

DCTA Financial Management Series

Cost Principles and Indirect Costs



Background/Introduction



During the preparation of the needs assessments for distressed cities our team identified opportunities for organizations to be reimbursed for cost intrinsic to the organization that benefited Federal awards and paid for by the organization:

Those costs were:

- 1) Paid time off as a component of fringe benefits (applicable to salaries and wages)
- 2) Indirect costs (benefiting the entire organization)

The purpose of this presentation is to ensure grant recipients and subrecipients have financial systems to capture actual cost incurred for all programs, distinguish costs as either direct or indirect to a cost objective and sufficiently documented to support Federal reimbursement per the requirements 2 CFR Part 200, Uniform Administrative Requirements.

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Benefits of 10 Percent De Minimis Rate

Learning Objectives



- Increase understanding of the Cost Principles and their application.
- Discuss common technical terms.
- Illustrate examples of direct and Indirect costs.
- Discuss two cost allocation options.
- Identify benefits of implementing a cost allocation option.
- Define cost objectives and their importance to the financial management system.

Cost Principles – Subpart E



Recipients and subrecipients must follow the requirements of OMB 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards.

The following cost principles of Subpart E - **MUST** be used in determining the allowable costs (Direct or Indirect) of work performed by a non-Federal entity under federal awards.

§200.402 Composition of costs

- Total cost of a Federal award is the sum of allowable direct and allocable indirect costs less any applicable credit

§200.403 Factors affecting allowability of costs

- There are eight factors that **MUST** be met in order to be allowable under Federal awards

§200.413 Direct costs

- Costs that are specifically identifiable with a final cost objective, such as a Federal award

§200.414 Indirect (F&A) costs

- Costs incurred for a common or joint purpose benefitting more than one cost objective and not readily assignable to a cost objective.

§200.420 §200.475

- General Provisions for Selected Items of Cost

§200.403 Factors Affecting Allowability



The following eight factors must be considered for all federal expenditures:

1. Be necessary and reasonable for the performance of Federal awards and be allocable thereto.
2. Conforms to any limitations or exclusion set forth in these principles or in the Federal award as to types or amount of cost items.
3. Be consistent with policies and procedures that apply uniformly to both federally- financed and other activities of the non-Federal entity.
4. Be accorded consistent treatment.
5. Be determined in accordance with GAAP (except for state and local governments and Indian tribes only, as otherwise provide for in Part 200).
6. Not be included as a cost sharing or matching requirements of any other federally-financed program in either the current or prior period.
7. Be adequately documented.
8. Cost must be incurred during the approved budget period.

POLL Question #1



Which definition defines Total Cost?

- A) $\text{Direct Cost} + \text{Indirect Cost} - \text{Applicable credits}$
- B) $\text{Direct Cost} - \text{Indirect Cost} + \text{Applicable credits}$
- C) $\text{Indirect Cost} - \text{Direct Cost} + \text{Applicable credits}$
- D) Direct Cost Only

Indirect and Direct Costs



Organizations must be able to track two types of costs in their financial management system.

Direct Costs

Costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or other externally funded activity, or can be directly assigned to such activities relatively easily with a high degree of accuracy. §200.413

Further, cost incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect cost.

Typical local governments' direct costs when directly benefiting a single project or program:

- Salaries, wages, and benefits
- Materials and supplies
- Travel costs
- Architectural fees
- Housing rehabilitation expenses

Indirect and Direct Costs

Organizations must be able to track two types of costs in their financial management system.

Indirect Costs

Cost incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without efforts disproportionate to the results achieved. §200.414

Typical local government indirect costs:

- General and administrative salaries and benefits,
- Personnel Administration
- Accounting
- Telephone
- Office Supplies
- Depreciation
- Office Rent
- Office building security services

General Provisions for Cost



§200.420 -.476 identifies the principles needed to determine the treatment of 55 selected items of cost that occurs frequently in a non-Federal entity. The principles should be used in establishing the allowability of certain items involved in determining cost.

The principles apply whether a particular item of cost is properly treated as direct cost or indirect cost. In many instances the principles indicate the treatment of these cost as Allowable, Unallowable, or conditionally allowable depending on the circumstances for incurring the expense.

