Indirect Cost Rate "How To"
Applying an Indirect Cost Rate

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Objectives

- How to apply an Negotiated Indirect Cost Rate Agreement (NICRA) to an award
  - De Minimis Rate –10% of Modified Total Direct Cost (MTDC)
  - Federal or State of Illinois negotiated indirect cost rate agreement
- Common issues when applying Indirect Cost Rates (ICRs)

De Minimis Rate

- 2 CFR 200.414 (f) – A grantee may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) to an award(s), if they have not negotiated a indirect cost rate with the federal or state government in the past. This rate may be used indefinitely, until the grantee decides to negotiate an ICR, which it may do at any time.

- 10% MTDC can be elected immediately by grantees, if eligible
- No supporting documentation is required

De Minimis Rate

- Simply put, MTDC is a distribution base of an Indirect Cost Rate (ICR)
- Federal Uniform Guidance (2 CFR 200) requires MTDC as the distribution base when the de minimis rate is elected

What's included in MTDC?

Modified Total Direct Costs – MTDC Inclusions:	Modified Total Direct Costs – MTDC Exclusions:
• Direct salaries and wages • Applicable fringe benefits • Materials and supplies • Services • Travel • Up to $25,000 of each subaward (regardless of the period of performance of the subawards)	• Equipment • Capital expenditures • Tuition remission • Rental costs • Scholarships • Fellowships • Portion of each subaward in excess of $25,000 • Charges for patient care • Other cost items that may "distort" the equitable distribution of indirect costs

De Minimis Rate Clarifications

- Issues that cause problems for grantees applying the 10% rate to the MTDC base

1. Misinterpretation of the definition of MTDC as **"only"** including direct salaries and wages, applicable fringe benefits…..
   - See COFAR FAQ 68-2 (Attachment provided)
   - See slide 5 – What's included in MTDC

De Minimis Rate
Excluded vs. Unallowable

- Exclusions are "distorting items" that are required to be removed
- "Exclusions" do not mean costs are unallowable
  - Example: Rental costs and subawards may be vital parts of a program and are classified as direct and allowable charges. These costs are only excluded as part of the MTDC base formula before applying the indirect cost rate or 10%

Excluded costs per MTDC ≠ Unallowable costs

De Minimis Rate – Rent

- Rental costs are required to be removed as a "distorting item"; however in some circumstances, rental costs are direct program cost
  - EXAMPLE–Supportive Housing Program rents an apartment for homeless clients

- Program-specific exceptions to the requirement to remove "distorting items" must be submitted by the state awarding agency to the federal funding agency
  - State awarding agency must obtain prior written approval from the federal funding agency.

De Minimis Rate

Program A	Budget
Salaries & Wages	$100,000
Fringe Benefits	$50,000
Travel	$10,000
Materials & Supplies	$20,000
Subaward (1)	$100,000
Equipment	$10,000
Total Direct Costs	**$290,000**

De Minimis Rate

Program A	Budget
Salaries & Wages	$100,000
Fringe Benefits	$50,000
Travel	$10,000
Materials & Supplies	$20,000
Subaward (1)	$100,000
Equipment	$10,000
Total Direct Costs	**$290,000**
Less (Subaward over $25,000)	($75,000)
Less Equipment	($10,000)
Modified Total Direct Cost (MTDC)	**$205,000**
10% de minimis rate of (MTDC)	$20,500

De Minimis Rate Example

State Award	Budget
Salaries and Wages	$60,000.00
Fringe Benefits	$25,000.00
Supplies	$ 1,000.00
Equipment	$ 2,000.00
Telecommunications	$ 750.00
Travel	$ 1,000.00
Rent	$ 2,500.00
Total Direct Costs (TDC)	$94,250.00

De Minimis Rate Example

Total Direct Costs (TDC)	$ 94,250.00
<u>MTDC Exclusions</u>	
(Less) Equipment	$ (2,000.00)
(Less) Rent	$ (2,500.00)
Modified Total Direct Costs (MTDC)	<u>$ 89,750.00</u>
	<u>X 10% (De Minimis rate)</u>
Allowable indirect cost reimbursement on state award (IC)	$ 8,975.00
Total State Award (TDC+IC)	**<u>$103,225.00</u>**

State and Federal NICRA

- **Congratulations!** Your organization has successfully negotiated an Indirect Cost Rate Agreement with the State of Illinois or a Federal agency.
  - Now how do I use it?
  - How do I apply the approved indirect cost rate to my award properly?

