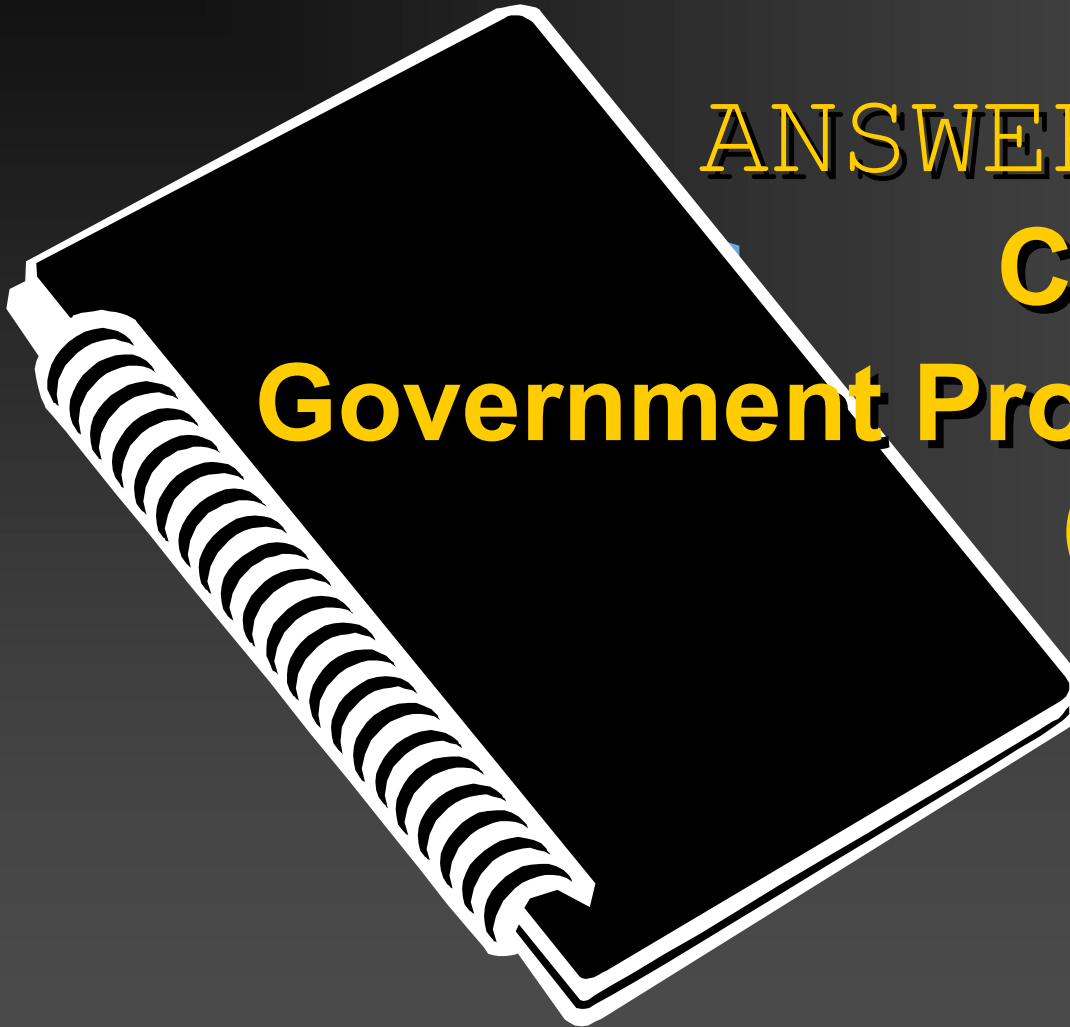


ANSWERS TO THE

CASE STUDY

**Government Programs R Us
(GPRU), Inc.**

**Indirect Cost
Rate Proposal**



You are the cognizant Grant Officer for a nonprofit organization known as GPRU, Inc.

