

Direct and Indirect Costs (Cost Allocation Plan)

Webinar 3

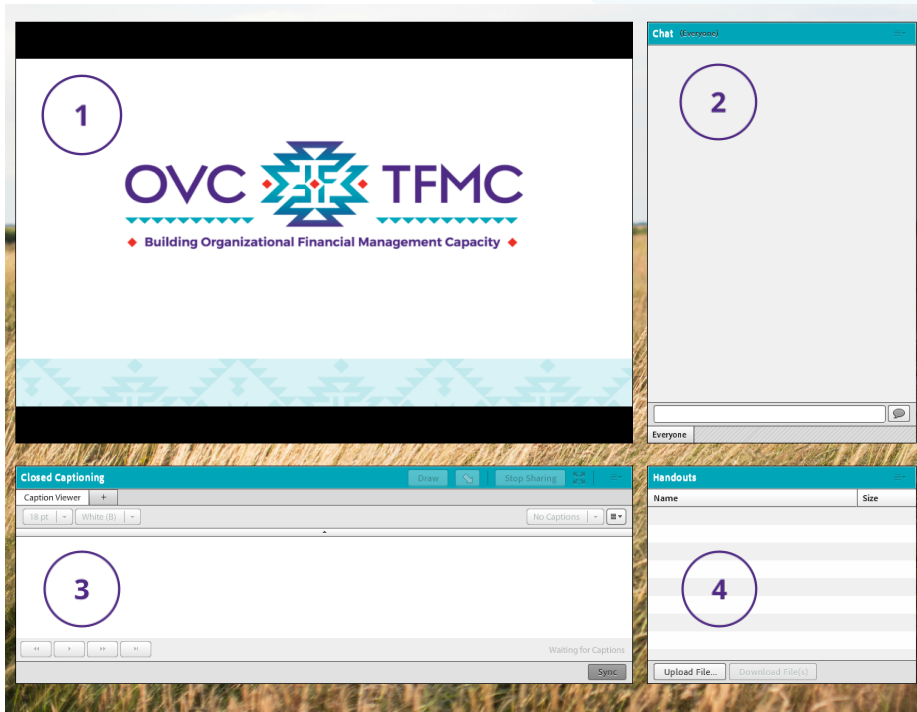
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Alicia Nevaquaya, OVC TFMC Financial Specialist



Using Adobe Connect



1. Presentation
2. Chat/ Q&A
3. Closed Captioning
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Webinar Objectives

After completing this webinar, you will be able to—

- ◆ Identify resources available to help with a cost allocation plan
- ◆ State the five criteria to determine if a cost is allowable
- ◆ State the difference between a direct and an indirect cost
- ◆ Describe the benefits from having an indirect cost pool
- ◆ Outline the steps of preparing a cost allocation plan



OVC Tribal Financial Management Center



◆ Building Organizational Financial Management Capacity ◆



Training and Technical Assistance (TTA) Approach

- ◆ Individualized virtual and onsite TTA sessions
- ◆ Virtual Support Center consults
- ◆ Webinars
- ◆ Peer-sharing web forums
- ◆ Regional workshops
- ◆ Learning Circles
- ◆ Needs assessments



OVC TFMC Virtual Support Center (VSC)

- ◆ Provide OVC tribal grantees with financial grant management support and information
- ◆ OVC tribal grantees may submit questions and/or requests for technical assistance to the TFMC VSC