- Apply an approved, negotiated indirect cost rate the same way as a de minimis rate

NICRA 20% with SW+F as Base

State Award	Budget
Salaries and Wages (SW)	$60,000.00
Fringe Benefits (F)	$25,000.00
Supplies	$ 1,000.00
Equipment	$ 2,000.00
Telecommunications	$ 750.00
Travel	$ 1,000.00
Rent	$ 2,500.00
Consultants	$ 2,000.00
Total Direct Costs (TDC)	$94,250.00

NICRA 20% with SW+F as Base

Total Direct Costs (TDC)	$94,250.00
<u>Indirect Cost (20% SW+F)</u>	
Salaries and Wages (SW)	$60,000.00
Fringe Benefits (F)	<u>$25,000.00</u>
	20% X $85,000
Allowable indirect cost reimbursement on state award (IC)	$17,000.00
<u>Total State Award (TDC+IC)</u>	**$111,250.00**

NICRA 15% with MTDC as Base

State Award	Budget
Salaries and Wages (SW)	$60,000.00
Fringe Benefits (F)	$25,000.00
Supplies	$ 1,000.00
Equipment	$ 2,000.00
Telecommunications	$ 750.00
Travel	$ 1,000.00
Rent	$ 2,500.00
Consultants	$ 2,000.00
Total Direct Costs (TDC)	$94,250.00

NICRA 15% with MTDC as Base

Total Direct Costs (TDC)	$94,250.00
<u>MTDC Exclusions</u>	
(Less) Equipment	$ (2,000.00)
(Less) Rent	$ (2,500.00)
Modified Total Direct Costs (MTDC)	$89,750.00
	X 15% MTDC
Allowable indirect cost reimbursement on state Award (IC)	$13,462.50
Total State Award (TDC+IC)	**$107,712.50**

State and Federal NICRA: Cost Policy Statement

- Follow your Cost Policy Statement (CPS) EXACTLY when applying your NICRA
- All costs must be included in the CPS
- If the CPS classifies a cost as direct, direct administration and indirect, the budget and application of the rate must follow that classification
- All rates are applied to allowable and allocable direct costs ONLY!
- Don't double charge
  - Indirect costs (e.g., rent) cannot be in the direct cost base and included in the indirect cost rate
  - This will result in questioned costs

CPS Example1

CPS says allowable Supplies and Rent are classified as an indirect cost. What is wrong with the example below?

State Award	Budget
Salaries and Wages (SW)	$60,000.00
Fringe Benefits (F)	$25,000.00
Supplies	$ 1,000.00
Equipment	$ 2,000.00
Telecommunications	$ 750.00
Travel	$ 1,000.00
Rent	$ 2,500.00
Consultants	$ 2,000.00
Total Direct Costs (TDC)	$94,250.00

CPS Example 2

CPS says allowable Supplies and Rent is classified as an Indirect Cost. What is wrong with the Example below?

Total Direct Costs (TDC)	$94,250.00
Indirect Cost (10% TDC)	
	10% X $94,250.00
Allowable indirect cost reimbursement on state Award (IC)	$9,425.00
Total State Award (TDC+IC)	**$103,675.00**

Applying the Rate – Key Points

- Grantees must follow CPS to avoid double-charging when applying their ICR to an award
- Grantees must apply their ICR to the <u>approved</u> distribution base
- Indirect Costs can NEVER be included before a rate is applied
- Unallowable costs can NEVER be included before a rate can be applied
- Check with grantmaking agency to receive prior approval of expenses that may be exempted from MTDC base

Know the Restrictions or Limitations

- Be aware of any Statutory, administrative or indirect cost restrictions or limitations on the award
  - All restrictions or limitations should be in the CFSA, NOFO, NOSA and Uniform Grant Agreement (UGA)

State and Federal NICRA Reminders

- A higher indirect cost rate percentage means more costs are classified as indirect
  - Direct costs are 100% reimbursed
  - Indirect costs are reimbursed at the indirect cost rate
  - A higher indirect cost rate does not directly correlate to maximum indirect cost recovery
- Contact your grantmaking agency for assistance with indirect cost rates on State of Illinois awards

State and Federal NICRA Reminders

- The NICRA must be used as approved
  - Follow the CPS and the allocation methodology
  - Use the same base – if the rate was negotiated with a salaries and wages base, you cannot use a MTDC base
  - Even if the entity agreed to accept a lower indirect cost rate than negotiated, the negotiated base must be used

Questions?

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