

TRUE COST FOR SUSTAINABILITY AND IMPACT

Knowing Your Indirect Cost And How To Calculate

NICOLIE CASS LETTINI, MBA
VP of Indirect Services, eCivis Inc.
Owner of Capital Accounting Partners
CEO & Founder of CostTree

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Agenda

- Feel for the Room
- What is a Cost Allocation Plan?
- Sustainability/Impact
- Department Types
- Indirect vs Direct
- Cost Plan Trends
- Full Cost vs 2 CFR part 200
- Methods & Uses for a Cost Allocation Plan
- Stakeholders
- Benefits of a Cost Plan for Grants
- Case Study
- Matching
- Indirect Cost Rate Proposal (ICRP)
- Uniform Guidance/Risk Assessments
- Conclusion

INTRODUCTION⁷

NICOLIE CASS LETTINI, MBA

- VP of Indirect Services at eCivis, Inc.
- CEO/Founder of CostTree – Cloud Based Cost Allocation Plan Software Company
- 18 years dedicated solely to preparing cost allocation plans for cities, counties, special districts and nonprofits
- Prepared over 750 Full Cost and OMB A-87 (2 CFR part 225/200) plans
- Successfully defended numerous Federal and State level audits

Who Do We Have in the Room?

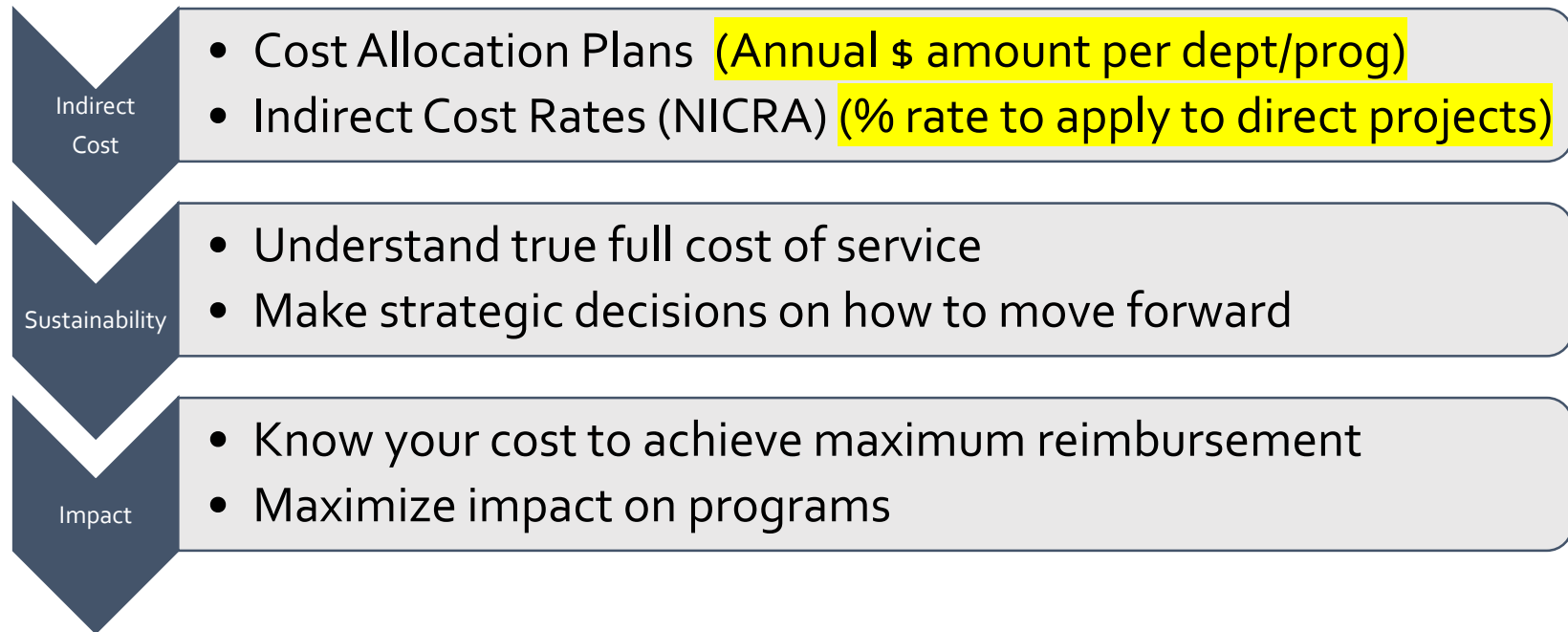
GOVERNMENT

- We don't get any indirect reimbursement for our grant
- Should we go after this grant, does it make sense?
- I am only allowed 10%
- Finance handles the indirect cost and I don't know anything about it.

NON-PROFIT

- "All of the funding should go to the program not indirect."
- Should we go after this grant, does it make sense?
- Will we have to fundraise to cover our admin?
- I don't get any federal funding, so it doesn't matter.

Sustainability & Impact



WHAT IS A COST ALLOCATION PLAN?

A cost allocation plan is a tool used to calculate the “total indirect costs” of the Central Support Departments/program (e.g. Finance, Human Resources, Information Technology, Facilities, etc.) to distribute to Receiving departments/programs/grants (Health and Human Services, Community Development, other Enterprise Funds, Grants etc.) in order to get reimbursement for services rendered.

Cost Allocation – What Does it Show You?



1

True Costs

Direct Cost + Indirect Cost =
True Cost of service.

One can not happen without the
other!

2

Local Government

the full cost of a service. The
General Fund supports other
funds and departments
throughout the agency.
What does it really cost to
perform a program or grant?

3

Nonprofits

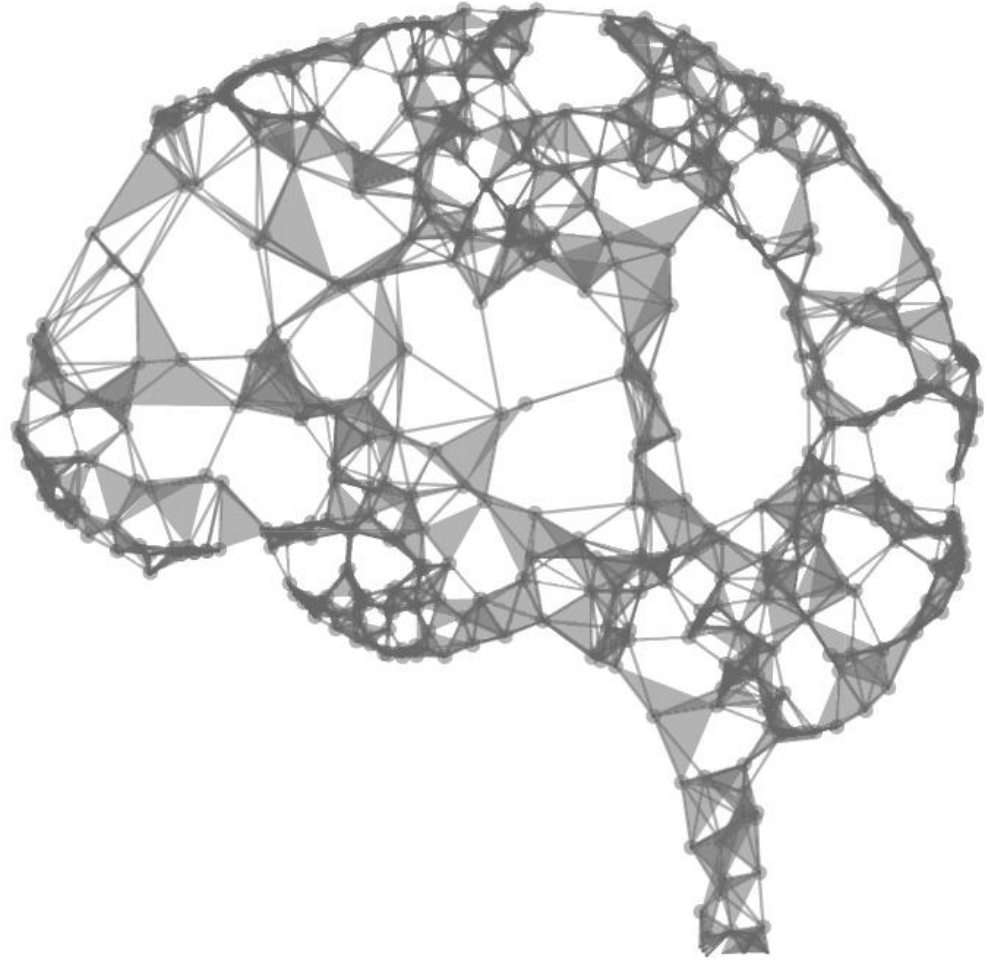
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grant?

