

UNIFORM BUDGET TEMPLATE & INDIRECT COST RATES



Budget Template & Indirect Cost Rates

Carol A Kraus, CPA

Sean Berberet

Grant Accountability and Transparency Unit



Uniform Budget Template & Indirect Cost Rates

This training module will focus on:

- ❖ Understanding the basic requirements and application of Indirect Cost Rates
- ❖ Getting familiar with the new Uniform Budget Template
- ❖ This is intended to be an introductory training on the basic concepts, more in depth training will be provided

What is a Indirect Cost Rate?

A Negotiated Indirect Cost Rate Agreement (NICRA) is a tool used for determining the appropriate amount of indirect costs each program should bear. It is the ratio (expressed as a percentage) of an indirect cost pool and a particular direct cost base.

$$\frac{\text{Indirect Cost Pool}}{\text{Direct Cost Base}} = \text{Indirect Cost Rate \%}$$



The agreement is negotiated between the awardee and the state or federal government



“Why does my organization need a Negotiated Indirect Cost Rate?”

- ❖ In order to be reimbursed for indirect expenses associated with a project or program, an awardee **must have:**
- ❖ State or Federally NICRA or, if eligible, elect to use the new 10% de minimis rate of Modified Total Direct Costs (MTDC)

**NO INDIRECT COSTS WILL BE REIMBURSED
WITHOUT AN APPROVED RATE**



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

Lets review the basics to fully understand a Negotiated Indirect Cost Rate Agreement.

A **cost** is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received

❖ Direct Costs

Can be identified specifically with a particular final cost objective (i.e., a particular award, service or direct activity)

❖ Indirect Costs

Incurred for common or joint objectives and cannot be readily identified with a particular final cost objective



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

After direct costs have been determined and assigned directly to awards or other work as appropriate, indirect costs are those remaining to be allocated to benefiting common cost objectives.

NOTE: 2 CFR 200 emphasizes that it is essential that each item of cost incurred for the same purpose must be treated consistently in like circumstances either as a direct or indirect cost.



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

DIRECT COSTS

- ❖ **Direct Costs** are those costs that can be identified **specifically** with a particular **final cost objective** (i.e., a particular award, project, service, or other direct activity of an organization)
- ❖ Costs identified **specifically** with awards as **direct costs** of the awards and are assigned **directly** to the award
- ❖ Costs identified **specifically** with other final cost objectives of the organization not associated with the state or federal funded grants are **direct costs** of those cost objectives and are **not** to be assigned to other awards directly or indirectly

Negotiated Indirect Cost Rate Agreement (NICRA) Overview

DIRECT COSTS

Typical examples of direct costs for many organizations may include:

- ❖ Salaries and wages
- ❖ Fringe benefits
- ❖ Materials and supplies
- ❖ Travel expenses
- ❖ Communications expenses
- ❖ Equipment
- ❖ Rent and Occupancy for program



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

NEW

The Uniform Guidelines (UG) explains that salaries of administrative and clerical staff should normally be treated as indirect costs. However, such costs may be charged as a direct cost to a federal award if all of the following conditions are met:

- ❖ Administrative or clerical services are integral to the project or activity
- ❖ Individuals involved can be specifically identified with the project or activity
- ❖ The costs are explicitly included in the budget or have prior written approval of the awarding agency
- ❖ The costs are not also recovered as indirect costs



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

INDIRECT COSTS

- ❖ **Indirect Costs** are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective
- ❖ After direct costs have been determined and assigned directly to awards or other work as appropriate, **indirect costs are those remaining to be allocated** to benefiting cost objectives
- ❖ A cost may **not** be classified as an indirect cost if any other cost incurred **for the same purpose, in like circumstances**, has been assigned to an award as a direct cost



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

INDIRECT COSTS

Typical examples of indirect costs for many organizations may include:

- ❖ Depreciation on buildings and equipment
- ❖ Costs of operating and maintaining facilities
- ❖ General administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting
- ❖ Office supplies, Office Rent (common areas such as reception areas, break rooms, conference rooms), Utilities, Postage
- ❖ Administrative support such as clerical
- ❖ Property Insurance