Examples of selected items of cost :

- §200.437 Employee health and welfare cost – Allowable
- §200.445 Goods or service for personal use – Unallowable
- §200.441 Fines, penalties, damages and other settlements – Conditionally allowable

POLL QUESTION #2



Identify ALL Typical Direct Activities:

- A) General and Administrative Salaries and Wages
- B) Materials and Supplies
- C) Rehabilitation Expenses
- D) Depreciation
- E) Rents

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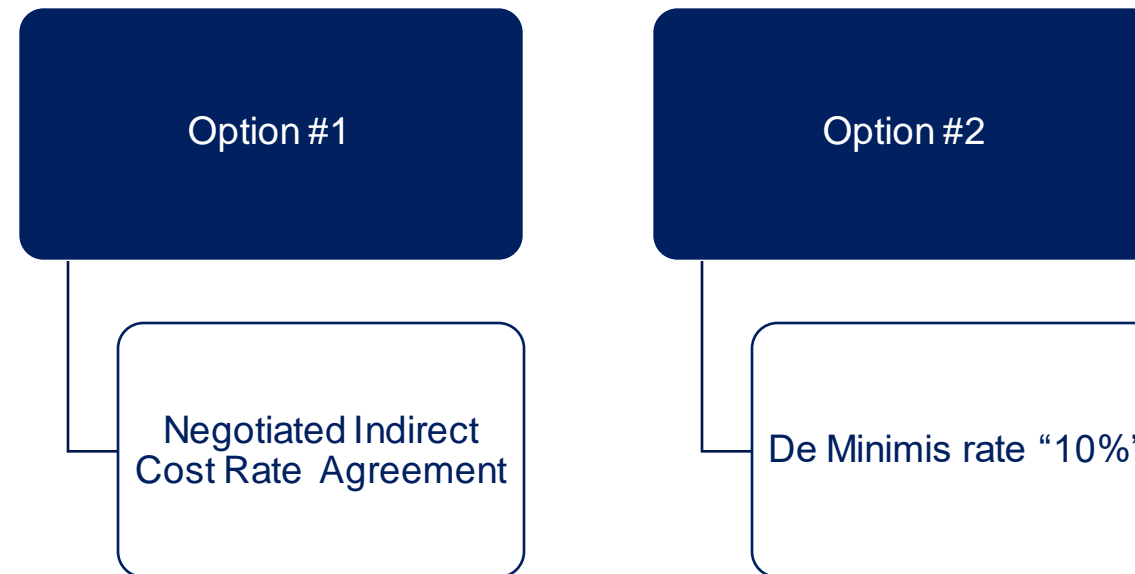
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Benefits of 10 Percent De Minimis Rate

Indirect Cost Reimbursement Options

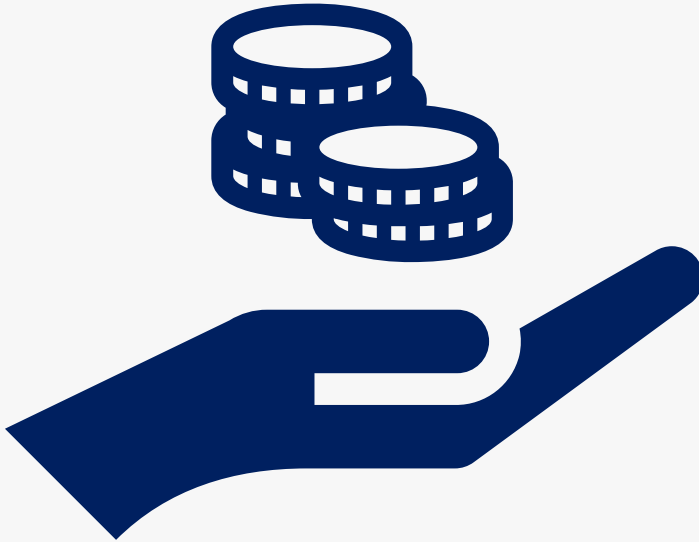


Two types of indirect cost reimbursement options:



Since most DCTA recipients may meet the election criteria and the relative simplicity of implementation, we recommend the 10% De Minimis rate option for cities in the DCTA program.

Negotiated Indirect Cost Rate Agreement



An indirect cost rate represents **the ratio between the total indirect costs and benefiting direct costs**, after excluding and or reclassifying unallowable costs, and extraordinary or distorting expenditures. (i.e., capital expenditures and major contracts and subgrants).

