. So, we're going to dive deep into each one of those parts of the equation, and we're going to talk about the factors that affect the allowability of cost.

One of those major factors is that cost must be necessary and reasonable, so we're going to talk about what makes cost reasonable, how we determine that cost is reasonable. We're going to talk about the allocable cost, allocable indirect cost. What are the standards that have to be met in order for costs to be allocable indirect costs?

Then, we're going to talk about applicable credits, we're going to go over some examples like purchase discounts and refunds, those items to be decreased from total cost or decreased from allowable direct cost and allocable indirect cost in order to arrive at total cost.

Then, we're going to get into the classification of cost. What does the Uniform Guidance have to say about determining whether costs are direct and determining whether costs are indirect. So, we'll go into those definitions for direct and indirect cost and some factors that we have to consider whenever considering cost to be direct or indirect.

You'll see a link there at the bottom as well. That link will take you to the actual Uniform Guidance webpage. Again, I have it saved down to my computer, so I highly advise going to that website, saving it to your bookmarks, saving it to your computers so that you can reference it quickly, and it is a fairly large document. It's about 100 or so pages, and it's little text and a lot of columns, so we left the references in here so that you guys can get to those sections or those paragraphs quickly so that you can reference those whenever need be.

So, let's talk about the composition of cost. Let's get into it. So, the total cost equation is total cost of the federal award is the sum of allowable direct and allocable indirect cost less any applicable credits. We're going to talk about each one of these sections today of the total cost equation. Allowable direct costs plus allocable indirect costs minus applicable credits.

Let's start with allowable direct costs. What are the factors that affect the allowability of costs? Cost needs to be necessary and reasonable for the performance of the federal award and be allocable thereto under these principles. When it says thereto under these principles, it's referencing the Uniform Guidance, but note the words in bold there, cost must be necessary and reasonable for the performance of the federal award. So, in order for costs to be allowable and be direct, these costs have to be incurred, and they must be necessary and reasonable.

So, if it's reasonable, we're talking about cost/benefit analysis. Would a knowledgeable, prudent person determine that this cost is also reasonable? We're going to talk a little bit more about reasonable in a second, but necessary and reasonable is a key determination in determining whether costs are allowable and direct.

Cost also needs to conform to any limitations or exclusions set forth in these principles or in the federal award as to types or amount of cost items. So, for these, if there any exclusions not only in the Uniform Guidance, but also in the actual federal award, in the federal grant agreement, if there are exclusions, if there are limitations, costs must conform to those in order for it to be allowable.

One example of a limitation of amount is just the grant award. How much is the grant award for? Any cost above that grant award is not allowable. That's a limitation of amounts. There may be some ineligible cost outlined in the grant agreement. Cost must conform to these limitations in order to be allowable.

Costs must also be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of a non-federal entity. So, consistency is key. You'll hear that word a lot throughout the slides today that policies and procedures must be consistent throughout the entity. There shouldn't just be a policy and procedure in place for time and attendance, for calculating just HUD Housing Counseling costs. There should be a uniform, consistent policy and procedure for time and attendance across the entire entity. So, consistency is a key word that you'll see a lot today, but things must be applied consistently across the non-federal entity.

Here it is again. Be according to consistent treatment. A cost may not be assigned to a federal award as direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as indirect cost. So, that's saying we must be consistent in our treatment of assigning cost as either direct or indirect.

If we have a cost that we determine is direct, and if we determine that that cost is the same in the same circumstance, you can't switch it to being indirect. It must be consistent. It must always be determined direct, or it musts always be determined as indirect. It cannot go back and forth in different periods. That will cause us to start double counting some of those costs, and we won't want to double count those cost amounts in our award.

Cost must also be determined in accordance with generally accepted accounting principles, otherwise known as GAAP. So, costs must be in accordance with the GAAP rules. If it does not follow GAAP, then costs cannot be allowed. Note that this is an exception for state and local governments and Indian tribes.

Costs also must not be included as costs if they're used to meet a cost sharing or matching requirement of any other federally-financed program in either the current period or the prior period. So, if there's been an incurred cost in order to meet a matching requirement or a cost sharing agreement for one federal award, that cost cannot then be turned around and charged to another federal award. It cannot be charged to HUD.

