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 the Understanding Indirect Rates conference call. At this time, all participants are in a listen-only mode. [Operator instructions]. As a reminder, your conference is being recorded.

I would now like to turn the conference over to your host, Petergay Bryan. Please go ahead.

Petergay

Hello, everyone. Welcome to HUD's training on understanding indirect cost rates, so it's de minimis rate and cost allocation plans. This training is specifically for participants in the Office of Housing Counseling program, so if you do receive another grant from HUD, then you may have questions that aren't applicable and we probably will not be able to assist you if you aren't a participant of the program.

As the operator said, there will be audio recorded today. The playback number along with the PowerPoint and the transcript will be available to you on the HUD Exchange at the link that you can see here on your screen. The training digest on the HUD Exchange will also be updated once the webinar is posted. Had you registered for today's training, you should have received an email with a copy of a PDF file. That includes the slides that we will be reviewing today, but if not, you can just expand your control panel. There will be a section that says handouts. Double click on the document there and you'll be able to download and save it and take notes as we go along today.

I will not be pausing for questions due to the volume of material that we need to cover today and the number of participants I have registered. However, if you do have questions, we have personnel who will be responding to your questions in real time. Just expand your control panel—see the question box? Click that, type your questions there and we'll have staff available to respond to your questions immediately. If you have any additional questions after today's training, you could send an email to housing.counseling@hud.gov with the topic of today's training in the subject line and the recipients will then be able to send those questions to the correct personnel and have them respond to your question.

If, for some reason, the lines become unmuted, we do ask that if you're not making a comment or posing a question, to please mute your line so as to not disrupt today's training. Also, if you logged in on your own computer, you are going to receive a thank you email within the next 48 hours and that's going to serve as your certificate of training. Note that there won't be any attachments included there. It will just be a thank you email, so we do ask that you print that and save that to your records to prove that you have attended today's training. If you wish to receive credit, you can go to the HUD Exchange in the webinar archives and you can search by the topic of today's training or search by date. Once you see the webinar, then you can select that and click on "get credit" and it will give you further instructions on receiving credits for having participated today.

I'm Petergay Bryan, audit manager with Booth Management Consulting. We are the company that has been working with HUD Office of Housing Counseling providing technical assistance to HUD staff as well as participants in the OHC [ph] grant program as it relates to the financial and administrative aspects of your HUD grant agreement.

Today, we're going to be talking about indirect costs and trying to help you get a better understanding of what those are as well as what are indirect cost rates, the difference between indirect costs and direct costs, how you will be able to identify any costs that are deemed unallowable or expressly excluded and costs that you won't be able to submit to HUD for reimbursement. We'll also look at your options for computing indirect costs that you can submit to HUD for reimbursement using the three methodologies that are available to you and we'll go through each methodology in detail throughout today's presentation. We'll also talk about how to compute indirect costs based on the options that are available to you.

For agencies that are parent agencies and have sub-grantees, or if you are a sub-recipient, we'll also talk about the considerations specific to those types of agencies that you need to be mindful of. We'll also review the record retention requirements for indirect costs. Finally, we'll look at assistance that's available to participants in the OHC grant program.

The first thing I wanted to address is trying to make it clear to participants about what is an indirect rate and really this is just a ratio that expresses a percentage that agencies will use to allocate the fair share of general administrative expenses or facility expenses that aren't going to be charged to any particular program. It's a percentage that you will use to allocate those costs. It's a ratio or it's a percentage of the indirect costs that you're going to be costing to your direct cost base.

So, agencies that provide services for a particular federal program, if they are providing services that the federal government would otherwise provide then those costs associated with those services or those activities could be the direct expenses that you incur for providing those costs. But any additional costs that you would incur to sustain your programs would most likely fall into the indirect cost pool or your indirect expenses that you incur. So, 100% of the direct expenses that you incur specific to the HUD OHC grant, costs that you incur specifically for the program, 100% of those could be submitted to HUD for reimbursement as this is a cost reimbursement-type grant and then the fair share of any allowable reasonable or allocable indirect costs that you incur, based on one of the three methodologies that are available to you, could also be reimbursed by federal funds.

The three options that are available to you are, the first one, you could use a 10% de minimis rate. The second option that you have is a negotiated indirect cost rate agreement, and the third is to use a cost allocation plan. As I said earlier, we're going to be going into detail, we're going to take a detailed look at each of these three options. We'll talk about the different bases that you could use based on these options and how you would go ahead and computer your indirect costs depending on the methodology or the option that you choose here. We'll definitely go into each of these in detail.

Before that, when you are thinking about charging your direct and your indirect costs to this grant or anything other grant that you may have, the first thing you want to do is you want to make sure that you have identified the direct costs that incur for your specific grant. You'll look at the different programs that you have at your agency and you'll work with you accounting or your finance department to determine what are the direct costs associated with each of these programs and you will identify them as such in your accounting system so that you are properly accounting for and tracking those costs.

