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Grant Administration: Administrative, Indirect and Direct Costs

Training 3 of 4 | March 21, 2023

GOVERNOR'S OFFICE OF PLANNING AND RESEARCH
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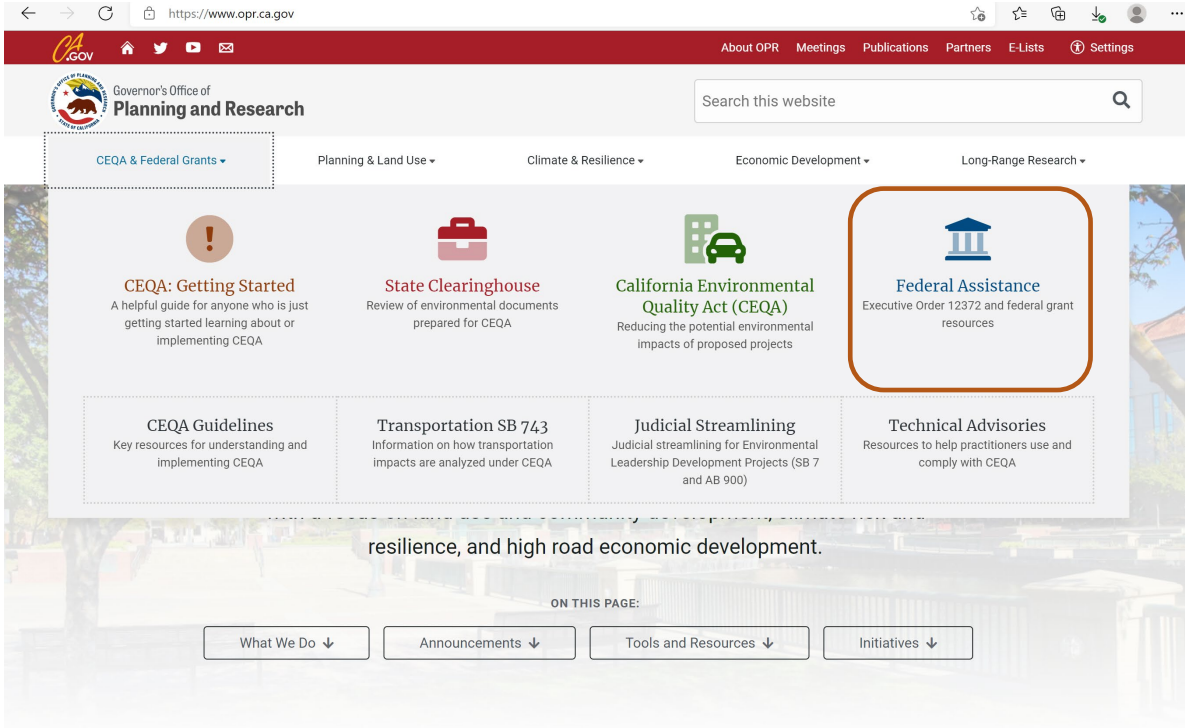
FEDERAL GRANT RESOURCES

