

The OMB Circulars – In Brief

NASCSP

November 17, 2010

Kay Sohl

kay@kaysohlconsulting.net

Kay Sohl Consulting
Training and Consulting Services



How are Federal \$\$ like STDs?

www.kaysohlconsulting.net

Must Know Where Your \$ Has Been

- **Federal requirements**

stay attached to **Federal \$\$\$** no matter how many intermediary recipients stand between the end recipient and the feds

Federal Requirements cover

- **Direct Federal agreements**
- **Federal dollars received through State or local government**
- **Sub-awards made by recipients of Federal \$\$\$**

What Rules?

Rock, Paper, Scissors

- **Specific contract/grant agreement provisions**
- **OMB Circulars**
- **Code of Federal Regulations**

OMB Circulars

- **Use and management of Federal funds**
- **A-110 and A-122 for nonprofits**
- **A-87 and A-102 for State and local government**

OMB A-133

- **Audit requirements for nonprofits, government, and education expending more than \$500,000 in Federal funds in fiscal year**
- **A-133 Compliance Supplements provide guidance for specific Federal programs**
- **A-133 2010 Compliance Supplement – August, 2010**

OMB Circulars are now in CFRS: Code of Federal Regulations

- **For Nonprofits:**
 - **A-110 = 2 CFR 215**
 - **A-122 = 2 CFR 230**

- **For State, Local, & Tribes**
 - **A -87 = 2 CFR 225**
 - **A -103 = 24 CFR 85**

Code of Federal Regulations

- **Codification of rules published in Federal Register**
- If any statute specifically prescribes policies or requirements that differ from OMB Circulars, the **provisions of the statute govern**

Organization of CFRs

- **50 Titles**
- **Title: Volume: Chapter: Part**
- **CSBG:**
 - 45 CFR Part 16
 - 45 CFR Part 74
 - 45 CFR Part 96

Key Online Tools

- **Code of Federal Regulations**

www.gpoaccess.gov/CFR

- **OMB Circulars**

www.whitehouse.gov/omb/circulars

ARRA Requirements

- **Office of Community Services (OCS): CSBG Information Memoranda (IM)**
- **OMB A-133 June, 2009 & August, 2010 Compliance Supplements**

Matrix for Federal Funds Recipients

- Identify all Federal sources and CFDA #s
- Identify applicable CFR provisions
- Identify CFR conflicts/additions to A-110 & A-122
- Identify any modifications required to systems and/or procedures

A-110: 2 CFR 215

Uniform **Administrative Requirements** for Grants and Agreements with Institutions of Higher Ed, Hospitals, and Nonprofit Organizations

A-110 Sub-parts

- **A: Definition of terms**
- **B: Pre-award**
- **C: Management of award**
- **D: After the award**

A-110 Appendix A

Contract Provisions

- **Equal Opportunity Act**
- **Anti Kick-back**
- **Davis Bacon**
- **Work hours & safety**
- **Invention rights**
- **Clean Air Act**
- **Anti-Lobbying Act**
- **Debarment & Suspension**

A-110 Subpart C

Post Award Requirements

- **Financial & program management**
- **Property standards**
- **Procurement standards**
- **Reports & records**

A110 Financial & Program Management Requirements

- **Records document source and application of funds for federally-sponsored activities**
- **Control over funds, property, other assets**

Management- continued

- **Comparison of budget to actual for each award**
- **Records supported by documentation**
- **Written procedures for**
 - Cash management
 - Determination that expenditures are reasonable, allowable, allocable

Cash Management

- **Separate bank account **not required****
- **Must be able to track deposit & disbursement of funds**
- **Interest bearing accounts required (some exceptions)**

Cost Sharing - Matching

- **Verifiable**
- **Necessary for program goals**
- **Allowable**
- **Not counted as match for other Federal program**
- **Not paid with Federal \$**

Program Income

- **Generated through program activity**
- **Retained by nonprofit**
- **Considered non-Federal match**
- **Used for allowable program purposes**

A-110 Procurement Requirements

- Avoid purchasing unnecessary items
- Analyze alternatives to identify the most economical and practical procurement
- Conduct solicitations properly

Purchasing Thresholds

- **<\$3,000**: No requirement to solicit competitive proposals
- **>\$3,000** but **<\$30,000**: obtain three or more oral or written proposals
- **>30,000** but **>\$150,000**: written request for at least three proposals, obtain written proposals
- **>\$150,000**: Sealed bids per FARS

Purchasing Thresholds Cont.

