

The graphic shows the letters S, M, A, R, and T stacked vertically. Each letter is inside a circle. A dashed orange line connects the top of the S circle, goes around the M and A circles, and ends with a downward-pointing arrowhead at the bottom of the T circle.

S
M
A
R
T

Strategies

Monitoring

Accountability

Risk Mitigation

Transparency

Advanced Cost Allocation: Cost Allocation Plans, Indirect Cost Rate Agreements, and De Minimis

SMART 4.0 Training

Hosted by the Office of Grants Management
Division of Compliance Assistance and Policy
Employment and Training Administration
U.S. Department of Labor.

SMART 4.0 Training Series

- The training modules are focused on: **S**trategies for sound grant management that includes **M**onitoring, **A**ccountability, **R**isk mitigation and **T**ransparency.
- **4.0 focuses on Risks Identification and SMART Practices!**

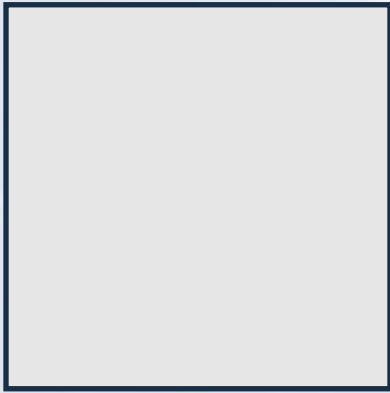


Disclaimer

SMART 4.0 is part of the catalog of SMART grant management tools. This conference and its materials should be viewed primarily as a support resource. It is not intended to be comprehensive but rather to provide an understanding of 2 CFR 200, 2 CFR 2900, and the management of ETA grants. The use of these SMART 4.0 modules does not ensure compliance. Any omission of an applicable Federal requirement does not waive a grant recipient or subrecipient's responsibility to comply with that requirement.

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Today's Speakers



First Last

Occupation/Title

Company Name



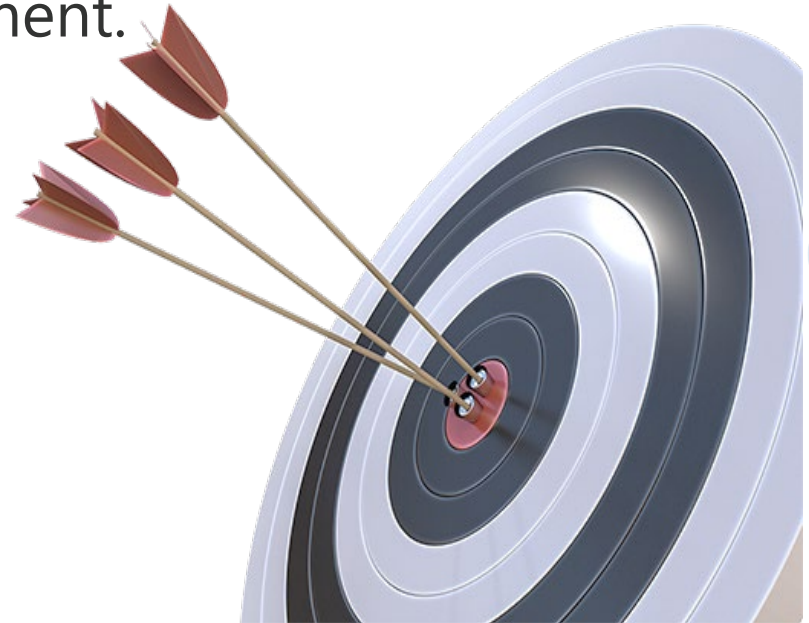
First Last

Occupation/Title

Company Name

Module Overview

- Indirect Costs and Allocation Bases.
 - Definitions.
 - Cost Allocation Plan (CAP).
 - Negotiated Indirect Cost Rate (ICR) Agreement.
 - De minimis Rate.
- Risk and SMART Practices.





Indirect Costs and Allocation Bases

Important TIPs

Reminders:

- Allocable costs are direct, shared direct, or indirect costs that **must** be necessary, reasonable, allowable, and distributed based on the relative benefit received.
- Any direct grant recipient that:
 - 1) Has more than one Federal fund source, and
 - 2) Intends to allocate shared or indirect costs must have either a Negotiated Indirect Cost Rate Agreement (NICRA) or an approved cost allocation plan (CAP) in place.
- A direct grant recipient must negotiate its NICRA or CAP with its Federal cognizant agency for indirect costs.

