

SECTION V

Typical Questions from Grantees/Contractors and DCD Answers

The following questions are typically asked by grantees/contractors, and are summarized below under the following categories:

- A. Indirect rates: 1, 2, 3, 4, 5, 16
- B. Individual elements of costs: 6, 7, 8, 9, 10, 11, 12, 13,
- C. Audits: 8, 14
- D. Technical assistance, adequate proposals, and DCD concerns: 15, 17, 18, 19

1. **What do we do if some grants/contracts do not provide for any indirect costs or provide for indirect cost rates that are lower than those established, provisional or final?**

All indirect costs, using the approved rate, must be allocated to all grants/contracts regardless of any restrictions or funding limitations. Any allocable indirect costs that exceed any administrative or statutory restrictions on a specific Federal grant/contract may not be shifted to other Federal grants/contracts, unless specifically authorized by legislation. Non-Federal revenue sources must be used to pay for these unrecovered costs.

2. **Will DOL assist grantees/contractors in obtaining proper approval of the indirect cost rate from other Federal agencies and State and local units of Government?**

The Division of Cost Determination, DOL, will be available to explain to other organizations the methodology used in development of the grantee's/contractor's indirect cost rate. However, the funding of indirect costs is subject to approval of Government authorized representatives and contracting officers of the respective organization. Under most circumstances, other Federal agencies will recognize and pay a grantee/contractor's approved indirect cost expense. The Cognizant Federal Agency cannot, however, require States or units of local Government to recognize an approved indirect cost rate.

3. **Our grant with DOL totals \$500,000 and includes a provisional indirect cost rate of 10%. Our actual, final indirect cost rate is 13%. Will DOL provide us with additional grant funds due to our higher indirect cost rate?**

DOL will not provide your organization with additional grant funds due to a higher final indirect cost rate than the established provisional rate. However, a grant modification may be allowed to transfer budgeted direct costs to the indirect cost category due to the increased indirect costs. This would be subject to the terms and conditions of the grant agreement, e.g. approval of grant officer, indirect cost ceilings, administrative cost limitations.

4. **In the event that a grantee/contractor does not exceed the total grant/contract but exceeds the ceiling placed on the indirect cost by DOL, can the excess indirect cost be recovered?**

No. The ceiling on the indirect cost was included in the agreement to limit the amount of grant/contract funds used for indirect cost purposes by the grantee/contractor. This condition was known by the grantee/contractor before any grant/contract funds were expended.

5. **Can our indirect cost rate proposal be based only on Federal funds since it only represents 15% of our total revenue?**

No. Your indirect cost rate proposal must be accompanied by a schedule of costs incurred for all projects, Federal and non-Federal, and the amount of the proposed allocation base must tie-in with the applicable direct cost base for all projects.

6. **Is the cost of accrued annual leave allowable under OMB Circular A-122?**

OMB Circular A-122, Attachment A, Paragraph 2E, states "To be allowable under an award, costs must be determined in accordance with Generally Accepted Accounting Principles".

The Financial Accounting Standards Board issued Financial Accounting Standard Number 43 "Accounting for Compensated Absences" to establish uniformity in the accounting for annual leave pay. This standard requires employers to accrue during each accounting period the liability for compensated absences earned by employees during that period provided that all of the following conditions are met:

1. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employee's services already rendered;
2. The obligation relates to rights that vest or accumulate;
3. Payment of compensation is probable; and
4. The amount can be reasonably estimated.

The accrual of annual leave does not result in increased costs, but allows recognizing the cost in the proper accounting period to improve actual cost determination. In general, compensated absences are to be accrued in the period in which they are earned rather than when they are paid. In order for accrued leave to be an allowable cost, the personnel policies of the organization must comply with the Financial Standard Number 43.

7. **What is the difference between bid and proposal costs and fund raising costs and how does a grantee/contractor treat such costs in its indirect cost proposal?**

Bid and proposal costs represent the salaries, consultant fees, printing, postage, travel, etc. associated with an organization's preparation of bids, proposals and applications to perform specific tasks for remuneration under potential Federal and non-Federal grants, contracts or other agreements. An organization should treat bid and proposal expenses as allowable indirect costs subject to any limitations imposed by the Cognizant Federal agency.

Fund raising costs represent the salaries, consultant fees, printing, postage, travel, etc. associated with an organization's requests to private institutions or individuals for donation of funds for non-specific purposes. Fund raising costs are unallowable for Federal reimbursement purposes. However, this activity (cost objective) shall be allocated an appropriate share of indirect costs. Accordingly, fund raising costs are to be included in the distribution base used to compute an organization's indirect cost rate.

8. **Can the audit costs under OMB Circular A-133 be recovered?**

A-133 allows audit costs to be recovered as either direct or indirect costs in accordance with applicable cost principles. However, there is no special appropriation for audit costs. To recover audit costs, the organization must build them into the specific grant/contract documents (if direct) or into the overhead proposal (if indirect).

9. **If the grantee's policy is to capitalize equipment under the \$5,000 threshold specified in A-122, do they need Federal approval prior to directly charging the grant with the cost of equipment?**

No. The grantee is allowed to directly charge the Federal grant with the cost of equipment under the \$5,000 threshold without obtaining prior Federal approval. This direct cost is usually classified as supplies in the reporting of Federal grant expenditures and, if applicable, must be in compliance with any budget limitations.

