

An Overview of Indirect Costs for the Discretionary Grants Roundtable



Presented by:
Phil Zahnd
Atlanta Regional Cost Negotiator



What we will cover

- Briefly – Direct vs. Indirect costs
- Rules on support of compensation costs
- The Indirect Cost Rate Process



Total Cost =
Direct Costs
Plus
Indirect Costs
Less
Applicable Credits



What are direct costs?

- Those costs that can be readily identified with a particular cost objective. Examples: (program specific)
 - Salaries – program staff
 - Space – sq. ft. occupied by direct staff
 - Supplies – used by direct staff
 - Communications – used by direct staff



What are indirect costs?



- Those costs which are not readily identifiable with a particular cost objective. Examples:
 - Salaries – Executive Director, Accountant, etc. (**indirect staff**)
 - Space – sq. ft. occupied by **indirect staff**
 - Supplies – used by **indirect staff**
 - Communications – used by **indirect staff**



Which organizations need to have an approved indirect cost rate?

\$ Single Funding Source

Indirect cost rate not needed

\$\$\$ Multiple Funding Sources

Indirect cost rate needed



Basic premise of OMB's Cost Circulars:
To be chargeable to a Federal
grant/contract, **indirect costs must be:**

Allowable

(Per cost principles)

Allocable

(benefits received)

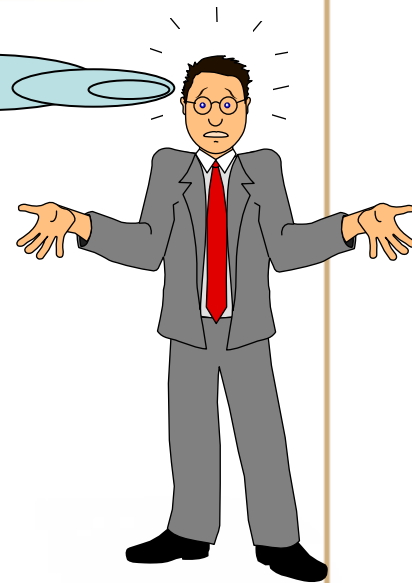
Reasonable

(Prudent person concept)



Let's talk about compensation. Why?

- Because it's usually the largest item of administrative direct/indirect cost under any given DOL grant/contract
- Because it is so often the subject of audit questioned costs



Compensation for Personnel Services

- Must be reasonable and in accord with established practice
- Must be supported in accordance with applicable Circular subsections (support of salaries and wages)



Compensation for Personnel Services(cont' d)

- Charges to Federal awards must be
 - Based on documented payrolls approved by the responsible official of the organization
 - Supported by Personnel Activity Reports (PAR, aka, time distribution report)



Compensation for Personnel Services(cont' d)

- PARs must meet the following standards
 - Reflect after-the-fact distribution of effort
 - Must account for total activity for which the employee is compensated
 - Must be signed by the employee
 - Be prepared at least monthly and coincide with one or more pay periods