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

INDIRECT COSTS

Indirect Costs are typically classified within two broad categories: “Facilities” and “Administration” (F&A)

“Facilities” includes:

- ❖ **Depreciation** on buildings, equipment and capital improvements
- ❖ **Interest** on debt associated with certain buildings, equipment and capital improvements, and
- ❖ **Operations and maintenance** expenses incurred for the administration, operation, maintenance, preservation, and protection of the organization’s physical plant



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

Operations and maintenance expenses include:

- ❖ Janitorial and utility services
- ❖ Repairs and ordinary or normal alterations of buildings, furniture and equipment
- ❖ Care of grounds
- ❖ Maintenance and operation of buildings and other facilities
- ❖ Security
- ❖ Disaster preparedness
- ❖ Environmental safety
- ❖ Property, liability and other insurance relating to property
- ❖ Space and capital leasing
- ❖ Facility planning and management
- ❖ Central receiving



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

“Administration” includes:

General administration and general expenses that have been incurred for the overall general executive and administrative offices of the organization and other expenses of a general nature which do not relate solely to any major function of the organization.

Examples:

- ❖ Director’s office
- ❖ Office of finance
- ❖ Business services
- ❖ Budget and planning
- ❖ Personnel
- ❖ Safety and risk management
- ❖ General counsel
- ❖ Management information systems
- ❖ Library costs and
- ❖ All other types of expenditures not listed specifically under one of the subcategories of “Facilities” (including cross allocations from other pools, as applicable)



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

INDIRECT COSTS

- ❖ Special care should be exercised in developing the “**Administration**” cost pool to ensure that costs incurred for the same purposes in like circumstances are treated consistently as either direct or indirect costs
- ❖ Organizations receiving more than **\$10 million** in Federal funding in a fiscal year **must** breakout indirect costs between “**Facilities**” and “**Administration**”



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

"What is an Indirect Cost Rate Proposal (ICRP)?"

- ❖ Documentation prepared by an organization to substantiate its claim for the reimbursement of indirect costs.
- ❖ The proposal is the basis for establishing a **Negotiated Indirect Cost Rate Agreement (NICRA)**

Negotiated Indirect Cost Rate Agreement (NICRA) Overview

- ❖ The Centralized Indirect Cost Unit will review and negotiate rate proposals on behalf of State Agencies
- ❖ This Unit, in conjunction with the State Cognizant Agency, will negotiate with subrecipients who do not currently have a rate to use on State awards.

HOORAY!!!



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

"What is a Cognizant Agency?"

- ❖ A Cognizant agency is the agency that provides the majority of funding to a recipient, or in cases involving the State of Illinois agencies, funding to a subrecipient.
- ❖ Indirect cost rate negotiations will be outsourced through a vendor beginning with grants issued in FY 17





Negotiated Indirect Cost Rate Agreement (NICRA) Overview

"Does every organization need to negotiate a rate through the State of Illinois in order to charge indirect costs on State awards? "

- ❖ Not every organization will be required to negotiate a rate through the State of Illinois.
- ❖ There are other indirect cost rate options available to organizations.
- ❖ The next slides identify all options for indirect cost rates required for reimbursement

Negotiated Indirect Cost Rate Agreement (NICRA) Overview

- ❖ Every organization must Negotiate Indirect Cost Rate Agreement or use an available option for indirect cost in order to claim indirect cost reimbursement
 1. Federal rate
 2. State of Illinois rate
 3. 10% de minimis (MTDC) rate



READY TO MOVE ON



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

- ❖ If the organization receives **direct federal funding** and has Federally approved NICRA, State agencies are required to accept and utilize the rate for indirect cost reimbursement
 - The organization must provide a copy of the NICRA
 - No verification of the computations is required



Negotiated Indirect Cost Rate Agreement (NICRA) Overview

- ❖ If the organization only receives **federal pass-through or state funding**, a State Indirect Cost rate or election of the de minimis rate is required to be negotiated
- ❖ State awarding agencies are required to accept and utilize the approved rate for indirect cost reimbursement
- ❖ The NICRA must be negotiated annually with the Centralized Indirect Cost Unit