OPR FEDERAL ASSISTANCE



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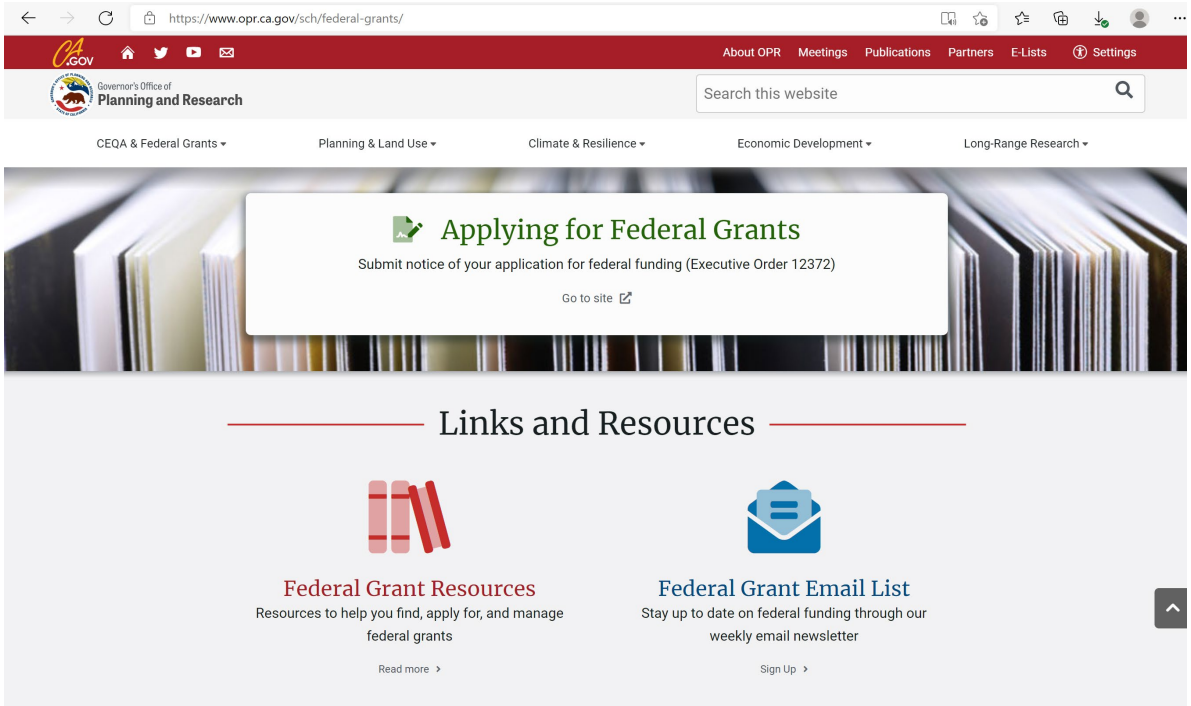
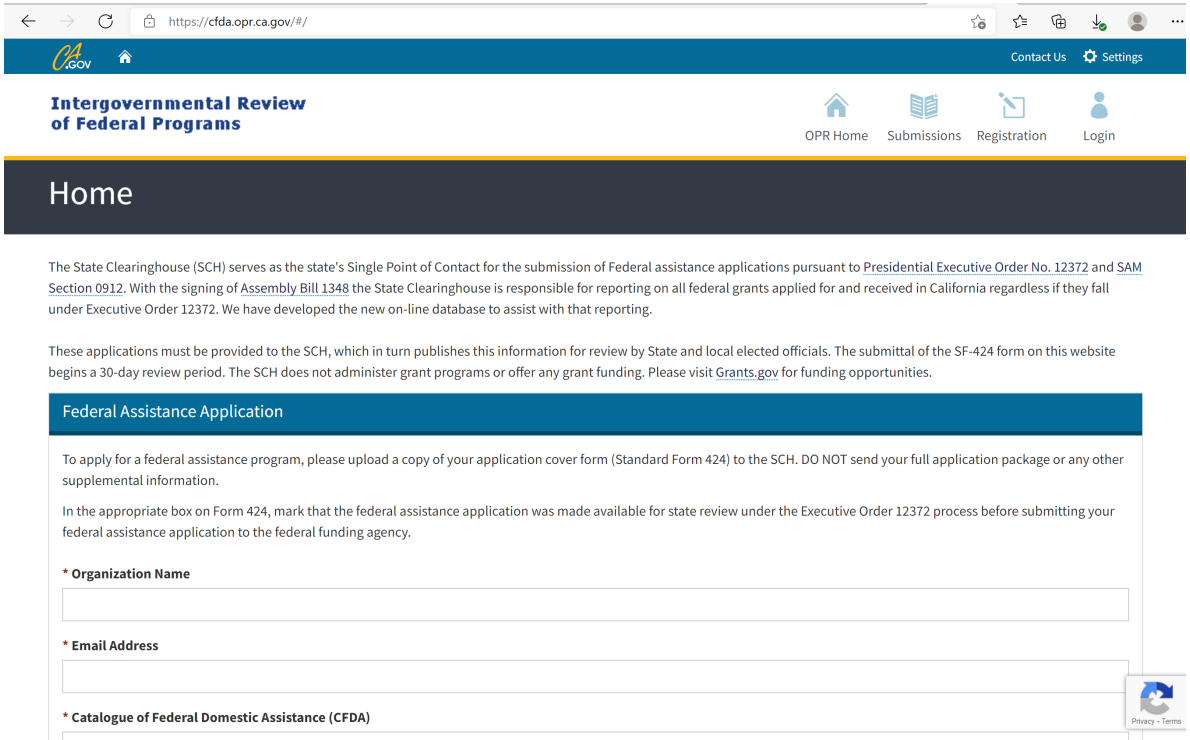


