A Guide to Indirect Cost Rate Proposals and Rate Utilization

Catherine Gilpin, Partner, July 23, 2024

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FQHCs' Utilizing Indirect Cost Rates

Summary of Pros vs Cons

Pros

- Audit Benefits:
  - Auditors don't test procurement or T&E for IDC pool on audit
  - Auditors test application of rate
- If your organization has numerous grants
  - Not as helpful if you only have the health center (330) grant
  - Rates can be very helpful related to certain types of funding:
  - Restricted purpose funding that doesn't allow administrative expenses (ECT COVID-19 Grant) where only way to recoup indirect expense is using the rate.
  - Admin capped on a grant by a grant agency
    - WIC Grant – capping rate without legislative authority i.e., 13.9% - by law required to allow federally negotiated rate
    - Ryan White – 10% statutory cap on admin expenses by law?
- Admin expenses and timecards
  - Timecard not needed If allocated 100% to IDC pool
  - Timecard needed if directly allocated to a portion of grant – timecard would still be needed based on actual time.

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FQHCs' Utilizing Indirect Cost Rates
Summary of Pros vs Cons

Cons

- When applying the IDCR:
  - If your Health Center has not always used a rate and you have a lot of grants, implementation can be difficult
  - All grants will likely need to be re-budgeted.
  - Can apply for grants with rate but when you start using rate, you must stop directly allocating all admin expenses to all grants – All or nothing.
- Locked in to using for all grants to request reimbursement for indirect expenses
- Rate negotiation is taking a lot of time right now.
  - 3-months for first submissions; 6-month for reoccurring submissions
  - HHS-CAS gets very behind on proposal reviews
  - This will mean you could receive a rate and have a current provisional in effect not in line with the actual current rate – could be higher or lower.
  - Reconciliation between actual rate and rate utilized should be ongoing through the year
- With a provisional rate, your HC will be using rate in the current year that is for past. Rates fluctuate from year to year (actual rate and fringe) – your HC will have a control in place to analyze rate in the current year to recognize when rate in current year is less than provisional or you will have a potential payback to funder

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Resources

45 CFR Part 75

eCFR :: 45 CFR Part 75 -- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards

A Guide for Indirect Costs Determination (Department of Labor Guide)

DCD-2-CFR-Guide.pdf (dol.gov)

Indirect Cost Frequently Asked Questions (FAQs)

Frequently Asked Questions (FAQs) | U.S. Department of Labor (dol.gov)

HHS Cost Allocation Services – Indirect Cost Negotiations

Indirect Cost Negotiations | HHS.gov

- HHS template
- Updated forms

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Indirect Costs Rates

What types of rates are available to a non-federal entity?

Types of Indirect Cost Rates

- Provisional / Final Rate
  - Most common for FQHC's
- Fixed Rate w/ carry forward
- Predetermined Rate
- De minimis

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Negotiations & Approval of Indirect Cost Rates

Cognizant agency is the federal agency with the largest dollar amount of direct federal awards with the organization and responsible for negotiating & approving indirect cost rate for a nonprofit on behalf of all federal agencies

Provisional Rate

- Temporary indirect cost rate for a specific period used for funding, interim reimbursement and reporting indirect costs on federal awards pending the establishment of a "final rate" for that period.
- The rate is based on projected information, historical information, or a combination of the two for the organization's fiscal year.
- Based on prior year audited financial information

Final Rate

- Indirect cost rate based on actual data for the organization's fiscal year
- A final indirect cost rate is established after an organization's actual costs are known, typically a fiscal year. Once established, a final indirect cost rate is used to adjust the indirect costs claimed.
- All provisional indirect cost rates must eventually be "finalized"
  - Finalized based on audit for fiscal year

Predetermined Rate

- Indirect cost rate, applicable to a specified current or future period.
- The rate is based on an estimate of the costs to be incurred during the period. A predetermined rate is not subject to adjustment.
- A predetermined rate may be used on awards where there is reasonable assurance that the rate is not likely to exceed a rate based on the organization's actual costs.