#ICMA2019

Cost Allocation – What Does it Show You?_(continued)

Strategic Views

- Budget – allows you to know what your true cost (indirect + direct costs) of service is so you can plan for the budget accordingly
- Strategic views to improve performance and long-term sustainability. Should I take on this project or grant?



Why Are We Talking About it Now?

Cost Plans have been around for almost 50 years?

Change to the guidelines (Government)

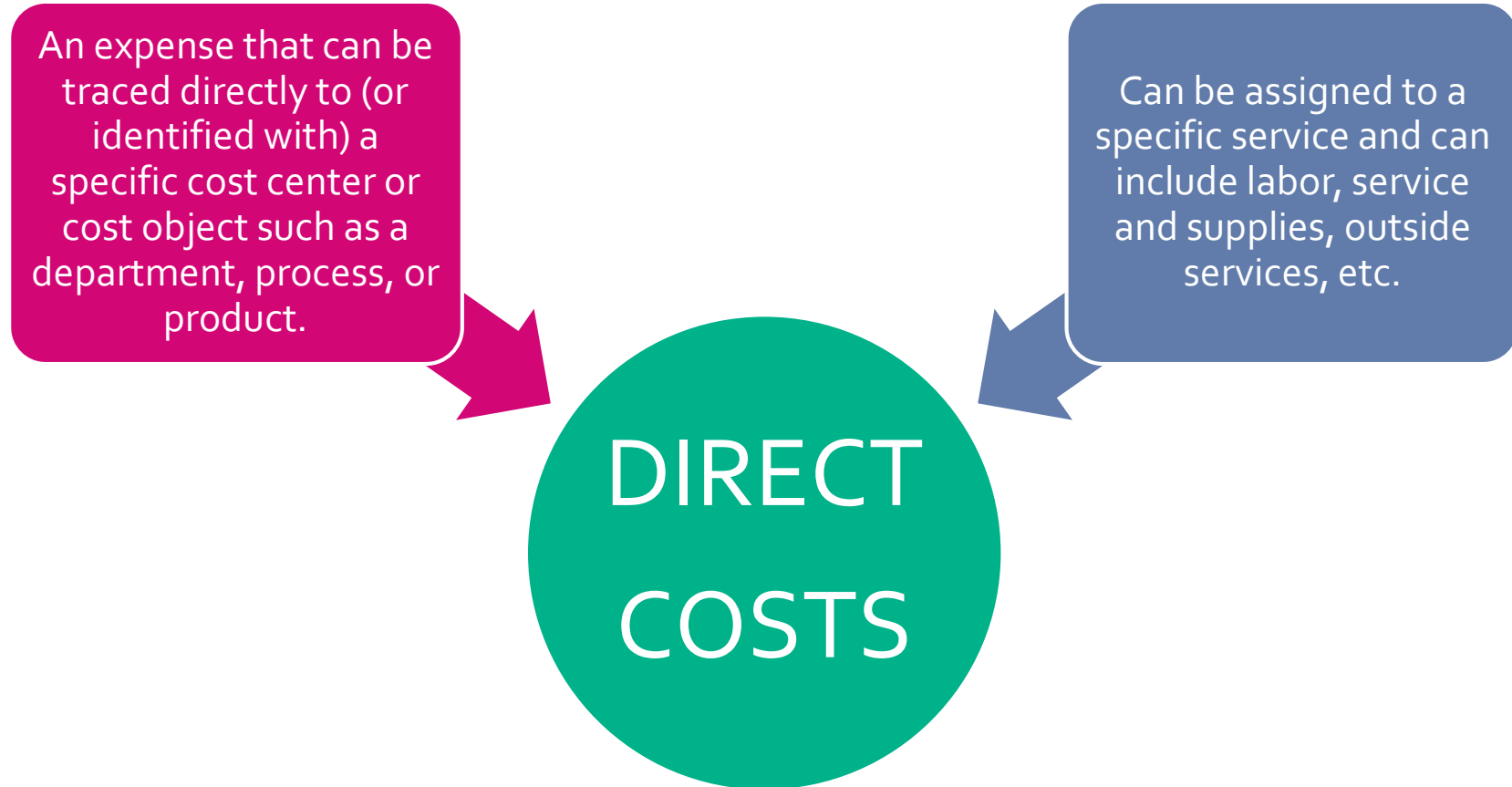
- Uniform Guidance**
- Procurement, audit thresholds, measuring performance
 - Reimbursements for overhead (nonprofits)

DEPARTMENT TYPES

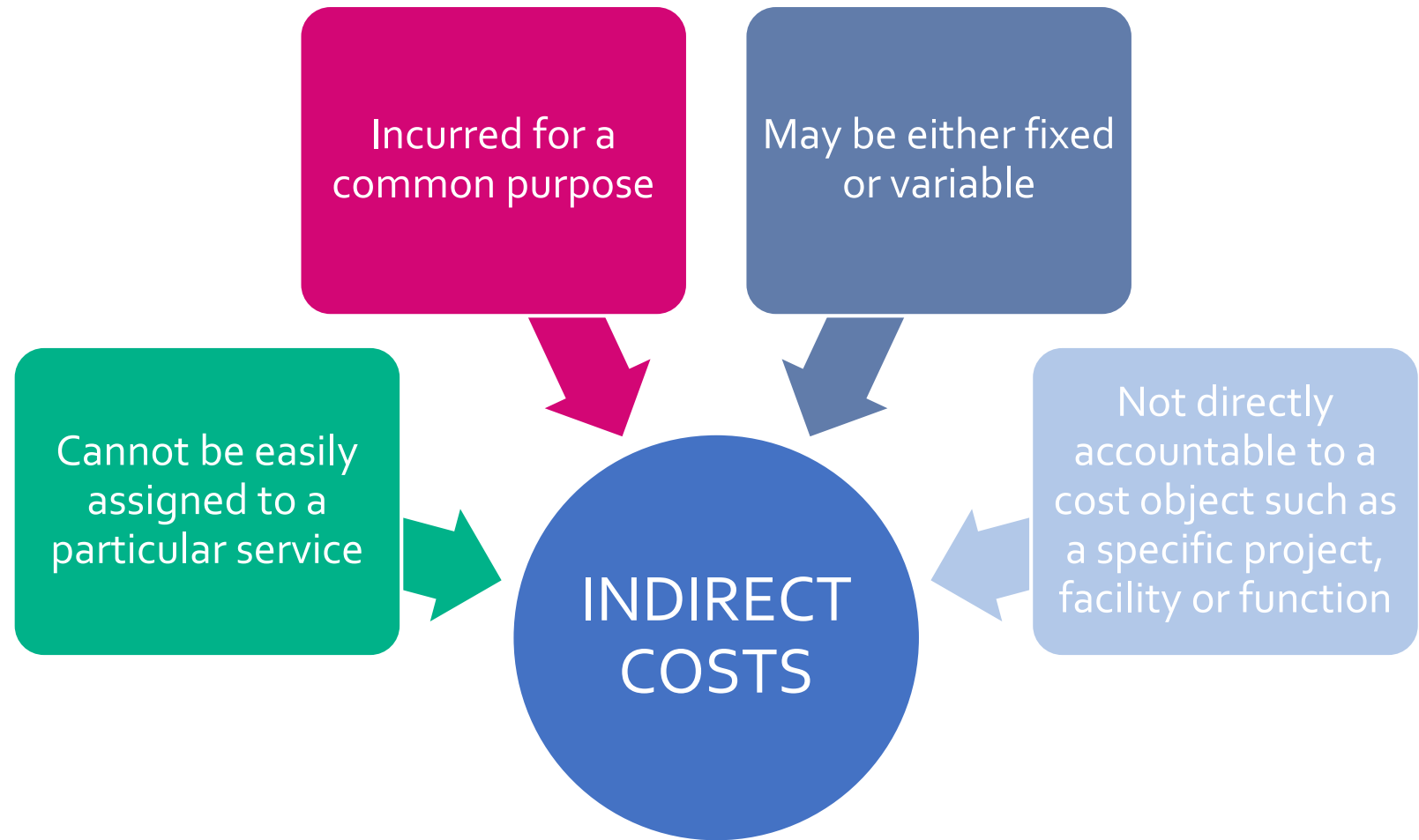
Central Support are those departments/ programs or grants whose primary purpose is to support the other departments/funds/programs in the agency.

