# Final Transcript

**HUD – US DEPT OF HOUSING & URBAN DEVELOPMENT: Understanding Indirect Rates**

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## SPEAKERS

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## PRESENTATION

Moderator

Ladies and gentlemen, thank you for standing by. Welcome to Understanding Indirect Rates conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. [Operator instructions]. As a reminder, this conference is being recorded.

I'd now like to turn the conference over to our host, Ms. Robin Booth. Please go ahead.

Robin Good afternoon, and welcome to the webinar sponsored by the US Department of Housing and Urban Development Office of Housing Counseling. This is Understanding Indirect Cost Rates, is the webinar.

In addition to the general logistics, there was an email sending an updated webinar invite, including a webinar link. It was sent approximately 30 to 45 minutes ago. If you are having any problems logging in, please use that link. There were two links assigned for this webinar; the first link has been canceled. The link that was just sent is the link that will get you into this webinar. So if you're still trying to log in, please check your email for that updated information.

As the moderator indicated, it is being recorded, and the playback number, PowerPoint, transcript and all the other information will be uploaded on to the HUD Exchange and made available to you in approximately two business days.

You should receive an indication, if you're registered, that the training digest on HUD Exchange has been updated. So you should get that information when it has been updated.

Prior to the webinar handouts were sent to you, if you were registered. In addition, if you were registered, in the control panel there is a PDF file that contains webinar material. Once again, these materials will be made available on the HUD Exchange within two business days after the webinar.

As far as Q&A periods, we may have Q&A periods during this session. It appears as if we do not have the number of participants that may allow us to have these questions live. However, throughout this webinar we do have staff on board that can respond and assist you as you ask real-time questions. If you look at your control panel, you should see a box that says Questions. You can submit questions throughout the webinar, and those professionals will be able to respond, and if not during the webinar, we would ask you to send those questions to us subsequently to the webinar. So you can send those questions subsequently to housing.counseling@hud.gov. That information will be repeated again at the end of the webinar.

We may review some of the questions submitted during the webinar, and if there's time we may answer some of them live.

We do not anticipate an open discussion period. Your phones have been muted. However, if you would like to ask a live question, you can hit star zero and you will be put into the queue. Throughout the presentation, if we have time, I will ask the moderator if there's any live questions in the queue, and you will be able to then ask the question live.

To verify participation in the training, if you registered you will receive an email stating thank you for attending. There will be no attachment to that email. The email itself represents your certification. Please make sure you keep that information, either on hard copy or download it and save it on your file. There will not be any subsequent emails or attachments indicating that you participated in this training.

You may also have the opportunity to get credit for these materials. The webinar materials will be, as we said, posted to the Exchange. Once you click on that Exchange webinar, you find the date by topic and then you select that particular webinar and click Get Credit for This Training. At that point you should be able to get credit for this training. But you need to wait until the information is uploaded on to the HUD Exchange, and then go there and select that webinar and then click Get Credit for the Training.

W Excuse me.

Robin Yes.

W Robin, no one can see your screen. Can you make it full screen so that the participants can see?

Robin Okay.

W I think you're sharing the wrong screen.

Robin Can they see it now?

W Not yet. No, it's still not—there you go. That's it. Thank you.

Robin Okay. All right. Thank you for letting me know. Hopefully everybody can now see the screen. As I said, the first slides, you didn't miss anything. They were all logistic slides, so basically I explained those things.

My name is Robin Booth. I am the Audit Principal for Booth Management Consulting. We are the contractor for the Office of Housing Counseling, providing quality technical assistance, audits, training, financial and administrative reviews, action plans and other financial analysis for the Office of Housing Counseling, specifically for the comprehensive housing counseling grant.

Many of you may have worked with us in some capacity, either through grant execution or technical assistance or in other training webinars, and in addition, we provide one-on-one training. Hopefully, you interacted with us as grant awardees for the comprehensive housing counseling grant.

On the line we also have Petergay Bryan, Delbert Strawther, and Joshua Lee, all available to respond to any questions that you may pose from the control panel. As I said, if you have any questions throughout this presentation, please refer to the control panel and post those questions, and we'll be sure to respond.

Indirect cost rates. I think this topic has more prevalence now than ever, especially with Office of Housing Counseling's transition, in this particular grant, to accepting eligible costs associated with the grant award. I think one of the big areas that OA looked at was getting the most effective use of the grant dollars awarded to the various grant awardees. When they looked at the most effective use and the most effective costs, there's more emphasis placed on direct service, so having those direct costs that provide direct services, and then really utilizing agencies' ability to claim indirect cost rates to provide them with supplemental dollars to assist them with running the overall organization.

So what has happened, especially in FY18 grant, is that there's been a transition to eligible costs. We will discuss some of the eligible cost transition here under this particular webinar, but what it really does is kind of strongly encourages and pushes or directs agencies to fully take advantage of their ability to charge indirect costs on these grants. So some costs that were historically allowed to be direct costs under FY18 grant are now not allowable under this grant for direct cost.

It's not suggesting that they're not allowable under the Uniform Guidance, but just that HUD, as the federal agency, they can make certain designations as to direct costs that they will allow under their grant award. With that said, some agencies are experiencing, especially going through the grant execution process, there's a challenge to make sure you fully understand what eligible cost is.

Then there's also that challenge of understanding well, if costs that are historically charged as direct costs are now not allowable as eligible costs, where do I recapture those costs? Therein lies using the indirect cost rate. So when HUD looked at the cost structure, the most common costs charged to the grant, they realized that certain costs that are charged direct can in fact be included in an agency's indirect cost allocation.

This topic becomes even more prevalent as many of you try to figure out how do we charge these costs, how do we get indirect costs, what rates do we use, what costs now are considered allowable, direct costs, because of course that impacts how you compute your indirect cost. So hopefully we'll be able to answer some of those questions.

We're going to go over just understanding indirect risk and direct cost and the differences therein, looking at allowable and excluded costs, looking at your options for charging indirect costs and what do I use, the indirect cost rate versus the 10% de minimis rate, versus if I have an approved cost allocation plan. So what factor or what rate do I use to recapture these indirect costs?

