

IL-NET

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Preparing for Indirect Cost Rate Proposals to Receive Funding for your Indirect Costs

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Upon completion of this webinar, participants will be able to:



- Determine whether they will be required to apply for an indirect cost rate.
- Determine whether they qualify for and should request the 10% de minimis indirect cost rate.
- Take necessary steps to simplify the process of applying for and providing periodic information for an indirect cost rate.
- Understand the other policies and procedures that are necessary related to funding for your indirect costs.

What Has Changed?

- Cost allocation plans will no longer apply and indirect cost rates must be established.
- Your cost allocation plan didn't require calculation of an indirect cost rate and you were only required to confirm that you didn't change your methodology from year to year.
- An indirect cost rate needs to be budgeted annually with follow-up annual documentation about actual costs (two years in some cases.)
- This can mean quite a bit of additional work unless you prepare and simplify.

How These Changes Will Affect You

- Regardless of whether you have an approved cost allocation plan or indirect cost rate, if you have more than one cost objective (defined as the same services for the same population), you will have to submit an indirect cost rate proposal.

Who Does Not Need to Submit an Indirect Cost Rate Proposal?



- Organizations with only one cost objective, even if there are multiple funders for that cost objective, may be exempt.
- Fundraising is considered an additional cost objective.
- Organizations that can allocate everything directly to each of their cost objectives, and can prove it!
- Organizations that are eligible to and do elect a 10% reimbursement for indirect costs will not need an indirect cost rate.

When Will These Changes Happen?

- HHS realizes that CILs and SILCs have already submitted their budgets for the current year.
- Budgets for the year beginning October 1, 2016 will be affected.
- Those budgets will generally be submitted around mid-year 2016 and will need to include your new indirect cost rate.
- We are planning a workshop-style training to assist you in preparing your indirect cost rate proposal prior to that time.

What Is an Indirect Rate Proposal?

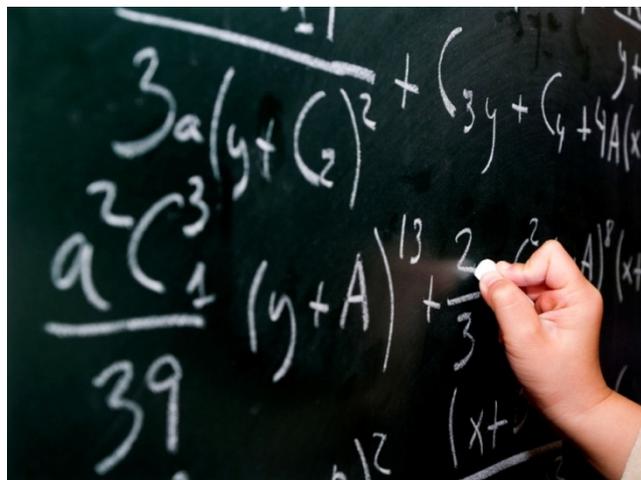
- An indirect cost rate proposal is similar to a Cost Allocation Plan. It includes an additional requirement to calculate a preliminary or provisional rate of indirect cost near the beginning of the year, and reports the actual rate after the end of the year.
- Costs are classified as direct (like one of your programs or other activities such as fundraising), or indirect (costs that benefit all programs and must be shared or split fairly between those programs).
- Most CILs will treat general and administrative costs as indirect costs.

What is an Indirect Cost Rate?

- General administrative and general expenses include costs such as receptionist, accounting, rent and utilities for your business office and similar items that benefit all programs.
- Organizations that don't have current approved indirect cost or cost allocation plans, and don't elect the 10% reimbursement, may be denied any indirect cost reimbursement.
- Funders may continue to require a breakout of costs by funding source even if the services and the consumers are the same.

Indirect Cost Rate Proposal Overview

Here are the highlights of an indirect cost rate proposal.