Receiving are those departments/ programs or grants who receive costs for services performed for their benefit.

Direct Costs



Indirect Costs



FULL COST VS.

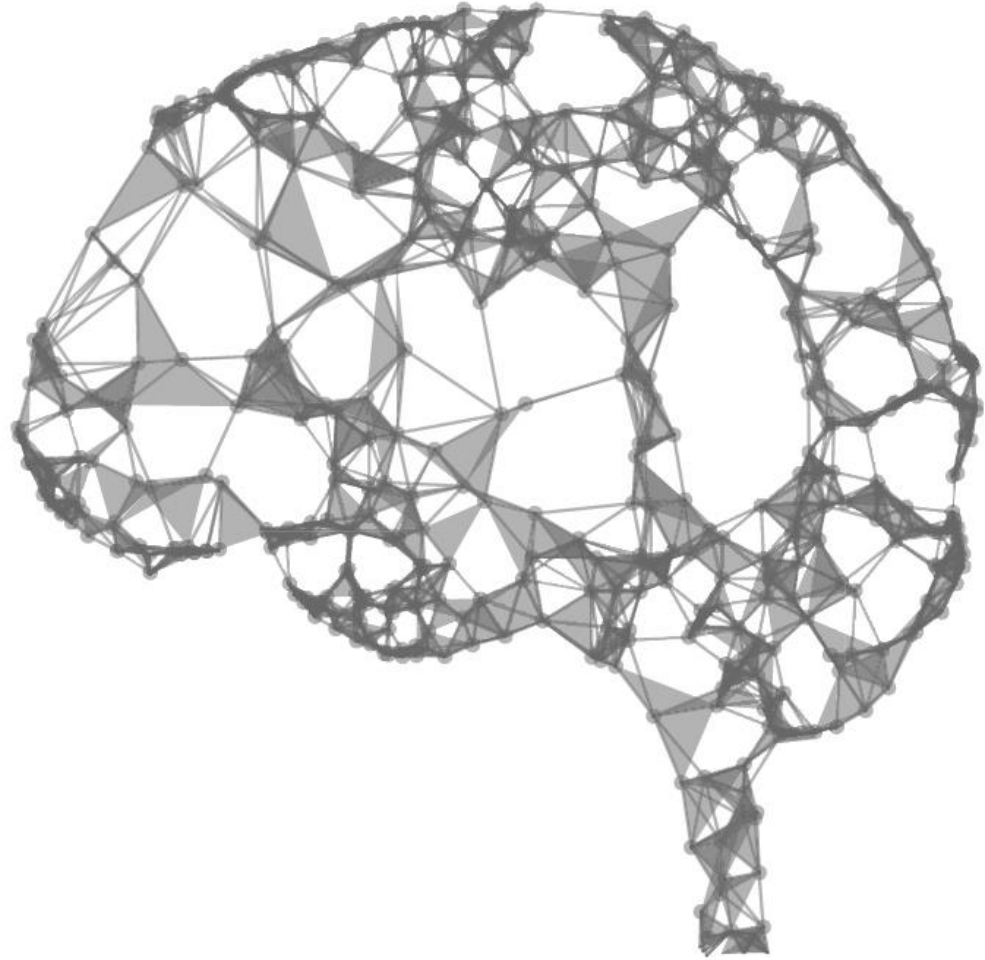
2 CFR PART 200 PLAN

- A full cost plan is less conservative, but still follows the process that 2 CFR part 200 lays out.
- Uses budget numbers to more accurately reflect what is truly going on in the city going forward.
- Includes costs that are excluded under 2 CFR part 200 guidelines, such as general government expenses, sub recipient funds, fundraising, etc.
- More accurately reflects the true full cost of doing business.

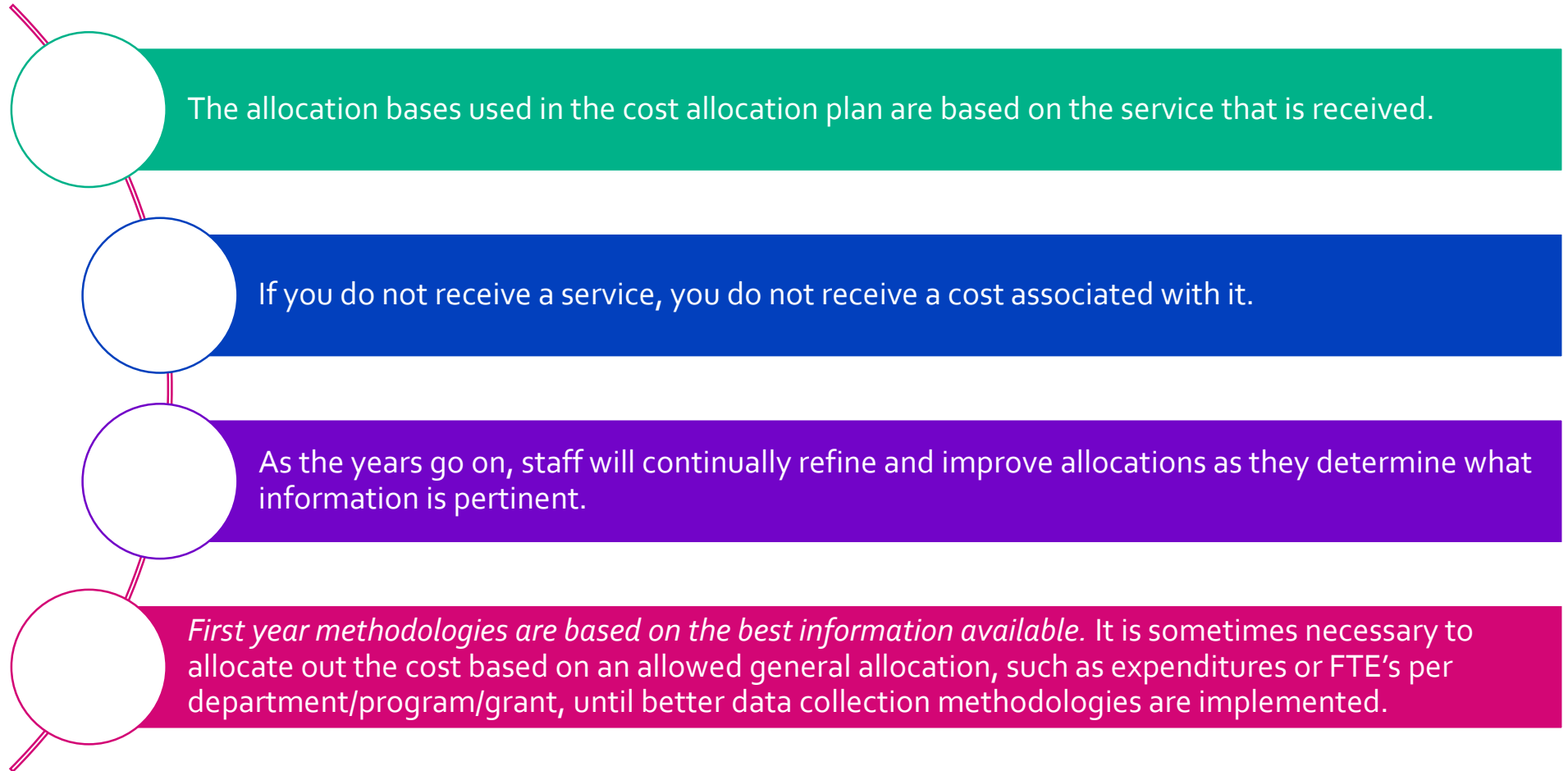
Full Cost vs. 2 CFR Part 200 Plan

(continued)

- A 2 CFR part 200 plan is a very conservative cost plan that strictly follows the guidelines put in place by the feds.
- Actual costs of the last closed book fiscal year must be used to estimate future cost (Costs are always looked at in arrears).
- Many costs are excluded from the 2 CFR part 200 cost plan (e.g. sub recipient, fundraising).
- 2 CFR Part 200 also excludes departments that do not support the entire city (Public Works and other departments that are administrative in nature).(govt)



Methods Used to Calculate a Cost Plan



Methods Used to Calculate a Cost Plan (continued)

All Costs must be:

Reasonable

- Ordinary and necessary to accomplish the purpose of the contract and comparable to market prices.