The second thing that you want to do is to make sure that you're grouping all of your indirect costs for your entire organization, so these are the costs that aren't assigned to a particular program or aren't associated with a particular grant, but these are the costs that you may incur at your agency, so you'll group them together as the other costs or your indirect costs that you may incur.

Then you will determine how you are going to go about computing the indirect costs for your agency, whether using the 10% de minimis rate, the NICRA or the cost allocation plan based on whichever one you're eligible to use and whichever method you are actually able to go ahead and compute. Once you've done those three steps then you will compute your actual indirect costs using the methodology that you have identified in step 3.

So, as I alluded to earlier, direct costs, these are really specific or identifiable costs that you have incurred to provide services or products for our specific grant award. These are, for example, if you provide direct housing counseling to clients or if you travel specifically for providing housing counseling services or when receiving training for housing counseling services, then those would be direct costs for the OHC grant. Your indirect costs would be costs that you are unable to identify for a specific grant or award. It will be any costs that you incur as a result of having multiple awards or providing multiple different types of services or performing different activities for your agency, but you can't specifically identify it and associate the costs specifically to the OHC grant program that you have.

Typically indirect costs usually fall within two categories, whether your G&A expenses or your general and administration expenses, or your facilities expenses that you incur at your company. We did want to highlight that it's crucial, it's really critical that agencies are clearly segregating direct and indirect costs in their accounting system when they're computing their indirect cost rate. If you have a financial management system in place that is making sure that you are identifying the costs that are directly associated with the various programs that you have and separating all of the indirect costs, then it will be easy for you to pull the costs, whether direct or indirect, by using just a query in your accounting system. So it's critical to work with your accounting personnel and making sure that you accounting system is set up in such a way that these types of costs are identified as direct or indirect in your system.

Specific to the FY18 NOFA, Notice of Funding Availability for the Office of Housing Counseling grant that you have, we did want to note that there is a lot of emphasis on costs that are associated with eligible activities and we'll talk a little bit more about what are the eligible activities per your NOFA, but really what has happened is that there has been a shared—in the sense that HUD is really focusing on costs that agencies incur providing actual counseling activities or providing housing counseling services to clients.

So when we look at the different activities that are allowed for reimbursement as direct costs in the next slide you will see that most of these costs, they are directly associated with providing services directly to your client for the housing counseling program. Also, the NOFA is encouraging agencies to charge indirect costs using one of the three options that are available to you to cover for any of the additional costs that you may incur for your program, or for your agency.

Here, when we talk about eligible activities and allowable expenses, with the FY18 NOFA, as I've said before, there has been a shift where HUD is more focused on activities that are directly associated with the housing counseling program, costs that are easily identifiable to that program. So, for example, salaries for your housing counseling staff who provide the one-on-one housing counseling services or group sessions to the clients. Those salaries would be covered because it's associated with the eligible activities. Also, expenses that you paid for the supervisors who are reviewing the housing counselors' work, salary for oversight personnel, also quality control personnel, as long as you are able to justify the activities that those persons performed and show that the quality control work that was performed by your employee is directly related to the housing counseling grant.

For example, you may have spot audits being done where the quality control person reviews the client's files to make sure that it's done in accordance with HUD's standards, or you may have quality control people who are listening on conversations with a client to make sure that the conversations are being conducted properly and things of that nature. The responsibility relies on the US agency to make sure that you are able to justify those types of activities that are performed by your oversight personnel or your supervisors etc., and making sure that the activities that they perform are directly linked to the HUD grant.

Also, another eligible activity is training, so training could be both ways. It would be from your personnel at your company who are travelling to participate in a training where they're the recipients of the training. For example, even participating in this webinar right here, specific to the HUD grant. Another type of training cost would be as the agency providing the training in the form of, perhaps, a workshop, so costs that are associated with those types of training are also eligible for reimbursement as direct.

Oversight, any administrative costs or any travel for your admin people or any consultants, those costs would also be eligible as direct, any marketing costs related to any materials that you create for marketing, creating brochures, travelling, having consultants—also costs associate with getting certified, so costs for training or if you had to do any testing. Also the time spent doing the exams or getting the certification and any other certification expenses, those would be eligible. Also costs for capacity building, whether it's cost for hiring additional staff and things like that, those could be included as well. And any other eligible activities as long as they are directly related to the grant such as credit reports that you're pulling, any costs that you incur yourself or doing bus tours and things like that, your client management system, those costs would be eligible for reimbursement as direct. We just do want to stress that again, the responsibility relies upon the agency to make sure that you have supporting documents on file justifying the cost that you're submitting to HUD for reimbursement and making sure that the costs that were incurred are directly as a result of the housing counseling program that you have with HUD.

The uniform guidance, 2 CFR 200.56 [ph], I think it gives us the definition of indirect costs so now that we've spoken about what your typical direct costs would look like, based on the uniform guidance as well as based on the NOFA for your FY18 grant, we are now taking a look at what are indirect costs so that we can then talk about your indirect cost rate. Per the guidance, which is the uniform guidance, your regulatory requirements for federal grant reporting, it provides a definition to you for what are indirect costs and it says that these are costs that have been incurred for a common or joint objective that can't be readily identified with a particular final cost objective.