Contact Us

Email: TFMC@OVCTFMC.org

Phone: 703.462.6900



Hand Raise Question #1

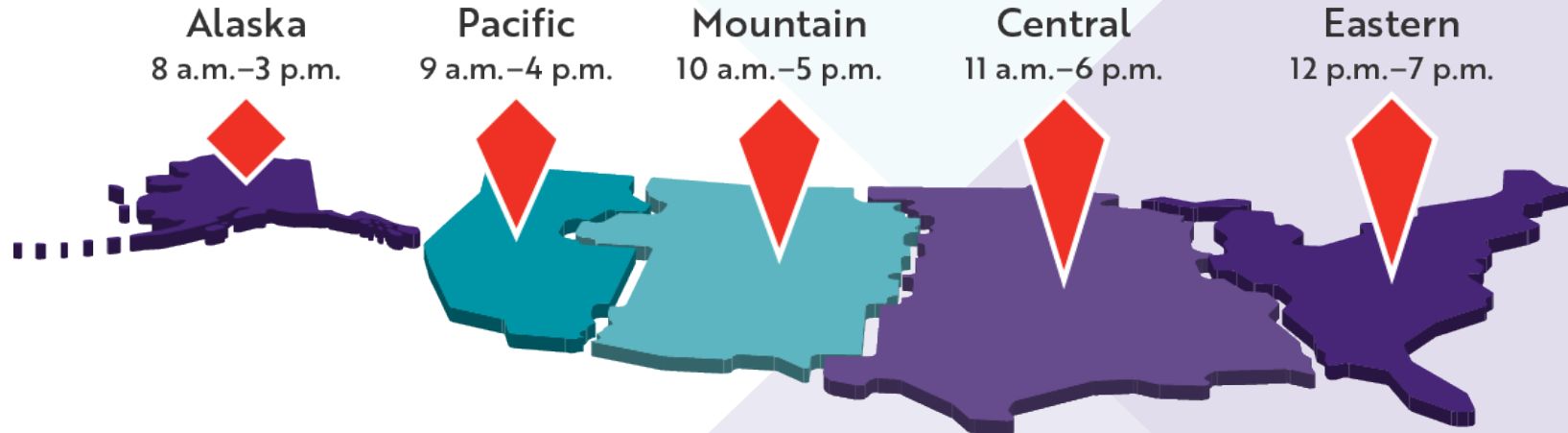
Raise your hand if you have used the OVC TFMC Virtual Support Center





OVC TFMC Virtual Support Center (VSC)

Hours of Operation: Monday – Friday



Email: TFMC@OVCTFMC.org

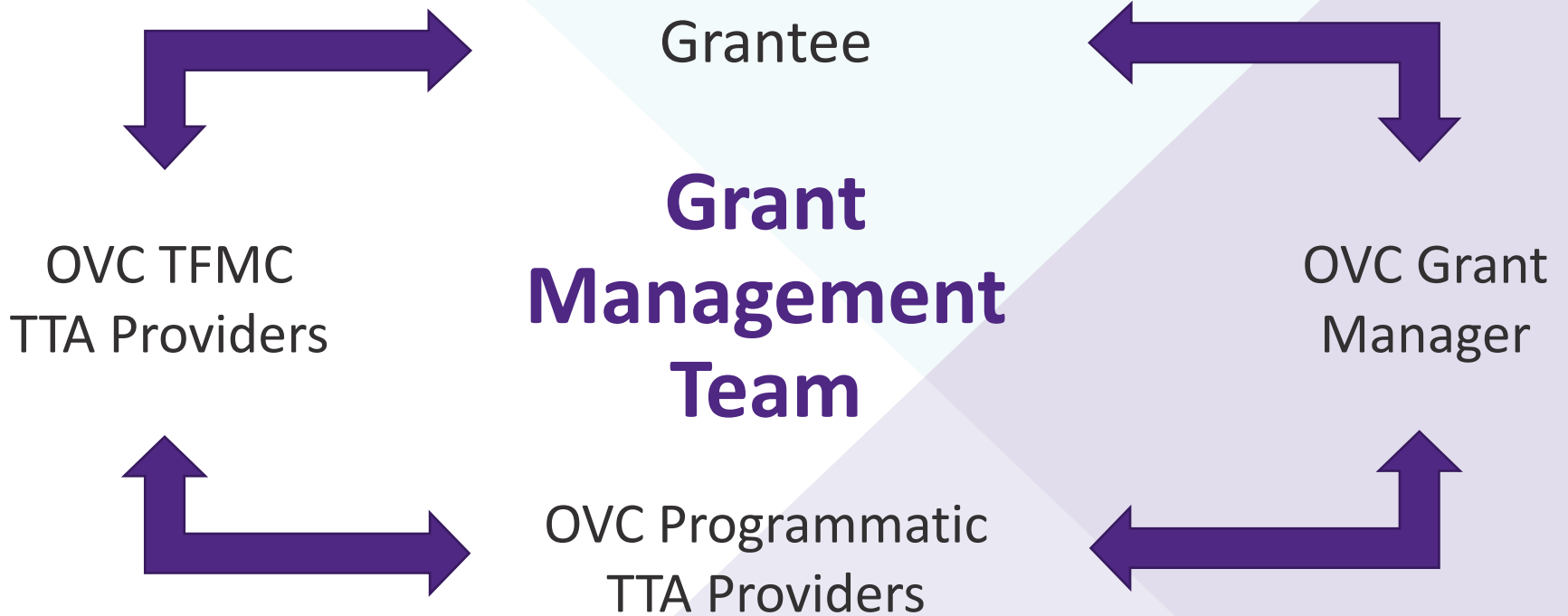
Phone: 703.462.6900



Our Promise: Cultural Humility

We begin with a commitment to develop an understanding of the community cultures, practices, and traditions of each tribal entity and a respect for community traditions, stories, and practices.