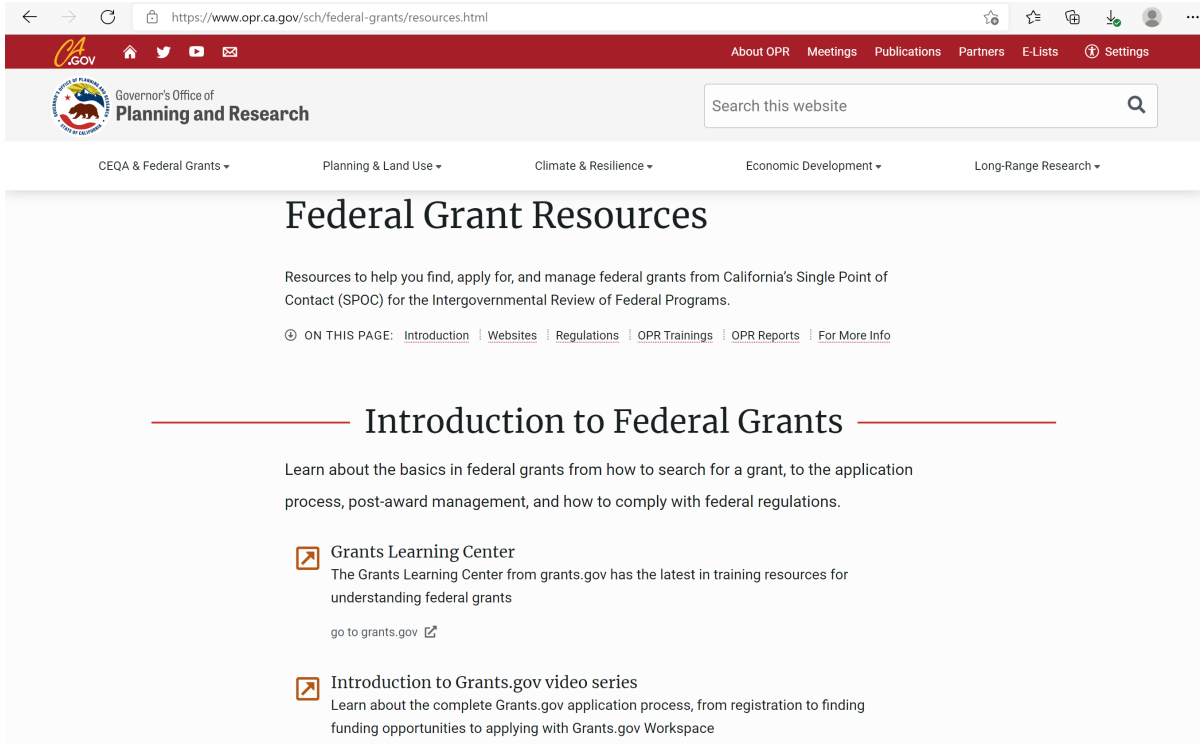
Federal Grants - Office of Planning and Research (ca.gov)