Definitions

Definition – Indirect Costs

- Cost incurred for the same purpose and treated as direct costs cannot be charged as indirect costs.
- **Examples:**
 - Administrative salaries, executive director salary, payroll processing agent, administrative space, and operational expenses.

Definition – Facilities and Administrative Costs

2 CFR 200.1

- Costs incurred for a common or joint purpose **benefitting more than one** cost objective, and **not** readily assignable to the cost objectives specifically benefitted, **without effort** disproportionate to the results achieved.
- When indirect cost pools are necessary, they must be distributed to benefitted cost objectives on bases that will produce an **equitable** result compared to **relative benefits** derived.

Definition – Distribution Base

- A distribution base is the method of documentation used to measure the extent of benefits received when allocating joint costs among multiple cost objectives.
- The base is incorporated into a mathematical formula that, when applied to the accumulated costs in the pool, results in the amount to be distributed to each final cost objective.
- Organizations are likely to use different bases for different costs.
- Acceptable methods for distributing pooled costs may vary.
 - Examples include using square footage to allocate rent costs or participant headcount to allocate participant supplies.

Types of Distribution Bases

Inputs

- Number of employees - staffing plan.
- Number of transactions - transactions count.
- Direct labor hours - timesheets/Personal Activity Reports.
- Space usage - floor plan showing space used by program/function.

Outputs

- Work units or products completed.
- Number of participants served.
- Percent share of program expenditures.

Direct Award Recipients with Multiple Fund Sources

- Can charge indirect costs through:
 - An approved cost allocation plan (CAP);
 - An indirect cost rate agreement negotiated with a cognizant agency; or
 - De minimis rate.

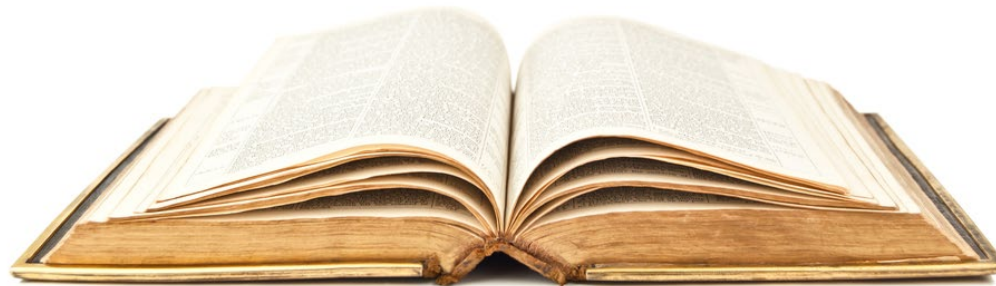
Subawards with Multiple Fund Sources

- A pass-through entity (PTE) may:
 - Accept subrecipients' federally negotiated indirect cost rate agreement.
 - Negotiate indirect cost rates with the subrecipient.
 - › If subrecipient has no Federally-approved rate and has indirect cost to charge the subaward.
 - Negotiate a CAP.
 - Accept subrecipient's use of de minimis rate.
 - › If the subrecipient does not have a current negotiated cost rate agreement.

Cost Allocation Plan

Definition – Cost Allocation Plan (CAP)

- What is a cost allocation plan?
 - A document that identifies, accumulates, and distributes allowable direct costs (or indirect costs for governmental organizations) and identifies the allocation methods used for distribution.



Cost Allocation Plans (CAPs)

Minimum requirements:

- In writing.
- Supported by formal accounting records.
- Signed by an authorized agency official.
- Include a process for reconciliation and adjustment.
- Periodically validated and updated.
- Costs should then be allocated in accordance with the methodology contained in the CAP.
- Submission to cognizant agency:
 - If DOL is the cognizant agency: submit to Cost & Price Determination Division (CPDD).
 - For subrecipients that don't have an already approved CAP: submit to PTE.

CAP Elements

- Background and mission statement, including organizational chart.
- Description of the types of services provided.
- Copies of financial statements and current budgets.
- Shared expenses included in the cost of services to be allocated.
- **Allocation bases used for distributing expenses to benefit cost objectives.**
- Certification by an authorized official.