So, if you have a cost expense that you incurred in order to meet cost sharing requirements, that cost cannot then go be refunded for another federal award, so that's important.

Finally, the last factor for allowability is that costs must be adequately documented. This is an important one for us as accountants and as auditors that all costs are adequately documented. You must have supporting documentation for all costs, for all reported costs, whether that's invoices, receipts, timesheets, or personnel activity reports. All costs that are being incurred must have supporting documentation.

One thing that's not on here that's also important is that documentation musts be readily available as well. It should be always be readily available. If requested, then it shouldn't take two, three months to provide a supporting documentation. That cost should be readily available. It should come in a couple weeks or a week or so just to compile it to be sent over, but that supporting documentation should be always be readily available so that when it's requested it can be turned in in a timely manner.

Let's talk about reasonable costs. One of our key factors for determining whether a cost is allowable is that costs are necessary and reasonable. So, let's see what the Uniform Guidance has to say about reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which will be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur that cost.

So, if a knowledgeable, prudent person in that same scenario, in that same circumstance would determine that this cost is reasonable, then that cost is then fine. So, there's a little judgment involved in that, but you can determine that if a cost is incurred for $100, and it has the same output as something that costs $1,000, that may not determine to be reasonable. If you can get the same output from $100 as you could from $1,000, then a knowledgeable, prudent person would consider that to be unreasonable. So, you want to make sure that all costs are determined to be reasonable.

That's the first part of our equation of direct allowable costs. The next part of our equation is allocable indirect costs. Let's talk about what allocable indirect costs are. Allocable costs are costs that are allocable to a particular federal award or other cost objective if goods or services involved are chargeable and assignable to a specific federal award or cost objective.

So, there are standards that have to be met in order for costs to be allocable. These are costs that may be incurred for the operation of the entity to run, but the specific part of it is chargeable to the federal award. So, in this case, a specific part of it is chargeable to housing counseling, and that cost is assignable or chargeable to the federal award.

Let's talk about the standards that have to b e met. The first one is that the cost is incurred specifically for the federal award. This is a cost that was incurred and was necessary for the performance of the federal award. Also note that the cost benefits both the federal award and other work of the non-federal entity. So, this is cost that's not just—part of it is assignable to HUD, but maybe another part of that cost is incurred for another or other work of the entity or other operations necessary for the entity to run, but note, it can be distributed in proportions that may be approximated using reasonable methods.

If you're going to say that a cost is chargeable to HUD, and say 25% of this is specific to this federal award, it must have a reasonable method for determining that amount. These amounts cannot just come out of thin air. There has to be some reasonable method for determining that 25% of this is chargeable to the federal award.

Then, our last part, cost is necessary for the overall operation of the non-federal entity and is assignable in part to the federal award in accordance with principles in this subpart.

Again, this is a cost that may be necessary for the entire entity to run. This cost is necessary for the supervisors. These supervisors are required for our entity to run its overall operation, but a part of it is assignable to housing counseling or assignable to a specific federal award. These are the standards that have to be met in order for costs to be allocable.

Then, the last part of our equation is minus applicable credits. So, what are applicable credits? Applicable credits are receipts or reduction of expenditure-type transactions that reduce expense items allocable to direct or indirect costs. In this case, we're talking about a decrease to our total allowable or allocable costs.

So, what are some examples of that? It's talking about purchase discounts. If you receive an invoice for $10,000, and it's a direct allowable cost, that's fine, but if there's a purchase discount that says you can get 2% off if you pay this invoice within ten days, and you take advantage of that discount, you must then reduce that credit to your total cost. So, your total allowable cost or your direct allowable cost would be $10,000 minus your applicable credit of $200. So, that's one example that has to be followed in order to arrive at total cost.

Other examples may be rebates or allowances, insurance refunds, adjustments of overpayments, so if you had an overpayment, you cannot charge the federal award that overpayment. You must make the adjustment to what actually was paid.

Same thing with erroneous charges. Do not charge the erroneous charge to HUD or to housing counseling to your federal award. You must make that adjustment to show the correct amount that was actually paid.

