

INDIRECT COSTS

Alaska Native Education Program

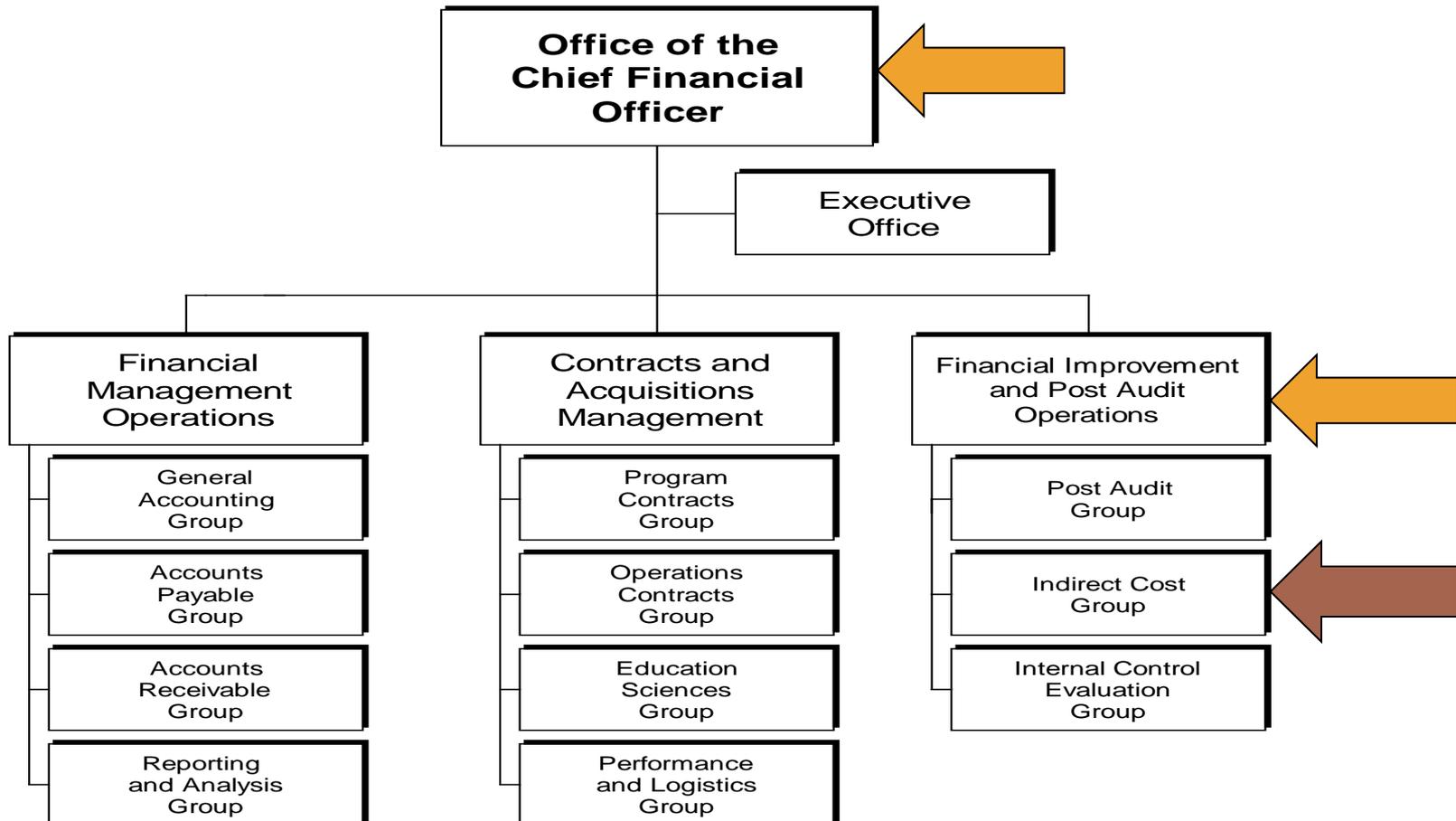
Project Directors' Meeting

October 4, 2011

OVERVIEW

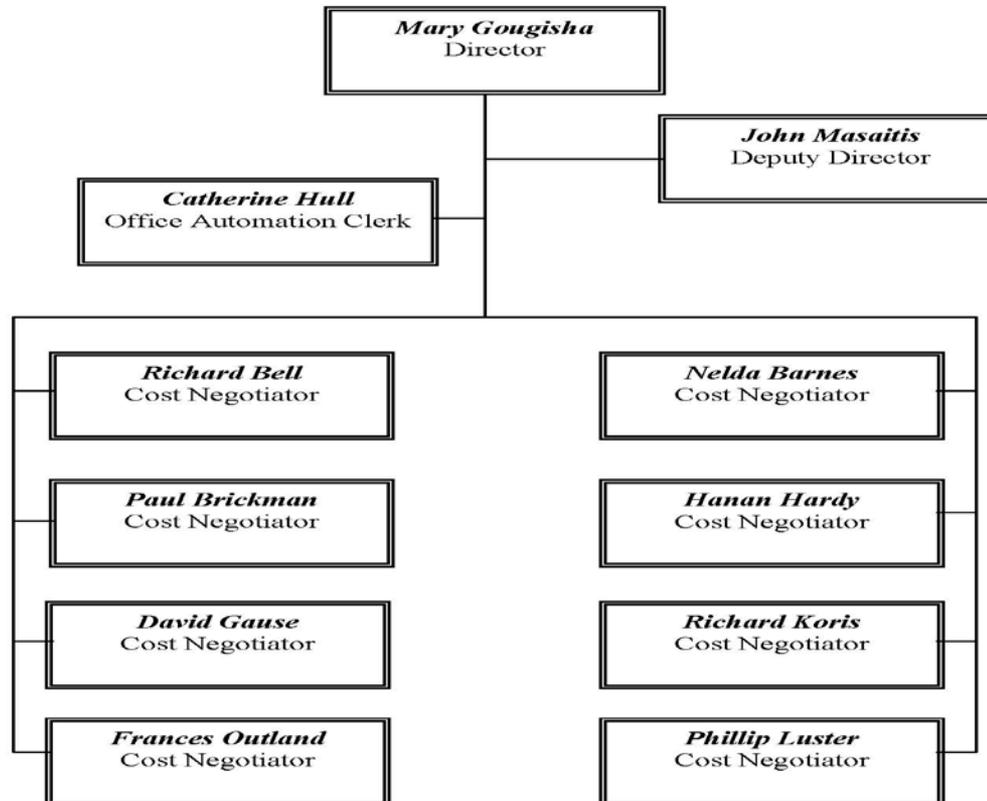
- ✓ Organization
- ✓ Indirect Cost Rates
- ✓ Rate Application
- ✓ Cost Issues
- ✓ Questions

Operations



Indirect Cost Group

INDIRECT COST GROUP



Responsibilities

- ❖ Review/Approve Indirect Cost Rates
- ❖ Resolve Indirect Cost and Cost Allocation issues in audits
- ❖ Provide assistance and training on Indirect Cost/Cost Allocation issues and policies

Indirect Cost Rates

What is an Indirect Cost Rate?

Ratio of the Indirect Cost Pool to a Direct Cost Base:

- Indirect Cost Pool (\$100)
- Direct Cost Base (\$1,000)
- $\$100/\$1,000 = 10\%$

Indirect Cost Rates & ANE Program

- Program with “Supplement-not-Supplant” Requirement
(34 CFR Part 75.563 & 75.564)
- Requirement is identified in Program Legislation
- Grantee must use Restricted Rate to recover indirect costs on restricted programs

Restricted Indirect Cost Rates

- ❖ If a grantee charges indirect costs to a program that has a statutory requirement prohibiting the use of Federal funds to supplant non-federal funds, then
- ❖ The grantee must use a restricted indirect cost rate computed under 34 CFR 76.564 through 76.569.

