Centralized Indirect Cost Rate System Demo & ICRP Development

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Objectives

- Centralized Indirect Cost Rate System updates – flowchart and reminders
- CARS demo
- ICRP development
  - Required documents
  - Allocation methodologies
  - Distribution bases
- Most common issues regarding ICRP development
- References and resources

Centralized Indirect Cost Rate System Election Updates

1. De Minimis rate of 10% MTDC
2. Federal Negotiated Indirect Cost Rate Agreement (NICRA)
3. "No rate" election

   (Referred as the "Easy 3")

4. State of Illinois NICRA – Indirect Cost Rate Proposal (ICRP)

1. De Minimis Rate of 10% MTDC

- Eligible: nonprofits and local government divisions that have <u>never</u> negotiated a rate with the State of Illinois Centralized Indirect Cost Rate System or the federal government
- If eligible, de minimis rate may be used indefinitely until grantee negotiates an ICR
  - Grantee can negotiate an ICR at anytime
  - Once a ICR is negotiated, the grantee can never utilize the de minimis rate again

2. Federal Negotiated Indirect Cost Rate Agreement (NICRA)

- Nonprofits receiving direct federal funding must negotiate with their federal cognizant agency regardless of dollar amount
  - If federal agency refuses to negotiate, written documentation from federal agency required for State of Illinois to negotiate a State NICRA
- Federal NICRAs must be accepted by state agencies subject to statutory requirements

2. Federal NICRA (Continued)

- Organizations with a current federal NICRA, must submit a copy to the centralized indirect cost rate system
- Program-specific rate letters may be submitted, but <u>do not</u> constitute an overall agency approved rate
  - Program-specific rate agreements will only be honored under the requirements in the rate letter

3. “No Rate” Election

- Organization chooses not to seek ANY indirect cost reimbursement on ANY State of Illinois award
- Grantees with awards that have statutory indirect or administrative restrictions must have an approved rate to claim the statutory restriction amount
- GATU recommends at least electing the de minimis rate, if eligible

4. State of Illinois NICRA

- Grantees may be develop a ICRP in accordance with Uniform Guidance and submit centrally for approval
- Once a State of Illinois NICRA is approved, it may be used on all State awards that allow indirect cost reimbursement, subject to statutory requirements

4. State of Illinois NICRA (Continued)

- Not Eligible: Grantees that receive direct federal funding
  - Must negotiate NICRA with federal cognizant agency, regardless of federal funding amount
- State of Illinois approved NICRAs cannot be used on direct federal awards