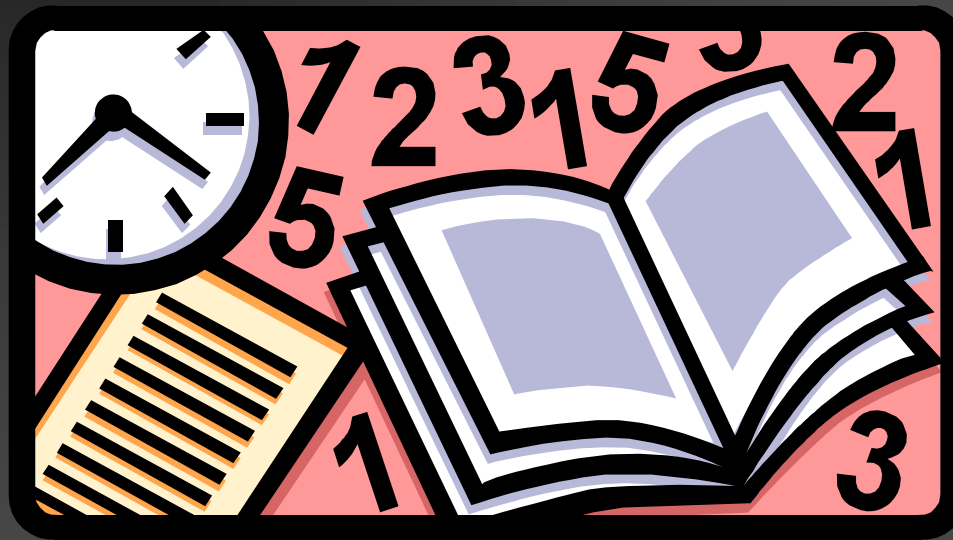
The Corporation receives funding from only three sources, a HUD grant, a DOL grant, and a private grant. The Corporation has never had an approved indirect cost rate. However, in its eagerness to please the Federal government and its burning desire to obtain as much Federal money as possible, the organization has submitted an indirect cost rate proposal to your office.

Since you recently attended HUD's Office of Cost Determination training on indirect costs, you feel that you are fairly polished in the principles of OMB Circular A-122 and its requirements relative to indirect costs in a nonprofit environment.

Therefore, you decide to perform a preliminary review of the proposal.

You review the proposal, which contained, in part, the information shown on the next slides:

You want to make sure the proposal is correct and prepared in accordance with the cost principles.



Therefore, you perform a review of detailed accounting records GPRU, Inc. had used in preparing the proposal.

The review disclosed the following information about the Indirect Cost Pool:

1. Legal services costs included \$1,500 related to a patent infringement suit the corporation had initiated and these type costs were not provided for as allowable direct costs in its grant awards.

Answer: The \$1,500 of legal services is unallowable because it involves a costs incurred in connection with a patent infringement suit. (See OMB Circular A-122, Attachment B, 10.h.)

2. Consultant costs consisted of \$2,200 for the annual audit and \$1,800 for a study to determine the feasibility of expanding operations through a hostile takeover of another organization. Awarding agencies were not notified of the study.

Answer: \$1,800 of the consultant costs would be unallowable (organization/reorganization costs). (See Attachment B, 31.)

3. Staff travel costs included \$950 related to a trip the ill-bred accountant took to be an honoree at a national educational convention.

Answer: Staff travel of \$950 would be unallowable because the trip was not for business purposes. (See Attachment B, 55.)

4. **GPRU, Inc. had eliminated bad debt write-offs from the indirect cost pool**

Answer: Bad debts have already been removed from the pool, therefore no adjustment is necessary. (See Attachment B, 3.)

5. **Equipment costs of \$9,000 consisted of the purchase price of one used van. Non-Federal funds were used for the purchase. The van was necessary for the corporations business and was used only for that purpose. (Assume allowable depreciation of \$3,000 for purposes of this case study.)**

Answer: Equipment and other capital expenditures are unallowable as indirect costs. Thus, the \$9,000 must be removed from the pool. However, if non-Federal funds were used to purchase the equipment, appropriate depreciation or use allowance charges would be allowable. (See Attachment B, 15.e.)

6. **Equipment maintenance costs were for maintenance contracts on all office equipment used by indirect staff.**

Answer: No adjustment is necessary to equipment maintenance. (See Attachment B, 27.)

7. Depreciation costs consisted of \$3,000 for the van and \$990 of depreciation related to a computer that was originally purchased with Federal funds.