- **Some specific programs have lower “no requirement solicitation” thresholds i.e. Davis Bacon Act requires solicitation of competitive proposals for purchases of \$2,000 or greater**

Procurement System Elements

- Written policies and procedures
- System for testing compliance
- Consequences for non-compliance
- Continuous review and revision as needed

Procurement Compliance Issues

- **Documentation of analysis and rationale**
- **Suspension and Debarment checking**
- **Conflict of Interest**

A-122: Cost Principles for Nonprofit Organizations

- **For use by all Federal agencies**
- **Determine costs for all work performed under grants, cooperative agreements, and contracts with nonprofits**

A-122 Attachments

- A: General principles**
- B: Selected items of cost**
- C: Nonprofits that are not subject to A 122**

A-122 General Principles

- **Allowability**
- **Reasonableness**
- **Allocability of costs**

Allowable Costs

- Reasonable
- Conform to limits – in A 122 and specific award
- Consistent with P&P of your organization
- In accord with GAAP
- Not included as match for any other award
- Documented adequately

A-122 Allowable Costs: Attachment B

Defines specific costs as:

- **Allowable**
- **Disallowable**
- **Allowable w. prior written approval**
- **Allowable when criteria are met**

Reasonableness

- **Prudent person test**
- **Restraints/requirements of State or Federal law, terms of award**

Allocability Terms

- **Cost Objective**
- **Direct Costs**
- **Indirect Costs**

Cost Objective

- **Work unit for which costs are accumulated**
- **Could be a function, subdivision, contract, or grant**

A-122 & GAAP

- **GAAP requires nonprofits to distinguish Program, Management, and FR expenses**
- **These “functions” parallel A-122 “cost objectives”**

Core Concept

- **Establish a cost center for each program**
- **Use a sub-cost center for specific grants/contracts which support that program**

Exhibit 11

Organization A - Program A by funding source with multiple caps and limitations

	Program A			
	Gov't. grant	Private grant	General ops.	Total
<i>Expenses:</i>				
Salaries and wages	\$ 5,000	—	13,613	18,613
Employee benefits	—	—	2,792	2,792
Materials and supplies	2,600	—	2,600	5,200
Postage and shipping	—	605	—	605
Printing and publications	—	1,000	—	1,000
Telephone	115	—	641	756
Occupancy	400	—	1,819	2,219
Depreciation	—	—	684	684
Total direct expenses	8,115	1,605	22,149	31,869
Allocation of indirect costs	243	106	1,763	2,112
	\$ 8,358	1,711	23,912	33,981

1. Government grant caps salaries at \$5,000, benefits and depreciation at 0, and indirect costs at 3%.
2. Private grant pays only postage and shipping, and printing and publications, but accepts the 6.6% indirect cost rate.

Alternative Approach

- **Establish separate cost center for each grant or contract**
- **If some grants support multiple programs, use sub-cost centers to track the program costs**

Direct Costs

- **Costs easily identified with a specific cost center**

- ***Example:***

Head Start teacher easily identified with Head Start cost center

Indirect Costs

- **Costs incurred for common or joint objectives**
- **Costs which must be shared among some or all cost centers**

Indirect & Administrative Costs

- **Administration is a function or purpose**
- **The term “indirect” describes a behavior**

A-122 Requires

- **Identifying cost objectives for program, administrative, fund raising, and lobbying costs**
- **Fair allocation of costs which benefit multiple cost objectives**

A-122 addresses both **function** and **behavior** of costs

- **Function:**

Cost is incurred for a program, admin, or fundraising purpose

- **Behavior:**

Cost can be directly or indirectly attributable to a function/cost center/final cost objective

Cost Allocation Plan

- **Written explanation of nonprofit's method for attributing costs to cost objectives (cost center)**
- **May include multiple methods for allocating costs**

Nonprofits with Direct Federal Awards

- **Negotiate Indirect Cost Rates with cognizant Federal agency**
- **Federal award agreements include direct & indirect cost at negotiated rate**

Nonprofits without Direct Federal Awards

- **Cannot negotiate Federal Indirect Cost Rate**
- **Must have written Cost Allocation Plan**
- **State/local funders determine adequacy of Plan**

