



MICHIGAN ASSOCIATION FOR LOCAL PUBLIC HEALTH

Indirect Cost Allocations under the Uniform Guidance

September 15, 2022

Governmental Finance & Administration Seminar



Rehmann

Presented by:

Stephen W. Blann, CPA, CGFM, CGMA
Owner | Public Sector QC Director
Rehmann



Session Outline

- Federal Cost Principles (2 CFR 200, Subpart E)
 - Direct costs
 - Indirect costs
- Cost allocation methods
- Cost allocation strategies



Uniform Guidance (2 CFR 200)

- A. Acronyms and Definitions
- B. General Provisions
- C. Pre-Award Requirements and Contents of Federal Awards
- D. Post-Award Requirements
- E. Cost Principles**
- F. Audit Requirements



Subpart C – Pre-Award Requirements and

Contents of Federal Awards

- Required information in award documents:
 - Performance goals
 - General information:
 - Recipient name/unique entity identifier (UEI)
 - Federal Award Identification Number (FAIN)
 - Award date/period of performance
 - Assistance listing number and title
 - Total award amount/budget
 - Indirect cost rate for the award
 - Terms and conditions (general/specific)



Subpart D – Post-Award Requirements and

Standards for Financial Management

- Recipients:
 - Comply with all requirements of award
 - Performance measurement systems
 - Financial management systems
 - Separate identification of federal awards
 - Complete/accurate financial results
 - Support for federal draws
 - Effective control/accountability
 - Written procedures



Subpart D – Post-Award Requirements and

Standards for Financial Management

- Written procedures:
 - Recommended for all compliance areas
 - Required for implementing:
 - §200.305 Payments
 - §200.318 Procurement (including conflict of interest)
 - Allowability of costs (Subpart E, Cost Principles)
 - §200.430-431 Compensation (personnel & benefits)
 - §200.474 Travel costs



Cost Principles

- Fundamental premises:
 - The non-Federal entity is responsible for effective/efficient administration of the federal award
 - The non-Federal entity must comply with agreements, objective, terms, and conditions of the federal award
 - The non-Federal entity has primary managerial responsibility



Subpart E

Cost Principles

- Fundamental premises:
 - Applying these cost principles “should require no significant changes to sound internal accounting policies/procedures”
 - Indirect costs should be allocated consistently with the negotiated basis
 - The non-Federal entity may not earn or keep profit resulting from Federal awards



Subpart E

Cost Principles

- Composition of costs:
 - The “total cost” of a Federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits



Subpart E

Cost Principles

- “Allowable” costs:
 - Necessary and reasonable for the performance of the Federal award
 - Conform to any limitations or exclusions set forth in these principles
 - Consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity



Subpart E

Cost Principles

- “Allowable” costs:
 - Accorded consistent treatment (direct vs. indirect)
 - Determined in accordance with generally accepted accounting principles
 - Not included as a cost or used to meet cost sharing or matching requirements of any other federally financed program
 - Adequately documented



Subpart E

Cost Principles

- “Reasonable” costs:
 - A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost



Subpart E

Cost Principles

- “Reasonable” costs:
 - Ordinary and necessary for operations
 - Sound business practices/arm’s-length bargaining
 - Market prices for comparable goods/services for the geographic area
 - Individuals act with prudence
 - No significant deviation from established practices/policies to increase costs



Subpart E

Cost Principles

- “Allocable” costs:
 - Based on the relative benefits received:
 - Incurred specifically for federal award
 - Benefits both federal awards and other work (distribute proportionately)
 - Necessary for overall operation of the non-Federal entity
 - Allocable costs may not be charged to other Federal awards to overcome funding deficiencies



Subpart E

Cost Principles

- “Allocable” costs:
 - Use direct allocation if feasible without undue effort or cost
 - Otherwise, allocate on any reasonable documented basis



Subpart E

Cost Principles

- Net of “Applicable credits”:
 - Receipts or reduction-of-expenditure-type transactions that reduce expense items allocable to a Federal award as direct or indirect costs
 - Examples: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments



Subpart E

Cost Principles

- Prior written approval:
 - Reasonableness and allocability can be difficult to determine
 - To avoid later disallowances or disputes, non-Federal entities may request prior written approval



Subpart E

Cost Principles

- Direct and indirect costs:

§ 200.412 Classification of costs

There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective.