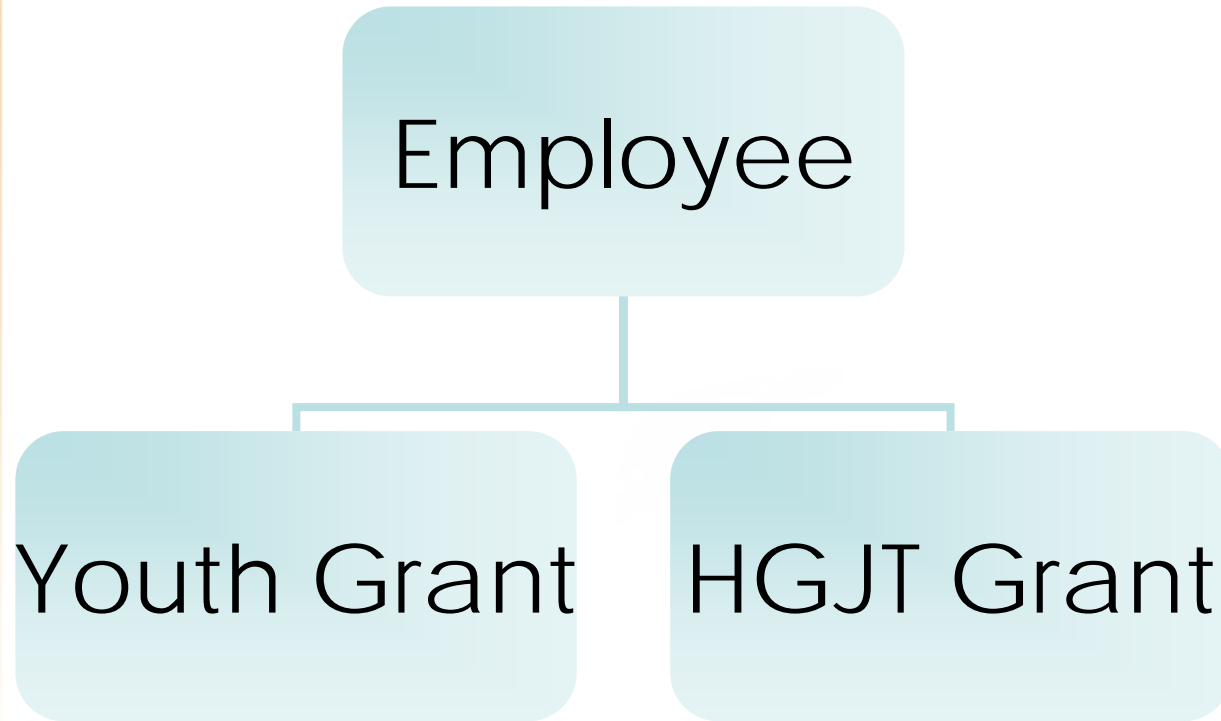


Compensation for Personnel Services(cont' d)

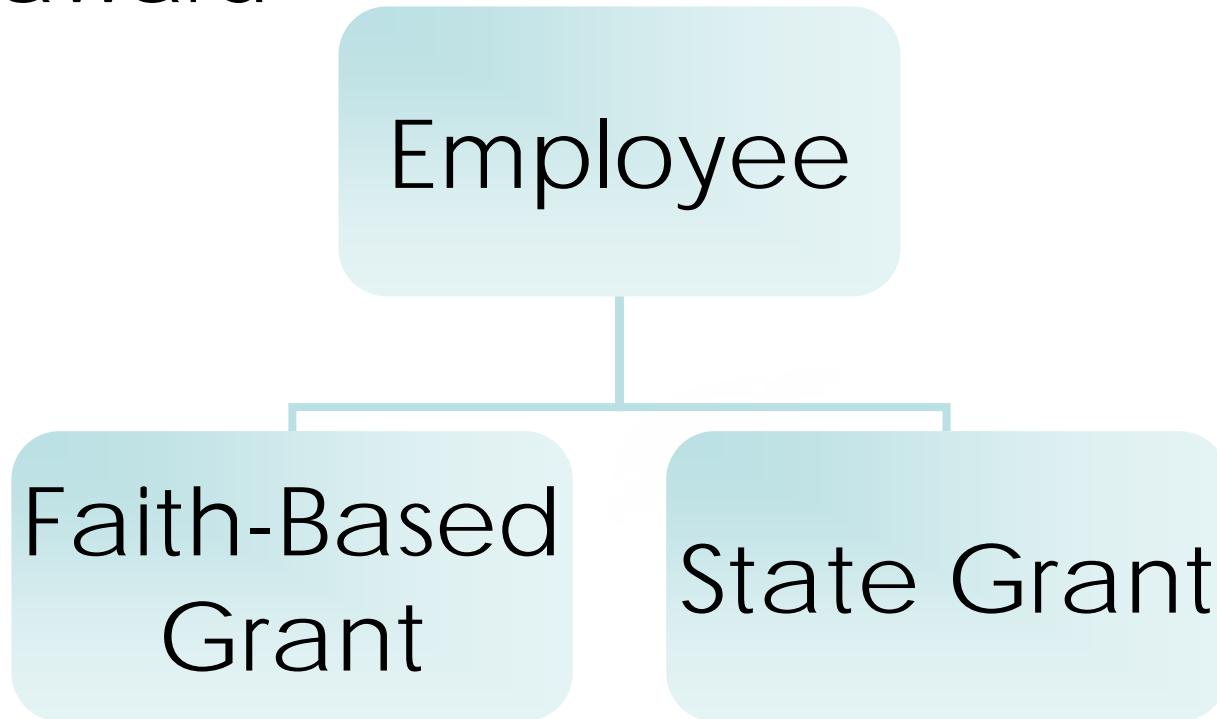
- PAR standards will apply where employees work on...