Cost Allocation Plan Basics

- Identify **Cost Objective structure** for the entire organization
- Identify “**shared costs**” that benefit more than one cost objective
- Describe **how shared costs will be allocated**

Sample Cost Allocation Plan

http://nccic.acf.hhs.gov/pact/xyz_allocation_plan.pdf

Costs to Allocate

- **Personnel** working on multiple cost objectives
- Shared **facilities**
- Telephone, copier, internet, common supplies

Administrative Costs

GAAP Definition:

- Financial management
- HR administration
- Public relations
- Board support
- Organization-wide management

Administrative Costs:

A-122 Attachment A Section C.3

“Administration” is defined general administration and general expenses such as the director's office, accounting, personnel, library expenses and all other types of expenditures not listed specifically under one of the subcategories of “Facilities” (including cross allocations from other pools, where applicable)

Admin Costs for CSBG: OCS IM 37

Costs “such as strategic direction, Board development, Executive Director functions, accounting, budgeting, personnel, procurement, and legal services.”

Federal Awards & Administrative Costs

- **Federal awards are made for Program objectives**
- **Allow for use of some funds for administrative purposes**
- **Often impose limits on % of program \$ used for admin**

Admin Costs in the Cost Allocation Plan

- **Costs directly identifiable with administrative functions** are charged to admin cost center
- **Shared costs** which benefit admin functions are allocated to admin cost center

Allocating Admin Costs

- **Federally Negotiated Indirect Cost Rate proposal details how Admin Costs (and other shared costs) will be allocated to Cost Objectives/Cost Center**

Allocating Admin – continued

- **Nonprofits without approved Federal indirect cost rate must describe method for allocating admin costs to program cost centers**

Allocating Shared Costs

- **Nonprofits with approved Federal indirect cost rates have reached agreement with cognizant agency regarding allocation of both admin and other shared costs**

Allocate Methods for Common Costs

- **Indirect \$ as % of direct \$**
- **Indirect \$ as % of personnel costs**
- **% of staff time (FTE) devoted to each program/cost center**
- **% of square feet devoted to each program/cost center**

Impermissible Allocation Method

- **Availability** of funds
- **Cannot** base allocation of costs on limits on indirect or admin costs imposed by specific funders
- Must **apply** allocation methods **consistently** to all programs/final cost objective

Cost Allocation Approaches

- **Transaction by transaction allocation**
- **Pool shared costs** – allocate pool total using allowable method
- Use of “**indirect rate**” must be **substantiated** by tracking actual indirect costs

Exhibit 1

Organization A - Indirect cost rate of 6.6%

	Total expenses					
	Programs			Admin.	Indirect	Total
	A	B	C			
<i>Expenses:</i>						
Salaries and wages	\$ 18,613	19,500	23,347	18,557	5,150	85,167
Employee benefits	2,792	2,925	3,502	2,784	772	12,775
Materials and supplies	5,200	8,900	3,581	1,124	—	18,805
Postage and shipping	605	987	4,251	895	2,088	8,826
Printing and publications	1,000	1,355	756	201	50	3,362
Telephone	756	1,222	1,336	2,285	2,263	7,862
Occupancy	2,219	4,590	9,675	11,116	—	27,600
Depreciation	684	758	95	151	—	1,688
Total direct expenses	31,869	40,237	46,543	37,113	10,323	166,085
Allocation of indirect costs	2,112	2,667	3,084	2,460	(10,323)	—
	\$ 33,981	42,904	49,627	39,573	—	166,085

1. The effective indirect cost rate = 6.6% [$\$10,323 / (\$166,085 - \$10,323)$].
2. The administrative rate = 23.8% [$\$39,573 / \$166,085$].
3. Indirect costs are allocated by applying the indirect cost rate (6.6%) to each cost center's total direct expenses [e.g., Program A: $6.6\% \times \$31,869 = \$2,112$].