Cost Principles

- Direct costs:
 - Can be identified specifically with a particular final cost objective
 - Minor items may be treated as indirect for reasons of practicality, if consistently applied
 - Unallowable costs may still be direct



Cost Principles

- Indirect (F&A) costs:
 - Classified as “facilities” (space costs) or “administration” (overhead costs)
 - Cannot be identified specifically with a particular final cost objective



Subpart E

Cost Principles

- Indirect (F&A) costs:
 - If there is a federally “negotiated rate”, it must be accepted by all federal agencies
 - Otherwise, use a 10% **MTDC** *de minimus* rate
 - Pass-through entities may, but are not required to, negotiate a rate with a proposed subrecipient who asks to do so



Subpart E

Cost Principles

- Modified Total Direct Costs (MTDC):
 - Includes:
 - Direct salaries and wages
 - Fringe benefits
 - Materials and supplies
 - Services
 - Travel
 - The first \$25,000 of each subaward or subcontract



Subpart E

Cost Principles

- Modified Total Direct Costs (MTDC):
 - Excludes:
 - Equipment and capital expenditures
 - Rental costs
 - Charges for patient care
 - Tuition remission, scholarships, and fellowships
 - Participant support costs
 - Portion of each subaward and subcontract in excess of \$25,000



Subpart E

Cost Principles

- Indirect (F&A) costs:
§200.100(c)

The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by statute.



Subpart E

Cost Principles

- Selected items of cost:
 - 55 specific items are included
 - Apply to both direct and indirect costs
 - Failure to mention a particular item of cost does not imply that it is either allowable or unallowable (apply general principles of allowability)
 - The provisions of a specific award always govern in the case of a discrepancy



Cost Allocation Methods

- Nonprofits:
 - Indirect cost rate (Appendix IV)
- Governments:
 - Cost allocation plan (Appendix V/VI)
 - Indirect cost rate (Appendix VII)
 - Possible to use a combination of both



2 CFR 200 – Appendices IV & VII

Allocation of IDC / IDC Rates

- Indirect cost pools and bases
- Simplified allocation is permitted when all functions benefit to the same degree
- Group IDC and allocate separately when functions benefit unequally



Allocation of IDC / IDC Rates

- Permitted allocation methods:
 - Simplified allocation method
 - Multiple allocation base method
 - Direct allocation method (nonprofits only)
 - Special indirect cost rates
- Negotiation and approval of rates



Cost Allocation Plans

- Frequently referred to as “county-wide cost allocation plans”
 - Determines cost centers to allocate to service departments
 - Typically focuses on dollars rather than rates
 - Frequently not actually booked in the G/L
 - May be paired with an indirect cost rate as long as no costs are double-counted



Cost Allocation Strategies

- Considerations:
 - What produces the greatest recovery?
 - What requires the least administrative effort?
 - What distributes costs most equitably?
 - What is most consistent with entity-wide considerations?



Questions?



Resources



Preparing an IDC Proposal

Frequently Asked Questions

- US Department of the Interior
 - Interior Business Center, Indirect Cost Services
 - Negotiates indirect costs for many federal agencies

[http://www.doi.gov/ibc/services/ Indirect_Cost_Services](http://www.doi.gov/ibc/services/Indirect_Cost_Services)



Frequently Asked Questions

- What is an indirect cost rate?
 - An indirect cost rate is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.



Frequently Asked Questions

- What is an indirect cost pool?
 - The indirect cost pool is the accumulated costs that jointly benefit two or more programs or other cost objectives, and typically includes:
 - Administrative salaries and fringe benefits associated with overall financial and organizational administration
 - Operation and maintenance costs for facilities and equipment
 - Payroll and procurement services



Frequently Asked Questions

- What is an indirect cost rate proposal?
 - An indirect cost rate proposal is the documentation prepared by an organization to substantiate its request for the establishment of an indirect cost rate.



Frequently Asked Questions

- What is a cost allocation plan?
 - A cost allocation plan (CAP) is a document that explains an organization's methodology in identifying, accumulating, and allocating allowable costs to its all departments and agencies. Some federal agencies still require an approved indirect cost rate even though a CAP has already been approved.



Frequently Asked Questions

- What is a base or direct cost base?
 - Base means the accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual federal awards.
- continued...



Frequently Asked Questions

- What is a base or direct cost base?
 - The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.



Frequently Asked Questions

- What is an indirect cost negotiation agreement?
 - An indirect cost negotiation agreement is a document that formalizes the indirect cost rate negotiation process.
 - The indirect cost negotiation agreement must be signed by both the organization's authorized representative and cognizant agency or authorized representative.

continued...