That takes care of our total cost equation. You have total cost is equal to allowable direct costs plus allowable indirect costs minus the applicable credits. Now let's see what the Uniform Guidance has to say in terms of classifying cost as either direct or indirect.

Let's start off with the definitions. The definition for direct cost is cost that can be identified specifically with a particular final cost objective, particular award, project, service, or other direct activity of an organization. So, these are costs that are incurred specifically for one final cost objective or for one particular award. These costs were incurred just for that purpose of fulfilling that award or that cost objective.

Let's look at indirect costs. Indirect costs are costs that have already been incurred for a common or joint objective. These are costs that have multiple cost objectives. They affect maybe multiple federal awards, maybe multiple cost objectives for the entity. These costs cannot be readily identified with a particular final cost objective. So, they're not in line with just one cost objective or one federal award. They affect multiple avenues, multiple final cost objectives.

So, how do w e determine those? Let's see what the Uniform Guidance has to say in terms of classifying these costs. It notes that there is no universal rule for classifying certain costs as either direct or indirect. The Uniform Guidance cannot just give you a list of things to say all these costs should always be classified as direct, or all these costs should always be classified as indirect. So, a cost may be direct in respect to some specific service or function, but indirect in respect to the federal award or final cost objective.

So, you may have a situation where in your entity these costs are considered to be direct, but it's possible that they are considered to be indirect in respect to the federal award or to a final cost objective. So, there is no universal rule for determining that. All these costs are considered and always classified as direct, and all these types of costs are always considered indirect. It doesn't operate like that, so we'll have to determine, we'll have to use some judgment in order to determine that.

Note that at the bottom, it is essential that each item of cost incurred for the same purpose be treated consistently—there’s that word again, key word consistently—in like circumstances either as direct or as indirect costs in order to avoid possible double charging of the federal award.

Again, if you’re going to determine that something is direct, the cost is direct for this federal award, for this purpose, you cannot then turn around and say that same cost is indirect. There must be some consistency applied to those costs to the federal award so that you avoid double charging your awards.

Because of the diverse characteristics and accounting practices of nonprofit organizations, it’s not possible to specify the types of costs which may be classified as indirect in all situations, so this is the Uniform Guidance telling you again that because the cost of the characteristics and accounting practices of costs may be different across all non-federal entitles, it cannot determine just one list of things that should always be determined as indirect, that should always be determined as direct.

So, again, that’s when the federal guidance gives a little leeway to the actual federal award to determine what may be determined as direct or indirect.

So, the next bullet says identification with the federal awards rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect cost to federal awards. So, that’s when you have to go to the actual federal award, the actual housing counseling grant agreement to see what it says about whether cost should be determined as direct or indirect, not so much the nature of the goods and services of the entity, but how it relates to the federal award.

Some typical examples we listed here that are usually typically indirect costs are depreciation on buildings and equipment, the cost of operating and maintaining facilities, general and administration expenses like officer salaries, personnel administration, and accounting. So, these meet those standards that we talked about earlier where they aren’t directly affected by the performance of a federal award, but they’re incurred for a common joint objective, and they’re necessary for an entity to run. So, officer salaries, accounting, administration, these are things that are necessary for an entity to operate, but they’re also allocable to the award.

Let's go into a little more detail about housing counseling, in particular. So, we pulled the FY '19 grant agreement at Section 9 about price. Let's see what it has to say about indirect cost rates. So, HUD will respect cost classifications determined in a dually-approved negotiated indirect cost rate agreement or cost allocation plan. We're talking about a NICRA in this situation. Some of you may have heard that word before. We're going to talk about it a lot today.

A negotiated indirect cost rate agreement or a NICRA, this is an agreement that is in place that is negotiated between a cognizant agency and the entity to determine that these costs are determined to be indirect, or this rate is approved to be indirect. HUD is saying that it will respect that if you have a NICRA in place, HUD will respect the cost classification determined in that NICRA.

HUD may require applicants to provide supporting documentation supporting classification of direct and indirect costs. So, if you have a NICRA in place or plan on using a NICRA, you must submit that in your application to provide supporting documentation of the classification of direct and indirect costs.

