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# How to Prepare an Indirect Cost Rate Proposal

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## Evaluation Survey & Contact Information

Your feedback on this webinar is important to us. At the end of the presentation you will be asked to complete an evaluation. Please click the link provided at that time and fill out the brief survey.

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## What you will learn. . .

- The most efficient and effective way to submit an indirect cost proposal and to submit required follow-up information.
- How to prepare and submit an initial indirect cost rate proposal.

# Components of an Indirect Cost Rate Proposal

Your indirect cost rate proposal to HHS will include–

- An introduction to your organization with background information
- An explanation of how you allocate costs
- A schedule of federal funding you receive
- A schedule of Payroll and Related Costs
- A schedule of Direct and Indirect Costs with a calculation of the indirect cost rate % (see example)
- A reconciliation to your financial statements or 990
- A Certification of accuracy of information in the proposal
- A Lobbying Cost Certificate

# How to submit your indirect cost rate proposal

- HHS requires that all indirect cost rate proposals be submitted electronically. They require two separate PDF files (CD or flash drives if file size exceeds 25 MB)
- The first file marked “proposal” will contain the entire proposal including your transmittal letter, checklists and certifications as well as supporting schedules.
- The second file, marked “financial statements” will contain financial information such as audited financial statements or your annual form 990
- Go to *<https://rates.psc.gov/fms/dca/map1.html>* to find the regional office where you will submit your proposal

## One Size Doesn't Fit All

- The following example is for a relatively simple CIL, we call PENN CIL, with a limited number of cost objectives and a limited number of funding sources.
- The example uses a “simplified allocation method,” which is appropriate where your cost objectives benefit from indirect costs to approximately the same degree.
- It also follows the “direct allocation method” which treats all costs as direct except general and administrative expenses.

## Introduction

There is no set format for the introduction, but it should describe your organization information such as–

- Your legal and any DBA or known name
- Your business office location and any other locations
- The population you serve
- The services you provide
- The primary funding sources you receive
- Your legal structure and governance (nonprofit corporation governed by an independent board)
- The approximate FTE staff size of your organization
- Whether you own or lease your facility and an approximate size of the facility



## Description of How Costs are Allocated

You must accurately describe how you allocate costs. The following format is typical.

### EXAMPLE

PENN CIL follows US generally accepted accounting principles and uses the accrual basis of accounting.

The general approach of PENN CIL in allocating costs to particular grants and contracts is as follows:

- All allowable direct costs are charged directly to cost objectives, program grants, activities, etc.

## Description of How Costs are Allocated, cont'd.



- If an allowable direct cost benefits more than one cost objective, it is assigned directly to the cost objectives that benefit based on the level of benefit they receive.
- All other allowable indirect costs (costs that benefit all cost objectives and cannot be identified to a specific cost objective) are pooled(combined) and allocated to cost objectives, grants, etc. based on direct costs for each cost objective.

## Description of How Costs are Allocated, cont'd. 2



The following information summarizes the procedures used by PENN CIL, Inc. beginning October 1, 2016.

**Payroll and Related Costs**—Payroll costs are documented with timesheets and personnel activity reports (PARs) showing time distribution for all employees. Payroll and related costs (taxes and benefits) are assigned to cost objectives based on actual work done. Payroll and related costs are charged directly to the cost objective for which services have been performed. Payroll and related costs that benefit all cost objectives are pooled and allocated as explained above.

## Description of How Costs are Allocated, cont'd. 3



Payroll and Related costs, cont'd.

- Payroll taxes and fringe benefits (FICA, Unemployment Compensation, and Worker's Compensation costs) are assigned in the same manner as salaries and wages. Health insurance, dental insurance, life and disability, and other fringe benefits are also allocated in the same manner as salaries and wages.
- Vacation, holiday, and sick pay are assigned in the same manner as salaries and wages.

## Description of How Costs are Allocated, cont'd. 4



- Rent and Utilities—occupancy costs are charged to individual cost objectives/activities based on square footage used by each cost objective or activity. Facilities costs that benefit all cost objectives are included with general and administrative, and allocated as described above.
- Other—Allowable costs that benefit single or multiple cost objectives are assigned directly to those cost objectives. Costs that benefit all cost objectives are included with general and administrative, and allocated as described above.

