

IL-NET

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Indirect Cost Rate Proposals, Application and Follow up

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Upon completion of this section, participants will be able to:



- Determine whether they are properly applying their indirect cost rate.
- Take necessary steps to simplify the process of applying for and providing periodic information for an indirect cost rate.
- Understand the other policies and procedures that are necessary related to funding for your indirect costs.

How This May Affect You

- Regardless of whether you have an approved cost allocation plan or indirect cost rate, if you have more than one program or activity, you were probably required to submit an indirect cost rate proposal.
- You did have an option to choose a 10% rate without figuring your actual indirect costs. This amount, however, is not usually sufficient for your costs. (See last month's call here:
https://us02web.zoom.us/rec/share/nL6U3SwwrB1ZTFZnvZpVJdjevWy_gYy7rPe-i7Jhw1JRRqjshmWewKPxQE_1tucZ.OIJLfeswjPahJ-1T?startTime=1707422428000)
- The purpose of the proposal is to make sure that each program or activity or funding sources (cost objective) bears its share of the shared/administrative costs.

Who Does Not Need to Submit an Indirect Cost Rate Proposal?



- Organizations with only one activity (the same services are being provided for the same population), even if there are multiple funders, may be exempt.
- Organizations that can allocate everything directly to each of their programs, and can prove it!
- Organizations that are eligible to and do elect a 10% reimbursement for indirect costs will not need an indirect cost rate. (This was discussed at length in last month's call.)

https://us02web.zoom.us/rec/share/nL6U3SWWrB1ZTFZnvZpVJdjevWy_gYy7rPe-i7Jhw1JRRqjshmWewKPxQE_1tucZ.OIJLfeswjPahJ-1T?startTime=1707422428000

What Is an Indirect Rate Proposal?

- An indirect cost rate proposal is similar to a Cost Allocation Plan. It includes an additional requirement to calculate a rate (percentage) of indirect cost near the beginning of the year, and reports the actual rate after the end of the year.
- Costs are classified as direct (like specific programs), or indirect (costs that benefit all programs and must be shared or split fairly between those programs like shared areas in the building or a share of administrative salaries).
- Most CILs treat general and administrative costs as indirect costs.

Components of an Indirect Cost Rate Proposal

Your indirect cost rate proposal to HHS should include—

- An introduction to your organization with background information
- An explanation of how you allocate costs
- A schedule of federal funding you receive
- A schedule of Payroll and Related Costs
- A schedule of Direct and Indirect Costs with a calculation of the indirect cost rate % (see example)
- A reconciliation to your financial statements or 990
- A Certification of accuracy of information in the proposal
- A Lobbying Cost Certificate

How to submit your indirect cost rate proposal

- HHS requires that all indirect cost rate proposals be submitted electronically. They require two separate PDF files (CD or flash drives if file size exceeds 25 MB)
- The first file marked “proposal” should contain the entire proposal including your transmittal letter, checklists and certifications as well as supporting schedules.
- The second file, marked “financial statements” should contain financial information such as audited financial statements or your annual form 990
- <https://www.hhs.gov/about/agencies/asa/psc/indirect-cost-negotiations/index.html> to find where submit or modify your proposal

Introduction

There is no set format for the introduction, but it should describe your organization information such as—

- Your legal and any DBA or known name
- Your business office location and any other locations
- The population you serve
- The services you provide
- The primary funding sources you receive
- Your legal structure and governance (nonprofit corporation governed by an independent board of directors)
- The approximate FTE staff size of your organization
- Whether you own or lease your facility and an approximate size of the facility

Description of How Costs are Allocated

You must accurately describe how you allocate costs. The following format is typical, but adjust to accurately describe what YOU do.

EXAMPLE

PENN CIL follows US generally accepted accounting principles and uses the accrual basis of accounting.

The general approach of PENN CIL in allocating costs to particular grants and contracts is as follows:

- All allowable direct costs are charged directly to cost objectives, program grants, activities, etc.

Description of How Costs are Allocated, cont'd.



- If an allowable direct cost benefits more than one cost objective, it is assigned directly to the cost objectives that benefit based on the level of benefit they receive.
- Your plan indicates what you use as the base – Salary is the most common base, which is why keeping track of time is so important.
- All other allowable indirect costs (costs that benefit all cost objectives and cannot be identified to a specific cost objective) are pooled (combined) and allocated to cost objectives, grants, etc. based on direct costs for each cost objective. The pool is divided by the base to determine the rate.

Description of How Costs are Allocated, cont'd. 2



The following information summarizes the procedures used by PENN CIL, Inc. beginning October 1, 2022. *Note this is most important for staff who work in more than one area. Time would be recorded by the grant they are working under, or if they provide time benefiting all grants, would be indirect time.*

Payroll and Related Costs—Payroll costs are documented with timesheets and personnel activity reports (PARs) showing time distribution for all employees. Payroll and related costs (taxes and benefits) are assigned to cost objectives based on actual work done. Payroll and related costs are charged directly to the cost objective for which services have been performed. (You need to decide if you put the actual figure or establish a rate.)