APPLYING FOR FEDERAL GRANTS
E.O. 12372 PROCESS



[OPR Intergovernmental Review of Federal Programs | EO 12372 | California]

FEDERAL GRANT RESOURCES



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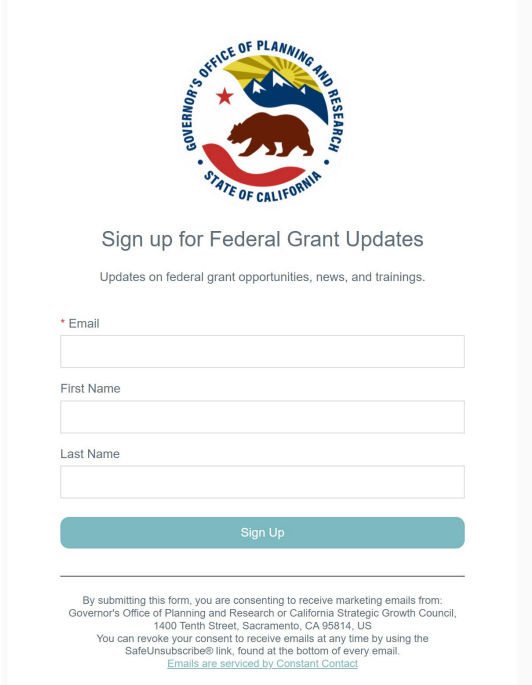
FEDERAL GRANT EMAIL LIST



Sign up for Federal Grant Updates

Updates on federal grant opportunities, news, and trainings.

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First Name

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Federal Funding News

EPA Announces $600 Million in Water Infrastructure Funding for California

The EPA announces $609 million in funding to California from the Bipartisan Infrastructure Law to fund water infrastructure through the State Revolving Fund programs.

Learn more

USDA Awards 23 Grants to CA to Support Local and Regional Food Systems

The USDA Local Agriculture Marketing Program awards 203 grants nationwide, including 23 to California, to support farmers markets, local food promotion, and regional food systems.

Learn more

New Federal Grant Opportunities

Many more opportunities are at grants.gov.

Grants for Arts Projects

To support public engagement with, and access to, various forms of art across the nation, the creation of art, learning in the arts at all stages of life, and the integration of the arts into the fabric of community life.

Due: February 10, 2022

Learn more

Signup Form (constantcontactpages.com)

THANK YOU

- Amy Miller
- Federal Grant Administrator
- Amy.Miller@OPR.CA.GOV
- 916-445-0614

Governor's Office of
Planning and Research

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Grant Administration: Administrative, Indirect and Direct Costs

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WELCOME!

Grant Implementation: Administrative, Indirect, and Direct Costs

Questions to be Answered Today

- What administrative costs are permitted for SLFRF?
- What are direct and indirect costs and the de minimis 10% Total Modified Direct Costs?
- How can I categorize costs and know which cost base(s) to choose?
- What are key considerations for compliance?

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TREASURY'S SLFRF FINAL RULE CLARIFIES THERE ARE SEVERAL TYPES OF ELIGIBLE ADMINISTRATIVE EXPENSES:

1. Recipients may use funds for administrative costs to improve the efficacy of public health or economic relief programs through tools like program evaluation, data analysis, and targeted consumer outreach
2. Recipients may use funds for administrative costs associated with programs to respond to the public health emergency and its negative economic impacts, including programs that are not funded by SLFRF or not federally funded.
3. Recipients may use funds for direct and indirect administrative costs for administering the SLFRF program and projects funded by the SLFRF program.