Frequently Asked Questions

- What is an indirect cost negotiation agreement?
 - Contains:
 - type of rate negotiated
 - effective period of the rate
 - the locations/programs to which the rate is applicable
 - information on the base(s) used and the treatment of fringe benefits and paid absences



Frequently Asked Questions

- Is there a standard format that should be followed to compile an indirect cost proposal (ICP) or cost allocation plan (CAP)?
 - Indirect Cost Services (ICS) has created sample proposal formats, checklists, and templates to assist you in completing the proposal package.



Frequently Asked Questions

- Is there a standard format that should be followed to compile an indirect cost proposal (ICP) or cost allocation plan (CAP)?
 - Although it is not required that you follow the ICS proposal format, doing so will expedite the review process because this format contains the information needed to process the proposal.



Frequently Asked Questions

- What are the different types of rates that can be negotiated?
 - There are four types of rates that can be requested in your proposal:
 - Provisional
 - Final
 - Predetermined
 - Fixed (fixed carryforward)



Frequently Asked Questions

- Provisional Rate
 - A temporary indirect cost rate applicable to a specified period which is used pending the establishment of a “final” rate for that period. Provisional rates must be finalized by submitting an Indirect Cost Rate Proposal for a Final Rate for the same period once actual costs are known and verifiable through audited financial statements.



Frequently Asked Questions

- Final Rate
 - An indirect cost rate applicable to a specified past period which is based on actual allowable costs of the period. A final audited rate is not subject to adjustment.



Frequently Asked Questions

- Predetermined Rate
 - An indirect cost rate applicable to a specified current or future period, usually the organization's fiscal year. Except under very unusual circumstances, a predetermined rate is not subject to adjustment. Predetermined rates may be used with cooperative agreements and grants only.



Frequently Asked Questions

- Fixed (Fixed Carryforward) Rate
 - An indirect cost rate applicable to a specific or future period (e.g., fiscal year), initially based on estimated costs for a future period. The rate includes a “carryforward” adjustment, determined when actual costs for the period are known.



Frequently Asked Questions

- Fixed (Fixed Carryforward) Rate
 - The carryforward adjustment computation increases or decreases the future indirect cost pool and rate calculation in order to reflect the under-recovery or over-recovery of indirect costs from the prior period.



Frequently Asked Questions

- What typical types of distribution base are available to calculate the indirect cost rate?
 - There are basically three types of distribution bases:
 - Modified Total Direct Costs (MTDC)
 - Total Direct Salaries and Wages including Fringe Benefits (SWF)
 - Total Direct Salaries and Wages excluding Fringe Benefits (S&W)



Frequently Asked Questions

- What type of distribution (direct cost) base should my organization select?
 - The distribution base that is chosen should result in each award bearing a fair share of the indirect costs in reasonable relationship to the benefits received from the costs.
 - Please consult the ICS office if you need more guidance.



Frequently Asked Questions

- Can we use the negotiated indirect cost rate for all of our federal programs?
 - Yes, the agreed upon rate(s) shall be accepted and made available to all federal agencies for their use unless prohibited or limited by statute. It is our understanding that state and local agencies will also accept the federally approved rate(s).



Frequently Asked Questions

- Some programs do not pay indirect costs or have a limitation on the amount of indirect costs collected; can these programs be excluded from the direct cost base?
 - No. All programs regardless of funding (or lack of funding) for indirect cost recoveries must be considered in the base for purposes of determining IDC rates.



Preparing an IDC Proposal

Unallowable Indirect Costs

- Advertising and public relations
- Alcoholic beverages
- Bad debts
- Donations and contributions
- Donated services
- General government expenses (chief executive, legislature, judiciary, and public safety)



Preparing an IDC Proposal

Unallowable Indirect Costs

- Entertainment
- Capital equipment (should be depreciated instead)
- Lobbying
- Legal costs (defense/prosecution of criminal/civil proceedings)
- Fines and penalties



Preparing an IDC Proposal

Unallowable Indirect Costs

- Fundraising and investment management costs
- News media (other than what is required by federal programs)
- Selling and marketing

(Refer to 2 CFR 200 Subpart E)



Preparing an IDC Proposal

Sample Proposal Template

- US Department of Health and Human Services
 - Office of the Assistant Secretary for Administration and Management
 - Program Support Center

Sample Indirect Cost Proposal Format for Nonprofit Organizations
Total Expenditures for the year ended June 30, 200X