Typically, these fall under two broad categories, the first being facilities. That could be costs for depreciation of your buildings or equipment, any capital improvements, maintenance expenses and things like that. The other category would be your G&A or your administration expenses and these are any general expenses that don't really fall under those facilities expenses or cannot be listed specifically for one of the other subcategories of the facilities expenses that you may have.

Here we have some examples of administrative indirect costs as well as facilities indirect costs, costs that fall under both umbrellas. Some examples for your admin, indirect costs that fall under the administrative umbrella has to do with salaries for your management employees or your accounting employees or people in your payroll department or HR department, because the work that these employees usually perform, it doesn't just benefit one program, it benefits all of the programs that you have at your agency, usually. Also, you may have indirect supplies and mail services as well that fall under this umbrella. The typical or examples of costs that fall under the facilities umbrella would include costs for storage, your rent or mortgage, utilities, costs for security, for janitor or cleaning services or for communication so the internet etc.

The next thing we're going to look at are allowable versus unallowable costs because the uniform guidance does state that for an agency to be able to charge a federal grant, submit costs to the federal grant for reimbursement, the costs that you submit must be deemed to be allowable, reasonable and allocable. This is a must, so sometimes the uniform guidance or regulatory requirements tells you must items, these are things that you're required to adhere to, and sometimes it will say should, which is pretty much a recommendation, but here we have a must so you must follow these rules in order to be reimbursed for the costs.

So, the first thing that it tells us is that you must have in place a sufficient financial management system. What that means is that you want to make sure that you have not only an accounting system in place that you are tracking and accounting for the funds properly but you also must have an integrated system whereas you have internal controls in place to make sure that the funds are being used in accordance with the terms and conditions of the award. Also, your employees need to be aware of the roles that they play in handling the federal funds and accounting for the federal funds as well. So, it's not just about having your accounting system, it's about your agency as a whole making sure that the financial management system that you have is capable of properly handling federal awards.

Also you must follow the terms and conditions of the award. So, the terms and conditions of your award, they are specified for you in your NOFA as well as your HUD grant agreement and your HUD handbook, so if you do need a refresher, we do always encourage that you go ahead and read those documents again just to make sure that you're fully aware of what you have agreed to be compliant with and making sure that you are following the terms and conditions of the award and you're handling the federal funds properly.

Also, you must determine and assure how you are going to properly and efficiently administer the federal funds based on your unique resources and experiences and you must not—any costs that you submit must not be expressly unallowable. In this next couple of slides, we'll talk about costs that are expressly unallowable, that you, under no circumstances, can submit to HUD for reimbursement because the uniform guidance says, the federal government [audio drops] reimbursed for the [indiscernible] costs.

What makes a cost allowable? These are some factors based on the principles that are provided in the uniform guidance, so it talks about in order for a cost to be an allowable cost, it has to be reasonable and necessary for the program, so you want to think about is this a cost that would be incurred by a prudent person trying to carry out the terms and conditions of the award and is this cost necessary for us to incur to provide the services under this grant. It should conform to any limitation or exclusions in the uniform guidance as well as your HUD grant agreement, and it should be consistent with the policies and procedures that you, yourself, your agency has placed. How you account for the HUD funds, typically you want to make sure that your accounting principles are being used consistently.

Also, costs must be determined in accordance with GAAP and adequately documented. We can't stress enough about documentation. HUD does reserve the right to select agencies to go on site and perform financial and administrative reviews where they actually do substantive testing where they're looking for supporting documents for the costs that you submit to HUD for reimbursement. So, you need to make sure that you have the proper documentation on file in order to provide those documents to the reviewer to substantiate the costs that you have incurred.

Unallowable costs, the uniform guidance part 200, and we have the different sections listed here, that tells us expressly these costs are never allowed for reimbursement under federal awards, so this is not just HUD, this is for any federal award. The first one is part 200.421 and it talks about advertising and public relations costs. Part 200.423 talks about costs incurred for alcoholic beverages. Costs for bad debt contribution and donations, entertainment costs, any fines that you incur, penalties or damages in other settlements cannot be submitted for reimbursement. Costs that you incur for fundraising and investment manage costs, costs for goods or services for personal use, of course you can't submit that for reimbursement.

Any interest, costs for lobbying, losses on other awards or contracts cannot be submitted for reimbursement, organization costs, spelling and marketing costs and taxes, including value-added taxes. Also wanted to highlight that a cost may not be charged to a federal award to overcome a deficiency that you may have or to avoid a restriction that may be imposed by other federal statutes. You want to make sure that when you're thinking about costs that you're going to be submitting to HUD for reimbursement and not including any of the costs that are deemed unallowable per the uniform guidance.

Under the 2018 NOFA, specifically for the Office of Housing Counseling grant, there are certain limitations on the kinds of costs that you can submit for reimbursement. The first one, salary and fringe benefits for time that's not spent performing eligible activities. In the previous few slides, we spoke about the different types of activities that were considered eligible activities as part of NOFA, so we do know that time spent providing oversight services, compliance, quality control, supervising your staff, training, etc., that time is allowable, so any other costs that you are spending that's not performing these activities, then they would not be allowed for reimbursement.