Then we take those rates and we help you to compute them in various scenarios. If you're an intermediate parent or you have sub-awardees, we try to give you some direction on what your sub-awardees can do relative to these indirect costs. Then we always want to remind you of what your record retention requirements are, because even if you're computing indirect cost, there's still record retentions required.

Lastly, we always want to make you aware of services that you can receive as a grant recipient to assist you in understanding this topic, and making sure that you're properly computing and requesting and getting reimbursed for indirect costs.

So what's an indirect rate? It's a ratio. Bottom line, it's a percentage, but it's a percentage based on cost. What it does is basically saying, there's certain costs that you incur directly to provide the services you've been awarded under a particular grant. Those costs are your direct costs. But then there are other costs that you incur to be in operation and to be in a position to be able to provide those direct services. So, no, they're not direct costs associated with performing the work, but they're costs you incur to remain in existence and to operate and to function daily, that support your ability to provide direct services.

And that's what that is, it's a ratio based on cost. I know a lot of times just in financial planning and when you're looking at your agencies, a lot of agencies look at their support, meaning their revenue or their various sources of funding, and they look at percentages of received, the sources of funding to try to understand who's really burdening them the most. Under the Uniform Guidance principles and under federal awards, all of those ratios are based on the costs associated, not with your actual support.

And sometimes that's a transition. Everything about an indirect rate is based on costs or expenses, and it's a ratio really just to make sure that you're getting allocated a fair share of that particular grant funding resources that you're burdening in order to provide the services to the government.

So now with the Uniform Guidance, the government recognized that many agencies who do not have what we call a "negotiated rate," they weren't able to recoup indirect costs. So pretty much as grant recipients you were told, hey, you just can charge direct costs. And your question will be, well, how do we capture these other costs that we incurred just to be in existence in order to provide these direct services? Under the Uniform Guidance, that's where the government came up with that 10% de minimis rate, which basically says if you don't have any other kind of negotiated rate or agreement where you can capture those kinds of costs, we'll allow you to take 10% based on a certain base, or based on a certain cost structure, to help you recoup those costs.

So with that said, OHC looked at how they were funding grants and how the monies were being used, and said, you know what, most of our agencies before, especially LHCAs, the smaller agencies that didn't have a negotiated rate, they had no means to recapture those indirect costs. But since the implementation of Uniform Guidance and a 10% de minimis rate, they now have a means to actually recoup those costs. And we want to be able to direct those agencies to take advantage of that 10% de minimis rate and to only charge direct costs that really provide direct service on the ground. That's a part of this whole transition to eligible cost.

How does the indirect rate work? One, agencies, as I said, you provide direct services. You've got a grant and you're providing direct services under this grant, and you incur these costs, and these are costs necessary to perform that grant.

I often say when you think about direct cost, and when you're going through a grant and you're coming up with your budget and trying to identify direct cost, you should say to yourself, does this cost only exist because we have this grant? So if this grant wasn't here, would this cost go away? If you didn't have the housing counseling grant, would you not need these counselors and would you not do this travel, or would you not have these dues and subscriptions for the agency, or would you not do this training?

When there's a direct relationship between the ability to perform the work and the cost, then generally they'll meet the test for direct expense. And for your direct expenses, yes, you charge 100% of those direct expenses directly to the grant, and, yes, they have to meet the cost principles of being allowable, reasonable, allocable and necessary.

However, for those costs that are associated with you being in operation and really are costs associated with you running your organization, those costs provide benefits to all your awards, whether it's a federal award or non-federal award, because really it's the foundational costs associated with maintaining your organization. The government has basically said, we recognize those costs, and we want to pay our fair share, and that indirect rate based on cost is how the government says we come up with our fair share, because the government doesn't want to be overburdened because maybe it's a federal award versus an award from another funding source, a non-profit or another agency.

They don't want the federal dollars to be overburdened for indirect costs, so you have more of the very limited budget dollars going to support your organization and less going to provide direct services, consistent with whatever the grant requirements are. So they want to pay their fair share, but they don't want to be overburdened or make sure those dollars are being spent more on indirect versus those critical direct expenses necessary to perform the services awarded under the grant.

With that indirect rate, there's really three options that you have available to you. One, the 10% de minimis rate. As I said, that was a rate that was effectuated under the Uniform Guidance, and basically we'll go over the criteria, but basically if you've never negotiated any kind of rate with the federal government and you're not a state or local agency, the government is conceding that we'll say to you 10% of your modified total direct cost we will consider indirect.

So you don't have to give us supporting documentation for that 10%, or whatever that is, and you don't have to explain how you're going to use it. We just recognize that 10% of those modified total direct costs are costs that we're giving you, or we're affording you or allowing you to use just to maintain operations.

The second, which is what historically has been the most common, is if you have a negotiated indirect cost rate, often referred to as a NICRA. Then the third for MSOs or state housing finance agencies, might be that cost allocation plan, which is where you're really allocating all of your costs and using various assumptions and methodologies. So you really don't segregate direct from indirect. All of your costs, in one way, shape or form are allocated to each of your grant awards. Once again, that's a negotiated document between you and a federal cognizant agency.

So in order to, first of all, identify which indirect cost rate that you qualify or falls within your purview, and then ultimately use that rate to properly compute your indirect cost, there are certain things you have to do. First, you have to identify your direct cost for the grant because the direct cost is the basis for your computation of the indirect cost. So when you compute your indirect cost using whatever the indirect cost rate is, whether it's 10% or the NICRA, you're multiplying that rate times some composition of direct cost. So you've got to separate your direct costs from your indirect costs.

Then once you understand what your direct costs are by grant, so that means that for all of your awards, all of your funding sources, you need to separate direct costs from indirect costs. Then you have to determine which of the rates you will use to compute, which do you qualify? Do you qualify for the 10%? Does your agency have a negotiated indirect cost rate agreement or cost allocation plan?