Fixed Rate w/ carryforward

- A permanent rate that is not subject to change
- Commonly referred to as fixed rate with carry forward
- Any differences between estimated and actual costs are carried forward as adjustments to rate computations in future periods
- Typically approved for State & Local Governments

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Provisional and final rates are most frequently negotiated by CAS for smaller organizations for the following reasons:

- Actual indirect costs are allocated to program objectives in the year incurred, creating accurate cost information
  - Con – Delay in timing related to negotiation
    - You have to pay back funds if final rate is less than provisional
    - But… You don't receive reimbursement when final rate is more than provisional
- There are no prior year indirect costs carried into a future year to burden new or continuing funding
- Size of the organization - $100m plus??
  - Fixed w/ carryforward
  - Predetermined

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Example of a Negotiated Indirect Cost Rate Agreement (NICRA)

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

SECTION I: INDIRECT COST RATES

RATE TYPES: FIXED FINAL PROV. (PROVISIONAL) PRED. (PREDETERMINED)

	EFFECTIVE PERIOD				
TYPE	FROM	TO	RATE(%)	LOCATION	APPLICABLE TO
FINAL	01/01/2022	12/31/2022	29.70	All	All Programs
PROV.	01/01/2023	12/31/2025			Use same rates and conditions as those cited for fiscal year ending December 31, 2022.

*BASE

Total direct costs excluding pharmaceutical expenses, capital expenditures (building, individual items of equipment; alterations and renovations), and that portion of each subaward in excess of $25,000.

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Example of a Negotiated Indirect Cost Rate Agreement (NICRA)

AGREEMENT DATE: 06/20/2024

SECTION I: FRINGE BENEFIT RATES**

TYPE	FROM	TO	RATE(%)	LOCATION	APPLICABLE TO
FINAL	1/1/2022	12/31/2022	59.70	All	All Employees
PROV.	1/1/2023	12/31/2025			Use same rates and conditions as those cited for fiscal year ending December 31, 2022.

** DESCRIPTION OF FRINGE BENEFITS RATE BASE:

Salaries and wages excluding vacation, holiday, sick leave pay and other paid absences.

Example of a Negotiated Indirect Cost Rate Agreement (NICRA)

AGREEMENT DATE: 06/20/2024

SECTION II: SPECIAL REMARKS

TREATMENT OF FRINGE BENEFITS:
Effective 01/01/2010, the fringe benefits are charged using the rates listed in the Fringe Benefits Section of this Agreement. The fringe benefits included in the rates are listed below

TREATMENT OF PAID ABSENCES:
The costs of vacation, holiday, sick leave pay and other paid absences are included in the organization's fringe benefit rate and are not included in the direct cost of salaries and wages. Claims for direct salaries and wages must exclude those amounts paid or accrued to employees for periods when they are on vacation, holiday, sick leave or are otherwise absent from work.

Fringe Benefits include Paid Leave, Medical Insurance, Dental Insurance, Vision Insurance, Life Insurance, Disability Insurance, Retirement, Workers' Compensation, Social Security, FICA and Unemployment Insurance.

Equipment means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds $2,500.

* The next Indirect Cost Rate Proposal for FYE 12/31/2023 is due by 06/30/2024.*

De Minimis Rate – 75.414(f) & (g)

- Any non-Federal entity that may elect to charge a de minimis rate of 10% (will be 15% as of 10/24) of modified total direct costs (MTDC) which may be used indefinitely.
  - Remember applicable for grants issued AFTER approximately 10/1/24
  - The grantee is authorized to determine a rate up to 15%
- If chosen, this methodology once elected must be used consistently for all Federal awards until such time as a non-Federal entity chooses to negotiate for a rate, which the non-Federal entity may apply to do at any time or stop using the rate.
  - Remember, all or nothing related to utilization
- No documentation is required to justify the de minimis indirect cost rate except that the non-federal entity must establish a cost allocation plan when beginning to use and not change allocation plan in the future
  - How is this practical??
- This rate option is the key to reduce burden for new grantees, however, please be aware that some programs/entities are restricted from using the de minimis rate.

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How Often Are Indirect Cost Proposals Due?

Initial Proposal After Receiving Award

A nonprofit organization which has not previously established an indirect cost rate with a Federal agency must submit its initial indirect cost proposal immediately after the organization is advised that a Federal award will be made and, **in no event, later than three months after the effective date of the Federal award**.

- Is this a hard deadline? No.

Annual Proposal Based on Actual Costs

Organizations that have previously established indirect cost rates must submit a new indirect cost proposal to the cognizant agency for indirect costs **within six months after the close of each fiscal year**.

- The non-federal entity can ask for extensions and we've never seen an extension request denied.