Allowable

- As per the regulations. An example of unallowable costs are the costs for fundraising activities. Those costs are not allowed.

Allocable

- The expense must benefit the cost objective per the Scope of Work.

Consistently Applied

- You cannot switch methods to generate more revenue or treat one cost as direct for one contract and indirect for another.

Documented

- The methodology for allocating cost must be documented. This includes Time Studies and Functional timesheets.

Uses for a Cost Plan

FULL COST

2 CFR 200

- Reimbursement for services from non-General Fund operations within the agency.
- Calculate the indirect cost for strategic budget decisions. Should we take on the grant or pass?

Federal State grant reimbursement

Fully understand the true cost of a department to make sure that leadership team can effectively manage department's resources and demands.

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Stakeholders - Getting “Buy-In”

Getting organizational buy-in early benefits the entire planning process

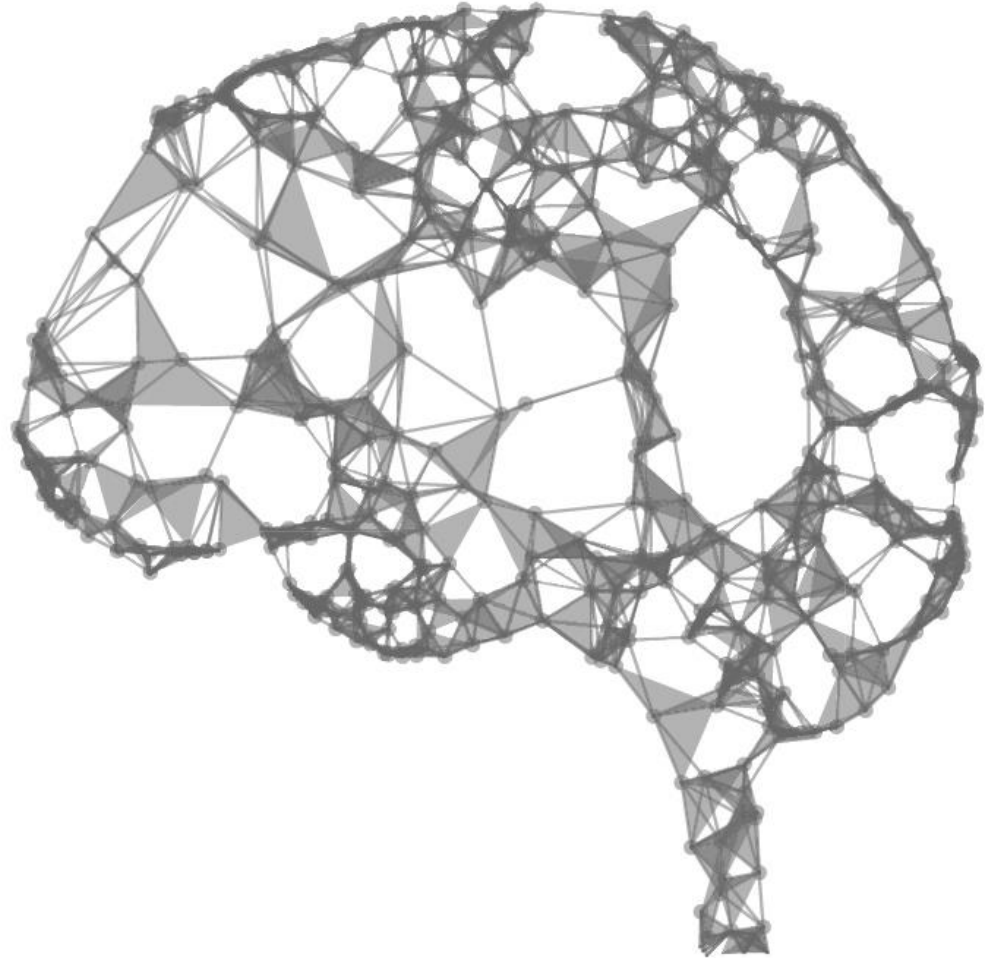
Departments/Staff who participate in the review process:

- Take ownership of their allocations
- Obtain a more accurate reflection of costs
- Understand the services being received

Example: Foundations giving unrestricted funding

Benefits of an Approved Cost Plan for Grants

- Full cost of service enables you to calculate accurate cost of grants.
- Single source for all agency-wide indirect costs that can be traced, audited and understood by any person interested in reviewing.
- Only paying for cost related to your operation and the services you receive, not covering any other cost.
- Able to use the OMB plan to receive federal grant funding
- Provides a uniform method for:
 - Funding indirect costs
 - Charging indirect costs
- Understand Full Cost of the services so you can make strategic decision on whether to take on a specific program or grant. It might cost you more to take on the grant then if you chose to pass on it.



Benefits of Updating Your Plan Every Year

- Annual update of OMB plan is required
- Other Internal benefits:
 - Opportunity to reflect actual services received as changes occur
 - Ability to continuously improve allocation bases and data collection methodologies
 - Increased clarity of your cost plan throughout the entire agency
 - Opportunity to validate support levels as personnel shift



CASE STUDY:

4 ALTERNATIVES

1. No Indirect Cost Reimbursement
2. 10% De-Minimus
3. Uniform Spread (one basis)
4. Cost Allocation Plan (multiple bases)

Police Department

Police Department							
Understand your True Cost and be able to make strategic decisions.							
TRUE COST through Cost Allocation	Patrol	Investigations	Violence Prevention Grant	Body Cam Grant (D)	Police Admin	Indirect Cost	Total Cost
Expenses							
Salaries	\$1,500,000	\$758,000	\$450,000	\$350,000	\$650,000	\$2,000,000	\$5,708,000
Benefits	\$700,000	\$350,000	\$175,000	\$125,000	\$275,000	\$800,000	\$2,425,000
Office Supplies	\$50,000	\$15,000	\$4,500	\$10,000	\$15,000	\$50,000	\$144,500
Prof Services	\$200,000	\$0	\$50,000	\$0		\$250,000	\$500,000
Printing	\$500	\$100	\$0	\$15,000		\$10,000	\$25,600
Telephone	\$100,000	\$350	\$1,500	\$1,000	\$1,500	\$4,000	\$108,350
Other service and Supply costs	\$75,000	\$3,000	\$75,000	\$25,000	\$15,000	\$7,000	\$200,000
Depreciation	\$50,000	\$275	\$75,000	\$750		\$4,625	\$130,650
Server Support						\$350,000	\$350,000
Occupancy Cost						\$450,000	\$450,000
Total Direct Cost	\$2,675,500	\$1,126,725	\$831,000	\$526,750	\$956,500	\$3,925,625	\$10,042,100
Total Indirect Cost Allocated through CAP	\$686,640	\$470,955	\$542,381	\$2,023,705	\$201,943		\$3,925,625
Total Admin Cost allocated through CAP	\$363,019	\$122,575	\$82,848	\$590,002	(\$1,158,443)		\$0
Once Indirect agency cost have been allocated to all programs including Admin, Admin allocates to remaining programs.							
Total TRUE COST	\$3,725,159	\$1,720,255	\$1,456,229	\$3,140,458			\$10,042,101

- The police department has major programs such as Patrol and investigations. It also works on programs for the violence prevention and body cam grants.
- The total cost of the Body Cam Grant Direct support is \$526,750
- (If you are a nonprofit just replace the names of these functions with programs you perform for your mission and grants you are looking at.)