See SLFRF Final Rule p.185 Effective Service Delivery: Administrative Expenses

SLFRF's Compliance and Reporting Guidance D. Uniform Administrative Requirements, Allowable Costs/Cost Principles, 2a (p.8) citing 31 CFR 35.6(b)(10) indicates:

- Administrative costs: **Recipients may use funds for administering the SLFRF program**, including costs of consultants to support effective management and oversight, including consultation for ensuring compliance with legal, regulatory, and other requirements
- Further, costs must be reasonable and allocable as outlined in 2 CFR 200.404 and 2 CFR 200.405

What administrative costs are permitted for SLFRF?

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INDIRECT AND DIRECT ADMINISTRATIVE COSTS:

Pursuant to the SLFRF Award Terms and Conditions, Recipients are permitted to charge both direct and indirect costs to their SLFRF award as administrative costs

- **Direct costs** are costs of implementing SLFRF program objectives, such as contract support, materials, and supplies for a project
- **Indirect costs** are general costs of an organization where a portion of such costs can be allocated to the SLFRF award such as the cost of facilities or administrative functions like a director's office
- **Each category of cost should be treated consistently as direct or indirect**
- Recipients may not charge the same administrative costs to both direct and indirect cost
- categories, or to other programs
- If a recipient has a current established Negotiated Indirect Costs Rate Agreement (NICRA) with a Federal cognizant agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals, then the recipient may use its current NICRA
- If the recipient does not have a NICRA, the recipient may elect to use the de minimis rate of 10 percent of the modified total direct costs pursuant to 2 CFR 200.414(f)

See SLFRF Compliance and Reporting Guidance D. Uniform Administrative Requirements, Allowable Costs/Cost Principles 2a (pp.8-9) citing 31 CRF 35 6(b)(10)

What administrative costs are permitted for SLFRF?

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WHAT ARE DIRECT COSTS?

- An expense whose benefit can be **specifically identified with a particular funding source and/or program**
- *For example: If an organization provides one service to the community and is funded by one grant award, all expenses benefit that one service. All expenses would be charged as direct costs*.
- A direct cost may be charged 100% to one program, or it may be charged to multiple programs, in which case the cost must be pro-rated based on the amount dedicated to each program
- When another program and/or funding source is added, a determination needs to be made on which costs are direct, and which costs are **indirect** as well as how to charge each of the programs and funding sources for expenses that occur
- Costs funded as direct must be subtracted from any indirect cost base to prevent duplication of reimbursement of costs across all programs

See 2 CFR 200.414

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WHAT ARE INDIRECT COSTS?

- A shared cost whose benefit is **not readily identifiable** with a specific program or programs but is **necessary to the general operation of the organization**
- Some typical indirect costs include some percentage of the salaries of the executive director and accounting staff, the annual audit and other accounting fees, depreciation on buildings and equipment, costs of operating and maintaining facilities, general administration and expenses, liability and directors' and officers' insurance and board travel expenses
- Indirect costs can be **allocated individually by line item** (e.g., "board expense" or "audit") or accumulated in a single indirect pool and expensed as one line item ("indirect expense") **using some type of indirect rate**
- Contractors are generally **not permitted to seek reimbursement** for indirect costs, though they may use administrative costs for overhead expenses. The administrative cost percentage or amount is negotiated with the pass-through entity.

NOTE: *Sub-recipients may seek reimbursement for indirect costs either by applying the de minimis indirect cost rate of 10% of Modified Total Direct Costs (MTDC) or by negotiating an indirect cost rate with the federal agency with whom they utilize most.*

Three options for indirect costs to be charged against SLFRF:

- *Current Negotiated Indirect Cost Rate Agreement (NICRA) with a Federal Agency*
- *De minimis 10% MTDC*
- *Negotiated rate with the Pass Thru Entity*

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De Minimis 10% Modified Total Direct Costs (MTDC) for Indirect Costs

- The 10% de minimis rate is for non-Federal entities that have never received a negotiated indirect cost rate
- No document is required to justify use of 10% de minimis indirect cost rate

See 2 CFR 200.414(f)

Use of De Minimis 10% MTDC

- The rate may be used for all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first
- $25,000 of each subaward
- Excludes being used for equipment, capital expenditures, and rental costs
- Rate may be used indefinitely (no period of performance)