Indirect cost rates are an efficient way for non-Federal entities to seek reimbursement of indirect costs. Development of indirect cost proposals and rates can be complex and rigorous. Recipients and subrecipients should seek advice from their CPA or financial management expert.

Non-Federal entities must develop and submit an indirect cost rate proposal to the cognizant agency to substantiate its request for the establishment of an indirect cost rate as described in Appendices III through VII and Appendix IX to 2 CFR Part 200.

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Benefits of 10 Percent De Minimis Rate



10 % - De Minimis Rate

Office of Management and Budget Uniform Administrative Requirement - 2 CFR Part 200.414

Provides the option of a de minimis indirect cost rate of “10%” of Modified Total Direct Cost (MTDC) to those Non-Federal entities not having a CURRENT negotiated indirect cost rate and receives less than \$35 million of Federal funds in one year.

10 % - De Minimis Rate



Provides the option of a de minimis indirect cost rate of “10%” of Modified Total Direct Cost (MTDC) to those Non-Federal entities not having a CURRENT negotiated indirect cost rate and receives less than \$35 million of Federal funds in one year.

- Modified Total Direct Cost (MTDC) – **Includes** all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards up to the first \$25,000 of each subaward or subcontract.
- Modified Total Direct Cost (MTDC) - **Excludes** equipment, capital expenditures, charges for patient care, rental cost, tuition remission, scholarships and fellowships, participants support costs and the portion of each subaward in excess of \$25,000. (Other items may only be excluded when necessary to avoid a serious inequality in the distribution of indirect cost and with approval of cognizant agency for indirect cost.)
- Non – Federal entity - is a state, local government, Indian tribe, institution of higher education (IHE), nonprofit organization carrying out a Federal award as a recipient or subrecipient.

10 % - De Minimis Rate

Criteria For Supporting MTDC Base:

In order to include eligible direct activity cost in the MTDC base, recipients and subrecipients must maintain detailed accounting records clearly separating salaries, wages, fringe benefits, service and consultant costs.

2 CFR200.4308(i) Personal Compensation - Standards for documentation of Personnel Expenses:

- Charges to Federal awards for salaries and wages MUST be based on records that accurately reflect the work performed
- Supported by system of internal control providing reasonable assurance that the charges are accurate, allowable, and properly allocated
- Reflect the total activity for which the employee is compensated

10 % - De Minimis Rate



Criteria For Supporting MTDC Base (continued):

200.302 Financial Management

- The Non-Federal financial management system **MUST** be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and
- The tracing of funds to a level of expenditure adequate to establish that the funds have been used according to the Federal regulations and terms and conditions of the Federal award.

200.334 Retention Requirements

- Financial records, supporting documents, statistical records, and all other non-Federal award entity records **MUST** be retained for a period of three years from the date of submission of the final expenditure report.

10 % - De Minimis Rate

Computation of the MTDC Base:

	DIRECT To Programs			Total Prgm Cost	Allowable	Unallowable
Cost Description	Federal	State	Local		MTDC	MTDC
Salary & Wages	\$ 154,000	\$ 95,000	\$ 136,000	\$ 385,000	\$ 385,000	\$ -
Fringe Benefits	\$ 30,800	\$ 19,000	\$ 27,200	\$ 77,000	\$ 77,000	\$ -
Materials & Supplies	\$ 35,000	\$ 16,500	\$ 13,200	\$ 64,700	\$ 64,700	\$ -
Subcontracts	\$ 200,000	\$ -	\$ -	\$ 200,000	\$ 25,000	\$ 175,000
Services	\$ 9,000	\$ 2,500	\$ 1,400	\$ 12,900	\$ 12,900	\$ -
Travel	\$ 5,000	\$ 1,000	\$ 2,500	\$ 8,500	\$ 8,500	\$ -
Equipment	\$ 10,100	\$ -	\$ 9,500	\$ 19,600	\$ -	\$ 19,600
Rental Cost	\$ 2,000	\$ -	\$ -	\$ 2,000	\$ -	\$ 2,000
Tuition Remission	\$ 1,500	\$ -	\$ 500	\$ 2,000	\$ -	\$ 2,000
Scholarships & Fellowships	\$ 1,000	\$ -	\$ 5,000	\$ 6,000	\$ -	\$ 6,000
Participant Support Cost	\$ -	\$ 800	\$ 250	\$ 1,050	\$ -	\$ 1,050
Total Direct Program Activity	\$ 448,400	\$ 134,800	\$ 195,550	\$ 778,750	\$ 573,100	\$ 205,650