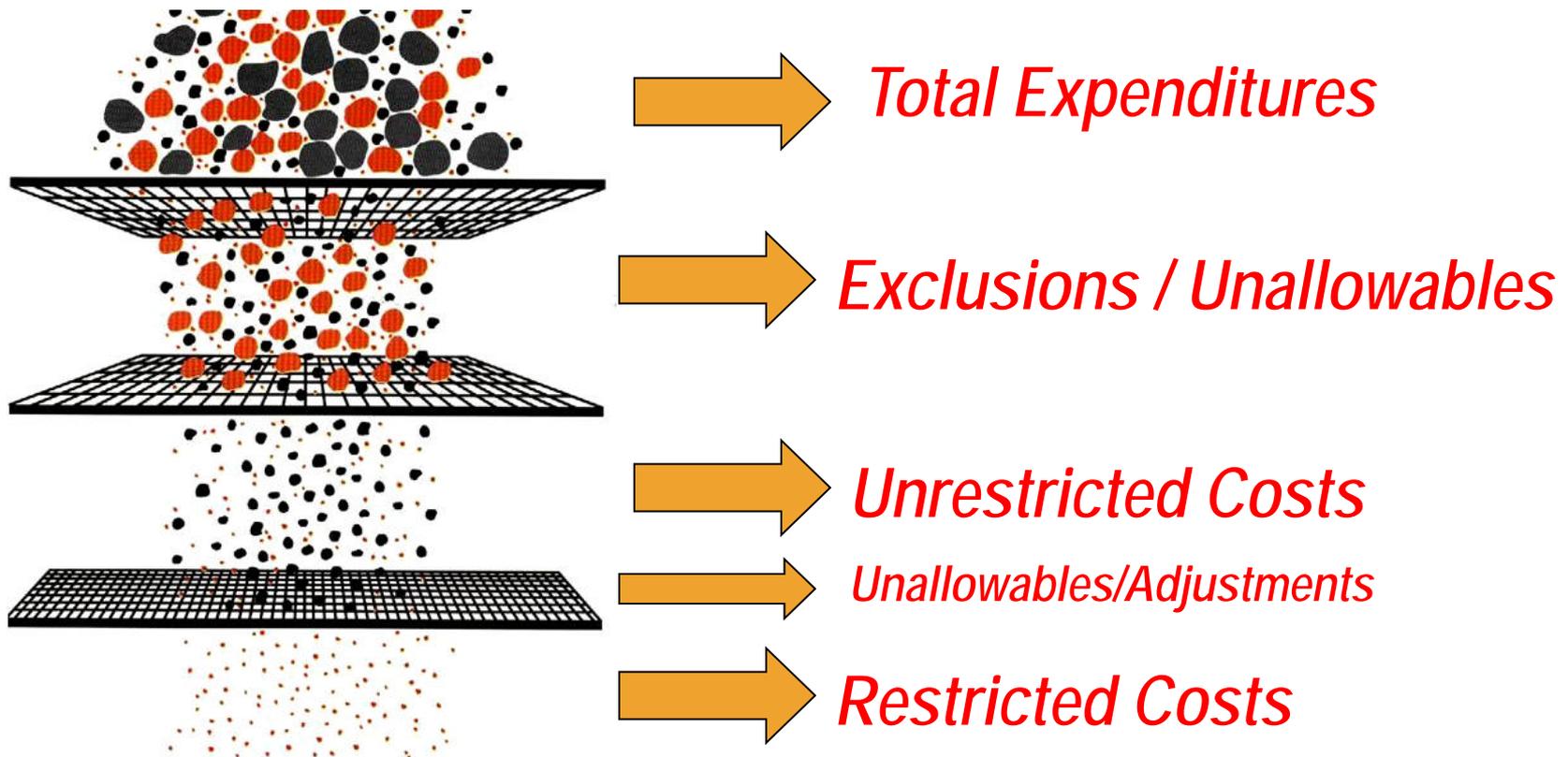
Why Restricted Rates?

- ❖ Intended to assist or supplement ongoing educational efforts
- ❖ Not intended to replace or substitute any portion of state/local revenue responsibility
- ❖ Results in greater spending on direct educational activities

Determination of Restricted Rates

- ✓ Start with the Unrestricted Indirect Cost Rate Calculation
- ✓ Make Adjustments to the Calculation
- ✓ Result is a Restricted Rate
(lower rate)

Calculation of Restricted Rates



Calculation of Restricted Rates

EDGAR 76.564(a):

Restricted Indirect Cost Rate =

General Management Costs + Fixed Costs

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Other Expenditures (MTDC Base)

Concerns/Challenges

- Properly calculated Restricted Rate
(ED approved directly or indirectly)
- Consistent treatment
- Appropriate application of Restricted Rate
- Special Cost Issues and Treatment

Application of Restricted Rate

Indirect costs =

Restricted indirect cost rate

X

Total direct costs of the grant minus capital outlays, subgrants, and other distorting or unallowable items as specified in the grantee's indirect cost rate agreement (*aka, Modified Total Direct Costs or MTDC*).

What is a Modified Total Direct Costs (MTDC) Base?

An MTDC base consists of total direct costs less distorting items, such as equipment, capital expenses, pass through funds, subawards exceeding \$25,000* each, stipends, renovations and alterations.

Note: The appropriate base is described on the rate agreement or a description should be provided by the SEA.

** The \$25k is generally used as the federal policy.*

Types of Distorting Items

- Subgrants and Subcontracts
- Equipment and Capital Expenditures
- Stipends and other payments
- Renovations & Alterations
- Certain Unallowable costs (e.g., fines, penalties, bad debts, etc.)