SCENARIO (A) 0% INDIRECT COST RECOVERY – NO COST ALLOCATION PLAN OR INDIRECT COST RATE

- Department receives only direct costs of grant program. No indirect costs are collected.
- Department subsidizes all administrative services at the department level and agency-wide.
- Department does not know their true cost of the grant program. Subsidy and the total costs are unknown. (\$2,613,708 in this example. Cost of indirect cost almost 5 times direct cost)
- Department does not see how much support is being provided to the grant program so they are unable to optimize their resources.
- Difficult to know if you should take on a grant because you don't know what it really costs.

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Can make decisions of whether or not you can afford the Violence Prevention Grant or the Body Cam Grant based on knowing what your true cost are.							
	(A)	(B)	(C)	(D)			
Body Cam Grant	0% Indirect Funding	10% de Minimis Rate actually 7.93%	Fully Funded - No Alloc	True Cost - Allocated Overhead Ideal Scenario			
Reported Direct Costs	\$ 526,750	\$ 526,750	\$ 526,750	\$ 526,750	Direct Cost of the Grant		
Allocated Admin/Indirect	\$ -	\$ 40,525	\$ 498,386	\$ 2,613,708	True Admin cost calculated under different methods		
Funded Amount	\$ 526,750	\$ 567,275	\$ 1,025,136	\$ 3,140,458			
True Costs	\$3,140,458	\$3,140,458	\$3,140,458	\$3,140,458			
(Subsidy)	\$ (2,613,708)	\$ (2,573,183)	\$ (2,115,322)	\$ -	Additional amount it cost but you are not being reimbursed		

SCENARIO (B) USING THE 10% DE MINIMUS

- Department only collects 10% indirect of modified total direct costs (MTDC).
- Department must perform calculation to find MTDC. There are many restrictions when calculating the MTDC which reduces indirect collection below 10% from the grant funder. (actual is 7.93% in this example)
- Department still subsidizes some of their administration and does not collect the true cost of the grant program. (\$2,573,183 in our example)
- Department does not know their true cost of the grant program.
- Department only considers direct program costs and does not see the cost of agency-wide support or of department level administration.
- Difficult to know if you should take on a grant because you don't know what it really costs.

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SCENARIO (C) FULLY LOADED INDIRECT RATE WITH NO ALLOCATION

- All indirect costs are charged to the grant, but they are charged using a fixed percentage across all departmental programs/grants. (\$498,386 in our example)
- Will unknowingly over or under charge all of the payers since costs are spread on a single basis and are not representative of the indirect services provided to each grant program.
- No visibility into true cost of grant program making it difficult to strategize and plan for the future. (When true cost calculated actually still subsidizing \$2,115,322 in our example)
- Difficult to know if you should take on a grant because you don't know what it really costs.

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SCENARIO (D) FULL COST RECOVERY WITH A COST ALLOCATION PLAN (GREEN COLUMN)

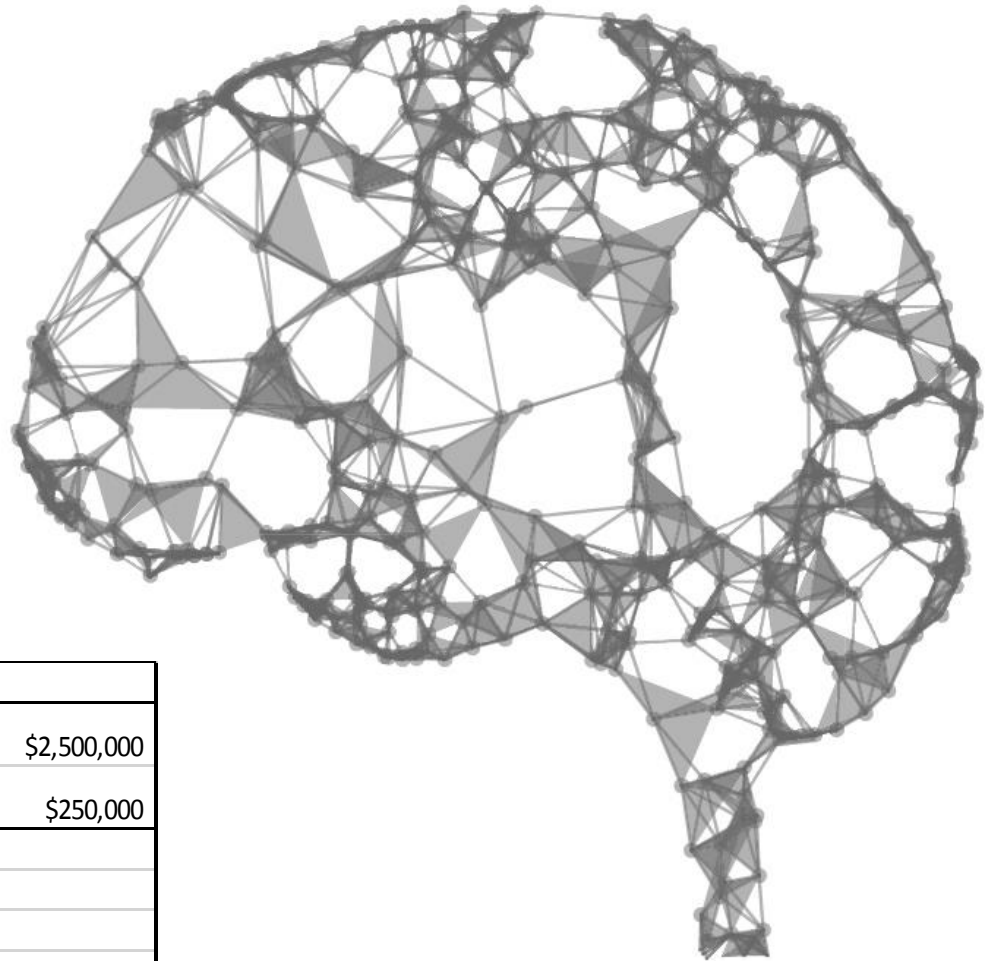
- Department can recover the fully loaded, true cost of the grant program. All agency-wide indirect support is accounted for and reimbursed as well as department level administration.
- Department can use the cost allocation plan as a managerial tool to optimize their resources.
- Shows not only the true cost of all operations, but also the true cost of individual grant programs.
- With a cost allocation plan, you can make an informed decision about whether or not to take on a grant program because you know how much it will really cost you. (In our example the indirect cost is almost 5 times the cost of the direct cost due mostly in part to large IT storage cost, additional IT staff support to catalog and issue recordings, additional Public Records requests because public knows you have the information, and increased attorney's fees to represent city)

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Maximize your Indirect Cost Reimbursement even if there is a CAP.

- Does your grant have an administrative cap? (i.e. 5%, 10%)
- Having a NICRA allows you to maximize this cap.
- EXAMPLE:

	Awarded	Draw Down based on actuals	Balance Remaining
	\$5,000,000	\$2,500,000	\$2,500,000
admin cap 10%	\$500,000	\$250,000	\$250,000
NICRA 37.5%		\$937,500	Admin based on NICRA
		\$250,000	Additional drawdown
		(\$687,500)	(subsidy = Stand in cost)
Total grant	\$5,500,000	\$3,000,000	\$2,750,000
		Collected because of NICRA	Amount to collect without NICRA



Using Indirect Cost to Meet Match Requirement

Example:
Workforce Innovation and Opportunity Act. (Funding Source: U.S. Department of Labor/Employment and Training Administration.)

Match Requirement of 25% on \$1,000,000 grant.

Requires \$250,000 in match. Currently using Direct cost to fulfill match requirement.

indirect cost rate is 22% on this grant from the agency

$22\% \times \$1,000,000 = \$220,000.$

Your match requirement can be fulfilled by using **indirect cost**
\$220,000 (indirect) + \$30,000 (direct) = match requirement.

This now leaves you **\$220,000** that your agency came up with for direct expense that you can increase in spending on this grant OR you can use towards a **NEW** matching grant.

Is there an Admin Cap on your existing Match grant?



Example – Agency Negotiated Indirect cost rate = 37.5%



Grant has a 10% admin cap on grant and a 25% match component.



First, apply 10% admin against cost on the grant.



Use remaining 27.5% of indirect cost rate as the match component and completely cover your match requirement.



Use cost you are already incurring to support the grant.