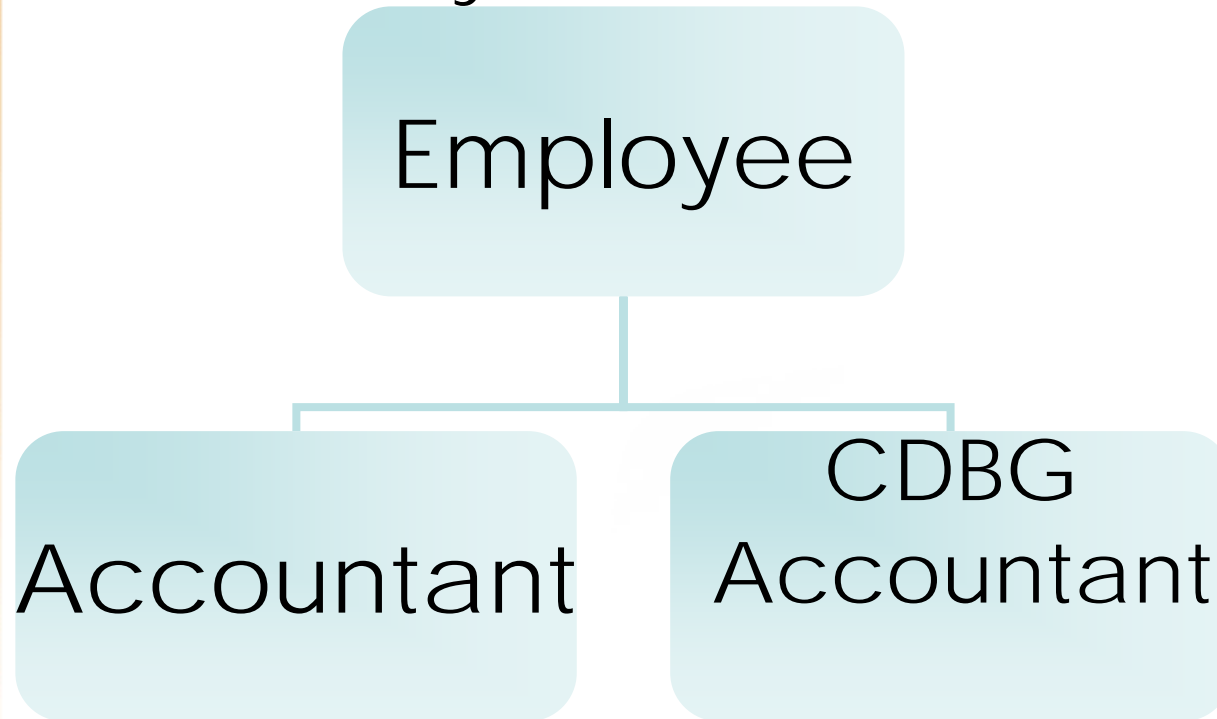
More than one Federal award



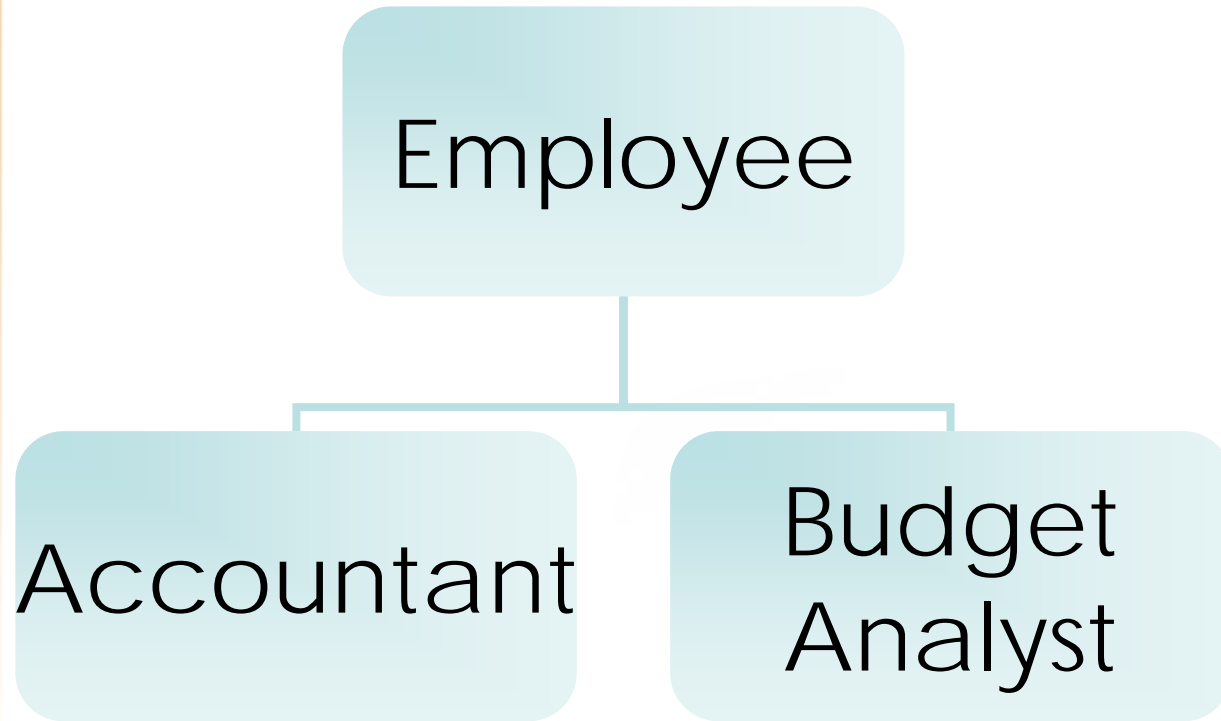