10. **A grantee has contracted to update its computer network with its affiliates for a total cost of \$50,000. Since each component; i.e., monitor, printer, personal computer, software, modem, etc., costs less than the \$5,000 per unit threshold specified in A-122, can this "equipment" be charged to the indirect cost pool?**

No. The components of the computer network make it useable for the purpose for which it was acquired and therefore establishes the "system" as a capital expenditure. Accordingly, this equipment can be appropriately charged to Federal grants either as a direct or indirect cost, on the basis of depreciation or a use allowance as specified in A-122.

11. **A non-profit grantee purchased a building in September, 1994 and refinanced its mortgage in September, 1998. Can the grantee now charge Federal programs with the interest incurred on this mortgage?**

No. Interest on debt incurred to finance or refinance assets acquired before or required after September 29, 1995, is not allowable.

12. **When is a grantee required to prepare a cash flow statement prior to claiming interest expense on Federal programs?**

A cash flow statement is to be prepared on an annual basis for debt arrangements over \$1 million, unless an initial equity contribution to the asset purchase equals 25% or more. A non-profit organization shall reduce claims for interest expense by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated in accordance with Paragraph 23.a.(1)(f)(ii) of Circular A-122.

13. **What is required of a grantee that sells its facilities and decides to rent office space in another facility at less cost to its Federal programs?**

Substantial relocation of Federally-sponsored activities from a facility financed by indebtedness, the cost of which was funded in whole or part through Federal reimbursements, to another facility prior to the expiration of a period of 20 years, requires notice to the Federal cognizant agency for possible adjustment to future space costs charged to Federal programs.

14. **What is the relationship of OMB Circular A-122, Cost Principles for Non-Profit Organizations and OMB Circular A-133, Audits of Institutions of Higher Education and Other Non-Profit Institutions in regard to indirect costs?**

The compliance supplement for OMB Circular A-133 incorporates OMB Circular A-122. It sets forth the major compliance requirements that should be considered in an organization-wide audit of non-profit institutions receiving Federal assistance. The compliance supplement contains general requirements that shall be considered in all financial and compliance audits. Failure to comply with the general requirements could have a material impact on an organization's financial statements.

One of these general requirements is presented in Appendix VII to OMB Circular A-133, "Allowable Costs/Cost Principles." According to this requirement, the auditor is responsible for auditing direct and indirect costs to determine whether costs claimed are in compliance with OMB Circular A-122.

15. Can transactions with an affiliate affect allowable costs?

Yes. A problem may arise in transactions between parent organizations and their affiliates when the parent organization has an equity interest in the affiliate. When an equity interest exists, any profits made by the affiliate improve the equity interest of the parent. If an affiliate sells a good or service to the parent and the selling price includes a profit to the affiliate, the parent's equity interest in the affiliate has been increased. If the parent then includes the purchase price as a direct or indirect charge to a Federal award, it has violated the OMB Circular A-122 cost principle that charges will be at cost and not include a profit factor.

For example, suppose your organization (the parent) obtains accounting services from an affiliate and the parent organization has an equity interest in the affiliate. The fee that the parent pays to the affiliate must be based on the cost incurred by the affiliate and the fee may not include a profit to the affiliate.

If the fee does include a profit factor to the affiliate, the allowable part of the fee is limited to that portion which represents the cost to the affiliate exclusive of any profit factor.

This principle works in reverse as well. When an organization provides a good or service to an affiliate, the full cost of providing that good or service must be recovered from the affiliate and an appropriate credit must be applied to the indirect cost pool.

16. What is the period of time that an indirect cost rate agreement covers?

A provisional indirect cost rate is negotiated to cover a one year period. However, because of the time lapse between the submission and approval of a rate, provisional rates are usually established by DOL for a two year period. A final indirect cost rate agreement is negotiated to cover one fiscal year period after which a new final indirect cost rate must be negotiated for the subsequent fiscal year.

17. When a grantee/contractor is required by DOL to submit a closeout package prior to negotiating a final indirect cost rate, what is the procedure?

The grantee/contractor should prepare the closeout package using the approved provisional indirect cost rate and include a statement indicating that a provisional indirect cost rate was used pending negotiations of a final indirect cost rate. Upon receipt of a final indirect cost rate, an amended final closeout will be submitted.

18. What can the submitting organizations do to help the Federal Cognizant Agency facilitate their review of an indirect cost rate proposal?

If there are any questions concerning any aspect of the proposal, call the Federal cognizant agency rate negotiator to resolve the issue prior to formal submission. Also, if during a prior negotiation you agreed to take corrective action(s) on any issues, you must disclose the status of your action(s). Finally, you must inform the cognizant agency about all significant organizational or accounting changes and their impact. If these actions are taken, it could save time in getting the proposal negotiated.

19. What are some of the concerns the Federal agencies have about grantee/contractor submissions of indirect cost rate proposals?

The primary concern of Federal agencies is the receipt of incomplete documentation. Indirect cost proposals do not provide sufficient detail to explain the functions and the benefits associated with the costs being allocated. An additional concern to Federal agencies is an indirect cost proposal that is not reconcilable to a budget or a financial statement and contains no explanation of the difference.