

Cost Allocation and Indirect Cost Rates

Denes Tobie, CPA - Partner

WIPFLI

1

Presenter



Denes Tobie, CPA
Partner

2

2

Welcome

Thank you for joining us!
We hope today's training meets your expectations.

3

3

**No recording
of any kind**

This includes any
video or audio
images on your
smart devices.



All rights reserved. These materials were created and developed by Wipfli LLP. No part may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of Wipfli LLP, except in the case of brief quotations and certain other noncommercial uses permitted by copyright law. For permission requests, contact Amy Almond at Wipfli LLP.

4

4

**Materials/
disclaimer**

- Please note that these materials are incomplete without the accompanying oral comments by the trainer(s).
- These materials are informational and educational in nature and represent the speakers' own views. These materials are for the purchasing agency's use only and not for distribution outside of the agency or publishing on a public website.

5

5

Direct and
Indirect Costs



6

Subpart E. Cost principles – direct and indirect

§200.412 Classification of costs

- There is **no universal rule** for classifying certain costs as direct or indirect costs.
- Each cost incurred for the same purpose in like circumstances must be treated consistently either as a direct or an indirect cost to avoid possible double-charging of Federal awards.



7

7

Indirect vs. direct

There are 2 ways to do cost allocation:

- Direct Cost Method
 - Allocate costs based on relative benefit received
 - Charge shared costs to programs based on an activity or non-monetary base
- Indirect Cost Method (includes using the de minimis rate)
 - Used to allocate indirect or shared costs
 - Device for determining in a reasonable manner the proportion of indirect costs each program should bear; a ratio of indirect costs and a direct cost base

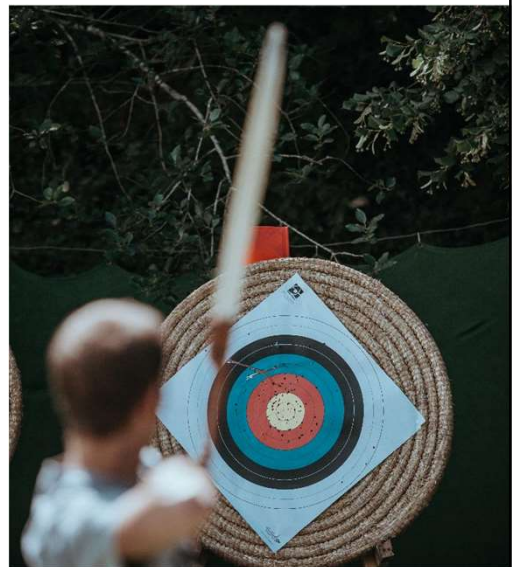
8

8

Subpart E. Cost principles – direct

§200.413 Direct Costs

- (a) Direct costs are those costs that can be identified specifically with a particular final cost objective, or that can be directly assigned relatively easily **with a high degree of accuracy**
- (b) Association of costs with a Federal award determines whether costs are direct or indirect. Costs that otherwise would be treated as indirect costs may also be considered direct costs if they are directly related to a specific award (including, utility consumption, materials, cybersecurity, etc)



9

9

Subpart E. Cost principles – direct

Changes:

- *Removed 'Such costs are explicitly included in budget or have prior approval)*

§200.413 Direct Costs

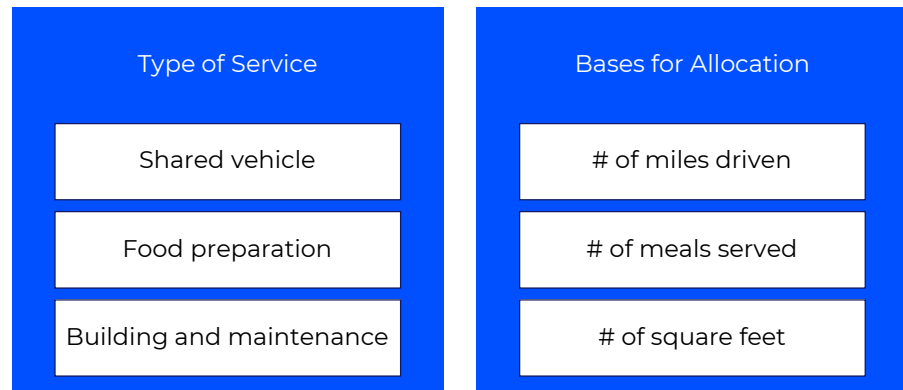
- (c) Salaries of administrative and clerical staff **should normally** be treated as indirect. Direct charge only if **all** of the following are met:
 - (1) Administrative or clerical services are integral to the [Federal award](#),
 - (2) Individuals involved can be specifically identified with the [Federal award](#),
 - (3) The costs are not also recovered as indirect.