Exhibit 2

Organization B - Indirect cost rate of 65.8%

	Total expenses					
	Programs			Admin.	Indirect	Total
	A	B	C			
<i>Expenses:</i>						
Salaries and wages	\$ 12,500	14,950	19,635	15,400	22,682	85,167
Employee benefits	1,875	2,243	2,945	2,310	3,402	12,775
Materials and supplies	3,300	6,000	895	1,400	7,210	18,805
Postage and shipping	500	1,035	3,675	1,682	1,934	8,826
Printing and publications	950	1,184	642	120	466	3,362
Telephone	1,672	1,724	1,126	2,418	922	7,862
Occupancy	-	-	-	-	27,600	27,600
Depreciation	-	-	-	-	1,688	1,688
Total direct expenses	20,797	27,136	28,918	23,330	65,904	166,085
Allocation of indirect costs	13,184	15,768	20,709	16,243	(65,904)	-
	\$ 33,981	42,904	49,627	39,573	-	166,085

1. The effective indirect cost rate = 65.8% [$\$65,904 / (\$166,085 - \$65,904)$].
2. The administrative rate = 23.8% [$\$39,573 / \$166,085$].
3. Indirect costs are allocated based on each cost center's direct salaries & wages as a percentage of total direct salaries & wages [e.g., Program A: $\$65,904 \times (\$12,500 / (\$85,167 - \$22,682)) = \$13,184$].

Exhibit 3

Organization C - Indirect cost rate of 0%

	Total expenses					
	Programs			Admin.	Indirect	Total
	A	B	C			
<i>Expenses:</i>						
Salaries and wages	\$ 19,255	21,621	25,388	18,903	—	85,167
Employee benefits	2,881	3,050	3,727	3,117	—	12,775
Materials and supplies	5,200	8,900	3,581	1,124	—	18,805
Postage and shipping	923	1,612	4,541	1,750	—	8,826
Printing and publications	1,025	1,380	800	157	—	3,362
Telephone	1,290	1,417	2,244	2,911	—	7,862
Occupancy	3,219	4,590	8,675	11,116	—	27,600
Depreciation	188	334	671	495	—	1,688
Total direct expenses	33,981	42,904	49,627	39,573	—	166,085
Allocation of indirect costs	—	—	—	—	—	—
	\$ 33,981	42,904	49,627	39,573	—	166,085

1. The indirect cost rate = 0%. No indirect allocation mechanism is used; all expenses are charged directly.
2. The administrative rate = 23.8% [$\$39,573/\$166,085$].

Exhibit 4

Organization A - Indirect cost rate of 6.6%; administrative and indirect costs combined

	Total expenses				
	Direct			Indirect Admin.	Total
	Programs				
A	B	C			
<i>Expenses:</i>					
Salaries and wages	\$ 18,613	19,500	23,347	23,707	85,167
Employee benefits	2,792	2,925	3,502	3,556	12,775
Materials and supplies	5,200	8,900	3,581	1,124	18,805
Postage and shipping	605	987	4,251	2,983	8,826
Printing and publications	1,000	1,355	756	251	3,362
Telephone	756	1,222	1,336	4,548	7,862
Occupancy	2,219	4,590	9,675	11,116	27,600
Depreciation	684	758	95	151	1,688
Total direct expenses	31,869	40,237	46,543	47,436	166,085
Allocation of indirect costs	2,112	2,667	3,084	(7,863)	-
	\$ 33,981	42,904	49,627	39,573	166,085

1. The effective indirect cost rate = 6.6% [$\$10,323 / (\$166,085 - \$10,323)$].
2. The administrative rate = 23.8% [$\$39,573 / \$166,085$].
3. Indirect costs are allocated by applying the indirect cost rate (6.6%) to each cost center's total direct expenses [e.g., Program A: $6.6\% \times \$31,869 = \$2,112$].

Exhibit 5

Organization A - "Fully loaded" cost model

	Total expenses					
	Programs			Admin.	Indirect	Total
	A	B	C			
<i>Expenses:</i>						
Salaries and wages	\$ 18,613	19,500	23,347	18,557	5,150	85,167
Employee benefits	2,792	2,925	3,502	2,784	772	12,775
Materials and supplies	5,200	8,900	3,581	1,124	—	18,805
Postage and shipping	605	987	4,251	895	2,088	8,826
Printing and publications	1,000	1,355	756	201	50	3,362
Telephone	756	1,222	1,336	2,285	2,263	7,862
Occupancy	2,219	4,590	9,675	11,116	—	27,600
Depreciation	684	758	95	151	—	1,688
Total direct expenses	31,869	40,237	46,543	37,113	10,323	166,085
Allocation of indirect costs	2,112	2,667	3,084	2,460	(10,323)	—
Total direct and indirect costs	33,981	42,904	49,627	39,573	—	166,085
Allocation of admin. costs	10,629	13,420	15,524	(39,573)	—	—
	\$ 44,610	56,324	65,151	—	—	166,085