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What Should Be Included in the Indirect Cost Proposals

- Organizational Chart
- Audited Financial Statements
- Reconciliation of audited financial statements to the indirect cost proposal
  - Unallowable expenses have been eliminated from the indirect cost pool
- Trend Analysis of the cost categories between the submission and the previous submission (for annual proposals)
- Cost Policy Statement/Cost Allocation Plan – 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 fringe benefit expense (if applicable).
- Statement of Total Costs (including rate calculations…)
- Certificate of Indirect Costs, Lobbying Cost Certificate, HHS proposal checklist
  - Email Cost Allocations Services for up to date forms each year
- Listing of Federal Grants and Contracts showing source of Funding, grant/contract amounts, relevant dates (SEFA)
  - Single audit required for submission

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Indirect Cost Negotiation Process

If the organization has awards directly with the federal government and HHS is the Federal Cognizant Agency, HHS- Cost Allocation Services:

- Reviews the proposal for unallowable, unallocable and/or unreasonable costs
- Reviews additional documentation if necessary
- Performs trend analysis if needed
- Advise of unallowable, unallocable or unreasonable items and negotiate these costs as appropriate.
- Issues a rate agreement to formalize the negotiation results.
- Proposals are typically reviewed within **3-months for new proposals** and **6-months for reoccurring proposals!!**

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What is an Indirect Cost Rate?

- A ratio (whereby an indirect cost pool is divided by a direct cost base), which is then expressed as a percentage
- An indirect cost rate is simply a device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each program should bear
- Example:

$$\frac{\text{Indirect cost pool}}{\text{Direct cost pool}} = \textbf{\textit{Rate}}$$

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Sample Indirect Cost Proposal Format for Nonprofit Organizations
Total Expenditures for the year ended June 30, 200X

Schedule C

(A) ELEMENTS OF COSTS	(B) FINANCIAL STATEMENT	(C) ADJUSTMENTS	DIRECT PROGRAMS and ACTIVITIES: (D) COMMUNITY SERVICE	(E) HEAD START	(F) WEATHERIZATION	(G) MEMBERSHIP & FUND RAISING	(H) (D)+(E)+(F)+(G) TOTAL DIRECT COSTS	(I) INDIRECT COSTS
Salaries and wages	$1,327,638 a	$0	$140,831	$950,615	$18,305	$1,592	$1,111,343 (1)	$216,295
Fringe benefits	$245,434	$0	$28,138	$170,107	$3,657	$317	$202,219	$43,215
Subtotal labor	$1,573,072	$0	$168,969	$1,120,722	$21,962	$1,909	$1,313,562 (2)	$259,510
Contractual Services	$245,420	$0	$3,493	$207,770	$34,157	$0	$245,420	$0
Depreciation/Use allowance	$41,582	$0	$0	$0	$0	$0	$0	$41,582
Emergency asst. payments	$72,859	$0	$52,809	$0	$20,050	$0	$72,859	$0
Equipment rental and maint.	$11,448	$0	$592	$5,197	$0	$281	$6,070	$5,378
Equipment / Capital	$58,215	($58,215) b	$0	$0	$0	$0	$0	$0
Equipment / Minor	$546	$0	$0	$0	$546	$0	$546	$0
Food costs	$124,616	$0	$0	$124,616	$0	$0	$124,616	$0
Insurance	$12,554	$0	$92	$8,209	$85	$373	$8,759	$3,795
Occupancy	$129,314	$0	$24,637	$100,956	$459	$233	$126,285	$3,029
Office supplies	$32,540	$0	$1,794	$13,317	$3,649	$842	$19,602	$12,938
Other expenses	$36	($36) c	$0	$0	$0	$0	$0	$0
Postage	$3,901	$0	$476	$301	$125	$2,467	$3,369	$532
Professional fees	$34,211	$0	$0	$0	$0	$0	$0	$34,211
Program supplies	$109,663	$0	$7,603	$55,241	$40,659	$6,160	$109,663	$0
Printing	$65,697	$0	$5,140	$7,022	$1,345	$44,838	$58,345	$7,352
Renovations and improv.	$16,470	($16,470) d	$0	$0	$0	$0	$0	$0
Telephone	$29,013	$0	$5,788	$13,331	$349	$600	$20,068	$8,945
Travel	$71,292	$0	$7,298	$56,553	$2,513	$0	$66,364	$4,928
Subtotal non-labor	$1,059,377	($74,721)	$109,722	$592,513	$103,937	$55,794	$861,966	$122,690
TOTAL	$2,632,449	($74,721)	$278,691	$1,713,235	$125,899	$57,703	$2,175,528 (3)	$382,200