Description of How Costs are Allocated, cont'd. 3



Payroll and Related costs, cont'd.

- Payroll taxes and fringe benefits (FICA, Unemployment Compensation, and Worker's Compensation costs) are assigned in the same manner as salaries and wages. Health insurance, dental insurance, life and disability, and other fringe benefits are also allocated in the same manner as salaries and wages.
- Vacation, holiday, and sick pay are assigned in the same manner as salaries and wages.

Description of How Costs are Allocated, cont'd. 4



- Rent and Utilities—direct occupancy costs are charged to individual cost objectives/activities based on square footage used by each cost objective or activity. Facilities costs that benefit all cost objectives are typically included with general and administrative, and allocated as described above. You must describe how you split out these costs.
- Other—Allowable costs that benefit single or multiple cost objectives are assigned directly to those cost objectives. Costs that benefit all cost objectives are included with general and administrative, and allocated as described in your plan. You must describe.

Allocating Salary Costs

- Executive Director's time/salary and fringe costs may be both direct and indirect. Direct costs are shared between all the grants/programs based on actual time records.
- A Program Manager's time/salary and fringe costs are shared between all the grants/programs based on actual time records.
- General and administrative salaries benefiting all programs such as the receptionist, accounting staff, a portion of the Executive Director salary and resource developer will be invoiced through the indirect rate.

How to Make your Indirect Cost Rate Process Simpler? What To Do Now

- Rule of thumb - if an expense category didn't total \$1,000 last year try combining it with something else.
- When you have multiple funders for the same program, use percentages to break out between funders.
- Be mindful of other funding requirements such as those your State imposes.

Schedule of Federal Funding

PENN CIL Schedule of federal awards: (example)

Grantor	Passthru	CFDA#	2022 Total \$	Expenditures	Period of Perf.
Department of Education		84.132A	\$400,000	\$400,000	9/30/21 9/29/22
Social Security		96.008	\$390,000	\$390,000	7/1/21 – 6/30/22
Department of Labor	NY State	96.630	\$150,000	\$150,000	7/1/21 – 6/30/22

Decide if a grant doesn't have indirect costs

- If a grant is very small (think \$10,000 or other proportionately small grants) then you can combine some of the local grants into one column and total the amount.
- If the funds are generated for the consumer and pass through to them (like the funds for home modifications or food or transportation benefiting the independent living of individuals directly) you may not be required to include it.
- **JUST BECAUSE A FUNDING SOURCE DOESN'T ALLOW indirect or administrative costs, doesn't mean you don't have to apply those costs with all other grants.**

PENN CIL Attachment E—Schedule of Payroll & Related Costs (example)



Projected Payroll, Payroll Overhead and Indirect Allocation

Name	Position	Total	VIIB	VIIC	Local Prog	Fundraising	G&A
Richard	cost objective Director	71,000	17,750	39,050	10,650		3,550
Jane	Executive Director	74,000	7,400	22,200	7,400	11,100	25,900
Sally	Development Director	32,000				27,200	4,800
Brenda	Systems Manager	15,500					15,500
Stephanie	Deaf Services Coordinator	48,000		48,000			
Multiple	Counselor/Advocate (4)	185,000		185,000			
Multiple	Case Manager (3)	135,000		135,000			
Daniel	Accountant	42,000					42,000
Patti	Receptionist	31,000					31,000
	Totals	\$633,500	25,150	429,250	18,050	38,300	122,750
Payroll Overhead							
FICA		48,463					
SUTA		9,503					
Disability/Compensation		15,838					
Health/life		25,200					
	Totals	\$99,003					
	Payroll OH%	15.63%	3,930	67,083	2,821	5,985	19,183

Illustration of an Indirect Rate Calculation

Indirect Costs

Payroll	122,750
Payroll OH	19,183
Outside Services	5,900
Rent	5,100
Utilities	1,270
Maintenance	2,600
Travel and Training	800
Depreciation	4,648
Telephone	7,572
Insurance	6,586
Dues and Subscriptions	3,500
Advertising	3,660
Office Supplies & Exp.	1,974
Other Exp.	3,057
TOTAL	\$188,600

Direct Costs

Payroll	510,750
Payroll OH	79,820
Outside Services	42,587
Rent	102,757
Utilities	11,597
Maintenance	37,580
Travel and Training	46,892
Program Supplies	27,652
TOTAL	\$859,635

Indirect Cost Rate

$188,600 / 859,635 = 21.9\%$

Documenting Payroll by Program

- You can use a timesheet as a personnel activity report (PAR) as long as it documents time worked and what cost objectives (funding sources) were worked on. Blow by blow consumer services are NOT required here, but general division of time across funding sources is what we are looking for.
- If you use a separate PAR, both a sample time sheet and a sample PAR should be included in your proposal.
- Although Uniform Administrative Requirements provide additional flexibility for documenting how payroll gets charged, you must be able to show that your method properly documents, after the fact, the services employees actually performed.
- If you use another method to document payroll and time worked, be sure your policy properly describes it and that your figures are **consistent** from time sheet to PAR.