Also, if grantee intends to charge indirect costs to its award, the grantee's application must clearly state the rate and distribution base it intends to use. So, in the NICRA it will have the rate that you're going to use, and it will have the effective period that rate is available for, and then they'll also note the distribution base in the NICRA as well, so whenever you're doing your application for your award, if you intend on charging indirect costs, you must submit that NICRA as supporting documentation for the classification and for the rate and distribution base.

Let's talk about the NICRA and the 10% de minimis rate in a little bit more detail. Like I said, a NICRA is a negotiated indirect cost rate agreement. It is an estimated indirect cost rate that is negotiated between a federal cognizant agency and a grantee. So, a cognizant agency works with a grantee to determine that this is what is reasonable and estimated to use for your indirect cost rate.

The NICRA would define the indirect cost rates for each applicable program as well as base costs at which the rates are calculated. So, not only does it have the rate in there, it has the base for how to calculate those rates. They'll say all direct costs times the indirect cost rate or all direct costs excluding certain expenses like equipment or capital expenditures is the one I've seen the most common, but that gives you the base cost for what you're supposed to use in order to calculate that rate.

Let's continue on in the grant agreement about what it has to say about NICRAs. State and local government grantees who receive more than $35 million in direct federal funding per year may not claim indirect costs until it receives a negotiated rate from a cognizant agency meaning if you are a state and local government grantee, and you receive more than $35 million in direct federal funding each year, you must have a NICRA in place in order to charge indirect costs. You're not eligible for that 10% de minimis. You must have a NICRA in place from a cognizant agency in order to charge indirect costs.

On the other side, state and local government grantees who receive less than $35 million in direct federal funding per year, they can either elect to complete a NICRA or choose to use the 10% de minimis rate of the modified total direct cost, or MTDC. We're going to talk about it in a minute. We're going to go over an example how to calculate that MTDC and charge the 10% de minimis rate, but state and local government grantees who receive less than $35 million in direct federal funding per year can either elect the NICRA or the 10% de minimis.

Let's talk about the 10% de minimis now. In the Uniform Guidance, it states that any non-federal entity that has never received a negotiated indirect cost rate may elect to charge a 10% de minimis rate—a de minimis rate of 10% of modified total direct cost which may be used indefinitely.

So, that's saying if you have never had a NICRA in place, then you can elect in your application, you can elect to say that you want to use the 10% de minimis rate. However, if you have received a NICRA at any point in time, you must continue to use a negotiated indirect cost rate. It cannot flip-flop back and forth. Once you have a NICRA in place, you must always continue to use a NICRA, but if you elect to use the 10% de minimis, then you can use that rate indefinitely.

Just to recap, these are the entities that are ineligible to use the 10% de minimis rate: state and local governments and Indian tribes receiving over $35 million in direct federal funding per year and non-federal entities who have had at any time a negotiated indirect cost rate or approved cost allocation plan.

Now, let’s get into actually calculating that indirect cost expense, and we’re going to use the 10% de minimis of the MTDC or modified total direct cost method. So, this is a little tricky. We have some examples in here to show you, but let’s talk about what the MTDC is.

In the Uniform Guidance, it states that the modified total direct cost means all direct salaries and wages, all applicable fringe benefits, materials and supplies, services, travel, and the first $25,000 of each subaward. Note, that’s a big one there, the first $25,000 of each subaward is only applicable to the MTDC.

The MTDC excludes equipment, capital expenditures, and the portion of each subaward in excess of $25,000, so only that first $25,000 can be used in calculating your indirect cost expense. Again, that’s a little tricky, so we’re going to walk through an example that hopefully will make that a little bit clearer.

We’re going to actually calculate that modified total direct cost in order to calculate our indirect cost expense. You see in the example here for our example foundation, to the left you have our line items: direct salaries, fringe benefits, travel, supplies, and marketing. Then this grantee has three subgrantees: Subgrantee A, Subgrantee B, and Subgrantee C.