Calculation of the Rate

(1) If the nonprofit organization uses Direct Salaries & Wages excluding fringe benefits as their Base their rate would calculate as follows:

$$\frac{\text{Indirect costs}}{\text{Base (Direct S\&W)}} = \frac{\$382{,}200}{\$1{,}111{,}343} = \textbf{34.4\%}$$

(2) If the nonprofit organization uses Direct Salaries & Wages including fringe benefits as their Base their rate would calculate as follows:

$$\frac{\text{Indirect costs}}{\text{Base (Direct S\&W + FB)}} = \frac{\$382{,}200}{\$1{,}313{,}562} = \textbf{29.1\%}$$

(3) If the nonprofit organization uses Modified Total Direct Costs (MTDC) as their Base their rate would calculate as follows:

$$\frac{\text{Indirect costs}}{\text{Base (MTDC)}} = \frac{\$382{,}200}{\$2{,}175{,}528} = \textbf{17.6\%}$$

Explaination of Adjustments

a) Includes salaries and wages of $99,230 for volunteers of the Head Start program.

b) Excludes capital equipment purchases.

c) Remove unallowable costs - $22 Interest + $14 Bad Debt = $36.

d) Excludes capital renovations and improvements.

General Notes

- This is a sample proposal only. It is not intended to prescribe a particular method for allocating costs. An organization should choose the Base that they feel will most accurately reflect the true allocation of their indirect costs to each program.
- An organization can use any ONE of the three bases shown. Regardless of what Base (1,2 or 3) is chosen the total indirect costs ($382,200) do not change. The only thing that changes is the distribution Base.

(9)

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What Are Common Indirect Cost Rate Allocation Bases?

- Direct salaries excluding fringe benefits
- Direct salaries including fringe benefits
- Modified Total Direct Costs - MTDC (various)
  - Total Direct Costs excluding capital expenditures, flow-through funding, participant support costs, and the first $25,000 of each sub-award.
  - MTDC also excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward and subcontract in excess of $25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs

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What Are Direct Costs?

Examples of Direct costs

45 CFR 75.413

- Direct costs are those that can be identified specifically with a particular final cost objective such as awards, projects, etc.
- Individuals involved can be specifically identified with the project or activity
- Direct costs must be consistent
- Not a direct costs if similar costs with like circumstances have been allocated to indirect cost
- Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect costs of Federal awards.

Examples (program specific):

- Salaries – program staff
- Space – sq. ft. occupied by direct staff
- Supplies – used by direct staff
- Communications – used by direct staff

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What Are Indirect Costs?
Examples of Indirect costs

45 CFR 75.414

- Costs that have been incurred for common or joint purposes
- Costs that benefit the entire organization, and cannot be specifically identified to a particular or one cost objective
- Cost classified within two broad categories:
  - Facilities - PP&E depreciation, PP&E financing costs, operations and maintenance costs of facility
  - Administration - A&G expenses such as officers, accounting, HR, etc.

Typical Indirect Expenditures include:

- Salaries – executive director, accountant, HR, payroll, etc.
- Space – sq. ft. occupied by indirect staff
- Supplies – used by indirect staff
- Maintenance
- Utilities
- Communications – used by indirect staff

How to Allocate Direct vs Indirect Costs?
Cost Allocation Plan

45 CFR 75.416

- Consistency must be observed considering allowability of costs when allocating direct or indirect costs
- The Cost Allocation Plan or Cost Policy Statement (which should be submitted with the indirect cost rate proposal) must explain how the organization treats and allocates all costs within the accounting system
- A Cost Allocation Plan – written explanation that describes cost pools, allocation base, programs affected, timing & other operational considerations.
- Why is it beneficial to have a Cost Allocation Plan?
  - For organizations with two or more separate programs or cost centers that use the same staff, facilities, equipment or supplies, i.e., programs with “joint costs”
  - When you have multiple funding streams or cost objectives in an agency such as different eligibility and accountability requirements, different programs entirely, etc.
  - To avoid illegal subsidies between funding steams
  - When sharing resources between & amongst

Factors Affecting Allowability of Costs – 75.403 – 75.405

To be chargeable to a Federal grant/contract, direct & indirect costs must be:

- Allowable
- Allocable
- Reasonable

Unallowable Costs in Indirect Cost Pool:

- Advertising and Public Relations
- Bad Debts
- Contributions
- Entertainment Costs
- Catering expenses
- Tuition assistance expenses
- Fundraising and Lobbying
- Federally funded depreciation

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