A Federal award and a non-Federal award



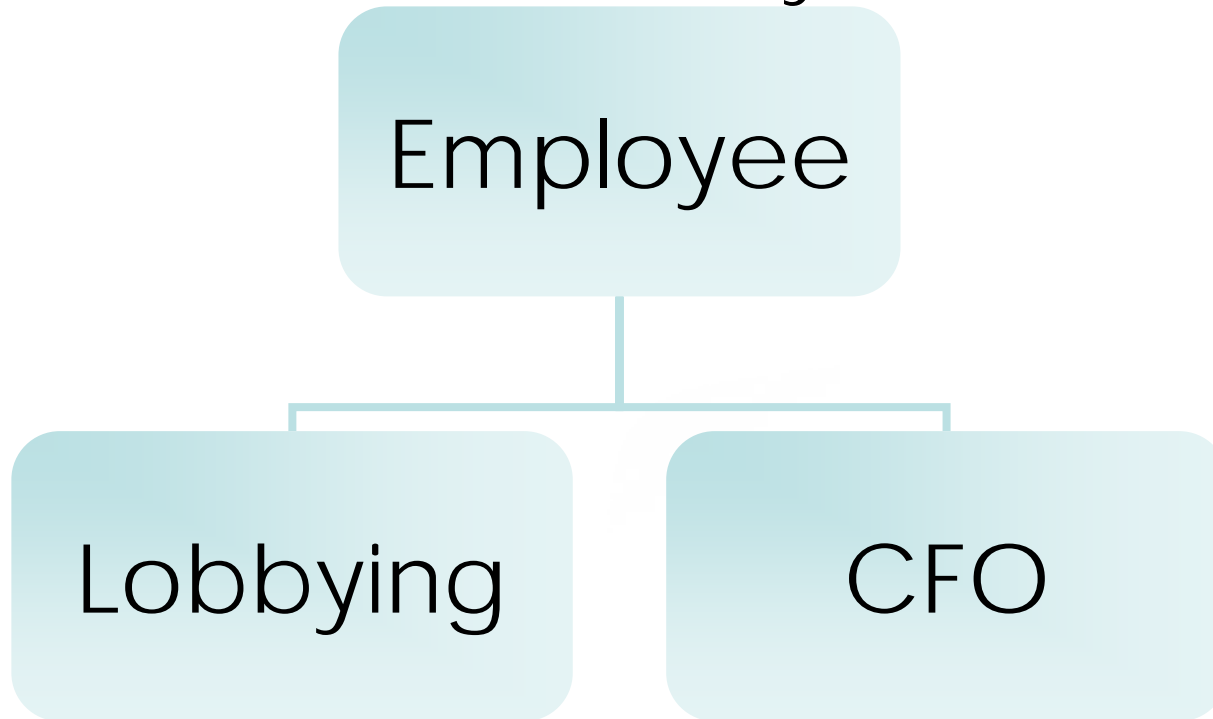
An indirect cost activity and a direct cost activity