They submitted an approved budget of $120,000 for direct salaries, $35,000 for fringe benefits, $10,000 for travel, $10,000 for supplies and marketing. Subgrantee A and Subgrantee B have an approved budget of $25,000 each, but you see Subgrantee C has an approved budget of $50,000, so we have a total approved budget of direct costs for $275,000. Subgrantee C, only the first $25,000 of Subgrantee C is eligible to be used to calculate our indirect cost expense.

In that case, we have to apply the MTDC, the modified total direct cost, so we go back to our definition, the MTDC includes all direct salaries and wages, all fringe benefits, travel, supplies, marketing, and the first $25,000 for subawards. So, let’s go and calculate the actual MTDC. So, the entire $120,000 can be taken for direct salaries, the entire $35,000 for fringe benefits, the entire $10,000 for travel, the entire $10,000 for supplies and marketing. Subgrantee A and Subgrantee B can take the full $25,000 that they were approved, but note Subgrantee C can only take $25,000 of their $50,000 approved budget. In order to calculate our indirect cost expense for the grant, we can only use $25,000 of that direct cost.

So, you see our total MTDC is $250,000, whereas our total direct cost is $275,000. Now that we've calculated our MTDC, let's calculate our indirect cost expense using the 10% de minimis.

You'll see in our approved budget the $275,000 for total direct cost, but our MTDC was $250,000, so we must take 10% of the $250,000 in order to arrive at our total indirect cost which is $25,000. Note that we did not take 10% of the $275,000. That would be incorrect. You must use the modified total direct cost in order to calculate our indirect cost expense.

You'll see in step 3, again, we have our total cost equation: total allowable direct cost plus allocable indirect cost is equal to total cost. So, we had a total direct cost of $275,000, but our indirect cost was only 10% of $250,000, so we only had indirect costs of $25,000 to get to our total cost of $300,000, so that's an example of the approved budget.

Let's walk through another example. Like I said, it's a little tricky. It took me some time to understand it. These examples help me. Hopefully, they'll help for you guys as well.

Let's look at an actual expense report, so here we have a quarterly report for a total expenditure summary. We have our grantee name of ABC Foundation, and this is their current reporting period of January 1, 2019 through March 31, 2019. You'll see here the same line items that we had in the prior example, the direct salaries, fringe, travel, supplies, and marketing, and then we have our three subgrantees there as well. Same amounts for the approved budget of $120,000, $35,000, $10,000, $10,000, $25,000 for A and B, and then $50,000 for C.

If you look at the third column to the right, you'll see your prior period expenses. This agency already expensed some expenses from their line items already, so let's take a look at that. We have $51,000 for direct salaries, we have $9,000 from fringe benefits, Subgrantee A had $3,000, Subgrantee B $9,100, and Subgrantee C had $12,000 in expenses. We didn't have anything for travel, and nothing for supplies and marketing.

You'll see here our total direct cost was $84,100 for our total direct cost. In order to calculate our indirect cost, we took 10% of the $84,100. You can't see it all the way because the box is in the way, but 10% is our indirect cost expense of $8,410. So, we were able to use all those expenses that were incurred for that period, so none of the subgrantees went over $25,000.

You look at the column to the left of that, we have our current period expenses, so we have $6,000 for direct salaries. We had $1,500 for fringe benefits, again zero for travel, zero for supplies and marketing. Subgrantee A used $3,600, Subgrantee B $9,000, and then you see for Subgrantee C they're expensing $14,500 in the current period.

But wait, we can only use the first $25,000. Now, we have to calculate the modified total direct cost in order to calculate our indirect cost expense for this period. Let's go to the column to the left of that. You see in blue, we have our current period MTDC. So, again, the Uniform Guidance says we can take all the direct salaries, all the fringe benefits, all travel, supplies, and marketing, and then the first $25,000 for subgrantees.

So, $6,000 for direct salaries. We can include that entire amount. Then, $1,500 for fringe benefits. We can include that entire amount. Zero for travel, zero for supplies and marketing, so they haven't recorded any expenses for that. Subgrantee A we can take full $3,600, subgrantee B we can take that entire $9,000, but for Subgrantee C we can only take that $13,000 of their $14,500 in order to calculate our indirect cost expense because they capped out at $25,000.