Negotiated Indirect Cost Rate Agreement (NICRA) Overview

- ❖ If eligible, the organization may elect to use the 10% de minimis rate of Modified Total Direct Cost (MTDC) to calculate indirect cost reimbursement for a program provided:
 - The organization has never negotiated an indirect cost rate with the Federal government – ever, ever, ever

Let's briefly discuss the  10% de minimis rate

De Minimis Rate – 10% of MTDC

- ❖ Once elected it may be used indefinitely
- ❖ The calculation of the Modified Total Direct Cost must be verified by the State annually
- ❖ MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services and travel
 - The first \$25,000 of subawards and subcontracts
 - Excludes equipment, capital expenditures, charges for patient care, rental costs, tuition reimbursement, scholarships and fellowships, participant support cost



Steps in calculating the MTDC

- ❖ Identify Direct and Indirect Costs
- ❖ Separate unallowable cost (both direct and indirect)
- ❖ Identify costs that must be excluded from the MTDC base
- ❖ Calculate the MTDC base



Example 10% de minimis calculation

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

\$20,500 is the maximum amount allowable for indirect costs for the program under the de minimis rule.

Combined approved budget should be:

Total Direct \$290,000
+ Indirect \$20,500
\$310,500

NOTE: The de minimis rate can only be applied to the MTDC

Negotiated Indirect Cost Rate Agreement (NICRA) Overview

There are certain programs that will require organizations or subrecipients, by statute, to use what is called a “restricted rate”

A “restricted rate” limits the indirect cost percentage to be used by any organization

- ❖ Please refer to the Notice of Funding Opportunity and grant application to determine if your program is subject to a “restricted rate”





Other Limitations – Salary Caps

Other limitations restrictions include **“Salary Caps”**

- ❖ Salary Caps limit total amount of salaries allowed to be charged to a grant
- ❖ The Salary Cap limitations apply to both Direct and Indirect Costs
- ❖ Grant funding may NOT be used to pay an individual working on a grant program at a rate in excess of the Federal Executive Level II Pay Scale
- ❖ This amount typically increases annually. Beginning January 10, 2016, the salary rate limitation has increased from \$183,300 to \$185,100 .
- ❖ For individuals with salary in excess of the salary cap, payroll costs must be allocated by applying amount of effort committed to the salary cap
- ❖ Please refer to the Notice of Funding Opportunity and grant application to determine if your program is subject to a “salary cap”



Other Limitations – Salary Caps Example

- ❖ A staff member whose base salary is \$200,000 receives an award where he/she has proposed 25% of total time
- ❖ Payroll expense charged cannot exceed 25% of salary cap of \$185,100 annually
- ❖ In this case, the person could not charge payroll expenses to the grant in excess of \$46,275 annually (25% effort x \$185,100). The excess salary costs must be paid from a non-grant source.
- ❖ Some grant programs do not allow any of the salary to be charged to the grant, if it exceeds the Salary Cap

Negotiated Indirect Cost Rate Agreement (NICRA) Overview

Finally, certain organizations may not seek indirect cost reimbursement at all.

- ❖ For those organizations, it is imperative that direct budget costs cannot contain any indirect expenses.





“Wait...My organization needs an Indirect Cost Rate Agreement from the State of Illinois”

- ❖ GATA will have the Centralized Indirect Cost Unit available for negotiating rates in early Spring 2016
- ❖ Qualified applicants must submit its initial Indirect Cost Rate Proposal (ICRP):
 - Immediately following execution of the grant agreement, or
 - No later than three (3) months after the effective date of the State award
 - Extensions are not allowed
- ❖ Indirect costs will not be reimbursed until the negotiation is finalized

Uniform Budget Template

- ❖ Please find your copy of the NEW Uniform Budget Template that was provided.
- ❖ The final portion of this training module will briefly cover the directions and sections that comprise the new template.