Two or more indirect activities which are allocated using different allocation bases



An unallowable activity and a direct or indirect cost activity



Division of Cost Determination and the Indirect Cost Process

Who

What

When

Where

Why

How



Who

- Division of Cost Determination (created 1972)
 - Currently housed in OASAM/BOC
 - DOL's administration of:
 - OMB Circular A-87 (State & Local Governments)
 - OMB Circular A-122 (Nonprofit organizations)
 - Federal Acquisition Regulations (commercial organizations)
 - Colleges and Universities fall under OMB Circular A-21



Contact for **A-21** Grantees

Arif Karim (202) 401-2749 akarim@psc.gov

Branch Chief – Colleges & Universities, Hospitals
and Nonprofit Organizations

USDHHS, Division of Cost Allocation



What

- Review/Negotiate indirect cost rate proposals and cost allocation plans
- Provide support to DOL contracting offices via cost analyses and field pricing reports
- Facilitate audit resolution process with regards to cost allocation and indirect costs
- Provide liaison and technical assistance (including formal training sessions) to Federal partners, grantees and contractors



When

- Requests by Contract/Grant offices
 - Requests for ICR negotiations & CP Analyses
 - Requests for formal workshop presentations
- DOL cognizance
- Priorities, backlogs, 120 day standard



Big backlog of proposals to be reviewed/negotiated



Where

- National Office
- Regions
- On-site



Why

- OMB mandates
 - Federal agency oversight of grant/contract accounting
 - Federal cognizance
 - HHS designated as cog for all SWCAPs



How

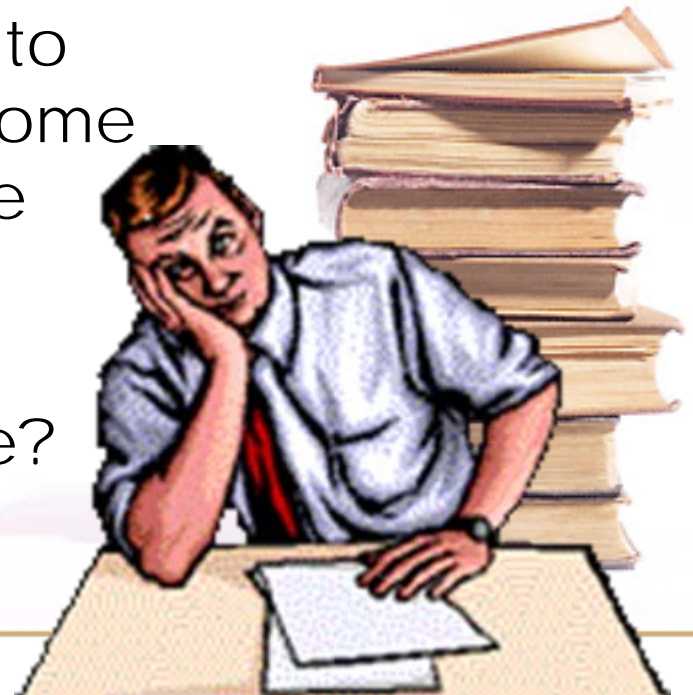
- The Indirect Cost Review/Negotiation Process...