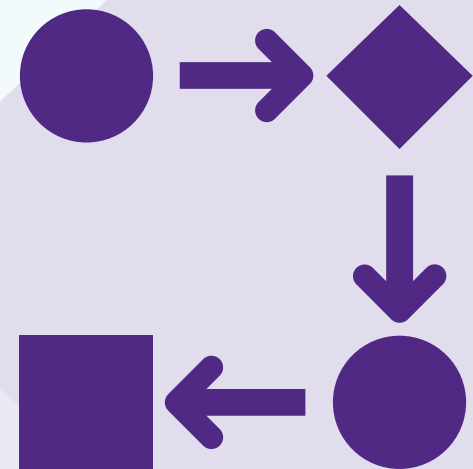






What is a Cost Allocation Plan?

- ◆ Cost allocation is the process of identifying and assigning costs to specific programs, functions, and/or activities
- ◆ A cost allocation plan is the documentation of the methods used to allocate costs





Why Have a Cost Allocation Plan?

- ◆ Every organization needs a cost allocation plan to equitably charge costs consistently
- ◆ The goal is to ensure each program bears its fair share, and only its fair share, of the total cost of its functions





Poll Question #1

Select all that apply to costs charged to federal grants:

- ◆ Reasonable
- ◆ Allowable
- ◆ Necessary
- ◆ Allocable
- ◆ Documented





Five Criteria to Determine if a Cost is Allowable



1. Reasonable
2. Allowable
3. Necessary
4. Allocable
5. Documented



General Tests – An Example of Documentation

Federal regulations
(2 CFR 200.430)
require employee
salaries and wages be
properly documented
and approved.





More About “Costs”

Getting familiar with Title 2 CFR 200 –

*UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND
AUDIT REQUIREMENTS FOR FEDERAL AWARDS, Subpart E and Appendix V*

- ◆ Factors affecting allowability of costs
- ◆ Reasonable costs
- ◆ Allocable costs
- ◆ Prior written approval
- ◆ Direct and indirect costs
- ◆ Special considerations for tribal, state, local governments





Poll Question #2

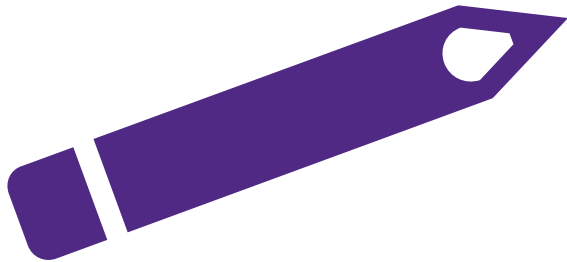
Do you have a cost allocation policy?

- ◆ Yes
- ◆ No





What are the features of a Cost Allocation Policy?



As per 2 CFR 200.302, federal grantees must have written procedures for determining the allowability of costs in accordance with the terms and conditions of their federal award and with Subpart E – Cost Principles.



Questions to Help Guide Development of Cost Allocation Policy and Procedures

Policy

- ◆ What is the entity's basis of cost allocation?
- ◆ Who is responsible for developing and maintaining the cost allocation plan?
- ◆ Who approves the system and who is involved in any changes?
- ◆ How will your accounting system (and your subrecipients' systems) meet the standards in 2 CFR 200, Subpart D, financial management 200.302 to ensure federal funds are properly accounted for and not commingled with funds from other federal awards or other sources?