So, you sum all those, and we get our modified total direct cost of $33,100. Multiplied times our 10% de minimis rate, we get $3,310 as the indirect cost expense, and you'll see that moved over to the line for current period expenses. Note that we did not take the total direct cost of $34,600 times 10% to arrive at the indirect cost expense. We used the modified total direct cost to arrive at the indirect cost expense, and then we add that to the total direct cost to get $37,910.

I hope that's clear for everyone. I know that's kind of a lot to take in. That $25,000 limit can be a little tricky. Again, it was a little tricky for me as well to understand, but hopefully, this example will help you guys understand how to calculate that 10% de minimis if you have a subgrantee in excess of $25,000 for direct costs.

Let's talk a little bit about the differences between branches and subgrantees because the indirect cost rates are going to be a little different. The rules are different for what are considered to be branches and what are considered to be subgrantees. Let's look at the definitions real quick.

A branch is an organizational or subordinate unit of a parent organization. It is not separately incorporated or organized, and they participate in HUD's Housing Counseling program. So, the key there is not separately incorporated or organized. It is essentially a part of the parent organization.

However, subgrantees are separately incorporated and separately organized. They're an affiliate of a HUD-approved intermediary or state housing finance agency that receives a subgrant from a housing counseling fund under the HUD Housing Counseling grant. Let's see how the rules are a little bit different for each one of these.

Since branches are a part of the same legal entity as the parent, they cannot apply their own indirect cost rate. They must use the parent's indirect cost rate. So, if a branch is considering using a different indirect cost rate than the parent, that is not allowed. Since they are a part of the same legal entity, if a parent has a NICRA in place or a parent is using a 10% de minimis, then the branches must use that same NICRA or that 10% de minimis. They cannot use a different rate.

Conversely, the parent organization does not have to limit application of their indirect rate to the first $25,000 since funds allocated to the branch are technically not subgrants, and thus they're exempt from the MTDC limitation, so while branches can't determine their own indirect cost rate, they don't have to worry about applying that MTDC of the first $25,000.

Le's look at subgrantees. Unlike branches, subgrantees are separate legal entities from their parent, therefore, they are entitled to apply indirect cost rates using either the de minimis rate or NICRA even if the subgrantee has its own NICRA. So, they do not have to worry about what the parent is using. If the parent is using a NICRA or the parent is using a 10% de minimis rate, it doesn't matter.

So, the subgrantees are its own separate legal entity. They can apply their own 10% de minimis rate, or they can apply for a NICRA and use the NCIRA, but note that a subgrantee cannot use the parent organization's NICRA. If the parent organization has a NICRA in place, the subgrantees cannot piggyback on that NICRA. They must get their own NICRA or use the 10% de minimis rate.

Here are just some references that we used in putting together these slides. I hope this was helpful for everyone. Again, if you need to access the

Uniform Guidance, I access it every day, I have it saved to my desk top, here are some links that you can go on and find the Uniform Guidance, have it saved down or bookmarked to your computer so that you can access it quickly.

Here are some of the other references we used. I promise we didn't make any of this information up. We also used the HUD Housing Counseling Program Handbook, so here's a link to that as well if you need that information. We also used the FY '19 grant agreement from the Housing Counseling program, so all grantees should have access to that grant agreement. If you need to reference to any of these examples, they'll be in the grant agreement.

Hopefully, that was helpful for everyone, that example. Then, just going through the Uniform Guidance in that handbook to see what parts of the cost principles are most effective. Hopefully, that was helpful for understanding how to determine direct and indirect costs.

Our contact information is included as well, but please use the housing counseling email address that Ginger told you about in the beginning in order to ask any questions. Those will be filtered to us, and then we'll be able to respond to your questions there as well. That information is in Appendix B for the HUD OAC contacts.

Like Ginger mentioned in the beginning, if you logged into the webinar, you'll receive a certificate of training from GoToWebinar with the next 48 hours. Please print this out, and save it for your records. It is proof that you are now an expert in all things indirect cost and that you were trained by Blair Clarke, so it's an excellent thing to have and print out for your own records.