Answer: Depreciation costs of \$990 charged to the pool are unallowable because the equipment was originally purchased with Federal funds. (See Attachment B, 11., c.(2))

8. Office rent of \$8,000 represented the cost of one-third of the total office space based on square footage, the space occupied by indirect staff. The other two-thirds of available space were occupied by direct program staff.

Answer: Pool charges for office rent allocated based on space occupied by indirect staff are allowable. (See Attachment B, 46.)

9. Entertainment costs consisted of \$500 related to the Executive Director's Country Club Outing@ \$350 for alcoholic beverages bought for Federal and state monitoring officials.

Answer: Entertainment cost of \$850 charged to the pool is unallowable. (See Attachment B, 14.) (Also see Attachment B, 30.e. & 2.)

10. Subscriptions of \$350 consisted of \$150 for professional journals and \$200 for unsavory pornographic periodicals.

Answer: Subscription costs of \$150 relative to professional journals are allowable. However, the \$200 for "adult books" is unallowable. (See Attachment B, 30.b.)

11. All advertising cost were incurred for purposes of recruiting staff.

Answer: No adjustment is necessary to advertising costs. [See Attachment B, 1., c.(1) (Also see Attachment B, 44.)]

12. Included in the \$4,200 of miscellaneous expenses were:
- a. Insurance the corporation is required to carry of \$2,000.
 - b. Copying costs of a fund raising effort at \$1,500.
 - c. Payment of \$700 to a seedy individual for attempting to influence the outcome of a local referendum.

Answer: Under miscellaneous expenses, the required corporate insurance of \$2,000 is allowable, fundraiser copying costs of \$1,500 are unallowable and the \$700 payment for the purpose of influencing the outcome of a referendum is considered unallowable lobbying costs. See Attachment B, 22.a.(1), 23.b and 25.a.(1)]

Monetary amounts and rates used in this case study are for illustrative purposes only.

REQUIRED TASKS

A. Based on the foregoing, list the adjustments necessary to correct the GPRU=s Indirect Cost Rate Proposal.

Answer: **See Slides 4 through 8**

B. Compute the corporation's indirect cost rate after your adjustments. (Assume that direct salaries & fringes is the correct base for use in the case.)

Answer: **See Slide 11**

C. Prior to acquiring an approved indirect cost rate, salaries for the four positions now in the indirect cost pool were paid based on time distribution reports that resulted in the following dispersion:

	<u>TOTAL</u>	<u>DOL</u>	<u>HUD</u>	<u>PRIVATE</u>
Executive Dir	\$40,000	\$15,000	\$20,000	\$5,000
Accountant	\$28,000	\$10,000	\$14,000	\$4,000
Clerk	\$15,000	\$ 5,000	\$ 7,000	\$3,000
Secretary	\$12,000	\$ 4,000	\$ 6,000	\$2,000
TOTALS	\$95,000	\$34,000	\$47,000	\$14,000

D. In the past, the cost of these four positions had been treated as direct. With the approval of the indirect cost rate they are being claimed as 100% indirect costs. Do the Federal grants need to be modified?

Answer: See Below

E. Will time distribution reports still be required for the four positions?

Answer: See Below

Answer to D, and E.

The Federal grants must be modified to include the indirect cost rate and exclude any direct charging of the four-pooled positions. Since their time is no longer split, time distribution will no longer be required but time and attendance records must still be maintained.

Adjustments and calculation of revised indirect cost rate:

Proposed Indirect Cost Pool **\$166,970**

Less:	Legal Services	1,500
	Consultant Costs	1,800
	Staff Travel	950
	Equipment Purchases	9,000
	Depreciation Costs	990
	Entertainment	850
	Subscription Costs	200
	Miscellaneous	2,200

Revised Indirect Cost Pool

\$149,480

Proposed/Accepted Base

\$491,452 (Direct SW + FB)

Revised Indirect Cost Rate

30.42 %

Distribution of Indirect Costs:

<u>Rate</u>	<u>Costs</u>		<u>Indirect Base</u>
DOL Program	\$150,540	30.42 %	\$45,794
HUD Program	232,960	30.42 %	70,866
Private Programs	107,952	30.42 %	32,839
Totals	\$491,452	30.42 %	\$149,499
Rounding Variance = \$19			

THE END