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Modified Total Direct Cost (MTDC) Calculation

Incorrect Calculation		Correct Calculation	
Total Award	$1,000,000	**Total Direct Cost:** Less Equipment: Less Subaward A Less Subaward B Less Subaward C **Plus: first 25,000** Subaward A Subaward B Subaward C	**$1,000,000** - $25,000 - $100,000 - $75,000 -125,000 +25,000 +25,000 +25,000
Base	$1,000,000	**MTDC Base**	$750,000
Indirect Rate	10%	**Indirect Rate** (The de minimis rate is used for this example)	10%
Indirect Cost	$100,000	**Indirect Cost**	$75,000

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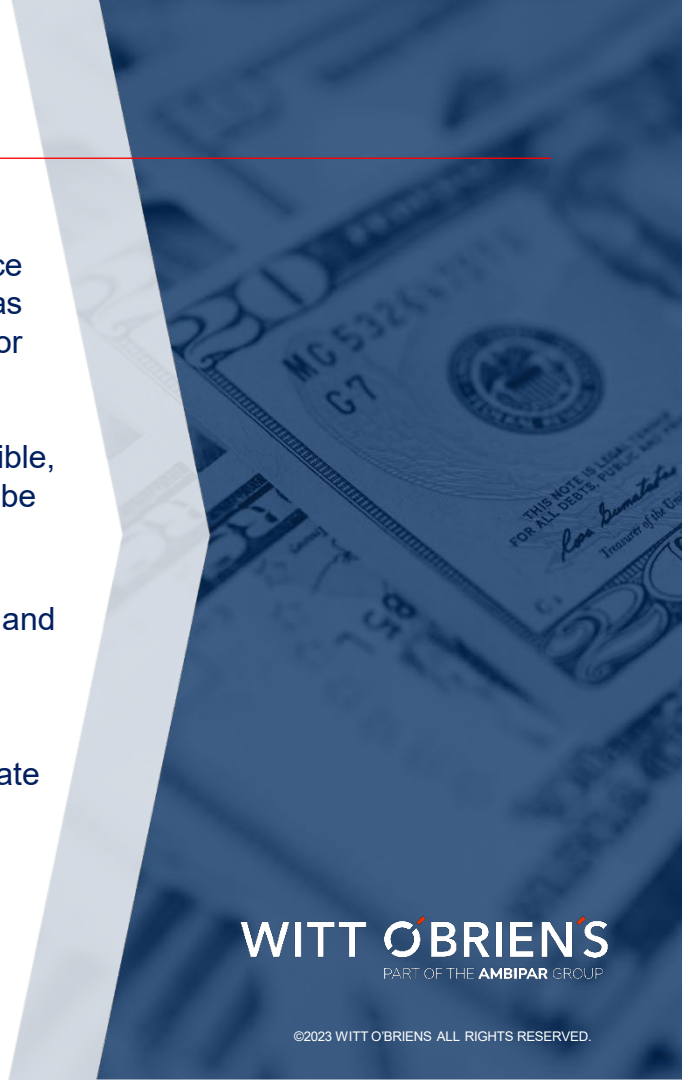
CATEGORIZING COSTS

1. When another program and/or funding source is added, the best practice is to determine which costs are **direct**, and which costs are **indirect** as well as how to charge each of the programs and funding sources for expenses

2. Organizations are encouraged to charge costs directly as much as possible, however, there may be circumstances when costs are shared and must be allocated across more than one project.

3. Shared costs may include office supplies, rent, audit, telephone, printing and copying, utilities and salaries as well as all the indirect costs for the organization

4. Having a fair and equitable allocation of costs is important for an accurate accounting of program and/or funding source expenses



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CATEGORIZING COSTS: EXAMPLE SCENARIO

- Assume you are the executive director of a small nonprofit organization that has recently received funding to add translation services for public health precautions.
- This funding is in addition to in-language services that you already provide.
- You dedicate a part-time staff person to translate documents and hire a consultant to teach personal safety classes.