Fringe benefits that do not correspond with salaries, so usually agencies apply a fringe benefit rate to the salaries for a time span providing the services. Those fringe benefits, of course, would be allowed but if it's not associated with those salaries or it's being done a random then of course that would not be allowed. Any unspecified administrative cost that's not related to the performance of eligible activities, note that if you do have administrative costs for this grant, you have to itemize those costs, letting HUD know what's included in those administrative costs.

Travel that’s not related to eligible activities, not allowed for reimbursement. In the past, I do know that rent and utilities were once allowed for reimbursement as a direct expense. It is no longer for this FY18 NOFA, so please bear that in mind. Also costs incurred for phone, internet, postage, general office supplies and furniture, technology and equipment, so like your computers, your printers, your cell phones, these costs are no longer allowed for reimbursement as direct cost line items for this grant. I’ll stress this again, because we have had so many questions on this change from previous NOFAs, so any salary and fringe benefit that’s not associated with an eligible activity, those costs aren’t allowed for reimbursement as a direct cost line item. Also, travel that’s not related to an eligible activity. Rent, phone, internet, postage, supplies, technology and equipment, these costs are not eligible for reimbursement as direct costs line items for the HUD grant.

So, you do have three options for charging indirect costs, the first being using the 10% de minimis rate, the second being using a negotiated indirect cost rate agreement and the third being a cost allocation plan. With the 10% de minimis rate, this is pretty much a 10% rate that you would apply to modified total direct costs. Again, I’m going to go through each of these in detail in the next few slides.

Typically, smaller agencies use this so LHCAs [ph], perhaps some sub-grantees or small intermediaries, those are the agencies who typically use the 10% de minimis rate. The negotiated indirect cost rate agreement is also known as a NICRA so as we go along, I'll most likely be saying NICRA versus negotiated indirect cost rate agreement. But pretty much this is a negotiated rate that is based on an identified indirect cost with your federal cognizant [ph] agency and this is typically used by larger agencies, so intermediaries and MSOs usually use this.

The cost allocation plan is an allocation plan, so it's not one rate, really. It's an allocation plan that you're going to be changing all of your costs to different grants based on approved methodologies for each type of cost. For example, an agency may charge rent based on the square footage and they may charge a cost for HR and accounting based on hours worked, etc. as determined by their cognizant agency. This is usually used by larger agencies like SHFAs and MSOs, so typically those are the agencies that do that.

Using the 10% de minimis rate, there are pros and cons really with each of the methods or the options that are available to you. Some of the pros for the 10% de minimis rate is being that it's typically used by the smaller agencies because it allows agencies, recipients and sub-recipients, that really in the past they weren't able to charge indirect costs. Now they have the opportunity to do so. Perhaps the agency was too small so they couldn't get a NICRA from a cognizant agency or be able to go through the detailed process that it requires to get a NICRA or a cost allocation plan. Perhaps the cost benefit analyses that they did prevented them from doing so. So agencies that didn't have the opportunity to do so in the past, now they have that option.

Also, it doesn't require the submission of a detailed indirect cost proposal which is required for a NICRA as well as the cost allocation plan. It's immediately available to you. Once you're eligible, you can go ahead and, of course, once approved by your HUD POC, be able to apply this rate and there really are no delays because you don't have to go through the negotiation process. There is no pre-negotiation. It's easy to compute. It doesn't require an in-depth knowledge of cost accounting in order to use this methodology. These are just some of the pros for using this.

On the con side, you have to meet the eligibility requirements which we'll talk about soon. Also, your indirect costs are limited to only 10% of your direct costs, or modified total direct costs. The third, certain activities are unallowable for the computation of modified total direct costs so the 10% rate, you can't just apply to all of your direct costs. You have to apply to a modified version of direct costs which is your modified total direct cost, which we'll look at in a few slides. Then, you have to make sure that you're tracking the salaries, fringe benefits, service contracts, etc. separately versus as the total program component cost.

Your second option, which is the NICRA, has pros and cons as well, like I said. Some of the pros include the fact that it allows agencies to charge more for indirect costs based on their actual indirect cost rate versus using the 10% de minimis rate, so when you do go through the negotiation process, you may get a higher rate than 10% to account for the indirect costs that you incur.

Once you have a NICRA, then all federal agencies must accept that rate if indirect costs can be charged to that grant. So as long as you have a grant that allows for you to charge indirect costs to the grant, if you have a NICRA that has been vetted, if you went through the negotiation process with your cognizant agency and you have a NICRA that's applicable to the period for your grant period of performance, then you can go ahead and use that because the federal agency now, we must accept it. You can request an increase in the rate based on submission and approval of an updated indirect cost approval from your cognizant agency.

Now, some of the cons that agencies may have, you have to prepare and submit and indirect cost plan and it takes a lot of work and a lot of expertise in order to be able to do so. That's why a lot of the smaller agencies kind of shy away from doing that. Also, you have to identify the appropriate federal cognizant agency to submit the rate to and then to negotiate the rate.