INDIRECT COST RATE⁷ PROPOSAL (ICRP)

- An Indirect Cost Rate Proposal (ICRP) is the step that follows the cost allocation plan.
- It calculates the rate of overhead to tack on to a service, project or grant to charge to outside individuals or agencies for using or performing that service.
- This is one of the things that departments/programs/grants can use to calculate a rate for their specific program/grant.

Calculating an ICRP

$$\text{Overhead Rate (\%)} = \frac{\text{Overhead Costs}^*}{\text{Direct Labor Cost}}$$

*Department/program/grant overhead + agency-wide indirect cost

The OH rate above is a ratio of **the overhead costs to direct labor costs**.

- **Overhead costs** are those accumulated for the total operation over a prescribed period of time. (indirect cost)
- **Direct labor costs** are those for all direct projects in the operation over the same prescribed period of time. (The denominator can be Salaries & Benefits or Total Program Cost)

Four Types of Indirect Cost Rates

1

Provisional Rate (Estimated)

Temporary rate, agreed to in advance, based on anticipated future costs(subject to retroactive adjustment)

2

Final Rate (Actual)

Established after costs are known (Underpayments are subject to availability of funds and Overpayments must be credited or returned)

3

Fixed Rate (Actual with Carry Forward Adjustment)

Agreed to in advance and is not retroactively adjusted(difference between estimated and actual costs are carried forward to future years)

4

Predetermined Rate (Negotiated)

Agreed to in advance but is generally not subject to adjustment(Intended to be permanent, May not be used if an ICRP is not submitted to a cognizant agency)

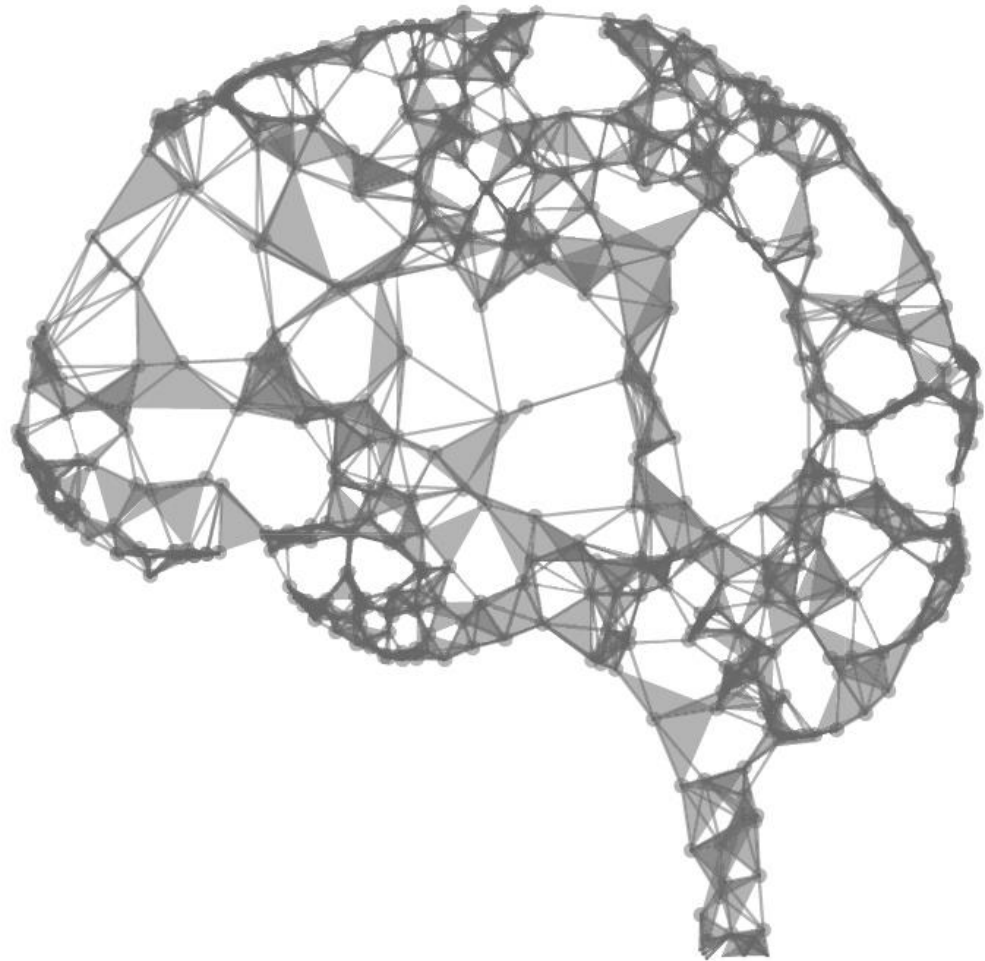
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Significant Changes in the Cost Principles

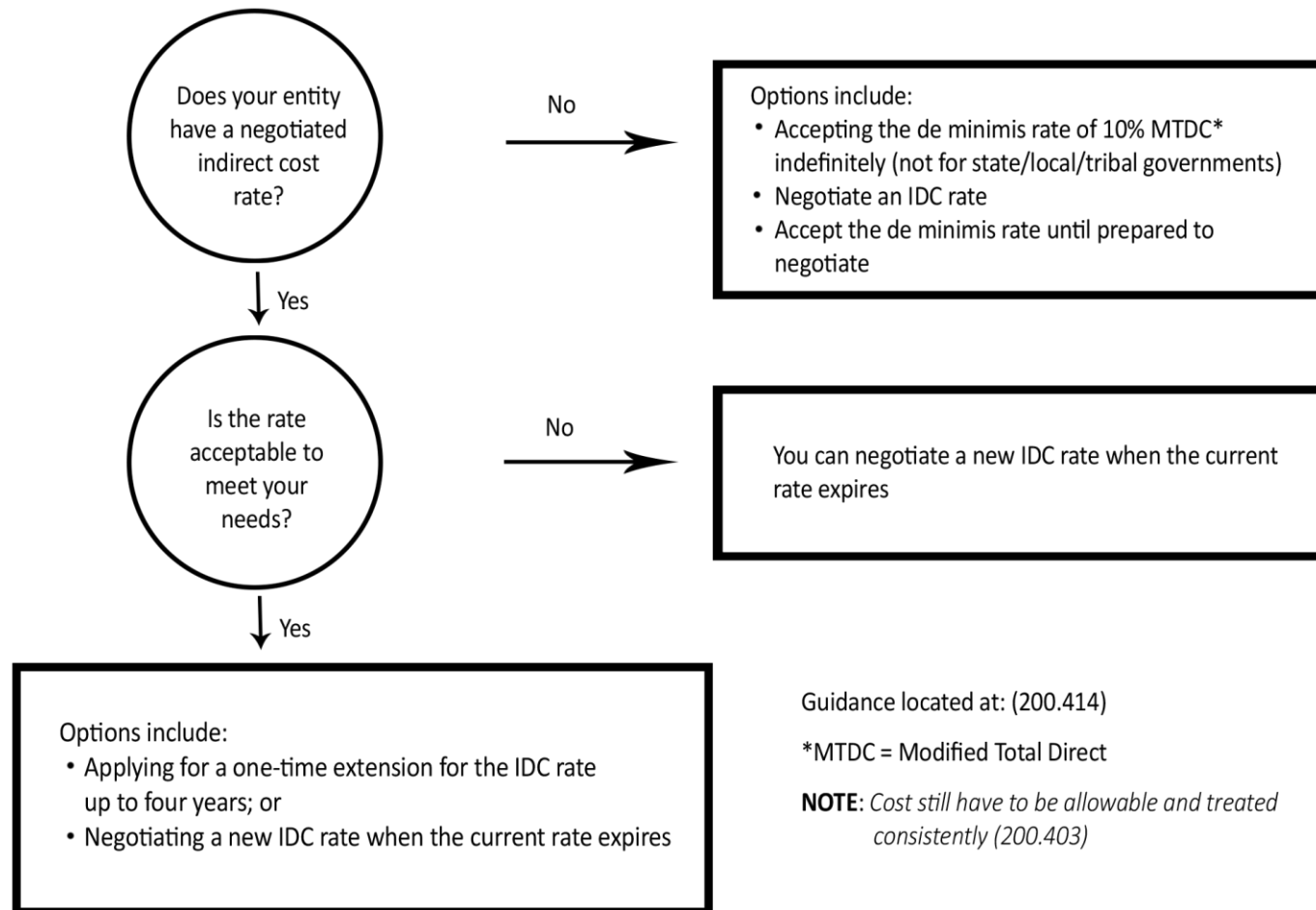
Indirect Cost Rates (10% De-Minimis)

Section 200.414 Indirect (F&A) Costs includes provisions that:

- Provide a de minimis indirect cost rate of 10% of MTDC to those non- Federal entities who have never had a negotiated indirect cost rate, thereby eliminating a potential administrative barrier to receiving and effectively implementing Federal financial assistance (sections 200.210 Information Contained in a Federal award, 200.331 Requirements for Pass-through entities, and 200.510 Financial Statements all require documentation of usage of this rate to allow for future evaluation of its effectiveness);
- Require Federal agencies to accept negotiated indirect cost rates unless an exception is required by statute or regulation, or approved by a Federal awarding agency head or delegate based on publicly documented justification;
- Allow for a one-time extension without further negotiation of a federally approved negotiated indirect cost rate for a period of up to 4 years.