# Questions and Answers

# Schedule of Federal Funding

PENN CIL Schedule of federal awards: (example)

Grantor	Passthru	CFDA#	2014 Total \$	Expenditures	Period of Perf.
Department of Education		84.132A	\$400,000	\$400,000	10/1/16 9/30/17
Social Security		96.008	\$90,000	\$390,000	7/1/15 – 6/30/16
Department of Labor	NY State	96.630	\$150,000	\$150,000	7/1/15 – 6/30/16

# PENN CIL Attachment E—Schedule of Payroll & Related Costs (example) Projected Payroll, Payroll Overhead and Indirect Allocation



Name	Position	Total	VIIB	VIIC	Local Prog	Fundraising	G&A
Richard	cost objective Director	71,000	17,750	39,050	10,650		3,550
Jane	Executive Director	74,000	7,400	22,200	7,400	11,100	25,900
Sally	Development Director	32,000				27,200	4,800
Brenda	Systems Manager	15,500					15,500
Stephanie	Deaf Services Coordinator	48,000		48,000			
Multiple	Counselor/Advocate (4)	185,000		185,000			
Multiple	Case Manager (3)	135,000		135,000			
Daniel	Accountant	42,000					42,000
Patti	Receptionist	31,000					31,000
	Totals	\$633,500	25,150	429,250	18,050	38,300	122,750
<b>Payroll Overhead</b>							
FICA		48,463					
SUTA		9,503					
Disability/Compensation		15,838					
Health/life		25,200					
	Totals	\$99,003					
	Payroll OH%	15.63%	3,930	67,083	2,821	5,985	19,183



# Illustration of an Indirect Rate Calculation (example)

## 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.	<u>3,057</u>
<b>TOTAL</b>	<b>\$188,600</b>

## 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
cost objective Supplies	<u>27,652</u>
<b>TOTAL</b>	<b>\$859,635</b>

### Indirect Cost Rate

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

# Attachment G—Reconciliation to Financial Statements (example)



Total Direct Costs	859,635
Total Indirect Costs	188,600
	<hr/>
Total Costs	1,048,235
Total expenses on the audited financial Statements:	1,087,235

Explanation: Depreciation relating to the equipment purchased with federal monies is excluded from the cost allocation plan (-\$2,000)

The organization is adding an assistant Executive Director for the current year (+\$41,000)

## Lobbying Cost Certificate

- I hereby certify that PENN CIL has complied with the requirements and standards on lobbying cost in 2 CFR 200 Subpart E, Section 200.450 for the fiscal year ended September 30, 2016
- Signature
- Name
- Title
- Date

(Signed by the official having the authority to negotiate indirect cost rates for the organization or by a higher-level official)

# Certification (from uniform guidance appendix IV)



## Certificate of Indirect (F&A) Costs

This is to certify that to the best of my knowledge and belief:

- (1) I have reviewed the indirect (F&A) cost proposal submitted herewith;
- (2) All costs included in this proposal [dated **March 31, 2016**] to establish billing or final indirect (F&A) costs rate for [the fiscal year **October 1, 2016 through September 30, 2017**] are allowable in accordance with the requirements of the Federal awards to which they apply and with Subpart E—Cost Principles of Part 200.
- (3) This proposal does not include any costs which are unallowable under Subpart E—Cost Principles of Part 200 such as (without limitation): public relations advertising, contributions and donations, entertainment costs, fines and penalties, lobbying costs, and defense of fraud proceedings;

## Certification

(4) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the Federal awards to which they are allocated in accordance with applicable requirements.

I declare that the foregoing is true and correct.

Nonprofit Organization:

Signature:

Name of Official:

Title:

Date of Execution:

# Questions and Answers

## Final Thoughts

- Remember you will need to do this calculation each year, so set up an Excel template or some other format that will help in the future
- It is also important to remember that, although you submit a rate for approval, it is your method of determining that rate that is approved. Your actual rate probably will vary each year.
- Any overcharges based on an incorrect rate may need to be paid back or may be adjusted into the subsequent year's rate.
- Any under billings will not be able to be recovered other than by a possible adjustment to a subsequent rate.

## Resources

- Consider contacting ILRU with questions as you prepare your proposal, or sending a draft of your proposal to ILRU for evaluation.
- Here are links to HHS guidance for CILs, their sample indirect cost rate proposal, and an indirect cost rate proposal checklist.
  - <https://rates.psc.gov/fms/dca/CIL%20guidance.pdf>
  - [https://rates.psc.gov/fms/dca/np\\_exall2.html](https://rates.psc.gov/fms/dca/np_exall2.html)
  - <https://rates.psc.gov/fms/dca/icpchecklist.pdf>
- The ACL website also contains “Guidance for Centers for Independent Living Grantees”



## 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.”



# Final Questions & Answers and Evaluation

Any final questions?

Your feedback is important to us! Please ***click the link below*** to complete your evaluation of this webinar:

<http://www.surveygizmo.com/s3/2558172/CIL-NET-Webinar-How-to-Prepare-an-Indirect-Cost-Rate-Proposal-February-3-2016>

## CIL-NET Attribution

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