10

10

Direct allocation plans

Identify the costs to be allocated and measures of activity that will fairly allocate the costs



11

11

Direct costing – how to do it

- Real-time allocations – allocated to programs and grants as soon as the cost is entered into the accounting system.

Rent Expense

- Month-end allocations – allocated after month end.

Similar costs are combined and allocated together

12

12

Example

Let's go to lunch ...

- Joe orders a salad and a glass of water – total \$7.50
- Sally orders a burger, fries and milkshake – total \$13.50
- James orders the works, appetizer, full entire meal, dessert and a glass of wine – total \$27.00
- What is the best method to split the bill?
 - ✓ Divide by 3?
 - ✓ Everyone pay their own?
 - ✓ Oh wait, James forgot his wallet? Now what?
 - ✓ Allocate it based on how they had lunch the last time?

13

13

Indirect cost pool

What might go in the Indirect Cost Pool?

- Executive Director
- Board Costs
- Toner
- Training
- Maintenance
- Travel
- Utilities
- Finance Director
- Small Equipment

Who's watching the pool?



14

14

§200.414 Indirect Costs

Subpart E. Cost principles – indirect

(c) Federal Agency Acceptance of Negotiated Indirect Cost Rates

- (1) Negotiated rate must be accepted by all Federal agencies
- (2) The recipient or subrecipient may notify OMB of any disputes with Federal agencies regarding the application of Federally negotiated indirect cost rate.

(d) Pass-through entities must accept all Federally negotiated indirect cost rates for subrecipients.

(e) Appendix IV Cost allocation plans for nonprofits; Appendix V & VI Cost allocation plans for units of government

15

15

§200.414 Indirect Costs

Subpart E. Cost Principles – direct and indirect

Changes:

- Rate change from 10% to 'up to 15%'

- (f) Recipients or subrecipients that **do not have a current** negotiated IDCR (including provisional rate) may elect to charge a de minimis rate of up to 15% of modified total direct costs (MTDC). Recipients or subrecipients can determine the appropriate rate up to this limit.

- No documentation is required to justify its use and may be used indefinitely.
- Once elected must use until recipient or subrecipient chooses to receive a negotiated rate.

16

16

Two kinds of Indirect Cost Rates

17

De Minimis (up to 15%)

- Flat rate, without regard to actual expenses
- No approval required to use
- May not recover all indirect costs or may have a residual reimbursement
- Do not have to prove costs
- May only use a specific allocation base
- May use indefinitely

Negotiated

- Based on actual expenses (most recent audit)
- Approved by Federal negotiator (cognizant agency)
- Will allocate all costs in the cost pool
- Provide details of costs
- May choose from allowable allocation bases
- Must re-negotiate each year, but may request extension of certain rates

17

Subpart E. Cost principles – indirect

Changes:

- *Removed (h) requiring agencies to publish their rate on an OMB designated website*

18

§200.414 Indirect Costs (cont.)

- (g) A recipient or subrecipient with a current Federal negotiated indirect cost rate may apply for a **one-time extension** of the rate in that agreement for a period of **up to 4 years**
 - Subject to review and approval by a cost negotiator
 - If approved, may not request a rate review until the extension ends
 - At end of extension, must apply for a new rate
 - Subsequent one-time extensions (up to 4 years) are permitted if approved

18

Indirect cost rates

Negotiation and Approval of Rates

- Apply to the appropriate cognizant agency for indirect costs
 - The cognizant agency is usually the Federal agency from which an entity receives the largest amount of Federal funds
- Indirect cost rate proposal
 - Based on most recent audited financial statements adjusted for anticipated changes
 - Details of the indirect cost pool
 - Base
 - Calculation of the requested rate

19

19

Quiz – Indirect Cost Pool – Negotiated Rate

Determine whether the cost should be IN or OUT of the pool	IN	OUT
1. Cost of the agency's single audit.		
2. Insurance on the agency administrative building.		
3. Office supplies, postage, and telephone for the fiscal department.		
4. Program supplies.		
5. Payroll accountant.		