Then another con may be reviewing and negotiation of the rate. It usually takes a lot of time. It's not a very quick ordeal that agencies have to go through. It does take some time to go through that process. It requires experience and knowledgeable staff in order to even prepare the proposal. You have to make sure that you maintain an accounting system that properly accumulates by cost pool, so the accounting system that you use to track and account for your transactions has to have the ability to accumulate costs by the different pools and you have to go through the negotiation process every three years once you've received your rate. So, it takes a lot more work than using the 10% de minimis rate but agencies that have the capacity to do so find it very beneficial based on these pros that we just mentioned.

The third option would be to use a cost allocation plan. Some of the pros include the fact that it ensures that all of the costs are charged and paid for by all grants that your agency has and it recognizes the actual cost for each program that you may have or each grant. Some of the cons though is that firstly only state local government and Indian tribes that receive over $35 million in federal awards can use the cost allocation plan. The cost allocation plan just be prepared and submitted along with the cost policy and it is very complex to do.

It's going to require experience and knowledgeable staff to prepare the plan and the policy statements and you have to make sure that you're maintaining an accounting system that's properly accumulating your costs and the corresponding cost allocation methodology on an ongoing basis. It's very time consuming for review and approval by your federal cognizant agency, similar to going through the NICRA process. If you're using the cost allocation plan, do note that this has to go through you federal cognizant agency similarly to agencies that have a NICRA in place.

So I know that sometimes agencies may have their internal cost allocation plan but it hasn't gone through the process of being approved by a federal cognizant agency. Do note that only these ones that have been approved by a federal cognizant agency will be allowed for you guys to use to account for your indirect costs if you choose this option.

The 10% de minimis rate, we do encourage that smaller agencies or sub-recipients consider this if they want to recover for indirect costs and if they meet the eligibility requirements. So in meeting the criteria for selecting this, you have to be an entity that has never received a NICRA, so never in your agency's history could you have received a NICRA, no matter how long ago so that you could therefore use this rate. If you have had one in the past then automatically you don't meet the eligibility requirements.

Also, the rate must be used indefinitely once you've elected it, and you have to use it consistently for all federal awards until you choose to negotiate a rate. So, if you plan on submitting indirect costs for reimbursement, if you choose this rate, to use a 10% de minimis rate, and you have several federal awards, and you are allowed to submit indirect costs for reimbursement and then you would have to use the 10% de minimis rate as your methodology, if you choose to do so. If you don't choose to submit indirect costs then of course that would not apply.

The cost composition for the modified total direct costs must comply with the uniform guidance part 200.403 factors that affect allowability. So we spoke about that earlier, about making sure that your costs are allowable reasonable and allocable. If you have received over $35 million in direct funding from federal awards, then you cannot choose this method and also you have to make sure that you maintain supporting documents on file for the document retention period of three years if you're going to be using this rate. In order to use the 10% de minimis rate, you have to meet all of the abovementioned criteria in order to use this rate.

When we talk about modified total direct costs, so remember, in using this rate, you are going to be applying the 10% to modified total direct costs. Remember I said before that you don't just apply it to your direct costs overall for your program, it has to be the modified total direct costs. This is going to be your base, so what the base is, your base is what you multiply your indirect cost rate by. So, the costs that you have identified as modified total direct costs, they have to be identified specifically for this program and directly assigned to the housing counseling program. So again, look at your specific activities that you have. We went over those previously. Look at the different activities that you had and the costs associated with them and you want to make sure that they are specifically identified to the housing counseling program.

The 2 CFR 200.68, this is from the uniform guidance, gives us a definition of what is modified total direct costs and it states that all direct salaries and wages, applicable fringe benefits, materials, supplies, services, travel, sub-awards and sub-contracts up to the first $25,000 of each sub-award or sub-contract regardless of the period of performance under the grant. So that is the uniform guidance's definition of modified total direct costs.

We caution you today that costs must be identified specifically with a particular program or can be directly assigned to the program, so all of the costs that we mentioned above have to be specifically identified to your OHC grant and the costs must be deemed necessary and reasonable for the performance of the housing counseling grant that you have with HUD in order to meet the definition of a direct cost.

Note that the uniform guidance expressly excludes equipment as well as capital expenditures from modified total direct costs. So equipment is defined by the uniform guidance as an item of property that has an equitous [ph] term value of $5,000 or more and expected value of more than one year. Capital expenditures include buildings, land, office equipment, furnishings, renovations, telephone networks, motor vehicles, etc. So these are expressly excluded from modified total direct costs.

When you're talking about the sub-awards or the sub-contracts, note that only the first $25,000 can be included for each of your sub-awards in the modified total direct cost. Some of the other costs that you would exclude are rent, scholarship and fellowships and participant support costs. Now, remember we spoke about some of the limitations that are placed on you guys as participants in the Office of Housing Counseling program per the FY18 NOFA. Note that in the definition provided by the uniform guidance, the line item supplies was included there. Per this NOFA, supplies are not allowed as direct expenses so you cannot include supplies in your modified total direct cost for this grant.