Then based on whatever rate is available to you and you're eligible for, you then have to do the correct computation. That requires you to understand what number, or what total am I multiplying whatever this indirect cost rate by to get my indirect cost. Therein lies some of the challenges we're seeing now, even in the grant execution process.

The first step, direct versus indirect. Direct costs specifically identify, are you only incurring these costs because you're attempting to perform on this award. Then those indirect costs are those costs that are not readily identified to a specific grant, but they add benefit to the entire organization, or your program areas or your service activities. So across the board all of your awards, "funding buckets," as I sometimes call them, because you have different funding sources, all of those things benefit from those costs, so they're not specifically assigned to one.

As a note, most of your indirect costs fall into two categories under the Uniform Guidance: you have facilities and you have administration. That distinction really only refers to those that are using a negotiated indirect cost rate. If you have different rates, if you have a facilities rate and an amended G&A rate, when you're using the 10% de minimis rate, it's one rate. So that distinction between facilities and administration is not as important when you're using that 10% de minimis rate. But if you have a negotiated indirect cost rate, you may have a facilities rate and you may have a separate G&A rate.

In 2018, as I said, there's more emphasis now on these eligible activities, and that's because they really want direct costs, which are the costs that the government's paying 100%, or reimbursing 100%, they want to make sure that they're costs associated with performing the activity. So it's consistent with the whole concept of being more performance-based and results-oriented.

Then because of this approach, now the agencies are being challenged to recover those indirect costs through indirect cost rates, as opposed to attempting to either come up with a methodology or a strategy to say, hey, these are costs that we incur in order to perform this rate. They may not be specifically direct costs, but we somehow are trying to get reimbursed for some portion of them under the grant. Well, that portion should be your indirect cost, and that's what now OHC is trying to get you to do, really use your indirect cost rate to recover those indirect costs.

When we talk about eligible activities, now, the thing about eligible activities is that the eligibility is determined really based on whatever the purpose of the grant award, or the services being provided under the grant award. There's no set costs or expenses, that only these expenses are considered eligible activities. If there's abnormal or one-off expenses, you can probably justify how that cost could be associated with eligible activities, although this may not be a cost that's routinely seen on these grant awards.

This illustration is giving you examples of some of the more common eligible activities. But we're not suggesting that these are the only eligible activities. So understanding that you identify the activity and then based on that there are certain expenses that could fall under those activities, which is what should really determine the basics for your budget. So of course salaries is an eligible activity because that's performing the actual housing counseling services, so that could be housing counseling, supervision, oversight, compliance, quality control, they're all salary. So this can include salaries to housing counselors, potentially supervisors or executive directors, or if you have a QC person that reviews all of the housing counseling packages, their salary is associated with this.

As we emphasized under our budgeting training, explanations and assumptions really help with understanding how certain expenses are being included on the budget. The more information you can give to help understand the connection between the expense or the costs that you're requesting reimbursement for, or you're including on your budget, and the eligible activities, the more likely that those activities can be considered acceptable and approved on your budget. Training, oversight, marketing, housing counseling certification, capacity building, and then of course we have these other costs, credit reports, information or documents to the client, CMS audits, those kinds of things.

One of the things that I would suggest to you, especially if you're receiving a small award, is that sometimes doing a cost benefit analysis, because although you do not need to support that 10% of whatever your indirect costs are, you have to ensure that you have supporting documentation for any costs that you're charging as direct.

So if you're getting a $15,000 award and pretty much you're going to use the award to do all counseling, it's less administratively burdensome, it's easier to keep supporting documentation. And if you just really include the salaries on your budget, versus going and maybe you have one day travel within the local area that might be a $50 overall cost, and using that travel, although it is allowable, and the travel could be for training, the travel could be for oversight, the travel could be for marketing, but when you look at what the administrative burden is, because, one, you have to maintain supporting documentation and all of those things, and if it's limited funding, it just may be easier to include it all with sales.

So when you think eligible activities, they may fall in different categories, so just be cognizant of that. And if you're not sure, feel free to discuss it with our HUD POC, and then if you need further clarity you can request additional technical assistance through OHC, and we can assist you with ensuring that those costs that you're including in your budget for approval meet the eligible activities requirement. And we know that that's a shift.

For indirect costs, and as we said, I think hopefully we've said this over and over again, but these are the costs that have been incurred for common or joint objectives, and not specifically identifiable to one thing. They fall into two broad categories. As I said, that is more relevant to having a negotiated indirect cost rate agreement versus that 10% de minimis rate, which is really just using that one rate.

To give you a visual of what that looks like, you have, as far as administrative versus facilities, and these are for organizations who are negotiating rates and maybe have more complicated rate structures, examples of administrative cost accounting management, mail service, human resources, and then examples of facilities is your rent and your janitorial. One of the biggest expenses that I would say is most impacted by OHC's transition from just allowable costs really to eligible activities cost is rent. OHC is no longer allowing rent to be charged as an indirect cost. The thought process being, rent is inherently a facilities costs as an indirect cost.

Historically, OHC has allowed agencies to charge rent as a direct cost if they had an acceptable methodology for how they were determining what portion of their rent should be charged as their rent. Now, though, under this transition, and with rent no longer being allowed as a direct expense, OHC's intention is for agencies to charge indirect costs, which should help them to recover those dollars historically that they've charged as direct costs for rent.

So it's not that they're saying, no, you can no longer be reimbursed for rent, but they're just suggesting that we're considering rent to be part of your indirect cost pool, and to the extent that you charge indirect costs, you're being reimbursed, or you're recovering some portion of rent within that indirect cost pool. So we know that that's rent.

And then any costs associated with rent, like telephone and utilities, those things that as you look at this illustration, clearly falls under facilities but historically OHC has allowed with reasonable and acceptable billing methodologies and assumptions to be charged as direct costs, they're now those costs that you're recovering in that indirect cost charge that you can charge on your budget. So as I said, it's not that they're no longer really reimbursing, they're just suggesting that the rent will be reimbursed as a part of your indirect cost reimbursement.