Ginger, I think you were going to take care of the rest of the logistics side.

Virginia — One of the things that we have if you go to HUD Exchange, and go into our training archives, if you view any of the past webinars that we've held, you can actually get credit for it. It will go into your record on HUD Exchange. You'll have to register for HUD Exchange, but if you go to the archives, you'll see that little box that says, "Get credits for this training," and that will be archived training, not this current one.

Just click on that, and you will go through the system to show you how to do that. So, that's an encouragement to look at our archives and take the training that is really most valuable to you.

Next slide. This just shows you where you can find that, and our weekly training digest just to keep you updated. It lists all the training by our training grantees as well as other training partners, and of course, training like this that Allmond gives.

Let me do one more thing, and then we can go back to the questions. The next slide. Again, as Blair gave you some of the information on the contact information, if you do not already subscribe to "The Bridge," our newsletter, go ahead and do that on the HUD Exchange site.

The next slide. I wanted to go over this before we go back to Blair for questions. If you have comments on the training, please go into the question box before you sign out, and just tell us if the webinar was useful to you, to your clients. Are you going to share the information? Just any other comments. We need to have feedback so we can continue to always improve our webinars.

So, Blair, let me turn it back to you for questions. I believe that there were a couple sent in online that Vanessa may be able to go over with you.

Vanessa — This is Vanessa McCollum. I'm going to go over the questions that were submitted. The first question is, "Once an agency elects to use the 10% de minimis rate, do they have to continue to use it year after year, or can they stop using it at any time?"

I'm not quite sure what you're getting to, but once you elect to use the 10% de minimis rate, you should continue to use it. If you have some particular reason why you want to stop using it, maybe you decide that you want to apply for a NICRA, once your NICRA becomes approved, you can use that instead of the 10% de minimis, but otherwise, you should just stick with that. If there's a particular situation that comes up, maybe the answer would vary a little bit, but I hope that what I said was useful.

The next question is, "Is it $25,000 MTDC cap per subgrantee, or as an aggregate for all subgrantees?" The answer to that is the $25,000 cap is per subgrantee. So, if you have multiple grantees who receive awards over the $25,000, each subgrantee can charge indirect up to that initial $25,000.

Another question, wow there's a lot. There's a question about a state-negotiated rate. We will have to get back to you on that one because I'm not quite sure what the answer is to that one, but the question is, "We are a subgrantee through NeighborWorks America, and we have a state-negotiated rate. Based on this, we can utilize our negotiated state rate as a subgrantee, correct?"

I want to say that your state-negotiated rate is different from your federal grant award, so you would need to use a federally-approved indirect rate for your subgrant, and not your state.

Virginia — Vanessa, I think the rest of the comments are in response to us asking them their opinion as opposed to true questions.

Vanessa — I see one more question, and they asked, "What are the cognizant federal agencies?" Someone from HUD will have to respond to that. Is anybody on the line?

Tracy — Hi, this is Tracy Fields. Right now, there's been a renegotiation of that, so we'll have to get back with you because it was Health and Human Services that was the cognizant agency. I think now they're negotiating for the Department of Interior to be the new cognizant agency, but it's still in the works, so it'll probably be maybe another couple of months before that is approved.

I think from what else I heard, there will be something going out to the agencies about an extension of the indirect cost rates that are approved right now. So, just look out for Jerry Mayer's emails on the lists. There will be something eventually going out for it. Thank you.

Vanessa — Thank you, Tracy. There are no more questions. If you have questions in the future, you can submit them as Ginger stated earlier, and we can respond to those by email at a later date.

Virginia — Operator, are there any questions in the queue?

Moderator — [Operator instructions].

Virginia — We'll wait a moment.

Moderator — We have no questions through the phone.

Virginia — Alright. Thank you very much. Blair, do you have any other comments?

Blair — I do not. I just want to thank everyone or listening in today. Hopefully, this training presentation was helpful, and again, everyone is now an expert in all things indirect cost. I thank you, everyone, for the time. Please, everyone, stay safe, and have a good rest of your day.

Moderator — That does conclude our conference for today. Thank you for your participation and for using AT&T TeleConference. You may now disconnect.