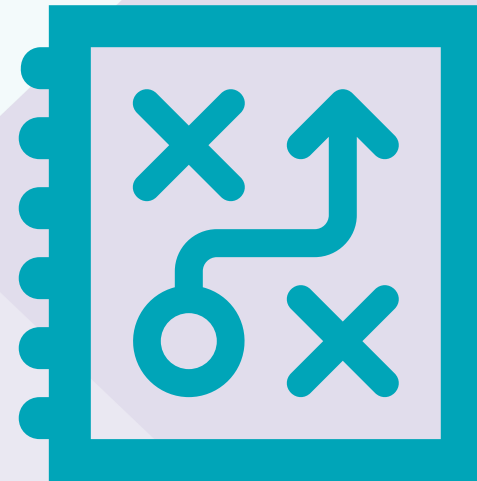
Procedure

- ◆ What cost types are typically allocated, how are they calculated, and how often does this task occur?
- ◆ Who is responsible for creating and posting functional expense allocation entries and how often are they posted?



What is in a Cost Allocation Plan?

- ◆ An effective written cost allocation plan explains in detail the allocation methodology for various cost types
- ◆ The plan explains allocation of **direct** and **indirect** costs





Chat Box Question #1

Please give examples of items charged to indirect costs for your entity.





What is a Direct Cost?

Direct costs are readily identified with a:

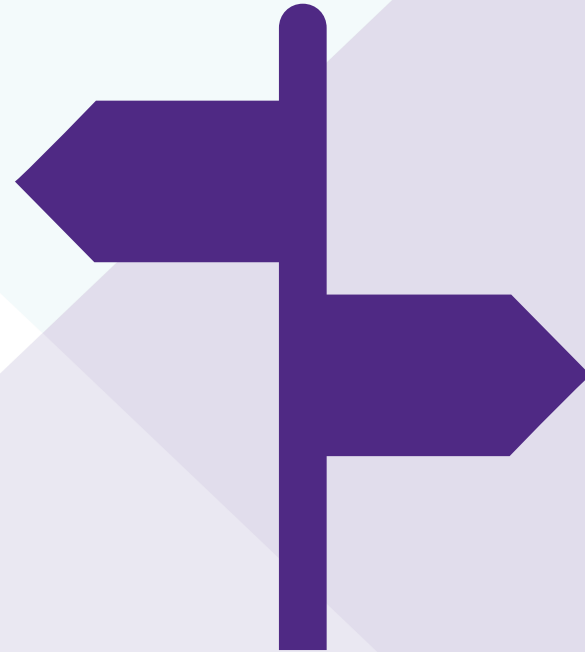
- ◆ particular grant
- ◆ contract
- ◆ project function activity





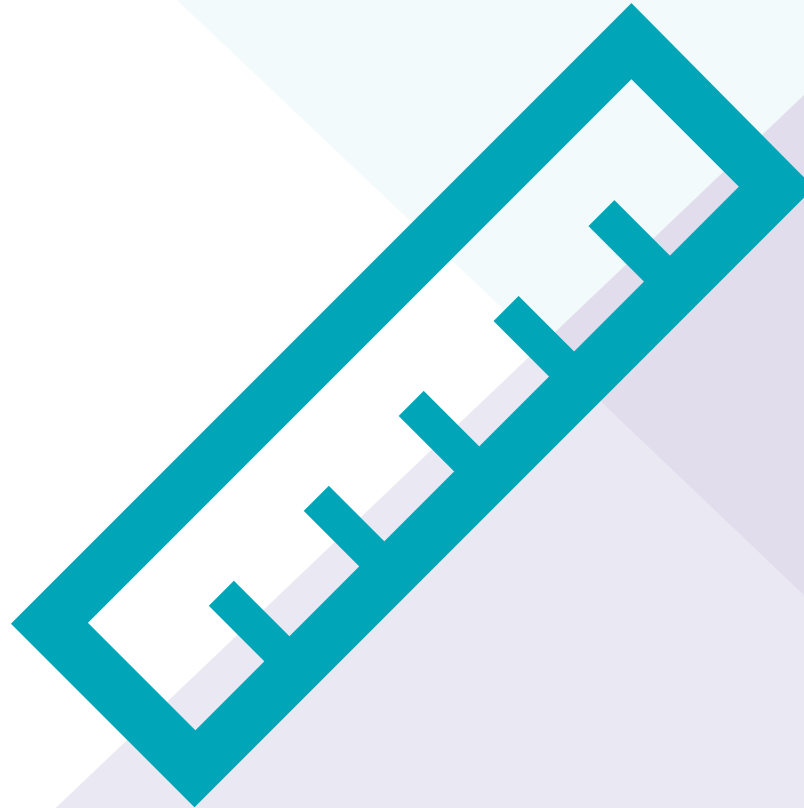
What is an Indirect Cost?