Now, all we've discussed about eligible activities and all those things, this does not negate or supersede the requirements under Uniform Guidance that any cost charged to a federal grant must be allowable, must be reasonable, and then must be allocable to a particular grant. So all the terminology or concept of eligible activities is doing is asking you to think about which costs you're charging associated with performing the work required under the grant. That's all that is.

But you still have to meet those same cost principles under the Uniform Guidance for any federal grant award relative to allowability, whether it's reasonable, or whether it's allocable. So even though, as I said, salaries for a housing counselor is an eligible activity, if you are attempting to charge the government $100 an hour for a salary for a housing counselor, that could be suggested to be unreasonable, which is not in compliance with one of the cost principles, and it can still be questioned, although it does meet the requirement for it to be an eligible activity.

Allowability, what is allowable, 2 CFR Part 200, you can read this for yourself, but you have to have sufficient systems, it has to be consistent with terms of and conditions of the specific federal awards. That bullet right there really addresses HUD's ability to determine that certain costs will not be allowed as direct costs under this grant. For some of you, where we've had the comment or the feedback, well, hey, rent is allowable, as this under CFR specifically says, if an award determines that certain costs or terms and conditions of the federal award determines that that cost is not allowable, it subsequently becomes unallowable.

Then of course to be allowable you have to ensure that it's properly and efficiently administered, the federal awards, so you have to maintain supporting documentation. And if it's expressly unallowed under CFR Part 200, there are certain expenses that are expressly unallowed, and then if it falls under one of those categories, then it's not allowable.

What makes a cost allowable? This is where we're citing the specific references in the 200, if you wanted to look them up. This isn't really, especially for a smaller budget, that's what we said if you kind of stay with those obvious costs associated with eligible activities, like salaries and things of that nature, then it doesn't require the level of technical knowledge and experience of the cost principles to make sure that you're applying these types of cost principles like allowability.

But for your quick reference, you can easily go to these particular sections of the Uniform Guidance of CFR to look into cost allowability, especially if you have a question about whether one of the costs that you may consider to be consistent with eligible activities, if that cost is in fact still allowable. So that's a good reference for you.

Another good reference on this slide is, as I said, under Part 200 2 CFR, the Uniform Guidance, there's certain costs that are expressly unallowable. So you need to read this, even if you just look at the category title, entertainment costs, fines, penalties and damages, so you just want to make sure that you're not including those costs when you're coming up with your direct costs associated with the program.

We talked about this, what is ineligible for this FY2018 grant? Salaries and fringe not spent performing eligible activities, such as client education, housing counselor training, marketing and research. So salaries for time not spent.

Eligible activities are all other things in the paragraph, so don't let me confuse you. Eligible activities are those things that are referenced in parentheses. If those salaries in fringe for time spent are not included, and some of these eligible activities in these parentheses, then I would strongly advise that you seek clarification with your HUD POC or through technical assistance and/or provide sufficient justification on how you've made that determination that it's an eligible activity when you submit your grant package or your budget for approval.

One of the things to keep in mind too is paid time off and how you treat holidays and vacations, because your holidays and vacation time should have been included in your computation of your fringe benefit rate. Just through our time working with this particular grant, we've gotten questions on, well, how do I charge time for housing counselors that are on vacation? Well that time should have gone into your computation of your fringe benefit rate so that you could have been recapturing those costs as a part of the fringe benefit pool. You cannot charge time to this grant for paid time off, for holidays, or any of those things, because that's not time based on actual work performed, which is a requirement of a cost reimbursable grant. So that's where you would be able to recover that kind of cost in your fringe benefit rate.

Other costs not eligible, fringe without corresponding salary costs, historically there may have been times where due to limited resources of the grant, as a recipient you said, well, you know, we won't charge the cost, the actual direct labor hours or direct salary costs, but we want to get at least the fringe benefits from this housing counselor. We'll subsidize or pay for the housing counselor without seeking reimbursement under this grant for their direct salary or their direct labor, but, hey, can you at least give us the fringe benefits for them? And that's no longer acceptable.

Unspecified administrative costs. Once again, that gets into your ability to provide sufficient justification on how certain administrative costs fall under the performance requirements. So to the extent that those administrative costs are not clearly related to the performance of the eligible activities, they're not going to be eligible to be charged as direct costs.

Travel, I went over rent and utilities pretty good, which include all of those things listed below—phone, internet and postage. Postage, that is an area, and you say, but we pay postage for certain programs, and I know that that issue has come up with several agencies as it relates to eligible cost, with the concept being that if you charge indirect cost, that postage would fall within that pool of costs associated with it. So indirectly, the government would be giving you dollars for postage, it's just not 100%. Supplies, general office supplies, and then technology and equipment, those things are no longer eligible costs under the CHC grant.

Now, what indirect cost rate are you using? We've emphasized how you have to use your indirect costs you have to charge indirect costs, well, how do I determine my indirect costs, how do I compute what my indirect costs are? That's when we get back to these three options under this grant, either you're going to be eligible and meet the criteria to charge it using that 10% de minimis rate, where 10% becomes the rate that you use, you have a negotiated indirect cost rate agreement or a NICRA, which you've negotiated with the federal agencies, so you're going to use those percentages or ratios or indirect rates that were approved with that negotiation, or have a negotiated cost allocation plan.

Please note that cost allocation plans are in fact negotiated as well, so you have to have an approved cost allocation plan, your agency cannot just submit a potential cost allocation plan with this grant and say, oh, we want to use this. Just like the negotiated indirect cost rate, it has to be a negotiated cost allocation plan that was approved by some federal cognizant agency.

Now, when we look at the options, and I've gone over this somewhat, there are certain options that are most prevalent or really best fit certain types of agencies. For instance, most of your LHCAs that don't have these negotiated NICRAs or negotiated cost allocation plans, you're pretty much the best candidates for that 10% de minimis rate. And we're going to go over what that looks like.