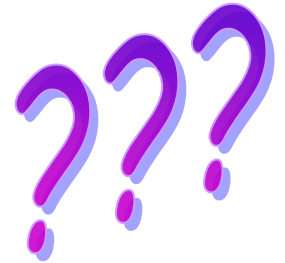
- Grantee is awarded grant(s) from the USDOL
 - WIA
 - Earmark
 - Faith-Based
 - Other Grant Programs



- Grantee makes a decision on the merits of collecting or not collecting indirect costs associated with the grant(s)
 - Do we need the money to support the program? (some DOL grantees have large amounts of unrestricted funds)
 - Will it be worth the hassle?
 - Short term – it may not be
 - Long term – it may be



- Grantee determines which Federal agency is its “cognizant” Federal agency
 - Components of state government, “governmental units”, may have a cognizant Federal agency designation. If not, the largest dollar volume of **direct** Federal funding is normally used to determine the cognizant Federal agency. (This may be negotiated between Federal agencies.)
 - For nonprofit organizations, the largest dollar volume of **direct** Federal funding is normally used to determine the cognizant Federal agency. (This may be negotiated between Federal agencies.)



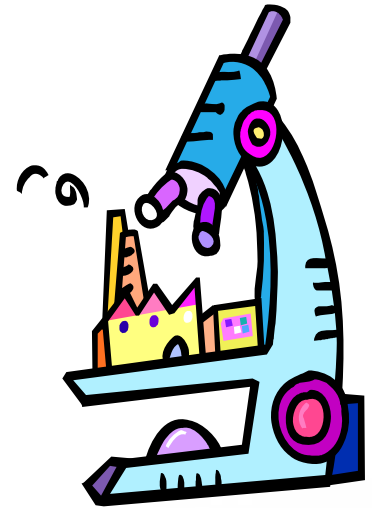
- After determining DOL cognizance, grantee contacts DCD regarding required documentation submittal & technical assistance
 - N.O. or Regional Cost Negotiators
 - <http://www.dol.gov/oasam/programs/boc/costdeterminationguide/main.htm> -- DOL guidance
 - www.whitehouse.gov -- OMB Circulars



- Grantee submits required proposal documentation to DCD
 - requirements may vary depending on
 - type of grantee
 - type of rate needed
 - grantee organizational structure
 - time constraints
 - materiality considerations
 - other factors



- DCD reviews proposal for possible unallowable, unallocable and/or unreasonable costs
 - DCD has pro forma review procedures
 - DCD negotiators may expand review and documentation submittal if deemed necessary
 - Trend analyses are typically prepared in on-going reviews/negotiations



Negotiation topics: Unallowable, Unreasonable, or Unallocable costs

- **Unallowable Costs** – Examples: Bad Debts, Entertainment, Contributions, Lobbying & Fundraising. **These costs must be eliminated from the organization's indirect cost pool.**
- **Unreasonable Costs**– Costs that a “prudent” person would not incur, such as exorbitant salaries and fringe benefits, and unwarranted salary escalations.
- **Unallocable Costs** - Examples: Inconsistent accounting treatment of costs in similar circumstances, cost that provide no “benefit” to the Federal awards, and/or costs that are not necessary for overall operation of the organization.



Other Negotiation topics

- Check for Supporting Documentation, i.e. financial reports, certification statement, supporting exhibits for the proposal.
- Determine that the proposed Allocation Base(s) provides a fair distribution of indirect costs.
- Verify proposal computations for accuracy and logic.



- Unless there are extenuating circumstances, proposals must be reviewed by DCD in no less than 120 days from proposal receipt
- Negotiations ensue
 - The responsible cost negotiator contacts the grantee to
 - request additional documentation on certain items
 - advise of unallowable, unallocable or unreasonable items in the proposal
 - congratulate the grantee on approval!!!



- When both parties concur DCD prepares rate agreement and sends to grantee for countersigning
 - An indirect cost rate agreement which is not signed and dated by both the responsible grantee official and the responsible Federal official is null and void
 - DCD signs three originals of its indirect cost rate agreements and sends them to the grantee for countersigning with return instructions



- Both parties keep an original of the signed negotiation agreement as documentation of the rate approval



Example of an Indirect Cost Rate Agreement



(An Example)

**NEGOTIATED INDIRECT COST NEGOTIATION AGREEMENT
NONPROFIT ORGANIZATION**

ORGANIZATION:

XYZ Nonprofit Agency, Inc.
St. Florian, AL 99999-9999

DATE: December 1, 2007

FILE REF: This replaces the
negotiation agreement dated
October 12, 2006

The indirect cost rate(s) contained herein are for use on grants and contracts with the Federal Government to which OMB Circular A-122 applies subject to the limitations contained in the Circular and Section II-A, below. The rate(s) were negotiated by XYZ Nonprofit Agency, Inc. and the U. S. Department of Labor in accordance with the authority contained in Attachment A, Section E, of the Circular.