Schedule C

(A) ELEMENTS OF COSTS	(B) FINANCIAL STATEMENT	(C) ADJUSTMENTS	DIRECT PROGRAMS and ACTIVITIES				(H) TOTAL DIRECT COSTS	(I) INDIRECT COSTS
			(D) COMMUNITY SERVICE	(E) HEAD START	(F) WEATHERIZATION	(G) MEMBERSHIP & FUND-RAISING		
Salaries and wages	\$1,327,638 a	\$0	\$140,831	\$950,615	\$18,305	\$1,592	\$1,111,343 (1)	\$216,295
Fringe benefits	\$245,434	\$0	\$28,138	\$170,107	\$3,657	\$317	\$202,219	\$43,215
Subtotal labor	\$1,573,072	\$0	\$168,969	\$1,120,722	\$21,962	\$1,909	\$1,313,562 (2)	\$259,510
Contractual Services	\$245,420	\$0	\$3,493	\$207,770	\$34,157	\$0	\$245,420	\$0
Depreciation/Use allowance	\$41,582	\$0	\$0	\$0	\$0	\$0	\$0	\$41,582
Emergency asst. payments	\$72,859	\$0	\$52,809	\$0	\$20,050	\$0	\$72,859	\$0
Equipment rental and maint.	\$11,448	\$0	\$592	\$5,197	\$0	\$281	\$6,070	\$5,378
Equipment / Capital	\$58,215	(\$58,215) b	\$0	\$0	\$0	\$0	\$0	\$0
Equipment / Minor	\$546	\$0	\$0	\$0	\$546	\$0	\$546	\$0
Food costs	\$124,616	\$0	\$0	\$124,616	\$0	\$0	\$124,616	\$0
Insurance	\$12,554	\$0	\$92	\$8,209	\$85	\$373	\$8,759	\$3,795
Occupancy	\$129,314	\$0	\$24,637	\$100,956	\$459	\$233	\$126,285	\$3,029
Office supplies	\$32,540	\$0	\$1,794	\$13,317	\$3,649	\$842	\$19,602	\$12,938
Other expenses	\$36	(\$36) c	\$0	\$0	\$0	\$0	\$0	\$0
Postage	\$3,901	\$0	\$476	\$301	\$125	\$2,467	\$3,369	\$532
Professional fees	\$34,211	\$0	\$0	\$0	\$0	\$0	\$0	\$34,211
Program supplies	\$109,663	\$0	\$7,603	\$55,241	\$40,659	\$6,160	\$109,663	\$0
Printing	\$65,697	\$0	\$5,140	\$7,022	\$1,345	\$44,838	\$58,345	\$7,352
Renovations and improv.	\$16,470	(\$16,470) d	\$0	\$0	\$0	\$0	\$0	\$0
Telephone	\$29,013	\$0	\$5,768	\$13,331	\$348	\$600	\$20,069	\$8,945
Travel	\$71,292	\$0	\$7,389	\$56,553	\$2,513	\$0	\$66,364	\$4,928
Subtotal non-labor	\$1,059,377	(\$74,721)	\$109,722	\$592,513	\$103,937	\$55,794	\$861,966	\$122,890
TOTAL	\$2,632,449	(\$74,721)	\$278,691	\$1,713,235	\$125,899	\$57,703	\$2,175,528 (3)	\$382,200

Calculation of the Rate

(1) If the nonprofit organization uses Direct Salaries & Wages excluding fringe benefits as their Base their rate would calculate as follows:

Indirect costs	=	\$382,200
Base (Direct S&W)	=	\$1,111,343
	=	34.4%

(2) If the nonprofit organization uses Direct Salaries & Wages including fringe benefits as their Base their rate would calculate as follows:

Indirect costs	=	\$382,200
Base (Direct S&W + FB)	=	\$1,313,562
	=	29.1%

(3) If the nonprofit organization uses Modified Total Direct Costs (MTDC) as their Base their rate would calculate as follows:

Indirect costs	=	\$382,200
Base (MTDC)	=	\$2,175,528
	=	17.6%

Explanation of Adjustments

a) Includes salaries and wages of \$99,230 for volunteers of the Head Start program.

b) Excludes capital equipment purchases.

c) Remove unallowable costs - \$22 Interest + \$14 Bad Debt = \$36.

d) Excludes capital renovations and improvements.

General Notes

- This is a sample proposal only. It is not intended to prescribe a particular method for allocating costs. An organization should choose the Base that they feel will most accurately reflect the true allocation of their indirect costs to each program.

- An organization can use any ONE of the three bases shown. Regardless of what Base (1, 2 or 3) is chosen the total indirect costs (\$382,200) do not change. The only thing that changes is the distribution Base.

(9)



For more information...

Stephen W. Blann, CPA, CGFM, CGMA
Owner | Public Sector QC Director
Rehmann

stephen.blann@rehmann.com
www.rehmann.com/government