1. The effective indirect cost rate = 6.6% [$\$10,323 / (\$166,085 - \$10,323)$].
2. The administrative rate = 23.8% [$\$39,573 / \$166,085$].
3. Indirect costs are allocated by applying the rate (6.6%) to each cost center's total direct expenses [e.g., Program A: $6.6\% \times \$31,869 = \$2,112$].
4. Administrative costs are allocated based on the pro rata distribution of total direct and indirect costs of each program [e.g., Program A: $\$33,981 \times (\$39,573 / (\$166,085 - \$39,573)) = \$10,629$].

Exhibit 6

Organization A - Adjustment of fully loaded model for GAAP purposes

	Total expenses					
	Programs			Admin.	Indirect	Total
	A	B	C			
<i>Expenses:</i>						
Salaries and wages	\$ 18,613	19,500	23,347	18,557	5,150	85,167
Employee benefits	2,792	2,925	3,502	2,784	772	12,775
Materials and supplies	5,200	8,900	3,581	1,124	—	18,805
Postage and shipping	605	987	4,251	895	2,088	8,826
Printing and publications	1,000	1,355	756	201	50	3,362
Telephone	756	1,222	1,336	2,285	2,263	7,862
Occupancy	2,219	4,590	9,675	11,116	—	27,600
Depreciation	684	758	95	151	—	1,688
Total direct expenses	31,869	40,237	46,543	37,113	10,323	166,085
Allocation of certain administrative costs	3,223	4,070	4,707	(12,000)	—	—
	35,092	44,307	51,250	25,113	10,323	166,085
Allocation of indirect costs	2,326	2,936	3,397	1,664	(10,323)	—
	\$ 37,418	47,243	54,647	26,777	—	166,085

1. The effective indirect cost rate = 6.6% [$\$10,323 / (\$166,085 - \$10,323)$].
2. \$12,000 of administrative costs are allocated to programs based on total direct expenses.
[e.g., $\$31,869 \times (\$12,000 / (\$31,869 + \$40,237 + \$46,543)) = \$3,223$].
3. Indirect costs are allocated by applying the indirect cost rate (6.6%) to each cost center's total direct expenses after the allocation of selected administrative costs [e.g., Program A: $6.6\% \times \$35,092 = \$2,326$].

Exhibit 7

Organization A - 5% cap on indirect costs that can be charged to Program A

	Total expenses					
	Programs			Admin.	Indirect	Total
	A	B	C			
<i>Expenses:</i>						
Salaries and wages	\$ 18,613	19,500	23,347	18,557	5,150	85,167
Employee benefits	2,792	2,925	3,502	2,784	772	12,775
Materials and supplies	5,200	8,900	3,581	1,124	—	18,805
Postage and shipping	605	987	4,251	895	2,088	8,826
Printing and publications	1,000	1,355	756	201	50	3,362
Telephone	756	1,222	1,336	2,285	2,263	7,862
Occupancy	2,219	4,590	9,675	11,116	—	27,600
Depreciation	684	758	95	151	—	1,688
Total direct expenses	31,869	40,237	46,543	37,113	10,323	166,085
Allocation of 5% approved indirect cost cap	1,593	—	—	—	(1,593)	—
Total expenses of Program A reportable to contractor	33,462					
Allocation of Program A's 1.6% excess	519	—	—	—	(519)	—
Allocation of remaining indirect costs	—	2,667	3,084	2,460	(8,211)	—
	\$ 33,981	42,904	49,627	39,573	—	166,085

1. $\$31,869 \times 5\% = \$1,593$ = maximum indirect costs chargeable to Program A.