Indirect costs are those which cannot be readily identified as benefiting a specific program or cost objective.





What are the Rules for Classifying Costs?





Poll Question #3

Do you know who writes your cost allocation plan?

- ◆ Yes
- ◆ No





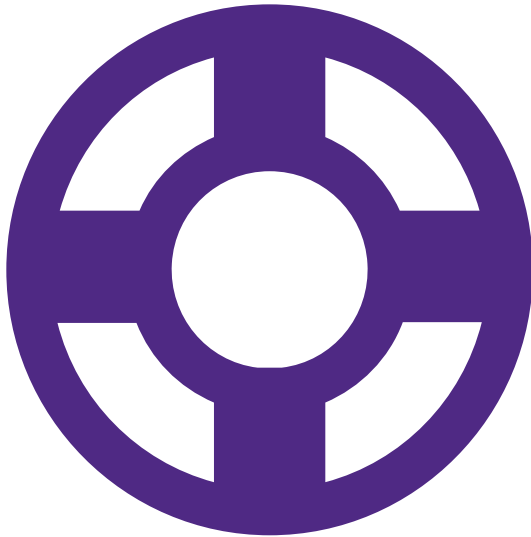
What are the Steps in Creating a Cost Allocation Plan?

- ◆ Separate unallowable from allowable costs
- ◆ Identify all allowable **direct** costs
- ◆ Identify all allowable **indirect** costs
- ◆ Apply a cost methodology





What is an Indirect Cost Pool?



The indirect cost pool is the accumulated costs which jointly benefit two or more programs or other cost center.



What are Cost Allocation Methodologies?

PROGRAM	# OF PHONES	% OF TOTAL
Court Advocacy	2	6.68%
Legal Advocacy	3	10.00%
SANE	5	16.66%
Shelter	10	33.33%
Admin	10	33.33%
TOTALS	30	100%

PROGRAM	FTEs	SQ FOOTAGE	% OF TOTAL
Court Advocacy	2	250	5.00%
Legal Advocacy	3	500	10.00%
SANE	5	750	15.00%
Shelter	10	2500	50.00%
Admin	10	1000	20.00%
TOTALS	30	5,000	100%



Hand Raise Question #2

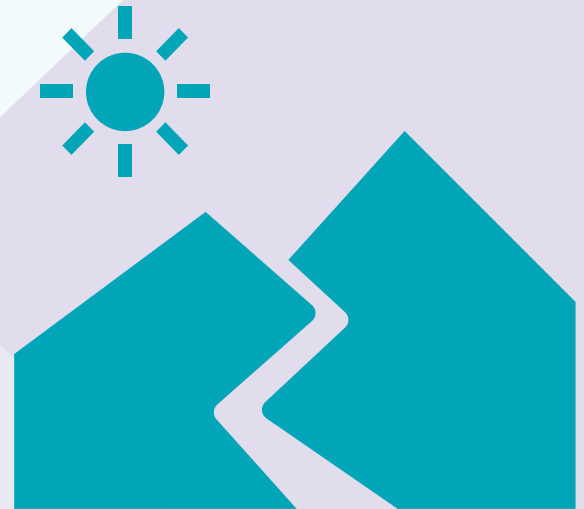
Raise your hand if you understand what a functional expense allocation means.





What is Functional Expense Allocation?

- ◆ Functional expense allocation means an entity uses distinct cost centers to record program and management functions
- ◆ Each cost center has the specific expense account line items required for the cost center to perform its functions