Anatomy of an Indirect Cost Rate Proposal

An indirect cost rate proposal to HHS will include:

- An introduction with organization background information
- A description of how various costs are allocated
- A schedule of federal funding
- A schedule of Payroll and Related Costs
- A list of Direct and Indirect Costs and a calculation of the indirect cost rate percentage
- A reconciliation to your financial statements or 990

Allowable and Unallowable Costs

Only costs that are allowable, in accordance with the Uniform Guidance, can be charged to programs.

Unallowable Costs — Costs that are unallowable with federal funds in accordance with the Uniform Guidance, include alcoholic beverages, bad debts, certain advertising, contributions, certain entertainment, fines and penalties, and lobbying. These unallowable costs cannot be charged to federally funded programs including other programs that include some federal funds.

Questions and Answers

Allocating Salary Costs

- Executive Director's time/salary and fringe costs may be both direct and indirect. Direct costs are shared between all the cost objectives based on actual time records.
- A Program Manager's time/salary and fringe costs are shared between all the cost objectives based on actual time records.
- General and administrative salaries such as the receptionist, the accounting staff, a portion of the Executive Director salary and fund developer will be indirect.

How to Make your Indirect Cost Rate Process Simpler? What To Do Now

- The level of detail in your Indirect Cost Rate Proposal should be based on and be similar to the level of detail in your statement of functional expenses if you issue financial statements, or to your Form 990 if you issue a full form 990 rather than a Form 990 EZ.
- Simplify your record-keeping and your vouchering by using fewer categories and putting more items into indirect.

How to Make your Indirect Cost Rate Process Simpler? What To Do Now, cont'd.

- Rule of thumb — if an expense category didn't total \$1,000 last year try combining it with something else.
- When you have multiple funders for the same program, don't break these costs out in your accounting system; use percentages to break out between funders.
- Be mindful of other funding requirements such as those your State imposes.

Questions and Answers

Illustration of an Indirect Rate Calculation

Indirect Costs

Payroll	122,750
Payroll OH	19,183
Outside Services	5,900
Rent	5,100
Utilities	1,270
Maintenance	2,600
Travel and Training	800
Depreciation	4,648
Telephone	7,572
Insurance	6,586
Dues and Subscriptions	3,500
Advertising	3,660
Office Supplies & Exp.	1,974
Other Exp.	3,057
TOTAL	\$188,600

Direct Costs

Payroll	510,750
Payroll OH	79,820
Outside Services	42,587
Rent	102,757
Utilities	11,597
Maintenance	37,580
Travel and Training	46,892
Program Supplies	27,652
TOTAL	\$859,635

Indirect Cost Rate

$188,600 / 859,635 = 21.9\%$

Documenting Payroll by Program

- You can use a timesheet as a personnel activity report (PAR) as long as it documents time worked and what cost objectives were worked on.
- If you use a separate PAR, both a sample time sheet and a sample PAR should be included here.
- Although Uniform Guidance provides additional flexibility for documenting how payroll gets charged, you must be able to show that your method properly documents the services employees actually performed.
- If you use another method to document payroll and time worked, be sure your policy properly describes it.

Final Notes

- Organizations with a September or December year-end have an opportunity to review, revise and simplify their recordkeeping system.
- Make sure you have proper policies in place including a procurement policy and a policy for controls over federal awards. Watch for additional guidance on developing your procurement policy.
- If you want to get started early, here are links to HHS guidance for CILs, and a sample indirect cost rate proposal.
 - <https://rates.psc.gov/fms/dca/CIL%20guidance.pdf>
 - https://rates.psc.gov/fms/dca/np_exall2.html

Questions and Answers

CIL Financial Management Resources

- IL-NET Financial Management for CILs
<http://www.ilru.org/topics/cil-financial-management>
- If you do not find the material at this link, you can locate documents on ILRU.org by either using the link “CIL Financial Management” on the Browse by Topic navigation bar or by searching for “financial management.”

For More Information

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Wrap Up and Evaluation

Please *click the link below* to complete your evaluation of this program:

<http://www.surveygizmo.com/s3/2342101/CIL-NET-Webinar-October-7-2015>

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