2. Total indirect cost rate remains 6.6% [$\$10,323/(\$166,085 - \$10,323)$].

Exhibit 8

Organization B - Multiple cost pools

	Total expenses							Total
	Programs			Admin.	Indirect cost pools			
	A	B	C		1	2	3	
<i>Expenses:</i>								
Salaries and wages	\$ 12,500	14,950	19,635	15,400	22,682	—	—	85,167
Employee benefits	1,875	2,243	2,945	2,310	3,402	—	—	12,775
Materials and supplies	3,300	6,000	895	1,400	7,210	—	—	18,805
Postage and shipping	500	1,035	3,675	1,682	—	1,934	—	8,826
Printing and publications	950	1,184	642	120	466	—	—	3,362
Telephone	1,672	1,724	1,126	2,418	—	922	—	7,862
Occupancy	—	—	—	—	12,589	15,011	—	27,600
Depreciation	—	—	—	—	—	—	1,688	1,688
Total direct expenses	20,797	27,136	28,918	23,330	46,349	17,867	1,688	166,085
Allocation of indirect costs 1	9,272	11,089	14,565	11,423	(46,349)	—	—	—
Allocation of indirect costs 2	6,497	3,249	4,872	3,249	—	(17,867)	—	—
Allocation of indirect costs 3	359	467	718	144	—	—	(1,688)	—
	\$ 36,925	41,941	49,073	38,146	—	—	—	166,085
FTEs	2.0	1.0	1.5	1.0	—	—	—	5.5
Square footage utilized	500	650	1000	200	—	—	—	2350

1. Indirect cost pool 1: costs allocated to programs based on direct salaries and wages.
2. Indirect cost pool 2: costs allocated to programs based on FTE.
3. Indirect cost pool 3: costs allocated to programs based on square footage.

Exhibit 11

Organization A - Program A by funding source with multiple caps and limitations

	Program A			Total
	Gov't. grant	Private grant	General ops.	
<i>Expenses:</i>				
Salaries and wages	\$ 5,000	—	13,613	18,613
Employee benefits	—	—	2,792	2,792
Materials and supplies	2,600	—	2,600	5,200
Postage and shipping	—	605	—	605
Printing and publications	—	1,000	—	1,000
Telephone	115	—	641	756
Occupancy	400	—	1,819	2,219
Depreciation	—	—	684	684
Total direct expenses	8,115	1,605	22,149	31,869
Allocation of indirect costs	243	106	1,763	2,112
	\$ 8,358	1,711	23,912	33,981

1. Government grant caps salaries at \$5,000, benefits and depreciation at 0, and indirect costs at 3%.
2. Private grant pays only postage and shipping, and printing and publications, but accepts the 6.6% indirect cost rate.

Fed Negotiated Indirect Cost Rate requires:

- Calculation of **indirect costs as a % of base**
- Resulting % is applied to direct costs of each program to determine allowable indirect costs

Base for Federal Indirect Rate

- **Total direct costs** exclusive of capital expenditures and other distortions (major sub-grants, subcontracts > \$25,000) OR
- **Direct salaries and wages** or other base with equitable result

Key Choice in Federal Indirect Rate Approach

- **Simplified Method:** common costs and admin costs included in indirect rate
- **Direct Method:** common costs are allocated case-by-case to cost objectives and **only administrative costs** are included in the indirect rate

Why Use Direct Method?

- **Results in lower Indirect Rate**
- **May be more understandable and acceptable to private funders**

Exhibit 10

Organization A - Federal indirect cost proposal format - direct allocation method

	TOTAL EXPENSES					
	Programs			Indirect		Total
	A	B	C	Fundraising	Admin	
Expenses:						
Salaries & wages	\$ 18,613	19,500	23,347	4,390	19,317	85,167
Employee benefits	2,792	2,925	3,502	790	2,766	12,775
Materials & supplies	5,200	8,900	3,581	0	1,124	18,805
Postage & shipping	605	987	4,251	0	2,983	8,826
Printing & publications	1,000	1,355	756	0	251	3,362
Telephone	756	1,222	1,336	861	3,687	7,862
Occupancy	2,219	4,590	9,675	1,966	9,150	27,600
Depreciation	684	758	95	0	151	1,688
Total expenses	31,869	40,237	46,543	8,007	39,429	166,085
<i>Less Direct Cost Adjustments:</i>						
Materials & supplies	(1,645)	(2,499)	(866)	0	0	(5,010)
Alterations & Improvements	(980)	(1,210)	0	0	0	(2,190)
Depreciation	(684)	(758)	(95)	0	0	(1,537)
	(2,625)	(3,709)	(866)	0	0	(7,200)
<i>Less Indirect Cost Adjustments:</i>						
Occupancy (interest)	0	0	0	0	(762)	(762)
Depreciation	0	0	0	0	(151)	(151)
	0	0	0	0	(913)	(913)
	\$ 29,244	36,528	45,677	8,007	38,516	157,972