How many cost objectives do you have?

- Centers that have both Part B and Part C money through ACL/ILA may be able to combine them into a single cost objective, since the same regulations and requirements apply. If the same service area also applies, combining them may be preferable.
- Can you tell when a person is working on one grant or another? If not, they are probably a single cost objective. Breaking out the individual's time is key to the plan, so each employee needs to understand and record which grant is paying them.
- Time records are the basis for all the other division of indirect costs, so you need to get them right.

Questions and Answers

Your Indirect Cost Rate Is Wrong, But That Is All Right



- Your actual rate may be different because you got approval for a formula and for a provisional, not a final rate.
- If you check your rate during the year it can also be wrong because some costs aren't incurred uniformly like insurance, vacations, and your annual audit or 990 preparation.
- After year-end you will need to put actual numbers into a spreadsheet and recalculate your rate. HHS will review your updated spreadsheet and approve a final rate for prior years and a provisional rate for future years.
- The final rate will be used to determine whether you over-billed or under-billed.

Using Your Indirect Cost Rate for Drawdowns and Vouchers

- You can't bill *more* than your approved rate and you shouldn't bill *less* unless there have been significant changes which you know will ultimately reduce your actual indirect rate.
- If it turns out you over-billed, you may be required to repay that, or your future rate may be reduced.
- You can only ask one time for a specific cost to be paid with your grant. You must be able to show what costs are included in your indirect and to confirm that you did not ask for direct reimbursement for the same costs.

Have An Electronic File Where You Keep Your Indirect Cost Rate

Keep a folder that contains:

- Your indirect cost rate proposal and the key documents it was based on.
- Follow-up submissions of your year-end actual rate.
- Approval from HHS for your provisional rate.
- Approval from HHS for final rates.
- The spreadsheet you used to calculate your initial rate.

These will be necessary for funder audits, useful for billing other funders, and helpful for future calculations.

Check How Difficult It Is To Enter Information From Your General Ledger Into Your Indirect Cost Rate Spreadsheet

- Don't wait until after year-end to find out that changes may be necessary.
- If you used your financial statements or your 990 for your initial rate, find out from your accounting firm what accounts from your general ledger go into what financial statement (or 990) lines. This is called "mapping."
- If you can, do the calculation of how your current rate compares to your approved rate.
- If the rate is high or low, find out why. Is it just timing? Were there errors in your proposal, or did things change?

What to Do If Your Accounting System and Your Indirect Cost Rate Spreadsheet Aren't Compatible



Consider modifying your general ledger by:

- Reducing the number of accounts.
- Group or combine accounts that don't have a lot of transactions or a high dollar value – most general ledgers allow you to get details with a mouse click.
- Minor items of cost might technically be direct but it will be more efficient to treat them as indirect and pool them with other indirect costs.
- Whenever you add expense categories to your general ledger determine whether they are direct or indirect and put them into the proper grouping.

Subaccounts and Groupings Can Help

- If you haven't already set up subaccounts, classes, or groupings in your general ledger consider doing that.
- One of your groupings should be for all of your indirect cost categories.
- With QuickBooks, you have to:
 1. Select "lists"(on the top of the screen),
 2. Chart of accounts,
 3. Account (on the bottom left of the screen),
 4. Highlight an account and select New or Edit,
 5. Right click (e.g. insurance), click "edit," checkmark it to make it a subaccount and choose indirect.

One Cost Objective - Multiple Funders

- If you have a single cost objective but multiple funders for that cost objective*, you may not want to break those costs out by funder. Leave them combined.
- When it is time to voucher or drawdown, send(export) the expense accounts you will be vouchering from to an Excel spreadsheet and then calculate each funder's share of those costs.

*For example, if your center receives both Part B and Part C funding for the same set of services, same population, and same geographic service area.

Final Thoughts

- Remember you will need to do this calculation each year, so set up an Excel template or some other format that will help in the future
- It is also important to remember that, although you submit a rate for approval, it is your method of determining that rate that is approved. Your actual rate probably will vary each year.
- Any overcharges based on an incorrect rate may need to be paid back or may be adjusted into the subsequent year's rate.
- Any under billings will not be able to be recovered other than by a possible adjustment to a subsequent rate.

For More Information

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Wrap Up and Evaluation

Please take time to complete the evaluation form. We need your feedback so we can continue to improve the training and technical assistance we provide.

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