Here we have a table for the housing counseling grant talking about what's included versus not included or excluded. Direct labor based on eligible activities that we spoke about and the associated fringe benefits, the sub-award up to the first $25,000 for each sub-award, training based on eligible training activities, marketing and outreach costs, travel, consultants and any other direct costs, but remember whenever we talk about other, we have to itemize those and specify what's included in the other costs. Excluded costs would be rent, utilities, phone, internet, technology, equipment, supplies, postage, capital expenditures, program participant costs and any unspecified administrative costs. Those must be excluded.

When we talk about the direct salaries and wages, this is the amount that you're paying, that you've paid or that you have accrued for your employees who worked on the program providing eligible activities or eligible services. You want to make sure that you're applying your methodologies consistently for both government as well as non-government activities and that the charges for work performed are being documented in an auditable format so that if you guys got selected for a review, we could look at your supporting documents and verify that the costs were associated with the program.

Direct admin and clerical salaries and wages, you know, salaries for clerical staff or admin staff, they may be requested as direct costs if those costs were deemed to be an integral part of the project or the program and if during the budgeting process you properly justified why those expenses or those salaries and wages were directly related to the grant. The fringe benefits direct costs in proportion to the salary for that same charge as the award, so once it's directly related to the salary then you guys should be okay. If it's outside of that then we would definitely be asking questions just to get an idea of what methodology you are using if not associated with salaries to the award.

If you don't have a fringe benefit rate at your agency, I know some agencies do not, so if you don't then typically fringe benefits would include the employer's portion of the retirement contributions, employer paid taxes, employer paid health benefits and employer paid tuition benefits. Those are typically what you would include in your fringe benefits rate when you're doing that computation.

For consultant fees, we do caution that you pay attention to what is the rate that you're paying your consultant and we also want to emphasize that any consultants that you use have to be approved by your HUD POC directly. For your FY18 grant, per the NOFA, the amount that you pay your consultants cannot exceed an hourly rate of $65.48 or in total for the year could not exceed $136,659.

For travel costs, expenses for any transportation or lodging, costs that perhaps if you're using a per diem, that would be included, as long as the travel is related to activities specifically identified to the housing counseling program then you should be fine. Just making sure that your supporting documents, you have that readily accessible should you guys get selected for a review.

When you talk about sub-awards, only the first $25,000 of each sub-award can be included in the computation regardless of the period of performance. So we have a couple of examples to kind of make sure that agencies or participant agencies' training get how to do the calculation. In this first example, I wanted to highlight how you would make sure that only the first $25,000 for each sub-award is being included in your modified total direct cost.

So, if we look at the tables here, we'll see the salary for the counselor being listed as a direct cost, salary for the admin person, but of course if you had an admin person you have to justify why their salaries were directly related to the program and your fringe benefits associate with the salary, travel expenses, training expenses equipment. Note that in the column that talks about the eligible costs, the equipment, there's nothing there. Sub-awards for ABC grantee, there was a $75,000 sub-award and for sub-grantee DCE, there was a $20,000 sub-award, and for sub-grantee MNO, there was a $25,000 sub-award. So the total direct costs incurred by this agency was $285,000 but not all of that is eligible for the modified total direct costs.

Here, as a continuation, you'll see that here we would determine the modified total direct costs by looking at the total costs for the entity or the agency and excluding any cost that is deemed unallowed, any equipment, any capital expenditures, rental costs or any portion of a sub contract that exceeds the $25,000 would have to be excluded. So, you'll see that we excluded the $70,000 to get modified total direct costs of $215,000.

Now, in computing the indirect cost amount, you would multiply the 10% de minimis rate by modified total direct costs. Remember modified total direct cost is the base and you multiply your indirect cost rate by that base to get $21,500 for your indirect cost and that's what you would submit to

HUD for reimbursement. If an agency just multiplied the 10% by their total direct cost which is $285,000, they would have computed $28,500 which would have been incorrect and we would not have allowed that for reimbursement.

Here we have another example where an entity was awarded $850,000. They had direct costs of $805,000 so their direct salaries were $450,000, the associate fringe benefits were $90,000, travel $15,000, sub-awards to agency A $65,000, training costs were $15,000, cost for credit reports were $15,000, annual consultant fees was $155,000 to get their total cost, their total direct costs being $805,000. Now note that the guidance says that only up to the first $25,000 can be included, so we're going to have to exclude $40,000 from the sub-award to sub-grantee A because sub-grantee A received a sub-award of $65,000. Then computing modified total direct costs, we're going to have to deduct $40,000.

Credit reports aren't allowable as a modified total direct cost even though it's allowed for a direct cost, it's not a part of MTDC, so we have to exclude that amount of $15,000. And the consultant fees, remember a couple of slides previously, we looked at the consultant fees and there was a limitation. They can only have an annual amount of up to $136,659 for the FY18 year. So, in total, we're going to reduce the total direct costs by the $40,000, which is the excess of the sub-award, the consultant fee and the credit report amount, so we're reducing $805,000 by $73,341 to get modified total direct costs of $731,659.