Cost Allocation Example: Case Management Division

- Direct charge training tied to individual participants.
- Allocate program costs to the division that administers WIOA Adult, Dislocated Worker, and Youth Programs.
 - All expenses that are shared direct costs may be placed in cost pool.
- The expenses include:
 - Salaries and fringe benefits of case managers and supervisors.
 - Business travel expenses of case managers and supervisors.
 - Space and utility costs allocated to this division.
 - Supplies and equipment costs allocated to this division.
- Allocate on a monthly basis, last day of the month.

Benefits of CAP

- Provides a clear and concise method.
- Results in the equitable sharing of indirect costs.
- Eliminates arbitrary methods.
- Meets Federal cost principles and standards.
- Improves and standardizes fiscal management policies and practices.

CAP Recommendations

- Keep it simple.
- Make it replicable.
- Simplify the organizational structure.
- Consider what is required.
- Make changes prudently and timely.



Negotiated Indirect Cost Rate Agreement

Definition – Indirect Cost Rate Agreement

- What is an indirect cost rate (ICR)?
 - An ICR is a device for determining fairly, and conveniently within the boundaries of sound administrative principles, the proportion of indirect cost for each program.
- An ICR may be formalized as a negotiated agreement.
 - The negotiated indirect cost rate agreement (NICRA) will identify both the indirect cost rate and the direct cost base against which the rate will be applied.
 - The result of each negotiation must be formalized in a written agreement with your cognizant agency for indirect costs.
- Submit an Indirect Cost Proposal to obtain a negotiated NICRA.

Reasons for an Indirect Cost Rate Agreement

- Ensure equitable cost-sharing among all funding streams - Federal and non-Federal.
- Means of charging administrative and overhead (F&A) costs.
- No rate is needed if no indirect costs are in the budget.
- A rate is required if the recipient has more than one Federal funding stream or award and will request reimbursement for indirect costs.

Types of Indirect Cost Rate (1)

- **Predetermined rate** means an ICR applicable to a specified current or future period, usually the organization's fiscal year.
- **Fixed rate** means an ICR that has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

Types of Indirect Cost Rate (2)

- **Provisional rate or billing rate** means a temporary ICR applicable to a specified period.
- **Final rate** means an ICR applicable to a specified past period that is based on the actual costs of the period. A final rate is not subject to adjustment.
- **De minimis rate** refers to 10% of MTDC, or a method of charging a percentage of indirect costs to a Federal award without obtaining an approved indirect cost rate agreement from the Federal government or the pass-through entity.

Types of Distribution Bases for ICR

Direct salaries

Direct salaries
and fringe
benefits

Total direct costs

Modified Total
Direct Costs
(MTDC)

Negotiated Indirect Cost Rate – Calculation Example

Program 1	
Approved NICRA	13%
Distribution Base (Salary + Fringe Cost Pool for year)	<u>x \$500,000</u>
Calculated indirect that could be recovered from Program 1	\$65,000



Elements of Indirect Cost Proposal

- Organization Chart, Timesheets/ documentation supporting the allocation of personnel expenses.
- Cost Policy Statement – Describing all costs elements line item by line item and providing how these costs are allocated. Example, 100% indirect, indirect & direct, share direct, or 100% direct, etc.
- Personnel Cost Worksheet, Allocation of Personnel Costs.
- Statement of Fringes (if applicable).
- Statement of Total Costs (including rate calculations).
- Certificate of Indirect Costs.
- Financial Statements.
- Listing of Federal Grants and Contracts showing the source of funding, grant/contract amounts, and relevant dates.

Negotiated Indirect Cost Rate Agreement (NICRA)

The agreement includes:

- The approved rate(s) and information directly related to the rates' use, e.g., type of rate, effective period, and distribution base.
- The treatment of fringe benefits as either direct and/or indirect costs.
- General terms and conditions.
- Special remarks, e.g., the composition of the indirect cost pool.

Cognizant Federal Agency (Direct Recipient)

2 CFR 200.1

- The Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals on behalf of all Federal agencies.
- ICR proposal submitted to the cognizant Federal agency.
- Largest dollar volume of **direct** Federal funding (normally) determines the cognizant agency. The concept flows down to state, local, or other levels of funding.
- HHS is cognizant of all States' Statewide Indirect Cost Allocation Plans (SWICAP) and for most educational institutions; for info: <http://rates.psc.gov/>.
- If DOL is the cognizant agency, visit the Division of Cost Determination (DCD) link for info: <http://www.dol.gov/oasam/boc/dcd/>.

Cognizant Agency and Subrecipients

PTE and Subrecipients.