Effective Period

| <u>Type</u> | <u>From</u> | <u>To</u> | <u>Rate</u> | <u>Location</u> | <u>Applicable to</u> |
|--------------------|--------------------|------------------------------|--------------------|------------------------|-----------------------------|
| Final | 7/1/05 | 6/30/06 | 14.25% | All | All Programs |
| Final | 7/1/06 | 6/30/07 | 15.25% | All | All Programs |
| Provisional | 7/1/07 | 6/30/08 | 17.17% | All | All Programs |
| Provisional | 7/1/08 | 6/30/09 | 16.43% | All | All Programs |
| | | <i>(See Special Remarks)</i> | | | |



BASE*:

Total direct salaries and wages including vacation, holiday and sick pay but excluding all other fringe benefits.

TREATMENT OF FRINGE BENEFITS:

Fringe benefits are specifically identified to each employee and are charged individually as direct costs. The directly claimed fringe benefits are listed in the Special Remarks Section of this Agreement.

TREATMENT OF PAID ABSENCES:

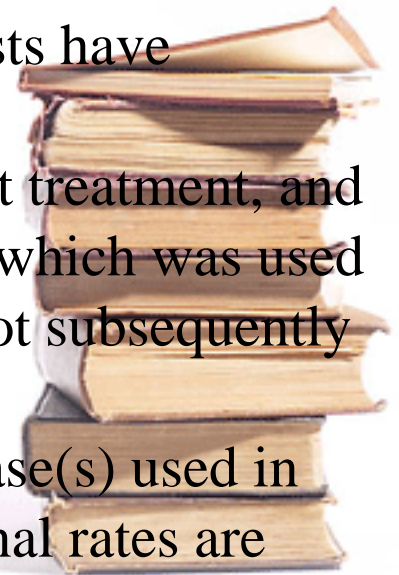
Vacation, holiday, sick leave and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims for these absences are not made.



A. LIMITATIONS: Use of the rate(s) contained in this Agreement is subject to any **statutory or administrative limitations** and is applicable to a given grant or contract only to the extent that funds are available. Acceptance of the rate(s) agreed to herein is predicated upon the following conditions:

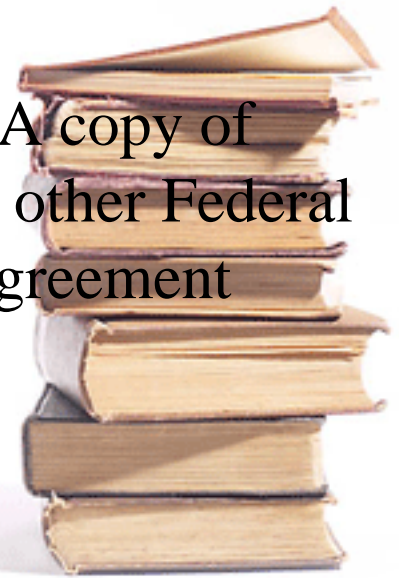
- (1) that no costs other than those incurred by the grantee/contractor or allocated to the grantee/contractor via an approved central service cost allocation plan were included in its indirect cost pool as finally accepted and that such incurred costs are legal obligations of the grantee/contractor and allowable under the governing cost principles,
- (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs,
- (3) that similar types of costs have been accorded consistent treatment, and
- (4) that the information provided by the grantee/contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially inaccurate.

The elements of indirect cost and the type of distribution base(s) used in computing provisional rates are subject to revision when final rates are negotiated. Also, the rates cited in this Agreement are subject to audit.



B. CHANGES: The grantee/contractor is required to provide written notification to the indirect cost negotiator prior to implementing any changes which could affect the applicability of the approved rates. **Changes in the indirect cost recovery plan, which may result from changes such as the method of accounting or organizational structure, require the prior written approval of the Division of Cost Determination (DCD). Failure to obtain such approval may result in subsequent cost disallowance.**

C. NOTIFICATION TO FEDERAL AGENCIES: A copy of this document is to be provided by this organization to other Federal funding sources as a means of notifying them of the Agreement contained herein.