Here, you can see it side by side, what the direct costs were and what was eligible for modified total direct costs. You'll see in the line item for the sub-award, instead of bringing over the $65,000, we only brought over $25,000 for modified total direct cost in the right column. Credit reports, we didn't include any of the credit reports, so we have a zero there, and annual consultant fee, we reduced that from $165,000 to $136,659. In calculating the indirect costs, we multiplied 10% by the modified total direct cost to get $73,165 as the total indirect cost per this methodology.

Had we just multiplied the 10% by $805,000, we would have incorrectly computed $80,500 and of course, that would not be correct. So, in total here we have the total direct costs, so if you look at the table, total grant award amount being $850,000, we have all of the direct costs, $805,000 for their total direct costs. For the indirect costs, notice we reduced that to only $45,000 because the agency had an award of only $850,000. So even though we computed indirect costs as $73,165, remember you cannot exceed your total grant award amount, so we had to reduce the indirect costs to $45,000 in order to not exceed our grant award amount.

Now, in talking about the negotiated indirect cost rate agreement or NICRA, this is an indirect rate that's negotiated with a federal cognizant agency for federal awards by non-federal entities so that you guys can then allocate and claim indirect costs. So, if you have an NICRA in place or if you've had one and you're going through the negotiation process, then you'd be familiar with this but for agencies that don't, this is something that has to go through a negotiation process with a federal cognizant agency where they will be able to review and approve your indirect cost rate that you will apply to a specific base that they'll identify.

And your cognizant agency is typically the agency that provides the largest amount of direct federal funds. The different types of indirect rates in NICRAs are the provisional rate the final rate, a predetermined rate or a fixed rate with a carry-forward [ph]. The provisional rate is really a temporary rate that you would use for interim reimbursement and reporting on your indirect cost for award. It's usually renewed upon completion of the grant period.

A final rate is a rate that's determined at the end of the accounting period typically based on actual costs so there is no—it's not subject to any adjustment. You typically renew that annually. The pre-determined rate is a permanent rate that's established for a discrete period of time and it usually corresponds with one or more fiscal years, so usually two to five years. The fixed rate with a carry-forward is usually set for a period covered under the funding action and any adjustment is carried forward to subsequent periods. That is usually reviewed every two years. Well, it's usually good for two years and then renewed annually after that.

So here we have an example of what a negotiated indirect cost rate agreement looks like. If you look in the middle section that says section I, Rate, it tells you the type of rate that the agency would have, so your agency, it would specify the type of rate that you have. So, that will help you to determine okay, when do I need to get this renegotiated. It tells you the period that it's effective for, so it tells you when it expires. It gives you the rate that you would use. So, with the modified total direct costs, or the 10% rate, that rate is 10%. With a NICRA, it will specify your rate here. Typically, it depends, whether it's more or less, it would specify it here.

Then if you look [indiscernible] it's applicable to all programs and if you look at the base, it tells you what the base is so that is what you can multiply that 14.9% to. So it says the base is total direct costs less any capital expenditures and pass through [indiscernible]. So that is the base that you would apply that to. And when HUD looks at your costs that you submit for reimbursement and how you calculate your indirect costs, we will look at your NICRA to look at the expected period. We'd look at the rate that you're using and making sure that the rate that you have here that was approved is being applied to the correct base. And it also tells you how to treat fringe benefits per this example.

So, in using the NICRA, you want to verify the indirect cost rate that's been specified, look at the rate effective date, look at the base and then go ahead and compute your indirect costs. So when verifying the rate you want to see what does their NICRA say? What type of rate does is specify? Is it a provisional rate, a final rate, a pre-determined rate to let you know if there are any adjustments that you may need to make in the future. You want to use the actual rate and not round up or round down. I do know that some agencies, say they have a really high indirect cost rate like 70% or something like that, but they choose to use a lower rate of maybe 30%, 40%. That is fine, you just make sure that you're not exceeding your NICRA rate. Then, also if you have another rate like the 14.6% or something like that, don't round it up or round it down, just use the actual rate unless you're trying to say okay, we're just going to go with a lower rate so as not to exceed our grant amount.

The next thing you want to do is look at the effective rate per your NICRA and use the rate that's effective during the period of performance of the grant. So note that the FY18 grant that you have, it covers two years, so you want to make sure that the rate that you're using is effective for the period of performance of the grant. If your rates have expired, then if you're a parent agency and you have sub-grantees or if your HUD POC is looking at the rates that you're using, then we're going to be looking at any modifications or if you've submitted a more recent indirect cost rate proposal to your cognizant agency and we're going to be taking a look at that. We typically would encourage you to use the lower of the expired rate or the new proposed rate in calculating your indirect costs so that you can be more conservative.

Also, take a look at the base that you're using. Make sure that the base matches up with what your NICRA specifies. You want to make sure that you're reviewing your submitted budget and identifying the line items that should be included or excluded in the base per your NICRA. Anything that you're including in your base, make sure that it's not unallowable per the uniform guidance or it's not unallowable per the NOFA and then you go ahead and compute based the correct base.