Indirect Cost Rates



Guidance located at: (200.414)

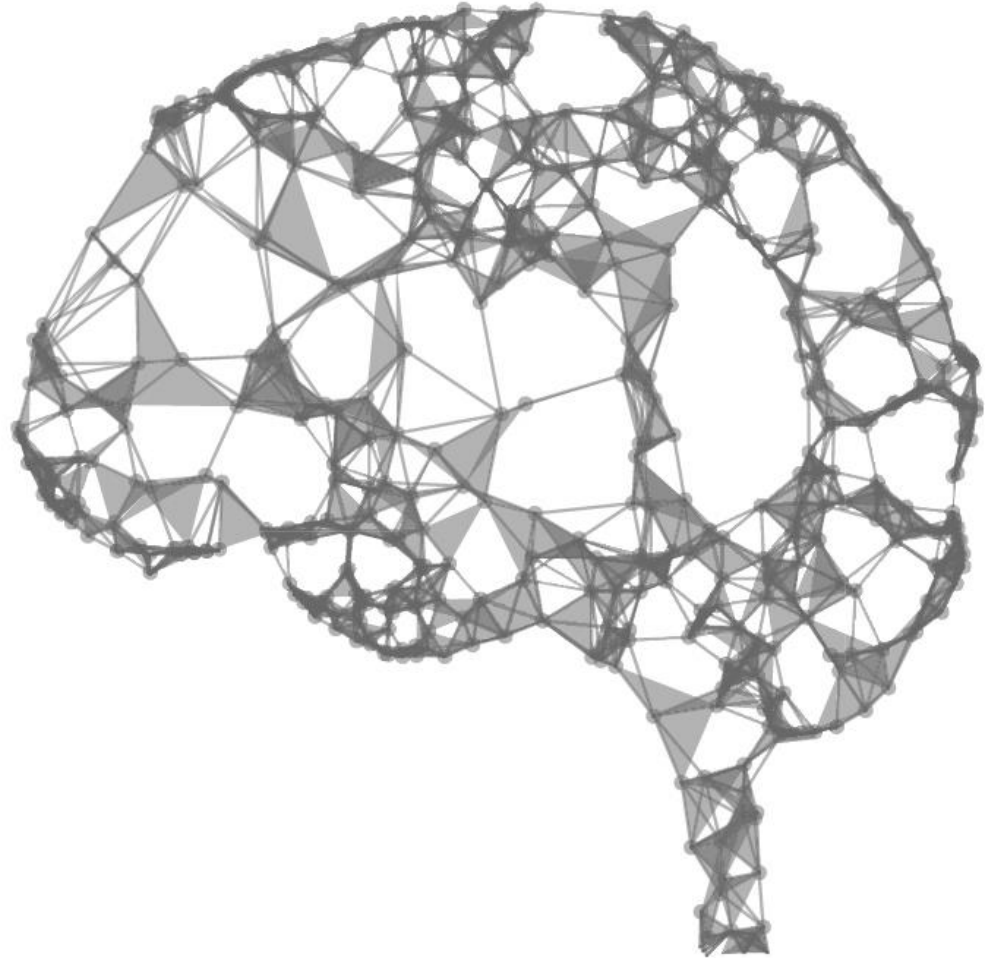
*MTDC = Modified Total Direct

NOTE: *Cost still have to be allowable and treated consistently (200.403)*

Risk Assessments



- Uniform Guidance requires agencies to perform risk assessments to protect federal funds from waste, fraud and abuse.
- Uniform Guidance defines responsibilities for Federal Awarding agencies, pass-through entities, grant recipients and auditors to guarantee grant funding is used for intended purposes.
- Cost Allocation plans are the GAAP for indirect cost
- Cost plans can eliminate risk
 - Performance over compliance
 - A tool that is transparent and compliant is critical

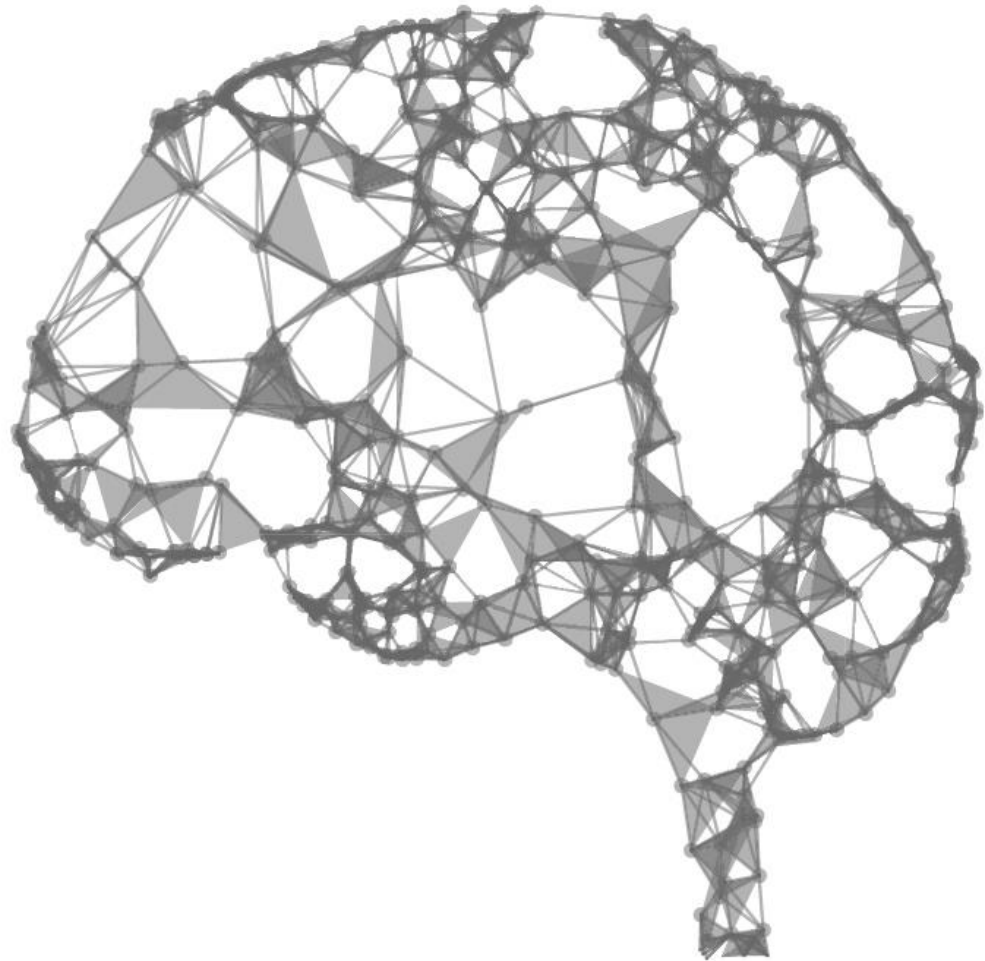


Risk Assessments

(continued)



- 2 CFR 200.205 – Federal Awarding Agency Review of Risk Posed by Applicants.
 - Requires Federal Awarding agencies to develop & implement a risk assessment framework.
 - Evaluate risk before making award
 - Agencies are required to verify applicant eligibility through the SAM Exclusions Extract and evaluate applicant qualifications through the Federal Awardee Performance and Integrity Information System (FAPIIS).
 - In addition to those two requirements, agencies may evaluate an applicant's:
 - Financial Stability
 - Quality of management systems
 - History of Performance
 - Audit reports
 - Ability to comply with program requirements