Uniform Budget Template

Getting familiar with the new Uniform Budget Template within the Grant Application

- ❖ General Instructions
- ❖ Section A- State of Illinois Funds
 - Indirect Cost Rate Information
- ❖ Section B- Non-State of Illinois Funds
- ❖ Section C- Budget Worksheet and Narrative



General Instructions Uniform Budget Template

- ❖ General Instructions guides the applicant through the 3 major sections that consist of the Uniform Budget template
 - Although the degree of specificity of any budget will vary depending on the nature of the project and State of Illinois agency requirements, a complete, well-thought-out budget serves to reinforce your accountability



Section A- Budget Summary State of Illinois Funds

1. Applicants will enter the total amount of State of Illinois grant funds requested for a particular program
2. Applicants will be required to provide a break-down by the applicable budget expenditure categories shown in lines 1-17
3. Total amount of grant funds requested must equal the total amount of costs budgeted

Items of Note

- ❖ State Agencies will have the ability to “gray-out” certain expense categories that may not apply to a particular award
- ❖ Only eligible applicants and grant programs will provide multi-year budgets for multi-year grant awards. All other applicants will be required to budget for one fiscal year



Section A- Budget Summary State of Illinois Funds

Items of Note (cont.)

- ❖ Line 15 allows for a “Grant Exclusive Line Item”:
 - Particular to a certain program and not included in the general expenditure categories
 - The “Grant Exclusive Line Item” must include regulatory cite
- ❖ Line 17 requires Indirect Cost Rate information in order to calculate the indirect cost reimbursement for the program



Section A- Indirect Cost Rate Information

Options available to applicants for indirect cost reimbursement:

1. Applicants must use a Federally approved indirect cost rate if established
2. If applicants do not have a Federally approved rate:
 - ❖ Applicants may request a rate through the State of Illinois
 - GATA has developed a centralized unit that will review and negotiate rates on behalf of all State of Illinois agencies
 - Proposals are required immediately after the applicant has been advised that the award will be made and no later than 90 days after the effective date
 - ❖ Eligible applicants may elect to use the de minimis of 10% modified total direct cost (MTDC)

Section A- Indirect Cost Rate Information

Options available to applicants for indirect cost reimbursement (continued):

3. Applicants do not request indirect cost reimbursement
4. Applicants may be required to use a restrictive rate or salary cap (*must be included in the NOFO, NOSA and grant agreement*)

*Look and sound familiar?
You guys are experts at this!*



Section A- Indirect Cost Rate Information

Just a quick reminder!

More in-depth training and information regarding Negotiated Indirect Cost Rate Agreements (NICRA) and the State of Illinois Indirect Cost Rate Unit will be:

Coming soon to a training module near you!

How do I receive a NICRA?

Who should I contact?

What information do I need?

Where do I submit a proposal?

When should I submit a proposal?

How do I get approved?





Section B- Budget Summary Non-State of Illinois Funds (Matching Funds)

1. If applicants are required to provide or use volunteers to provide cost-sharing, matching funds or other non-State of Illinois resources to the project, the applicant must provide a revenue breakdown of all Non-State of Illinois funds
2. Applicants will be required to provide a break-down by the applicable budget categories shown in lines 1-17
3. Total amount of grant funds requested must equal the total amount of costs budgeted

NOTE: State Agencies can enter match requirement amounts under "Program Revenues"



Section C

Budget Worksheet & Narrative

- ❖ All applicants are required to submit a budget narrative along with Section A and Section B. The budget narrative is sometimes referred to as the budget justification. The narrative serves two purposes:
 - It explains how the costs were estimated
 - It justifies the need for the cost
- ❖ The narrative may include tables for clarification purposes
- ❖ Applicants must use the State of Illinois Uniform Budget worksheet and narrative guide provided



Section C

Budget Worksheet & Narrative

The Budget Worksheet and Narrative is designed to follow the expenditure categories listed in Sections A & B.

Each worksheet contains:

- ❖ Headings with basic expenditure references and additional instructions
- ❖ A work area section for computations
- ❖ A designated area for written narratives for non-state or federally funded expenditures (match) including the valuation method for in-kind contributions

Just a quick reminder!

Budget Training

More in-depth training and information regarding the Budget Template will be:

Coming soon to a training module near you!

What information do I need?

How do I complete a budget?

How do I place a value on volunteer services?

How do I place a value on donated items?

Who reviews approves the budget?

How do I apply the indirect cost rate?



Indirect Cost Rate and Budget Template

Questions





Thank You!

For further information contact
the Grant Accountability and
Transparency Act Unit (GATU)
at GOMB

OMB.GATA@illinois.gov

