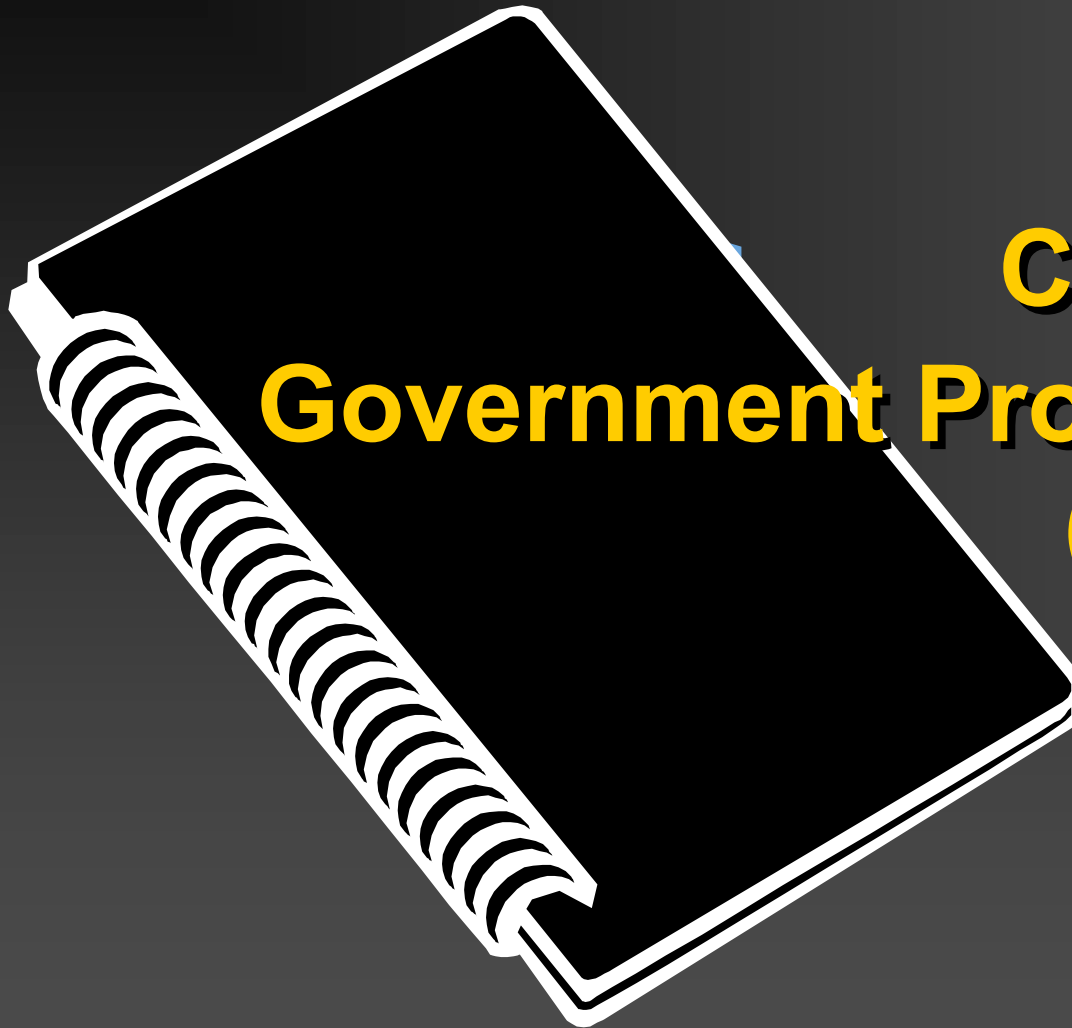


**ATTACHMENT 5**



**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.**

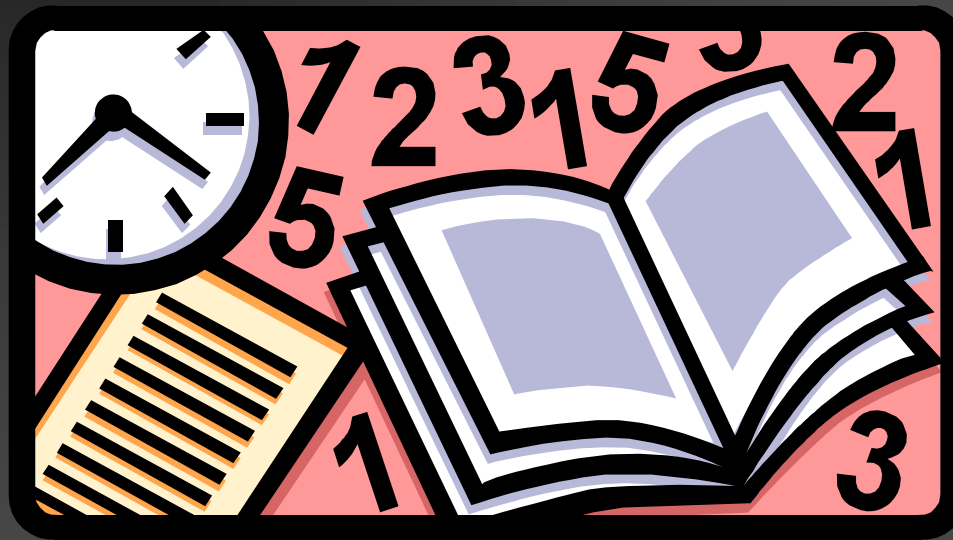
**The Corporation receives funding from only three sources, a HUD grant, a DOL grant, and a private grant. The Corporation has never had an approved indirect cost rate. However, in its eagerness to please the Federal government and its burning desire to obtain as much Federal money as possible, the organization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

**Since you recently attended HUD's 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.
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.
3. Staff travel costs included \$950 related to a trip the ill-bred accountant took to be an honoree at a national educational convention.

4. **GPRU, Inc. had eliminated bad debt write-offs from the indirect cost pool**
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.)**
6. **Equipment maintenance costs were for maintenance contracts on all office equipment used by indirect staff.**
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.**

- 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.**
  
- 9. Entertainment costs consisted of \$500 related to the Executive Director's Country Club Outing and \$350 for alcoholic beverages bought for Federal and state monitoring officials.**
  
- 10. Subscriptions of \$350 consisted of \$150 for professional journals and \$200 for unsavory pornographic periodicals.**
  
- 11. All advertising cost were incurred for purposes of recruiting staff.**

**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.**

***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.
- 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.)
- 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>HHS</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
<b>TOTALS</b>	<b>\$95,000</b>	<b>\$34,000</b>	<b>\$47,000</b>	<b>\$14,000</b>



**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?**

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