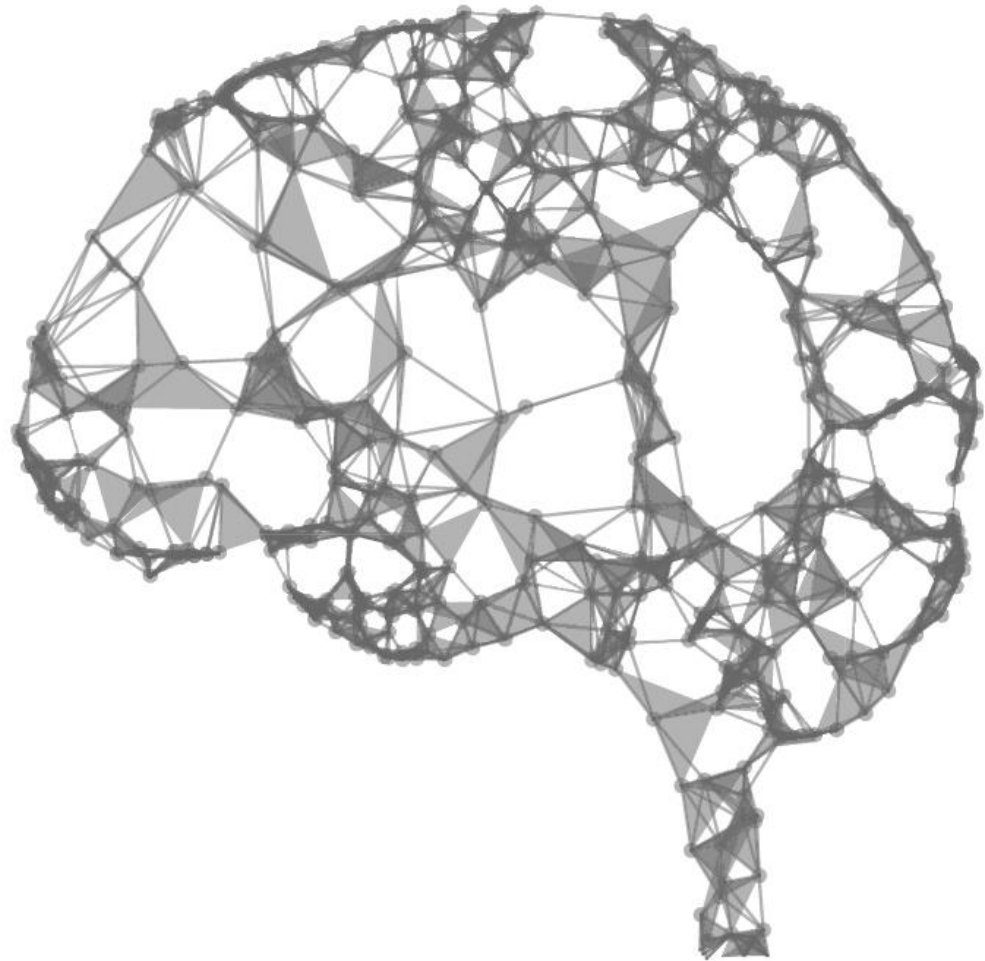


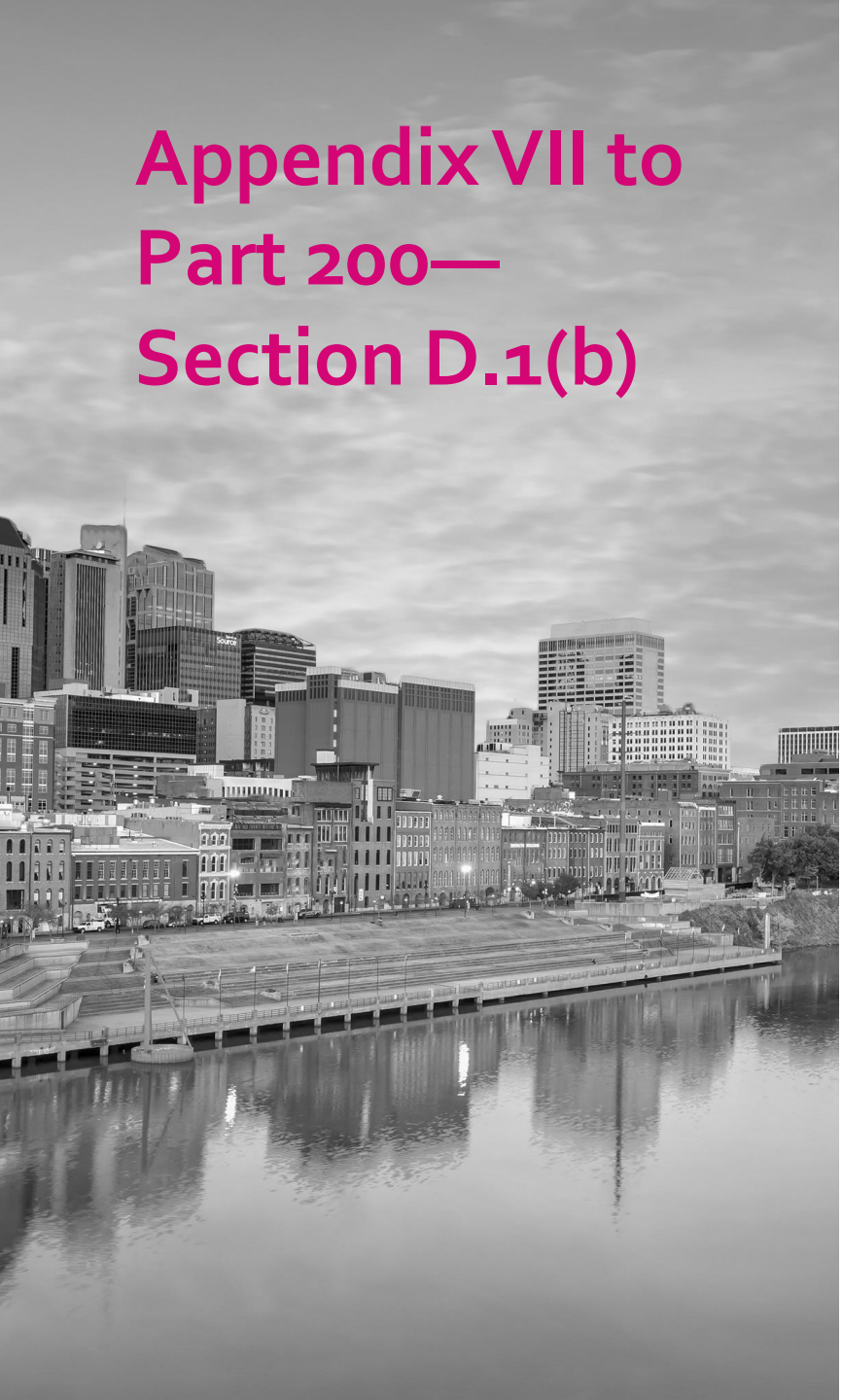
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Risk Assessments

(continued)

- 2 CFR 200.331 (b)) requires pass-through entities to conduct a risk assessment as well, however they do not have to conduct it prior to making an award. A pass-through entities may consider the sub recipient's:
 - Prior experience in administering similar awards
 - Audit reports
 - Personnel
 - Management systems
 - Results from Federal agency monitoring





Appendix VII to Part 200— Section D.1(b)

Pass-Through entity (State) are responsible for negotiation of ICRP

(b) A governmental department or agency unit that receives more than \$35 million in direct Federal funding must submit its indirect cost rate proposal to its cognizant agency for indirect costs. Other governmental department or agency must develop an indirect cost proposal in accordance with the requirements of this Part and maintain the proposal and related supporting documentation for audit. These governmental departments or agencies are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency for indirect costs.

Where a non-Federal entity only receives funds as a subrecipient, the pass-through entity will be responsible for negotiating and/or monitoring the subrecipient's indirect costs.

THANK YOU

Questions?

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