20

20

Types of Indirect Rates

- Predetermined – Based on estimated costs to be incurred during the rate period (may be longer than 1 year)
 - A predetermined rate is firm – not subject to adjustment
 - May be issued when the cost negotiator has enough information and history to confidently predict the amount of indirect costs
 - Can apply for a one-time extension of this rate

21

21

Types of Indirect Rates

- Provisional rate – temporary rate issued for use during the fiscal year
 - Adjusted to a final rate after year-end
 - Typically given to nonprofits
- Final rate – based on actual allowable costs and applied to the previous year
 - Differences between a provisional and final rate may require adjustment to amounts charged to grants during the year

22

22

Types of Indirect Rates

- Fixed rate with carry-forward – Based on estimated costs to be incurred during the fiscal year
 - Has aspects of predetermined and provisional rates but none of their drawbacks
 - Not subject to retroactive adjustment
 - The difference between estimated and actual costs is carried forward to the next year
 - Typically given to units of government

23

23

Indirect Cost Rates

Bases:

- **Modified Total Direct Costs (MTDC)**

- Total direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel and subawards up to the first \$50,000
- Excludes equipment, capital expenditures, participant support costs and the portion of each subaward in excess of \$50,000
- This is the required base for the de minimis rate

- **Direct salaries and wages**

- **Direct salaries, wages and fringe benefits**

Changes:

- *Increased threshold from \$25,000 to \$50,000*

24

24

Indirect Cost Rates

General formula:

- Indirect cost pool ÷ Base = ICR

Costs in the indirect cost pool are:

- Allowable, and
- Benefit ALL programs
- NOT in the pool: capital expenditures, losses on awards, unallowable costs, and expenditures that benefit some but not all programs

25

25

Example



26

26

Applying an indirect cost rate

Grant period	07/01/22 – 6/30/23		
	Calendar year ended		
	12/31/22	12/31/23	Total
Direct cost rate	\$400,000	\$500,000	<u>\$900,000</u>
	x	x	
Indirect cost rate	<u>10.0%</u>	<u>15.0%</u>	
Indirect costs	\$40,000	\$75,000	\$115,000

27

27

Head Start administrative limits

Revenue:			
Grant revenue	800,000		
In-kind	200,000		
Total revenue	<u>1,000,000</u>		
Expenses:			
Salaries	500,000		
Fringe benefits	100,000		
In-kind	200,000		
Other expenses	100,000		
Total expenses before indirect	<u>900,000</u>		
Net revenue before allocations	<u>100,000</u>		
	Share of indirect cost pool	Total costs	15% admin limit
	(rate x expense)	(total exp + indirect)	(total costs x 15%)
10% de minimis rate	90,000	990,000	148,500

28

28

HUD HOME administrative limit

Revenue:

Grant revenue 800,000

Expenses:

Salaries 500,000

Fringe benefits 100,000

Other expenses 100,000

Total expenses before indirect 700,000

Net revenue before allocations 100,000

	Share of Indirect Cost Pool	Total Costs	5% admin limit
	(rate x expense)	(total Exp + indirect)	(total costs x 5%)
10% de minimis rate	70,000	770,000	38,500

29

29

Indirect cost rates

What are the **advantages** of an indirect cost rate agreement?

- Provides for one method to allocate **almost all** administrative costs
- Potentially can make budgeting easier – direct salaries might be easier to estimate than the number of transactions Finance will perform
- Rate and method are Federally approved

30

30

Indirect cost rates

What are the *disadvantages* of an indirect cost rate agreement?