CATEGORIZING COSTS: EXAMPLE SCENARIO

An approach to categorizing costs related to the example new programs is:

- ***Direct costs*** – Purchase of materials and supplies for the class would be charged as 100 percent direct costs to the program. Also, salary and fringe and consulting fees for staff hired to only run the program would be 100 percent direct costs.
- ***Indirect cost*** – The organization's accountant does not teach or provide in-language services and yet, without this service as well as the corporate insurance, the organization could not operate.
- ***Administrative cost*** – Includes the allocation of the accountant salary and fringe benefits, the program manager salary and fringe benefits, office rent and utilities, corporate insurance, cell phones, and postage.
- ***Overhead cost*** – Shared operating direct costs considered overhead such as: rent, utilities, phones, and postage, benefit all programs and could be allocated directly or included in an indirect pool. Other overhead costs include those associated with soliciting contributions and fundraising events.

Note: *Administrative costs can be direct or indirect – It is the responsibility of the awarded agency to carefully review their administrative cost and appropriately outline as direct or indirect.*

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COMMON SHARED COSTS AND TYPICAL COST BASES

The table lists common shared costs and some typical cost bases used to allocate costs.
[*Note: This is not a complete list.*]
The cost base must result in an equitable and consistent allocation of costs.

LINE ITEM	COST BASE(s)
Salaries	Time sheets showing actual time charged to programs
Fringe benefits	Salaries
Supplies	% Of salaries
Rent	Square footage by actual usage by Grant based on direct salaries
Utilities	Square footage by actual usage by Grant based on direct salaries
Telephone (basic)	# Of instruments
Postage	Postage meter OR % of salaries
Copying	Copy log OR % of salaries OR # of full-time equivalents (FTE's)
Accounting/audit	# Of transactions
Indirect pool	Direct salary and fringe OR Total or Total Modified direct costs

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COST BASE GUIDELINES

Each cost base chosen must meet the following guidelines:

- The cost must be reasonable and consistently applied without guessing or using budgeted amounts:
  - The cost must be substantiated by actual costs with supporting receipts or invoices
  - In addition, do not allocate to a funding source because it has more available funds than other grants or contracts
- Choose each cost using accurate and current data to determine its reasonableness
- The cost base must be appropriate to the cost:
  - For example: The number of telephone instruments would not be an appropriate cost base to allocate fringe benefits
- The cost base chosen should result in an accurate measure of the benefit each program/funding source receives from each shared cost:
  - This does not mean it will be an exact measure of the benefit, but rather a fair and equitable distribution
- Costs that are funded as direct must be excluded from the indirect cost base to prevent duplication of reimbursement of costs across all programs

Conclusion: This information is summarized from the *Factors Effecting Allowability of Costs* in Uniform Guidance. In addition to determining the right cost base, costs must be allowable, allocable, necessary and reasonable. Finally, proof of charge, payment, and performance of invoiced items must be retained.

*[**Note**: Most common cost bases used to calculate and allocate direct administrative costs rates are modified total direct costs and total direct salaries (with or without fringe benefits associated with those salaries)]*

See 2 CFR 200.403 (a)-(h)

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COST BASE GUIDELINES

- **Salary Costs** - Timesheets serve as basis for allocating salaries and wages and must reflect the distribution of labor costs among multiple funding sources. Hours charged to funding sources on timesheets must match the way in which those hours were charged to the organization's funding sources or the time expenses could be disallowed.
- **Expenses -** If an organization is going to charge a funding source for costs, those costs must be documented to show how the activity was related to the program. Documentation should include forms that provide the nexus to the funding eligibility criteria.
- **Unallowable Items -** Expenses in administrative cost pools later determined to be unallowable items, and had been allocated across all funding sources, including federal grants would require reformulating the entire cost allocation. *For example, board meeting snacks and lunches were recorded as indirect costs and included in the indirect pool. These costs were later disallowed and had to be repaid.* All indirect charges would be adjusted for repayment.
- **Returns and Refunds -** If a refund is received from an overpayment of an expense and the expense was originally expensed at least in part to a federal grant, the federal government expects that it will receive its fair share of the refund. Many organizations record refunds as unrestricted revenue, but it should, instead, be used to reduce the current year's expense.