Generally, for larger LHCAs and intermediaries of parent organizations, you may have negotiated an indirect cost rate with a federal cognizant agency, and so you may have an existing NICRA as well as an MSO. As far as cost allocation plans, only state and local agencies can have those, so that's pretty much SHFAs and MSOs.

If you're an LHCA listening to this for the first time, unless you verified, and you have to verify that the agency has never had a negotiated indirect cost rate agreement or a NICRA, you will probably fall within those agencies that should apply the 10% de minimis rate.

Intermediaries and MSOs, and this once again will require communication with you and accounting if your agency has never had a negotiated indirect cost rate agreement or a cost allocation plan, you may apply. But most times intermediaries and MSOs, they have NICRAs, so at that point your negotiated indirect cost rate agreements become important.

Then SHFAs and MSOs, you generally have an approved allocation plan, cost allocation plan, which is then accepted under the CHC grant. And it's just a matter of making sure that those cost allocations were applied and computed accurately.

Pros and cons of option one. Now when you look at it, unless you're just going to say we're not trying to recover any indirect costs, hey, we're just going to use this award from HUD to pay 100% direct costs for eligible activities, and you can elect not to do indirect cost, then this entire presentation is not relevant to you.

But if you are a small LHC or someone that meets the requirements or the eligibility factors for something like the 10%, before the Uniform Guidance you would not have been even able to request any reimbursement for your indirect costs. So now the government is saying, we will give you 10% of your modified total direct cost, you just need to make sure that you have your correct total direct cost. And then we'll give you 10% of those dollars and allow you to use them just to run your organization. You don't have to spell out how you're going to use those indirect costs or anything like that.

So that's advantageous, it is allowing you to get some reimbursement for indirect costs. You don't have to submit any kind of detailed indirect cost proposal, which is required when you have a negotiated indirect cost rate agreement or you have a cost allocation plan. It's immediate, you do not have to get any kind of verification or approval from a third party. As long as your organization certifies and verifies that they meet the eligibility requirement, you can start using it immediately. There's no pre-negotiations. It's easy to compute because they keep it very simple, and actually because of the change in eligibility requirements for costs under CHC, I can't think of any cost that you can charge to this grant as a direct cost that would not fall within the modified total direct cost that's required to compute the 10%.

So it really becomes almost a no-brainer so that any direct costs that you have, because this limitation is on what you can charge as direct cost, should fall within those costs that you can multiple that 10% by. And you don't have to have a complicated accounting system or compliant accounting system or in-depth knowledge of the cost accounting and principles and cost centers and allocations, so it's really easy to compute.

The cons. Well, the biggest one is that you have to meet the eligibility requirement, and that requires you internally to do some due diligence and verify that the agency has never had any kind of NICRA or cost allocation plan, and you certify to that as a part of your grant execution process. So that's probably the most work you have to do, is to make sure that the agency historically has never had any kind of negotiated indirect cost rate agreement.

Now, you can only get 10%. You can get less than 10%, but you can't get more than 10%. So let's say your agency has grown and is getting more awards and it's requiring you to even grow, expand your facilities and your G&A, if you do not have a NICRA or cost allocation plan, no matter how big you get you can only use 10% of whatever your modified total direct cost. If your actual indirect cost is higher than that, you can't recover it using that 10% de minimis rate, so at one point you may need to negotiate an indirect cost rate agreement with the federal agency.

Certain eligible activity component costs are unallowable, so this is, as I said, because of how the FY18 grant has streamlined and more clearly defines what costs are not allowable, there probably will not be a big difference between your direct costs that are allowable so that you can charge that 10% against when you compute your indirect costs, and then those that you're just charging to the grant. There probably won't be a lot of exclusions or distinctions.

You still will have to track salaries, wages, you've got to keep all of the supporting documentation. Because although the government is not asking you to explain the actual 10%, they are asking you to make sure you have supporting documentation for the costs that you multiply that 10% by. So you're not keeping supporting documentation for the indirect costs, you are keeping supporting documentation for the direct costs that you reported, that you multiplied that 10% by to get your indirect costs. And that becomes clear when we go over an example.

Negotiated indirect cost rate, pros. One, you can get more than 10% because it will be based on your actual indirect cost rate, but you have to compute those things. But you can ultimately get more than 10% of your indirect costs. All federal agencies have to allow you to use that negotiated indirect cost rate. And you can request an increase. I used the example before with the 10% that if your agency grows, that you can get more G&A and facilities costs, you're stuck at 10%. With the NICRA, you can go back and request an increase based on your actual cost. So that is definitely a pro.

A con. You have to present an indirect cost plan, you have to have a strong accounting system, you have to have a federal agency that's willing to negotiate your indirect cost rate agreement, so they're willing to review your submissions and go through the negotiation process. And sometimes that can be very time-consuming, because with a lot of federal agencies there's an extensive backlog on reviewing this, and then having the federal agencies that are willing to negotiate an indirect cost.

Just an FYI, if you do want to negotiate an indirect cost rate, you have to submit that information to the federal agency from which you had the largest federal award. So you have to have a federal award, one, but you have to negotiate with the agency that's awarded you that largest federal award. You need more staff, very experienced and knowledgeable. Then every three years you're renegotiating. That 10% de minimis rate, we keep it until you decide to do something else. NICRA, you have to renegotiate every three years.

The pros for a cost allocation plan. As I said, state and local agencies are the ones that we see most, MSOs, SFHAs. With these, because they are very complicated plans, so of course one of the pros is you've come up with a method or allocation where you're really recovering 100% of all your costs, because you're coming up with the basis or a methodology to suggest that all of your costs are direct and you're coming up with how you can compute what those costs are. So you're recovering and you're looking at actual costs.

Cons: extremely complicated, very complex. You must have a very experienced and knowledgeable staff. It is, once again, negotiated, you have to have that federal agency that's willing to review and negotiate. It is subject to audit, just like the NICRA is, subject to audit and review, and you have to submit this cost allocation plan periodically. So that's why most of the time it's your larger agencies that have a very in-depth, detail-oriented accounting system managed by highly knowledgeable and experienced professionals with cost accounting. So that's some of your pros.