MTDC Base Example

Budget Categories	Proposed Budget	Proposed MDTC Calculation	
1. Personnel	500,000	500,000	
2. Fringe Benefits	125,000	125,000	
3. Travel	50,000	50,000	
4. Equipment	100,000		
5. Supplies	15,000	15,000	
6. Contractual	2,550,000	2,550,000	
7. Construction			
8. Other	10,000	10,000	
9. Total Direct Costs (lines 1 – 8)	3,350,000	3,250,000	
10. Indirect Costs*	650,000		
11. Training Stipends			
12. Total Costs (lines 9 – 11)	4,000,000		

MTDC Calculations

Incorrect Calculation

Total Direct Costs	3,350,000
Less: Equipment	100,000
MTDC Base	3,250,000
Rate Applied	<u>20%</u>
Indirect Costs	650,000

Correct Calculation

Total Direct Costs	3,350,000
Less: Equipment	100,000
Less: Subcontracts	2,550,000
Plus: first \$25,000	<u>50,000</u>
MTDC Base	750,000
Rate Applied	<u>20%</u>
Indirect Costs	150,000

MTDC – Budget Implications

Budget Categories	Proposed Budget	ICG's Calculation	Excessive Costs
1. Personnel	500,000	500,000	
2. Fringe Benefits	125,000	125,000	
3. Travel	50,000	50,000	
4. Equipment	100,000	100,000	
5. Supplies	15,000	15,000	
6. Contractual	2,550,000	2,550,000	
7. Construction			
8. Other	10,000	10,000	
9. Total Direct Costs (lines 1 – 8)	3,350,000	3,350,000	
10. Indirect Costs*	650,000	150,000	500,000
11. Training Stipends			
12. Total Costs (lines 9 – 11)	4,000,000	3,500,000	500,000

Cost Issues & Challenges

- Subaward Treatment (subgrants & subcontracts)
- Equipment / Capitalization Policies
- Unused Leave Payments
- Retirement / Separation Incentives

Subaward Treatment

- Federal policy/background
Generally, only the first \$25,000 of each subaward is included in the modified total direct costs base, each year.
- Includes subcontracts & subgrants
- To exclude or not to exclude (reduced level of administrative support)
- Consistency - calculation and application

ABC Company
Indirect Cost Proposal
Schedule of Sub-Awards > \$25,000
for the Fiscal Year ended 6/30/2006

	Vendor	Expenditures made against sub-awards
1	Red Squared LLC	\$ 25,526
2	Colorado State University	30,089
3	IHGC Operators Inc	51,530
4	EOP Operating Limited Partners	106,449
5	Western Interstate Comm Higher	273,200
6	Bearingpoint Inc	331,630
7	Parent Educ & Assistance for K	612,679
8	ACT Inc	1,450,031
9	Department of Law	1,826,838
10	CTB/McGraw-Hill Inc	18,743,285
	Total sub-awards	\$ 23,451,257
	Less: Allowable sub-awards expenditures included in the Direct Cost base (10 sub-awards * \$25,000 each =)	(250,000)
	Sub-award Expenditures excluded from the Direct Cost base ^a	\$ 23,201,257
	<u>Note:</u>	
	a - This represents the portion of the sub-awards in excess of \$25,000 each. As a general rule, the organization agrees that only the first \$25,000 of each sub-award, subgrant should be included in the distribution base. This recognizes that grantees expend a minimal amount of indirect costs on sub-awards.	

Treatment of Equipment

- Determine Capitalization Threshold
- Cost of Equipment cannot be included in rate calculation
- Consistency must be observed
- Rate cannot be applied to cost of equipment

Equipment

- An article of nonexpendable, tangible personal property,
- Has a useful life of more than one year, and
- An acquisition cost which equals or exceeds the lesser of the capitalization level established by the entity for financial statement purposes, or \$5000.

Rate Application to Equipment

Capitalization Policy:

Equipment is defined as an item with an acquisition value of \$500 and useful life of one year.

- Under this policy a laptop with a acquisition value of \$1,000 is an item of equipment.
- Under a Modified Total Direct Cost base, the indirect cost rate could not be applied to the laptop cost.

Note: The capitalization policy is on the first page of our rate agreements.

Retirement Incentives

- All costs associated with the event
- Buyouts, Special Severance Packages, Early-Outs (abnormal costs)
- C-10 outlines guidance/criteria for allowability and allocability
- OMB Circular A-87 requires prior approval

Unused Leave Payments

- OMB Circular A- 87, Attachment B, 8.d.(3)
“Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.”
- Payments cannot be charged directly to federal programs.

Websites

OMB Circulars

<http://www.whitehouse.gov/omb/circulars/>

ED's Indirect Cost Group Website

<http://www.ed.gov/about/offices/list/ocfo/fipao/icgindex.html>

EDGAR

<http://www.ed.gov/policy/fund/reg/edgarReg/edgar.html>

HHS - C-10 & Other Reference Information

<http://rates.psc.gov/>

Contact Information

U.S. Department of Education

OCFO / FIPAO / ICG

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