Common Areas to Review for Compliance

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SUMMARY CONSIDERATIONS

1	Understand what administrative costs are permitted
2	Understand direct and indirect costs as eligible administrative costs
3	Treat each category of cost consistently, not charging a cost as both direct and indirect to avoid duplication of costs
4	Determine whether a Negotiated Indirect Cost Rate Agreement (NICRA) exists to use or in absence of NICRA, use 10% De Minimis Modified Total Direct Costs rate
5	Be familiar with and know how to categorize costs
6	Use cost base guidelines to ensure an equitable and consistent allocation of costs
7	Make sure there is a fair and equitable allocation of costs for an accurate accounting of program and/or funding source expenses
8	Perform reviews and updates of common costs charged to program and/or funding sources

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Additional Information and Resources

H.R.1319- American Rescue Plan Act of 2021.
https://www.congress.gov/bill/117th-congress/house-bill/1319

Electronic Code of Federal Regulations. (*2021*). *Grants and Agreements. Part 200- Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards:*

- ***Direct and Indirect (F & A).* 200.412-200.414.** https://www.ecfr.gov/cgi-bin/text-idx?SID=05c3b5853ece19011bdaf53e88518c7b&mc=true&node=sg2.1.200_1411.sg11&rgn=div7
- ***Internal Controls.* 200.303.** https://www.ecfr.gov/cgi-bin/text idx?SID=97ff28883fadf88d9f32beb89f68fce0&mc=true&node=se2.1.200_1303&rgn=div8
- ***Subpart E- Cost Principles*** eCFR :: 2 CFR Part 200 Subpart E -- Cost Principles
- ***Subpart F-Audit Requirements.*** https://www.ecfr.gov/cgi-bin/text-idx?SID=ce7b33671b19bb85cc066cb3e6522bc8&mc=true&node=sp2.1.200.f&rgn=div6
- ***Subrecipient Monitoring and Management* through *Record Retention and Access*. 200.331 through 200.338.** https://www.ecfr.gov/cgi-bin/text-idx?SID=97ff28883fadf88d9f32beb89f68fce0&mc=true&node=sg2.1.200_1330.sg3&rgn=di v7

Basic Considerations; (Government Regulations Uniform Guidance) 2 CFR 200
https://www.govregs.com/regulations/expand/title2_chapterII_part200_subpartA

The Office of Recovery is producing a Job Aid to provide additional context for these links. It will be added to the Resource Library once available.

QUESTIONS?

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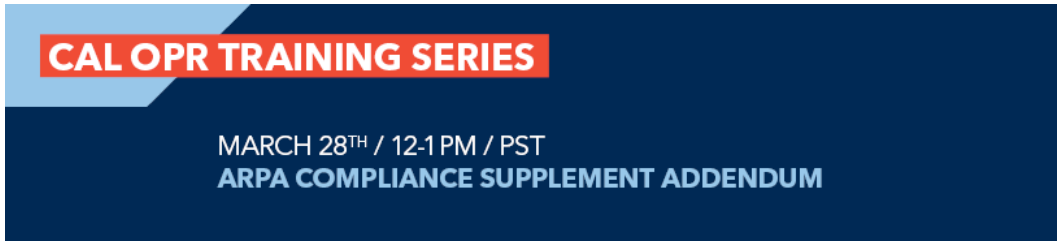
THANK YOU FOR YOUR TIME

Following today's training, the following will be sent to you:

- Post-training survey
- Resource Guide – Direct and Indirect Costs Memo

We will see you at the next training!



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