Functional Expense Allocation

GL CODE	BUDGET FY19	VICTIM SERVICES	SHELTER	CHILD ADVOCACY	Programs Sub-Total	ADMIN/OPS
500	SALARIES	867,221	476,894	19,154	1,344,115	1,215,589
510	FRINGE BENEFITS	302,720	132,960	5,746	435,680	364,677
520	COMMUNICATIONS	19,836	14,788		34,624	34,000
525	SUPPLIES	95,914	11,800	14,750	107,714	15,000
530	PRINTING	11,251	2,500		13,751	11,975
515	HR /RECRUITMENT	0	2,000		2,000	5,000
540	LOCAL TRAVEL	24,416	13,000	1,680	37,416	2,500
527	STAFF DEVELOPMENT		4,500			12,500
545	TRAINING/TRAVEL	78,763	30,000		108,763	10,000
550	AUDIT EXPENSE	0			0	6,500
560	UTILITIES	7,400			7,400	25,000
570	CONTRACTUAL	189,334	4,000		193,334	113,500
565	RENT/FACILITIES				0	99,084
575	LEASE EQUIPMENT		3,300		3,300	500
580	MAINTENANCE	2,842			2,842	21,672
585	DEPRECIATION		0			903
590	INSURANCE	703	1,800		2,503	14,000
595	IT SOFTWARE SUPPORT	2,670	30,650		33,320	31,000
577	NONCAPITAL EQUIPMENT	5,781	10,000		15,781	13,000
600	CLIENT SERVICES	656,012				0
650	COMMUNITY PARTNERS	2,509,975	6,520,066		9,030,041	0
	TOTAL DIRECT	4,774,838	7,258,258	41,330	12,033,096	
700	TOTAL INDIRECT	664,222	1,332,178	6,737	1,996,400	
	TOTAL PROGRAM BUDGET:	5,439,060	8,590,436	48,067	14,077,563	1,996,400



Hand Raise Question #3

Raise your hand if you have a negotiated indirect cost rate.





What is an Indirect Cost Rate (ICR)?

- ◆ The **Indirect Cost Rate** is a percentage calculated as follows:

$$\text{Indirect Cost Rate (\%)} = \frac{\text{Total Indirect Cost Pool (\$)}}{\text{Direct Cost Base (\$)}}$$

- ◆ The **Direct Cost Base** is used to distribute indirect costs to individual federal awards
 - ◆ An indirect cost rate must be applied to a direct cost base in order to determine the amount of indirect cost



What is the Benefit of Having an Indirect Cost Rate?

Applying an indirect cost rate to your direct costs gives recovery of operating and administrative overhead costs which cannot be applied directly to grant funding.





Establishing an Indirect Cost Rate



- ◆ Entities request an indirect cost rate from the federal government by submitting a proposal
- ◆ Tribal nations negotiate their indirect cost rate with the U.S. Department of Interior, which would be called the “cognizant agency”



More about Indirect Cost Rates



- ◆ Negotiated ICR apply to awards across agencies
- ◆ Indirect costs cannot be drawn down if the ICR has expired
- ◆ A one-time extension can be negotiated for up to four years



Chat Box Question #2

Indicate whether your entity has a negotiated Indirect Cost Rate and who prepares it (CFO, Finance Director, or other authorized financial representative).






2 CFR 200 Provides the Steps for Preparing an Indirect Cost Rate Proposal

- ◆ Documents supporting the proposal
- ◆ Proposal checklist
- ◆ Proposal filing instructions from the Department of the Interior
- ◆ Submission timeframes
- ◆ Proposal submission FAQ's
- ◆ Indirect cost allocation base
- ◆ Expressly unallowable costs
- ◆ Inter-organizational transfers and related-party transactions
- ◆ Lease incentives and advance understandings
- ◆ Budget limitations unsupported



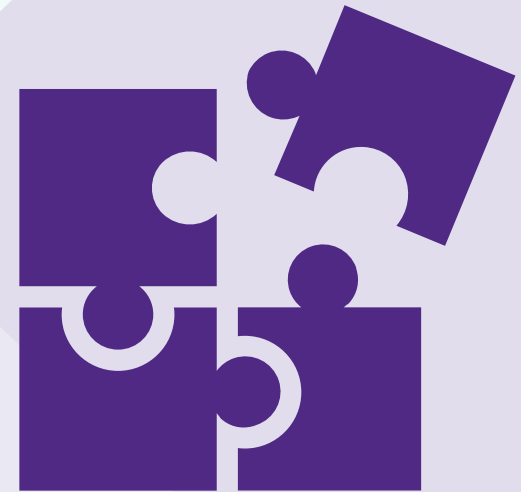
Tribal Indirect Cost Proposal Package Example