- Rate and method are Federally approved – subject to individual cost negotiator preferences
- May lose some flexibility in how you determine the manner in which programs are charged for administrative costs
- May need to finalize and get approval for the rate every year
- Inconsistencies in charging the rate to nonFederal funding sources

31

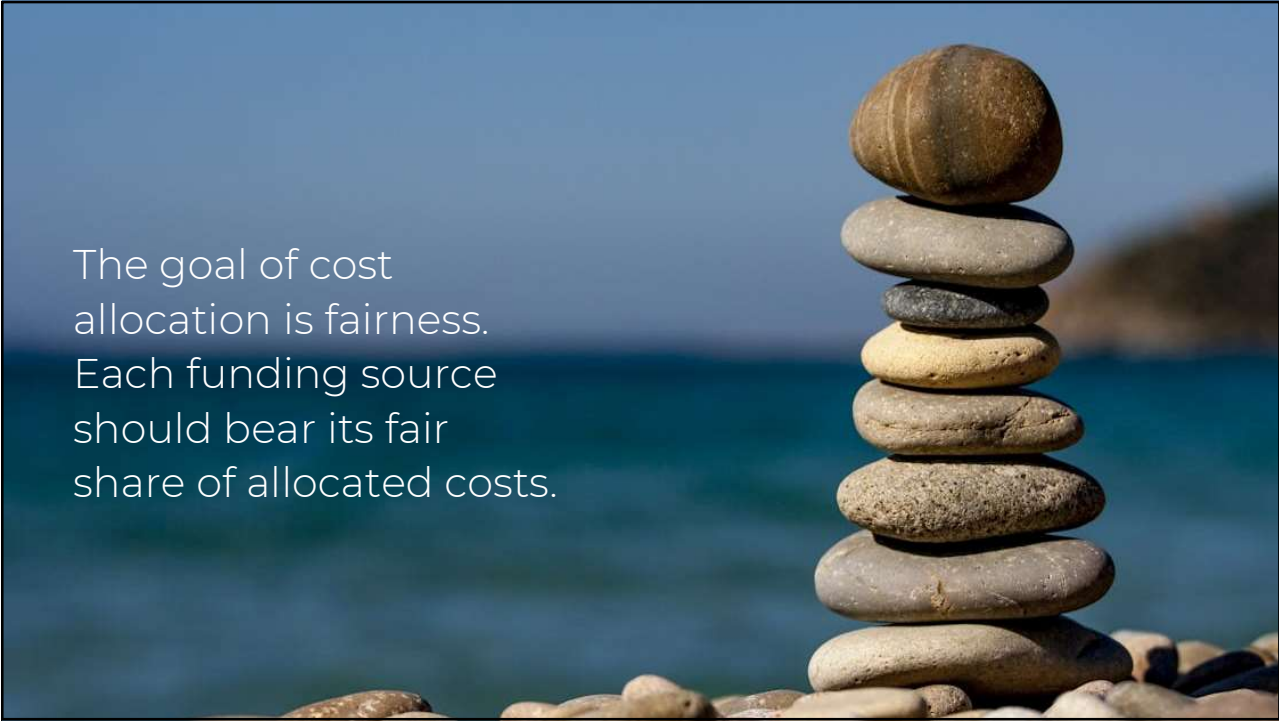
31



Cost allocation summary:
Close counts – you will never get it right

32

32



The goal of cost allocation is fairness. Each funding source should bear its fair share of allocated costs.

33

Don't spend \$2 to allocate \$1

34

34

wipfli.com/nonprofits

Stay Connected

My Wipfli — Access to our experts

wipfli.com/mywipfli

- Regulation questions
- Audit
- Process
- Human Resource
- Technology
- Leadership

Bring Wipfli to you

Kate D. Atkins, MS
katkins@wipfli.com
608 270 2944

Social media:

- [linkedin.com/showcase/wipfli-nonprofit](https://www.linkedin.com/showcase/wipfli-nonprofit)
- [facebook.com/WipfliNGP](https://www.facebook.com/WipfliNGP)

WIPFLI

35

35

Questions

Denes Tobie, CPA

Partner

dtobie@wipfli.com

608 270 2929

www.wipfli.com

36

Thank You

Thank you for your participation.
We hope today's training met your expectations.

37

37



38