- MTDC Base = \$573,100
- Subcontracts in excess of \$25K excluded from MTDC
- Equipment cost \$19.6K excluded from MTDC
- Rental cost \$2K excluded from MTDC
- Tuition Remission cost \$2K excluded from MTDC
- Scholarships & Fellowships cost \$6K excluded from MTDC
- Participant Support Cost \$1,050 excluded from MTDC

10 % - De Minimis Rate



Computation of the MTDC Base:

	AWARDS					
	DIRECT To Programs				Allowable	De Minimis
Cost Description	Federal	State	Local	Total Prgm Cost	MTDC	Rate 10%
Salary & Wages	\$ 154,000	\$ 95,000	\$ 136,000	\$ 385,000	\$ 385,000	\$ 38,500
Fringe Benefits	\$ 30,800	\$ 19,000	\$ 27,200	\$ 77,000	\$ 77,000	\$ 7,700
Materials & Supplies	\$ 35,000	\$ 16,500	\$ 13,200	\$ 64,700	\$ 64,700	\$ 6,470
Subcontracts	\$ 200,000	\$ -	\$ -	\$ 200,000	\$ 25,000	\$ 2,500
Services	\$ 9,000	\$ 2,500	\$ 1,400	\$ 12,900	\$ 12,900	\$ 1,290
Travel	\$ 5,000	\$ 1,000	\$ 2,500	\$ 8,500	\$ 8,500	\$ 850
Equipment	\$ 10,100	\$ -	\$ 9,500	\$ 19,600	\$ -	
Rental Cost	\$ 2,000	\$ -	\$ -	\$ 2,000	\$ -	
Tuition Remission	\$ 1,500	\$ -	\$ 500	\$ 2,000	\$ -	
Scholarships & Fellowships	\$ 1,000	\$ -	\$ 5,000	\$ 6,000	\$ -	
Participant Support Cost	\$ -	\$ 800	\$ 250	\$ 1,050	\$ -	
Total Direct Program Activity	\$ 448,400	\$ 134,800	\$ 195,550	\$ 778,750	\$ 573,100	\$ 57,310

- De Minimis Rate 10%
- Allowable MTDC \$573,100
- Max Reimbursement of Indirect Costs for ALL awards - $\$573,100 \times 10\% = \$57,310$
- For each \$1 included in the MTDC Base, the recipient will be reimbursed the direct \$1 +.10 cents for a total of \$1.10 for ever direct dollar in the MTDC BASE.

10 % - De Minimis Rate

Computed Indirect Cost **CANNOT** (in the aggregate with direct program cost) exceed the authorized grant award.



Therefore, when creating the budget to perform the mission of the Federal award, all direct costs needed to perform under the award should be identified and aggregated by cost category e.g., salaries and wages, professional services, subcontract and subawards, etc. The combination of allowable and unallowable direct cost (for MTDC determination purposes) plus 10 % of the allowable portion of direct cost should not exceed the authorized amount of the Federal award.

Program Budget					
Total Authorized Grant Amount \$100,000					
Catergory	Total Budget	Allowable MTDC	Unallowable MTDC	De Minimis 10%	Total Grant Cost by Catergory
Salaries & Wages	\$ 24,000.00	\$24,000.00	\$ -	\$ 2,400.00	\$ 26,400.00
Fringes Benefits	4,080.00	4,080.00	-	408.00	4,488.00
Material and Supplies	9,750.00	9,750.00	-	975.00	10,725.00
Subcontracts	32,000.00	25,000.00	7,000.00	2,500.00	34,500.00
Services	16,000.00	16,000.00	-	1,600.00	17,600.00
Travel	1,306.36	1,306.36	-	130.64	1,437.00
Equipment	600.00	-	600.00	-	600.00
Cost of Rentals	4,000.00	-	4,000.00	-	4,000.00
Participant support cost	250.00	-	250.00	-	250.00
Totals	<u>\$ 91,986.36</u>	<u>\$80,136.36</u>	<u>\$ 11,850.00</u>	<u>\$ 8,013.64</u>	<u>\$ 100,000.00</u>

POLL QUESTION #3



To allocate indirect cost of your organization to a Federal award, the non-federal entity should:

- A) Identify all allowable indirect cost per the cost principles of 2 CFR Part 200
- B) Determine the organization's appropriate base to apply indirect cost
- C) Implement the 10% De Minimis Rate
- D) Continue to pay allowable indirect costs from other resources

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Benefits of 10 Percent De Minimis Rate

10 % - De Minimis Rate

Purpose and Benefits

- Eliminates administrative barriers to receiving reimbursement for indirect costs.
- Recipients cannot prevent subrecipients from using the De Minimis rate, if eligible.
- Grant agreements must include provisions to allow use of De Minimis rate.
- Efficient way to reimburse smaller organizations for indirect costs.
- No documentation is required with voucher reimbursement requests.
- No documentation is required to justify the indirect cost reimbursement, (no rate proposal needed).