Indirect Cost Proposals utilizing the modified total direct cost base (updated March 2015)	
Appendix of Schedules in Order:	
Exhibit C Actual Base	
Exhibit C-1 Indirect Cost Collection	
Exhibit D Proposed Base	
Exhibit E-1 Actual Pool	
Exhibit E-2 Proposed Pool	
Exhibit F Reconciliation	
Exhibit G Depreciation (needed if claiming depreciation in the pool)	
Exhibit H Professional Services	
Exhibit I General Ledger of Pool Account (needed if support is not in audit)	
Exhibit J General Ledger of Indirect Cost Revenue (needed if support is not in audit)	
Exhibit B Carryforward (needed if closing out a carryforward rate)	
Exhibit A Rate (Fixed Carryforward)	
Exhibit A Rate (Provisional/Final)	
Modify the schedules to fit your needs and present information relevant to your organization	
Helpful hints:	
Best to work on the sheets as listed in the above order since their information automatically populate Exhibits at the end.	
1 Fill out the yellow cells to automatically populate the proposal fields:	
Name of Tribal Entity	Name of Tribe
Carryforward Year	FY 2015
Proposing Year	FY 2017
	
	Start here, fill in your information
start here-do not delete	Rate Info Sheet Exh C actual base Exh C-1 IndirectCostCollection Exh D proposed base Exh E-1 a



What Different Types of Indirect Cost Rates can be Negotiated?

1. Provisional
2. Final
3. Predetermined
4. Fixed (Fixed Carry-forward)





Indirect Cost Rates Conclusion

Please note, indirect cost rate proposals require:

- ◆ A lot of time to prepare
- ◆ Meticulous detail
- ◆ Annual reconciliation by fiscal year
- ◆ Knowledge and skills to develop and manage properly
- ◆ List of direct and indirect costs





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Questions and Answers

Submit your questions via the Chat Pod



Upcoming OVC TFMC Webinars

- ◆ Budgets
- ◆ Purchasing Procedures
- ◆ The Federal Financial Form SF-425



References and Resources

- ◆ **Appendix V to Part 200 - State/Local Governmentwide Central Service Cost Allocation Plans.** <https://www.govinfo.gov/content/pkg/CFR-2019-title2-vol1/xml/CFR-2019-title2-vol1-part200-appV.xml>
- ◆ **Appendix VII to Part 200 - States and Local Government and Indian Tribe Indirect Cost Proposals.** <https://www.govinfo.gov/content/pkg/CFR-2019-title2-vol1/xml/CFR-2019-title2-vol1-part200-appVII.xml>
- ◆ **Appendix VIII to Part 200 - Nonprofit Organizations Exempted From Subpart E-Cost Principles of Part 200.** <https://www.govinfo.gov/content/pkg/CFR-2019-title2-vol1/xml/CFR-2019-title2-vol1-part200-appVIII.xml>
- ◆ **Appendix IV to Part 200 - Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations.** <https://www.govinfo.gov/content/pkg/CFR-2019-title2-vol1/xml/CFR-2019-title2-vol1-part200-appIV.xml>
- ◆ **TFMC Guide Sheets.** <https://mailchi.mp/ovctfmc.org/gs2020>



References and Resources

- ◆ **§ 200.9 Central service cost allocation plan.** <https://www.govinfo.gov/content/pkg/CFR-2019-title2-vol1/xml/CFR-2019-title2-vol1-sec200-9.xml>
- ◆ **§ 200.302 Financial management.** <https://www.govinfo.gov/content/pkg/CFR-2019-title2-vol1/xml/CFR-2019-title2-vol1-sec200-302.xml>
- ◆ **§ 200.400 Policy Guide.** <https://www.govinfo.gov/content/pkg/CFR-2019-title2-vol1/xml/CFR-2019-title2-vol1-sec200-400.xml>
- ◆ **§ 200.414 Indirect (F&A) costs.** <https://www.govinfo.gov/app/details/CFR-2019-title2-vol1/CFR-2019-title2-vol1-sec200-414>
- ◆ **§ 200.416 Cost Allocation Plans and Indirect Cost Proposals.**
<https://www.govinfo.gov/app/details/CFR-2019-title2-vol1/CFR-2019-title2-vol1-sec200-416>
- ◆ **§ 200.430 Compensation—personal services.** <https://www.govinfo.gov/content/pkg/CFR-2019-title2-vol1/xml/CFR-2019-title2-vol1-sec200-430.xml>
- ◆ **Subpart E - Cost Principles.** <https://www.govinfo.gov/content/pkg/CFR-2014-title2-vol1/xml/CFR-2014-title2-vol1-part200-subpartE.xml>
- ◆ **U.S. Department of Interior, Indirect Cost Services.**
<https://www.doi.gov/ibc/services/finance/indirect-cost-services/>



Thank you for participating!