The 10%, usually this is for your smaller agencies, and including your sub-awardees. For some of the parents your sub-awardees probably meet the eligibility requirements for that 10%, and you have to allow them to charge indirect costs. Parents, you cannot suggest or in any way attempt to influence sub-awardees that they cannot charge indirect costs. In addition, they cannot use your negotiated indirect cost rate if you're a parent. A sub-awardee [ph] recipient, if they want to use a NICRA, they would have to have their own NICRA agreement between them and a federal agency. But you cannot tell them that you will only allow them to charge direct cost to a grant.

Just the eligibility requirement, I've said this repeatedly, the agency must have never received a negotiated indirect cost rate. You're asked to certify to this during the grant execution process, that you're not aware of the agency ever having any negotiated indirect cost rate. So even if they have an expired agreement and they haven't negotiated a new agreement in 15 or 20 years, they still would not be eligible for this 10%.

So that does require research. It does require communication and verification with accounting, finance, those who will be in the best position to provide that kind of confirmation that they have never had a negotiated indirect cost rate. Once you get that rate, you must use that rate indefinitely once elected, and it has to be used consistently for all federal awards.

I guess a point of clarification, and this just came up in some technical assistance we're providing, that statement is not suggesting that you have to charge indirect cost to every federal award, because there may be certain terms and conditions of other federal awards that says they're not accepting indirect cost. But what it is saying, is that if you're going to charge indirect costs on any federal award, you have to use your negotiated indirect cost rate. So that's what it's saying, you cannot for this federal award, one negotiated rate and this federal award use another. If you have a NICRA you have to consistently use it for any federal award for which you're charging indirect cost.

You must use that 10%, I was talking about negotiated, but the same is true for the 10% de minimis rate. If you've elected the 10% de minimis rate on other federal awards, if they allow you to charge indirect cost, you have to continue to elect and use that 10%. So let's say another federal award would allow you to charge 12%, you cannot charge 12% for the indirect. You have to use 10% if you elected that 10% de minimis rate.

The next big criteria is you have to only charge 10% of what we consider modified total direct cost, MTDC cost, which we're going to go over in an example. When you're determining your indirect cost, you're multiplying whatever indirect cost rate, whether it's the 10% de minimis or the rate of your NICRA agreement times what's referred to as a base. That base is a sub-composition of direct cost. So for the 10% de minimis rate, there are certain direct costs that you cannot include in that computation, and we'll go over those. But that's what we mean about the cost composition of the MTDC—MTDC standing for modified total direct cost.

If you received over 35 million in direct funding you cannot use the 10%, so of course that excludes state and local and Indian tribe agencies that receive 35 million [ph] in direct funding. You have to maintain documentation supporting the methodology. As I said, the documentation isn't on the indirect cost, but it's on what on those modified total direct costs that you multiplied that indirect rate by to get your indirect cost. So that's what you have to keep supporting documentation for.

Let's talk a little bit more about the modified total direct cost. If you're using this 10%, you have to use modified total direct cost as the basis for which you multiply the indirect cost rate by. You still have to meet the requirements for direct cost when you're charging it to an award that holds those same cost principles. So it still must be specifically identified to that grant award or to that grant amount. Under 2 CFR Part 200-68 it's real clear about salaries and wages, fringe benefits, these things are included, materials and supplies, services, travel, and sub-awards and sub-contracts up to the first $25,000 of each sub-award, which we'll show an illustration what that can look like.

But once again, they still have to meet the same cost principles of being reasonable, being necessary and consistently awarded. So they still have to meet the general Uniform Guidance cost principles for allowability, reasonableness and consistency.

What you cannot include in that modified total direct cost, and if you look at these costs you know that these costs are also no longer eligible costs under your CHC grant, so you cannot include equipment—any equipment whatsoever cannot be included. Remember, that's now something you cannot include as a direct cost under CHC. You cannot include any capital expenditures like buildings, or office equipment, furnishings, telephone networks, etc. That's also something you can no longer include as a direct cost under the CHC grant.

You can only include up to the first $25,000 per sub-award and per sub-contract. So, if you have multiple awards to sub-recipients you have to do a little tabulation or computation to see how much you can include in your MTDC, because you have to exclude anything over $25,000 per sub-award, or per sub-contract.

And then other things you can't include—rent, scholarship participants. No, rent is now a cost that you can no include under CHC. That's why I said if you're using that 10% de minimis rate, there's such a relationship or correspondence between eligible activities under the CHC grant and what you can include for your MTDC, that pretty much once you figure out your direct costs, to get your indirect costs, you can multiply it by 10%

if you're using the de minimis rate, and there goes your indirect cost amount.

So there is a good relationship, and we show that here on the table, housing counseling grants, specifically when you look at the eligible activities versus what you can include or exclude from the MTDC. I've said this, but there I guess in writing is the direct relationship. So it included labor [indiscernible]. Excluded, so when you're looking at your housing counseling grant, real clear, you can't include these things anyway, but you also can't include them in a modified total direct, starting with rent, utilities, technology, supplies, postage, all of those things.

Costs that are in an MTDC, and these are definitions, this is coming straight from the Uniform Guidance from direct salaries to direct admin, applicable fringe benefits are allowable under direct cost. If you do not have a fixed fringe benefit rate, then actual charges can be used in estimating these costs. So in your fringe benefit pool you're talking about what's fringe benefits, you're talking about your retirement, all of your insurances that are paid for by the employees, taxes paid for by your employer, such as unemployment and for your Social Security and

Medicare, those things, employer paid tuition and all other benefits. So those are things that are in your fringe benefits.

Your service contracts and consultant fees are allowable. You do have some salary limitations in your grant, so once again you can't just look at what the Uniform Guidance is saying is allowable, you also have to look at if there's any terms and conditions in your federal award that differ from what's considered allowable per the Uniform Guidance. In this instance, HUD has a ceiling on what you can pay for consultants. Travel costs are allowable, and then your sub-awards up to the first $25,000.