Once elected, the “10%” de minimis rate can be used indefinitely and consistently for all awards until the entity chooses to negotiate an indirect cost rate proposal (ICRP) with its cognizant agency.

Costs **MUST** be consistently identified as either indirect or direct; costs cannot be doubled charged or inconsistently categorized - §200.403.

10 Percent De Minimis Rate

Additional Benefits of the Rate



Reimbursement of cost that benefit multiple programs which may not otherwise be recovered

Reimbursement

Increase recovery of all costs, builds and increases organizational sustainability

Recovery

Improve cashflow for grantees and subrecipients with multiple programs

Cash Flow

Identification of program cost drivers allowing management to make more informed decisions

Informed Decisions

COST OBJECTIVES

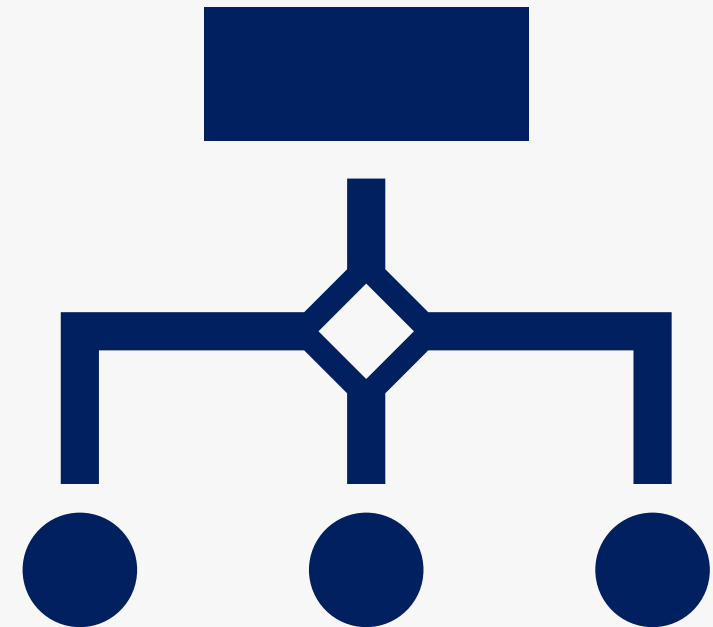


In order to recover indirect cost an organization must be able to distinguish between direct cost and indirect cost

It is not possible to specify the types of cost which may be classified as indirect cost in all situations. However, identification with a federal award rather than the nature of goods and services involved IS the determining factor in distinguishing direct or indirect costs of Federal Awards. §200.414 Indirect (F&A) costs.

Therefore,

Your organization's financial management system should have sufficient methods for assigning expenses to specific "Cost Objectives" in accordance with benefits derived.