1. Indirect cost rate = $\$38,516 / (\$157,972 - \$38,516) = 32.2\%$

Why Use Simplified Method

- **May be efficient than allocating common costs on case-by-case basis**
- **Appropriate when almost all funds are through direct Federal agreements**

Exhibit 9

Organization A - Federal indirect cost proposal format - simplified allocation method

	TOTAL EXPENSES					
	Programs			Fundraising	Indirect	
	A	B	C		Admin	Total
Expenses:						
Salaries & wages	\$ 18,613	19,500	23,347	0	23,707	85,167
Employee benefits	2,792	2,925	3,502	0	3,556	12,775
Materials & supplies	5,200	8,900	3,581	0	1,124	18,805
Postage & shipping	605	987	4,251	0	2,983	8,826
Printing & publications	1,000	1,355	756	0	251	3,362
Telephone	756	1,222	1,336	0	4,548	7,862
Occupancy	2,219	4,590	9,675	0	11,116	27,600
Depreciation	684	758	95	0	151	1,688
Total expenses	31,869	40,237	46,543	0	47,436	166,085
<i>Less Direct Cost Adjustments:</i>						
Materials & supplies	(1,645)	(2,499)	(866)	0	0	(5,010)
Alterations & Improvements	(980)	(1,210)	0	0	0	(2,190)
Depreciation	(684)	(758)	(95)	0	0	(1,537)
	(2,625)	(3,709)	(866)	0	0	(7,200)
<i>Less Indirect Cost Adjustments:</i>						
Occupancy (interest)	0	0	0	0	(762)	(762)
Depreciation	0	0	0	0	(151)	(151)
	0	0	0	0	(913)	(913)
<i>Reclassifications:</i>						
Fundraising	0	0	0	4,263	(4,263)	
Public relations	0	0	0	2,044	(2,044)	
Membership administration	0	0	0	1,700	(1,700)	
	0	0	0	8,007	(8,007)	
	\$ 29,244	36,528	45,677	8,007	38,516	157,972

1. Indirect cost rate = $\$38,516 / (\$157,972 - \$38,516) = 32.2\%$

Multiple Allocation Base Method

- **Uses multiple sub-cost pools to distinguish cost objectives within the indirect cost pool**
- **Results in multiple bases and multiple rates**

4 Types of Federally Negotiated Indirect Rates

- **Provisional**
- **Final**
- **Predetermined**
- **Fixed**

Provisional & Final Rates

- **Provisional Rate:** Temporary rate based on budget estimates
- **Final Rate:** based on actual cost & used to adjust the indirect costs claimed under prov. rate

Predetermined Rate

- **Permanent rate** not subject to adjustment
- **Established for specific current or future periods**

Fixed Rate

- **Permanent rate**, established for future period of time
- **Adjustments** for actual under/over recovery are carried forward to future periods

Common Challenges

- **Timesheets and level of effort documentation**
- **Planned use of time versus actual**
- **Administrative cost limitations in specific awards**

Documenting Personnel Costs

- Allocate personnel costs based upon use of staff time
- Timesheets distinguish direct and indirect uses of staff time
- **Contemporaneously maintained time records** are essential

Fringe Benefit Costs

- **May allocate employee by employee**
- **May establish rates for groups of employees**
- **May allocate based on overall fringe benefit rate**

Emerging Challenges

- **ARRA Davis Bacon requirement for DOE & DOL**
- **OMB dissatisfaction with A-133 auditors' work**
- **Rapid growth and/or contraction**

Impact of Growth/Contraction

- **Indirect costs** generally **rise/fall more slowly** than direct costs
- **Methods** in Cost Allocation Plan still **valid**
- Use of **out-of-date allocation formulae** to apply methods can result in **unsubstantiated** costs

??? During Rapid Increase

- How will Admin or other Indirect costs change as % of Direct costs?
- Do new funding sources have **Admin cost limits** lower than fair share?
- Does org have other sources of funds to cover Admin gap?

????? During Constrictions

- How will Admin or other Indirect Costs change as % of Direct costs?
- Does **revised calculation** of share of Admin costs **exceed Admin limits** of any source?
- Does org have other sources of funds to cover Admin gap?

Your Next Steps?

- **Review your monitoring checklist?**
- **Identify areas of greatest compliance challenges for CAAs in your State?**