- PTE must accept an approved Federally recognized indirect cost rate negotiated between the subrecipient and the Federal government.
 - If no approved rate exists, the PTE must determine the appropriate rate in collaboration with the subrecipient, which is either:
 - The negotiated indirect cost rate between the PTE and the subrecipient, which can be based on a prior negotiated rate between a different PTE and the same subrecipient.
 - The de minimis indirect cost rate.

Cognizant Agency – Federal Cost Negotiator

- A Federal cost negotiator works for the cognizant Federal agency. Duties include:
 - Processing indirect cost proposals to assess documentation received.
 - Evaluating proposals to assess allowability, allocability, and reasonableness of indirect costs.
 - Determining indirect costs share for DOL and Federal government.
 - Disallowing costs not in compliance with regulations.
 - Negotiating cost items that do not appear to be reasonable.
 - Establishing rate agreements in collaboration with grant recipients.

Cost & Price Determination Division – CPDD (1)

- If your cognizant agency is DOL, CPDD has the authority to negotiate and issue ICR and CAPS on behalf of the Federal government.
 - [Cost & Price Determination Division](#).
- After determining the need to submit an indirect cost proposal to CPDD, review the indirect cost guide and the checklist of the required supporting documentation.
 - A Guide for Indirect Cost Rate Determination — Applicable to Nonprofit and Commercial Organizations.
 - Guidance on Indirect Costs for State/Local Governments.
- Submit an indirect cost proposal to the assigned cost negotiator.

Cost & Price Determination Division – CPDD (2)

- Initial indirect cost proposals to negotiate provisional/billing rates are due within **90 days** after the effective date of the Federal award.
- Organizations that have previously established indirect cost rates must submit a new indirect cost proposal within six months after the close of each fiscal year.
- Proposals are typically reviewed within 150 days from receipt.

For ETA grant recipients ONLY: If a NICRA proposal is not submitted within 90 days of award and the grant has indirect costs, the grant is limited to the de minimis rate of 10% of Modified Total Direct Costs (MTDC).

Approved Rate

- Rate submitted by the recipient must be accepted by all federal agencies and pass-through entities.
- Includes situations when the organization is a subrecipient of another grant.
- Actual allowable charges may be limited based on the following:
 - Grant budget.
 - Cost limitations.
 - Federal regulations.
 - Available funds.

Uniform Guidance – Federal Agency Requirements

[2 CFR 200.414\(h\)](#)

- The Federal negotiated indirect cost rate, distribution base, and rate type for a grant recipient must be available publicly on an OMB-designated Federal website.
 - Except for Indian tribes or tribal organizations.
 - Anyone can request the use of de minimis rate for entities with less than \$35 million a year.

Check Your Knowledge in 60 Seconds

Answer True or False:

1. Grant recipients still need an indirect cost rate even if no indirect costs are in the grant's budget.
2. A grant recipient may use direct salaries to determine its indirect cost rate.
3. A grant recipient may use its NICRA on all Federal projects if a Federal agency approves.
4. PTEs are responsible for approving indirect cost rates for their subrecipients that do not have a Federally approved rate.



De Minimis Rate

Definition – De Minimis Rate

- A simplified method of charging minimal amount of indirect costs to a Federal award without obtaining an approved indirect cost rate agreement from the Federal government or from the pass-through entity.
- 10% of MTDC.
- Developed by the Uniform Guidance to reduce the administrative burden of applying for a NICRA.

Application of the De Minimis Rate

- Who can use the de minimis rate? An eligible entity:
 - Has indirect costs but does not have a current negotiated (including provisional) rate.
 - May charge 10% of modified total direct costs (MTDC) for an indefinite period.
 - › No documentation is required to justify the 10% de minimis indirect cost rate.
 - Costs must be consistently charged as either indirect or direct costs but may not be double charged or inconsistently charged as both.
 - Must be used consistently for all Federal awards until the grant recipient chooses to negotiate for a rate.
- Non-eligible entity.
 - Governmental units with more than \$35 million in direct Federal funding.

Modified Total Direct Costs (MTDC) (1)

2 CFR 200.1

- Actual salaries, wages, fringe benefits, materials and supplies, services, travel; subawards up to the first \$25,000 of each subaward regardless of the period of performance.

MTDC Exclusions:

- Equipment, capital expenditures, patient care, rental costs, tuition and participant support costs.
- Portion of each subaward in excess of \$25,000.