Some of the more common allocation bases that we have seen, we have seen where the base is directly salary and wages including [indiscernible], including fringe benefits or direct salary and wages including vacation, holiday, sick pay and other paid absences but excludes all other fringe benefits and then we've also seen where the base has been modified total direct costs consisting of salaries and wages, fringe benefits, materials and supplies, services, travel and sub-awards up to $25,000. So, pay attention to the base that's specified in your NICRA. Make sure that any of the costs that are included in your base, that they are not expressly unallowable per the uniform guidance or make sure that the HUD grant allows for those activities to be reimbursed as direct.

In computing your indirect costs, you're just going to multiply the rate, the verified rate per your NICRA by the verified base and compare the computed total to the budget. Any variances that you have would be discussed. Make sure that the rate that you have does not exceed the total grant award amount. If you remember the example that we looked at with the 10% de minimis rate example we reduced the indirect cost so as not to exceed the grant award amount.

For the cost allocation plan, this is really a document that is going to identify and explain the distribution of allowable direct and indirect costs based on different allocation methods that you're going to be using. It's for state local government and public assistance programs. These are the only agencies that can submit a cost allocation plan and it must be approved in the same manner as an indirect cost rate during the NICRA process.

There are different methods for using a cost allocation plan. The simplified method is usually used when the federal award that an agency receives is not really material and the organization only has a single function that they could apply their costs to and so all programs benefit from the indirect costs to relatively the same degree. Agencies that use the multiple allocation method are ones that have programs that do not benefit to the same degree and typically state local government agencies prefer this method as compared to any other. The direct allocation method is where costs are charged directly to programs except for the G&A. Your indirect costs are usually pooled and allocated to the direct costs objectives based on the various distribution bases.

For federal agencies such as HUD, they are required to include in the NOFA policies relating to indirect cost rate reimbursement or matching or cost sharing, but for this program there is no cost sharing or matching but they do specify your options for indirect costs. As pass-through entities, the uniform guidance talks about terms and conditions that you must adhere to in passing through funds to your sub-grantees. For example, they state that you guys can't impose your own NICRA on your sub-grantees or you can't restrict your sub-grantees from you changing indirect costs if they're eligible to do so.

For non-federal entities that are able to charge 100% of their costs directly and not charge indirect costs, you can go ahead and just charge all of your costs as direct. You certainly are not required to claim indirect costs. That is something that is never mandatory but if you do choose to submit indirect costs for reimbursement, you just want to make sure that you are using one of the three option that are available to you.

For parent agencies, if you have a sub-recipient that has a NICRA and they wish to use that NICRA, you must allow them to do so. You should not restrict your sub-grantees from doing so. It is not permissible for a pass-through entity to force or entice a proposed sub-recipient without a negotiated indirect cost rate to accept less than the 10% de minimis rate. So if you have sub-recipients and they wanted to charge some indirect costs and they are eligible to use the 10% de minimis rate, then you would just go ahead and allow them to do so versus trying to force them to use a lower rate.

For agencies that will be submitting indirect costs for reimbursement, we do note that there is a three-year document retention period where you must maintain documents on file for the direct costs that you incur for the period and you also want to make sure that you include or that you have on file, documentation for the indirect cost rate proposals or the cost allocation plan or the written methodology for your indirect costs.

As participants in the OHC grant program at no additional cost to you, there's a lot of assistance that's available. We provide technical assistance to agencies where we help them to develop, modify or update their cost policies and procedures. We can help you with your indirect cost application and calculation. We can also review your schedule of indirect cost. We review personal activity reporting and quarterly financial reporting for agencies just to make sure that we give you guidance on the correct way or making sure that you include all of the required elements.

If you have findings from reviews or even your audits, we can help you to address those findings. As financial analysis assistants, we review grant execution packages. We also conduct financial capability assessments to agencies and we do risk assessments as well for entrance into parent agencies network. We also do accounting system reviews. We can help you develop your billing methodologies. Also we can help with indirect cost methodology reviews etc.

We also provide training to agencies where we can review with you on a one-on-one basis or in a group setting an overview for grant requirements. Also submitting a budget and including certain assumptions. Your grant financial reporting, personal activity reporting and timekeeping as well as implementing the 10% de minimis rate for agencies that choose to use that option. And we also do action plans where we conduct readiness assessments, where we look at your agency to see where you are as far as being compliant with the uniform guidance requirements as well as HUD requirements for this grant.

If you were interested in any assistance, then you would contact your HUD POC letting them know the type of assistance that you need and the person at your agency who would be responsible for the work to be performed. If your HUD POC approved it then they would contact our HUD GPMs [ph] and once the HUD GPMs receive that request, once they approve it, then they will contact us here at BMC and once we receive that final approval, then we reach out to you to provide the assistance.

If you have any additional question, please send an email to housing.counseling@hud.gov. I hope this session was informative and thank you for your time.