What are Cost Objectives

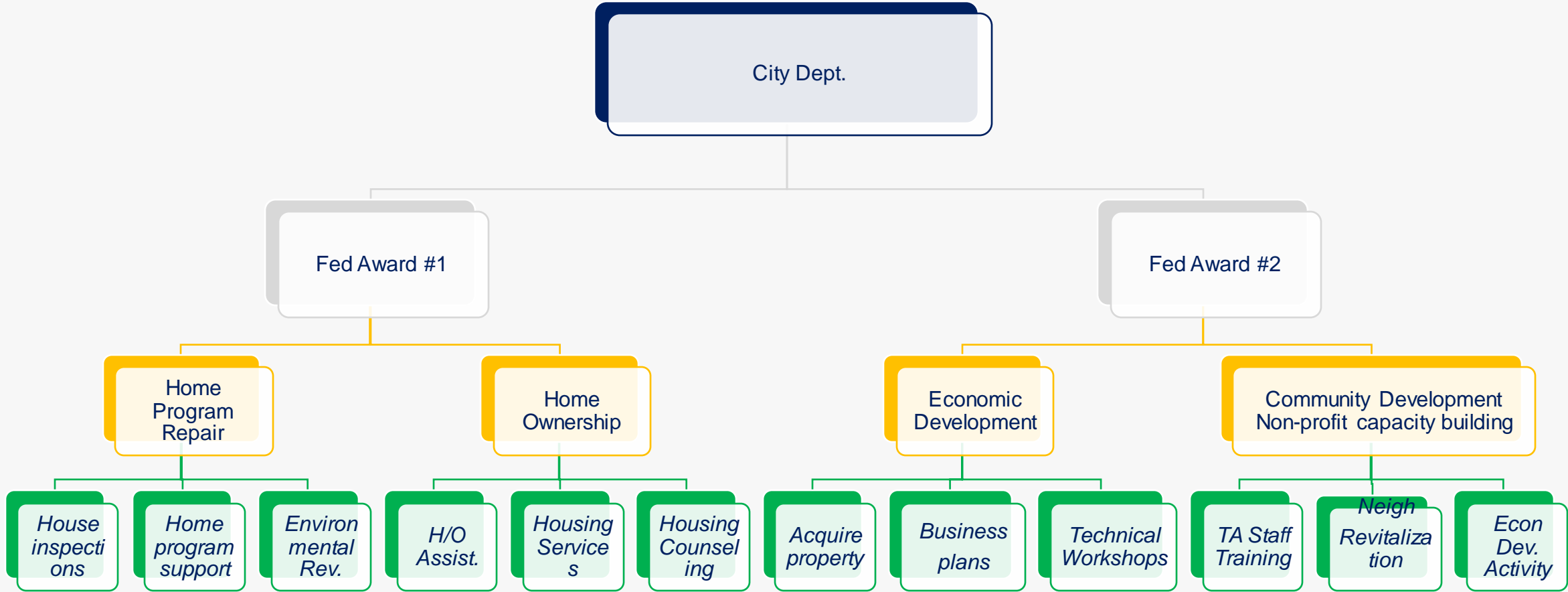
What are Cost Objectives:

Cost objectives are programs, functions, activities, awards, organizational subdivisions, contracts, or work unit for which cost data are desired and for which provisions are made to accumulate and measure the cost of processes, products, jobs, capital projects, etc.

A cost objective may be a major function of the non-Federal entity, a particular service or project, a Federal award, or an indirect (Facilities & Administrative) cost activity, as described in Subpart E-Cost Principles.

A typical cost objective is a HUD award, project, or activity.

Cost Objective Examples



Key Points for Cost Allocation



Indirect costs tend to be support costs (e.g., telephone, printing, rents).

Direct costs can be traced directly to projects or activities that gave rise to the cost (e.g., construction costs for a public facility).

Indirect costs are real costs and must be paid from some revenue source for an organization to maintain functionality, stability and longevity.

Allocation of indirect cost does not increase Federal funding, for a significant portion of grantees.

POLL QUESTION #4



What are the benefits of implementing the De Minimis Rate to your organization?

- A) Reimbursement of cost use to administer the program not directly charged to the program
- B) Reduction of administrative barriers for rate approval
- C) Improved organizational cash flow
- D) Builds organizational sustainability and increases community development

Cost Allocation Knowledge Check



- Cost principles (2 CFR Part 200 Subpart E) are those common principles that allow an organization to determine the costs for specific activities and the cost chargeable to Federal awards.
- Cost principles for the Federal government, local government and for nonprofit organization are similar, they are not identical. Recipient and subrecipients should ensure they are using the appropriate Appendix of 2 CFR Part 200 depending on your entity type.
- Two suggested Options for reimbursement of indirect cost by Non-Federal entity
 - 1) NICRA
 - 2) 10% De Minimis Rate
- Purpose and benefits of indirect cost
- Financial Management Systems -
 - 1) cost objectives
 - 2) requirements for capturing cost as direct and indirect
- Resources: 2 CFR Part 200 Uniform Administration Requirements

Resources



- [Office of Management and Budget 2 CFR Chapter I, Chapter II Part 200, et, al Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Final Rule](#)
- [Core Principles of Cost Allocation](#)
- [U.S Department of Housing and Urban Development office of Housing Counseling \(Examples of Computing Indirect Cost Using the 10% De Minimis\)](#)

Thanks for your attention!