Modified Total Direct Costs (MTDC) (2)

DOL defines MTDC as:

- All direct salaries and wages, applicable fringe benefits, materials and supplies, services, and travel up to the first \$25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts under the award).
- MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each **subaward or subcontract** in excess of \$25,000.

Applying De Minimis Rate

Grant Amount: \$9,700,100

Grant Costs and Expenditures	Budget	Actual Direct Expenditures	MTDC
Salary & Fringe Benefits	\$2,000,000	\$1,500,000	\$1,500,000
Travel	\$100,000	\$50,000	\$50,000
Supplies	\$80,000	\$40,000	\$40,000
Copier Rental	\$20,000	\$10,000	\$10,000
Building Rent	\$100,000	\$80,000	
Equipment	\$100,000	\$70,000	
Capital Expenditures	\$100,000	\$100,000	
Total Costs	\$2,500,000	\$1,850,000 A	\$1,600,000 C
Subawards:			
Subaward A	\$1,000,000	\$20,000	\$20,000
Subaward B	\$2,000,000	\$1,500,000	\$25,000
Subaward C	\$1,000,000	\$900,000	\$25,000
Subaward D	\$3,000,000	\$2,600,000	\$25,000
Total Subawards	\$7,000,000	\$5,020,000 B	\$95,000 D
Indirect Costs	\$200,100		

Expenditures	Actual Direct Expenditures
Total Direct Expenditures (A + B)	\$6,870,000
MTDC Calculated (C + D)	\$1,695,000 E
De Minimis Rate	10% F
Indirect Costs Calculated (E * F)	\$169,500
Total Direct Expenditures	\$6,870,000
Indirect Costs	\$169,500
TOTAL EXPENDITURES	\$7,039,500



Risks and SMART Practices

Common Risks (1)

- Not allocating costs in accordance with the CAP or ICR.
- Distribution base used does not allocate costs equitably.
- Using unacceptable bases such as plans, budgets or estimates not adjusted for actual costs.
- CAP not meeting the minimum requirements:
 - Supported by the formal accounting records of the agency or organization,
 - Signed by an authorized representative of the organization,
 - Include a process for reconciliation and adjustment,
 - And lastly, periodically validated and updated.

Common Risks (2)

- Incomplete indirect cost proposals.
- Not adhering to budget limitations.
- Not re-negotiating a NICRA when receiving new grant revenue.
- Incorrectly applying ten percent to the modified total direct costs (MTDC) to recover excess indirect costs.

SMART Practices

- Create or update policies on the allocation of indirect costs and shared direct costs where necessary and applicable.
- Develop or update policies to ensure that an indirect cost proposal or CAP used for distributing indirect costs contains the elements required in the Uniform Guidance.
- Update or create a policy to obtain the approval by the Federal cognizant agency or the PTE for the allocation of indirect costs or accept a subrecipients Federally approved indirect cost rate or negotiated and approve a rate for subrecipients without a Federally approved rate.
- Develop or update formalized policies to request and submit a de minimis ICR, if applicable, or determine a subrecipient's eligibility for the de minimis, if applicable.

Questions?



Testing For Compliance – Core Monitoring Guide

ETA monitoring aims to assess compliance using the Core Monitoring Guide (CMG). Here is a list of indicators that were discussed during the module's topic.

- **Objective 3.g:** Cost Allocation/ Indirect Costs.
 - The grant recipient allocates costs including indirect costs to the benefitting cost objectives based on relative benefits received and treats allocated costs consistently within its accounting system.
 - › Indicator 3.g.2: Cost Allocation Plan.
 - › Indicator 3.g.3: NICRA.
 - › Indicator 3.g.4: De Minimis
- Also, consider utilizing the entire **Core Monitoring Guide** as a resource.

Advanced Cost Allocation Resources

- [Core Monitoring Guide](#)
- Training and Employment Guidance Letter
 - TEGL 5-06.
- [A GUIDE FOR INDIRECT COST DETERMINATION](#)
- Department of Labor Exceptions [2 CFR Part 2900](#)
- WIOA Provisions [20 CFR Part 683](#)
- [Uniform Guidance Crosswalk](#)
- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 [CFR Part 200](#)
 - 2 CFR 200.403
 - 2 CFR 200.405
 - 2 CFR 200.413
- [Appendix II to Part 200](#)
- [Appendix III to Part 200](#)
- [Appendix IV to Part 200](#)
- [Appendix V to Part 200](#)
- [Appendix VI to Part 200](#)

Thank You!