D. PROVISIONAL-FINAL RATES: The grantee/contractor must submit a proposal to establish a final rate within six months after their fiscal year end. **Billings and charges to Federal awards must be adjusted if the final rate varies from the provisional rate.**

If the final rate is greater than the provisional rate and there are no funds available to cover the additional indirect costs, the organization may not recover all indirect costs. Conversely, if the final rate is less than the provisional rate, the organization will be required to pay back the difference to the funding agency.

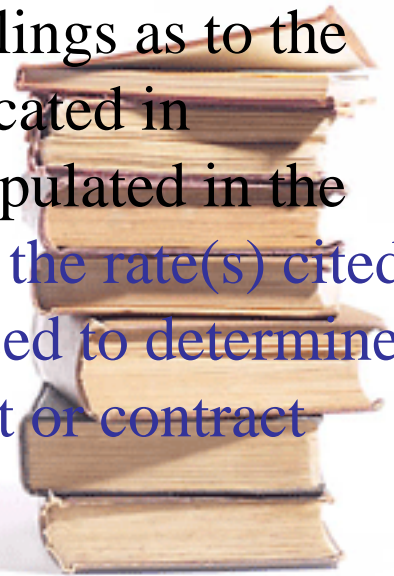
Indirect costs allocable to a particular award or other cost objective may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.



E. SPECIAL REMARKS:

1. Indirect costs charged to Federal grants/contracts by means other than the rate(s) cited in this Agreement should be adjusted to the applicable rate cited herein and applied to the appropriate base to identify the proper amount of indirect costs allocable to the program.

2. Grants/contracts providing for ceilings as to the indirect cost rates(s) or amount(s) which are indicated in Section I above, will be subject to the ceilings stipulated in the contract or grant agreements. The ceiling rate or the rate(s) cited in this Agreement, whichever is lower, will be used to determine the maximum allowable indirect cost on the grant or contract agreement.



3. Fringe benefits other than paid absences consist of:

| | |
|---------------------------|--------------|
| Worker's Compensation | FICA |
| Health Insurance | Pension Plan |
| Unemployment Compensation | |

4. XYZ Nonprofit Agency, Inc. staff maintain 100% time distribution records. The indirect cost pool consists of:

a) Salaries and fringe benefits of the following positions:

| | |
|--------------------|--------------------|
| Executive Director | Dir of Fiscal Svcs |
| Account Tech II | Admin Secretary |

b) Support costs of the above positions as follows:

| | |
|-----------------------|-----------------------|
| Professional Services | Travel |
| Space | Supplies |
| Equipment Leases | Insurance & Bonding |
| Publications & Dues | Repairs & Maintenance |
| Communications | Postage |
| Miscellaneous | |



ACCEPTANCE

BY THE ORGANIZATION:

**BY THE COGNIZANT AGENCY
ON BEHALF OF THE FED GOV:**

XYZ Nonprofit Agency, Inc.

U. S. Department of Labor

(Organization)

(Agency)

(Signature)

(Signature)

Jane Doe

Victor M. Lopez

(Name)

(Name)

Executive Director

Chief, Division of Cost Determination

(Title)

(Title)

December 1, 2007

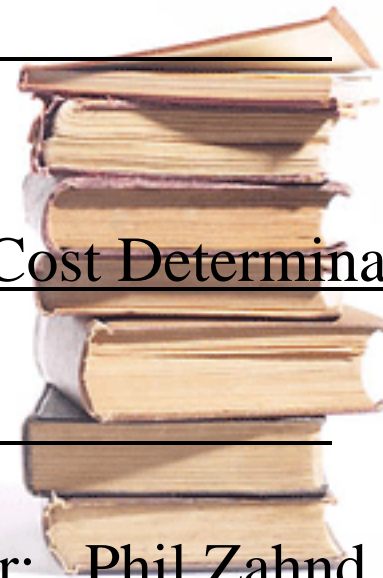
December 1, 2007

(Date)

(Date)

USDOL Negotiator: Phil Zahnd

Telephone No.: 256.272.0075



Questions?