How that looks as far as you're now preparing a budget, you're trying to determine, you've come up looking at direct cost, which was the first step, you've identified your direct cost, and now you're looking at computing your indirect cost. Under this first scenario, you have a $300,000 budget. For your budget, your direct cost is actually going to be these costs right here, so these are the costs that you included.

Now, in future illustrations we're going to take off equipment, because that should be coming off, but let's just assume that these are the actual direct costs that you're going to charge to the grant, and they're fine.

These costs are fine.  However, it's now time to compute your indirect costs and you realize that although these direct costs are fine for the grant, you can't include them when you're trying to compute your indirect costs, because they're not included in the MTDC, so you have to exclude them.

So your direct costs, although they're $285,000, when you go to multiply your 10% for the de minimis rate, you can only multiply it by $215,000 because there are certain costs that are excluded.  That's what this illustration shows, that equipment which is not allowed under modified total direct cost.

And then for each sub-award, remember we said up to the first $25,000, there were three sub-awards of A, B and C received $75,000; D, C and E, $20,000; and M and O, $25,000.  Well, remember, you can only include up to the first $25,000, so we included only $25,000 of that $75,000 and we can include the entire $20,000 because it was less than $25,000, and we can include the entire $25,000.  But as you see, we excluded the amount that was over the $25,000, which wound up being that $50,000 for that one grant award.

So when we did the computation for the indirect costs, we multiplied the 10% by $215,000, which gave us $21,500 as far as indirect cost. Had you included all of your direct costs, you would have multiplied it by $285,000 to get $28,500, and you would have incorrectly over-claimed approximately $7,000, just because you didn't understand the components that should have been included in this modified total direct cost that you're multiplying times this rate. That's why you have to understand the components of the modified total direct cost.

In this scenario we have a $900,000 total award. Now, this month all of these costs are your direct costs. These are direct costs that you're charging to the grant. Now, you have to figure out how much can I charge for indirect costs, so there's certain assumptions. Sub-award to one grantee for $55,000, so once again we can only include up to the first $25,000, so we had to exclude $40,000.

Credit reports are not allowable under the MTDC. Credit reports are allowable eligible activities for CHC, but they're not allowable under MTDC. So we had to exclude those, the credit reports.

Consulting fees. As we said, every year there's a limitation per your grant, so here they were paying $155,000 in consulting fees, and even though the MTDC allows your consultant fees and you can charge them against the grant, there's a ceiling. So we still have to comply with the terms and conditions of the actual grant award amount, so we've excluded that from the modified total direct cost.

So now, even though we had $805,000 of direct costs, we're excluding $73,841. So when we do the actual computation, and this is just showing this in table form, when we do the actual computation we're going to multiply the 10% by this number to get this total indirect cost as opposed to multiplying it by the $805,000 to potentially have that indirect cost. So you can see that if you do not determine your MTDC correctly, you could be requesting more.

We took it a step further, though, and said, okay, remember, total grant award amount is $850,000, so even though we computed the indirect cost based on a 10% to be $73,000, you can only include indirect costs up to the amount of the federal award. You cannot charge in excess of the federal award. So a lot of times a lot of you will have to adjust what your 10% looks like to fall within the amount of the federal award. As I said, you can't charge more than 10%, but you may be forced to charge less. But the important thing is that you figure out what your actual 10% looks like and then go back and make the adjustments within the grant award amount.

And that's going to happen, because the numbers never work out perfectly. You generally have some kind of adjustment. You can adjust to less than 10%, but you cannot adjust to more than 10%. And it has to stay within the grant award amount.

Your NICRA, as I said, this is a rate that you're negotiating with a federal cognizant agency. On your NICRA, for those that have them, there are different rates that are part of that agreement. You'll have that provisional rate, which is a temporary rate that usually pretty much it's a billing rate, where they're allowing you to bill at this amount, even though they haven't necessarily determined what you final rate is.

Every year you should get your final rate, so you usually start off with a provisional rate and then you wound up with some kind of final rate. You may get a pre-determined rate, which is a rate that the agency, for instance, a lot of federal awards, the federal cognizant agency may say that this is your rate no matter what, and they can assign a pre-determined rate, and you keep that for two to five years, or you may get even a carry forward rate. Whatever your rate is under a NICRA, it will be on your NICRA agreement, for those of you that have them. It will indicate if it's a provisional, if it's a final, if it's a pre-determined, if it's a big carry forward. That is important, because you have to know which rate applies during the period from which you're preparing a grant.

So in this instance, when you're doing the grant and this is just an example of a NICRA and it's giving you the fixed carry forward, it's telling you that this is the rate that you can use for this period. This is the rate you can use for this period, and it's for all the programs. Down here it's telling you what their basis is. So remember modified total direct cost base, it told us what we can include and what's not, your NICRA will tell you what you're multiplying this rate by.

In this instance they're multiplying it by total direct costs less capital expenditures and pass-throughs. So their computation, they would have what all of their costs are, and then if they have any capital or pass-through costs, then they would have to subtract them from their total direct cost and multiply it by this rate during this period.

It's not uncommon for a negotiated rate agreement to be expiring. A lot of times agencies have submitted their indirect rate proposals, they're in negotiations or waiting for the federal cognizant agency to review the proposal, so these effective periods, they may not have a new NICRA with those effective periods. What we generally ask in those instances is verification that, one, you've submitted that indirect rate proposal to your cognizant agency, and it's at some level of reviewing that process.

Then we ask you to look at the rate that you're submitting and compare it to your historic rate, and to use the lowest rate when you're computing your indirect costs until you get that final updated negotiated cost rate agreement. That's just to—really, proceed on the side of caution. If you use a higher rate and then you go through negotiations with the government and they come back and say, no, we're only accepting this, and that lowers the rate, then that means you would have to go back and re-compute all your indirect cost rate billed to HUD under the grant, and possibly have an overpayment situation.

If you use a more conservative rate, like your historic conservative rate, or maybe your new indirect cost rate proposals, the rates are going down, there is more likelihood that your rates are going to be pretty much on point, or you may have undercharged indirect cost. And in those instances, you don't have to go back and say, unless you want to go back and request for additional payment, but if you submitted those invoices in being paid, you haven't received an overpayment, so you're fine.

You want to verify your cost rate, the effective date, the base, and then the indirect cost. The review I just went over with you with that sample in NICRA is the kind of review that you need to do. If you don't understand the rate, let's say you're the program manager in the budget, you should really talk to accounting and finance and make sure you know which rate agreement you're working from and what type of rates you're using.

The effective date is very important because I know when we reviewed NICRAs and we look at the rates you're using, we go back to that agreement and look at the effective date. This sentence goes into what I just said, that if rates are expired you can get modifications or extensions. You want to verify the dates. Remember in the indirect cost rate agreement, it told you specifically what the base is, and the base is what you're multiplying that rate by. So we made sure that that base is consistent with the negotiated indirect cost rate agreement. And usually bases are like with salaries and wages and then your fringe benefits, they're your normal bases or our MTDC.

Then you would compute your indirect cost, the same thing we did with—after you know you have the right rate for the right period and you have the right base, you compute those indirect costs, and that's what you would include in your budget to HUD.

I'm almost done. I see I'm a little bit over time, but I just want to make sure I'm tying in what's going on with the new grant and eligible costs to why it's so important for you to take advantage of using your indirect cost rate. If you have a cost allocation plan, as I said, that's a pretty in-depth document explaining how you're allocating all your costs as direct costs to all your programs.

Usually, this is state and local governments and public assistance programs, and they're the only ones that can submit a cost allocation plan, and it must be approved, just like an indirect cost rate. You have different kinds of allocations, you have the simplified, where it's not a lot of federal awards, they really only do one thing and all benefits from those indirect costs, they benefit to the same degree.

You can have multiple allocations, where you have a lot of different kinds of programs, state and local government programs, and they don't benefit to the same degree.

Then you can have a direct allocation plan, where all costs are charged directly to programs. So that's even more detailed, because for each program you're lifting out all the programs as opposed to grouping them together by maybe function or purpose, and then you're pooling and allocating those costs in those programs.

Other considerations. Just as this really has to go with the pass-throughs and intermediaries, you cannot tell intermediaries they cannot use—I'm sorry, intermediaries cannot tell sub-awardees they cannot charge indirect costs. They cannot tell them which indirect cost rate they should use. Each sub-awardee should make the determination of whether they are eligible for the 10% de minimis or have a negotiated direct cost rate agreement. That's not something the parents should be telling the intermediaries. They have to consistently apply those same rates, just as the intermediary does.

If there is a NICRA, each sub-recipient must have his own NICRA. You cannot attempt to use a NICRA by the parent. Each agency must have its own negotiated agreement with a federal cognizant agency.

This last bullet just reinforces that it is not permissible to force or entice a proposed sub-recipient without a negotiated rate to accept less than the de minimis rate. So it's also not acceptable to say, hey, can you only charge 6%, even though they're eligible for a 10% de minimis rate.

When you look at the examples and how we clearly showed how direct cost becomes the basis for how you're computing your indirect cost, when it comes to record retention you have to retain the records for the direct cost, the whole premise being is that you're determining your indirect costs based on direct costs. So if your direct costs are wrong or overstated, or don't meet the cost principles, then you've multiplied that indirect cost rate by costs that weren't allowable. The record retention isn't to support what your indirect cost dollars came out to be, it's to really support what those direct costs were, because that was the basis you used to determine your indirect cost.

So those retention record requirements still apply in 2 CFR 200.333. Now, you can obtain assistance from this area through your HUD POC, through OHC, and this assistance is usually performed by our firm. But it's technical assistance, looking at your cost policies, how you're doing your computations, looking at your indirect costs, looking at your direct costs, and it's a financial analysis.

We do review a lot of grant execution packages, do a financial capability assessment, financial reviews of sub-grantees, looking at your accounting system, which is a big area, because as we said, you have to clearly segregate your direct from your indirect costs, and those kinds of things should be done in your accounting system, looking at your billing methodology and indirect cost methodology, and then potentially your quarterly reporting, especially prior to submitting a request for reimbursement, if you're not sure on any of the expenses or costs that you're including.

We offer one-on-one training in addition to this training, and then we can assist with doing an action plan to look at your readiness and compliance with the requirements of this grant and with Uniform Guidance, especially if you're a first-time federal grant award recipient, or recipient of the CHC grant.

The way you get assistance, you can request it from your HUD POC. The HUD POC would then determine whether it's something that they can do individually, or they would refer it to the subject matter experts and they can request our firm to assist you all in those particular areas.

Generally, this whole process for approval is one business day. If you put in the request, the HUD POC makes the initial determination on whether this is something that should be referred to the SMEs for assistance. Once they send it to the SMEs, which are either HUD or OHC personnel, we then discuss what the scope of the services will be. And at that point, if it's assigned to us, we work with you directly. It doesn't require a lot of third parties. We actually work with you directly to provide you with whatever the approved assistance was.

If you have any questions, I have not looked at the questions there, if there were questions that you posted on the control panel that were not answered, or you realize you have additional questions, you can send questions to housing.counseling@hud.gov any time after this webinar.

We ask that you include some iteration of "Understanding Indirect Cost Rates" in the subject line item and subject line. That just makes it that much easier to refer them to the correct individuals.

I do want to note that only stakeholders, whether it's agencies, HUD personnel, or third parties that are related to the Office of Housing Counseling comprehensive housing counseling grant can submit questions that will be responded to. If you call in about other grants or other HUD grants, those questions cannot be responded to as a part of this webinar. So only those from stakeholders associated with OHC and CHC grants will receive a response.

I thank you all for your time. Please look for your notification from HUD Exchange and your certification of training that should be immediately following this presentation. And have a nice day.

Moderator — Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive TeleConference Service. You may now disconnect.