Annual Requirement for Indirect Cost Rate Selections

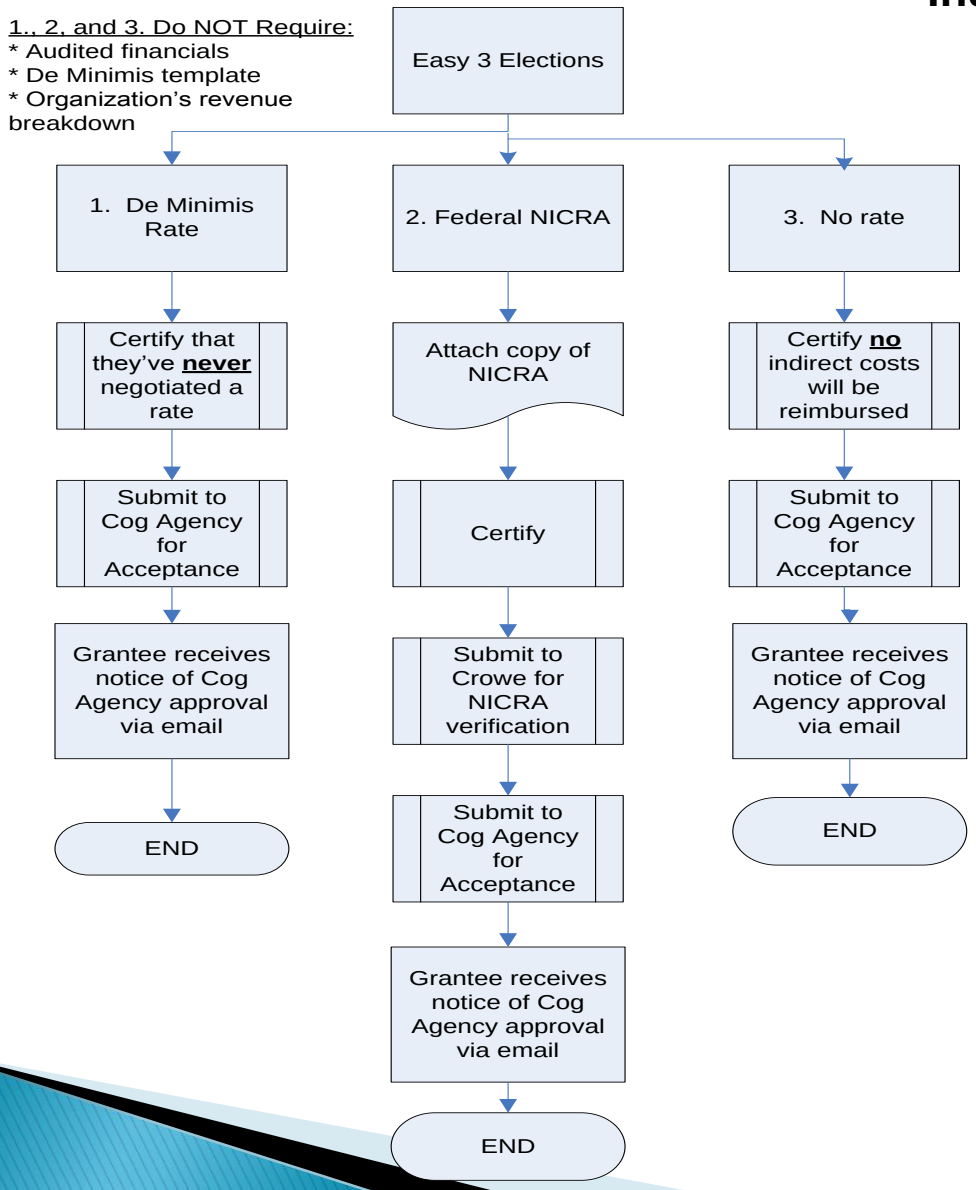
- ALL INDIRECT COST RATE SELECTIONS MUST BE MADE IN THE CENTRALIZED INDIRECT COST RATE SYSTEM ANNUALLY BY ALL GRANTEES
- Centralized Indirect Cost Rate System is currently ONLY available to organizations that receive awards directly from a State agency

Enhancements to the Centralized Indirect Cost Rate System

- De minimis rate template no longer required
- Organizational breakdown of all funding sources no longer required
- Audited Financial Statements / Single Audit only required for State of Illinois ICRP
- “EASY 3” elections go directly to Cognizant Agency for immediate acceptance

"Easy 3" CARS System Flow

Indirect Cost Rate Election and Negotiation



CARS Demo of Rate Elections

- Demonstration of rate election updates
  - De minimis rate
  - Federal rate
  - “No Rate”
- CARS updates for State of Illinois ICR proposal will be implemented in early November
  - Demonstration will be provided when complete

ICRP Development

- What's required for a complete Indirect Cost Rate Proposal (ICRP) submission to the State of Illinois?
  - Chart of accounts
  - Organizational chart
  - Audited financial statements
  - Single Audit
    - If not subject to Single Audit, provide an inventory of all federal, state and federal pass-through programs
  - Organizational budget, if applicable
  - Cost policy statement
  - Proposal worksheet / template

Chart of Accounts

- Financial tool that provides a complete description of every detailed line item in an accounting system

- A well designed chart of accounts can streamline the ICR development process tremendously
  - By coding direct, shared (mixed), indirect and unallowable costs into a discrete and reasonable number sequences, the accounting system is transparent and easily produces indirect cost reports

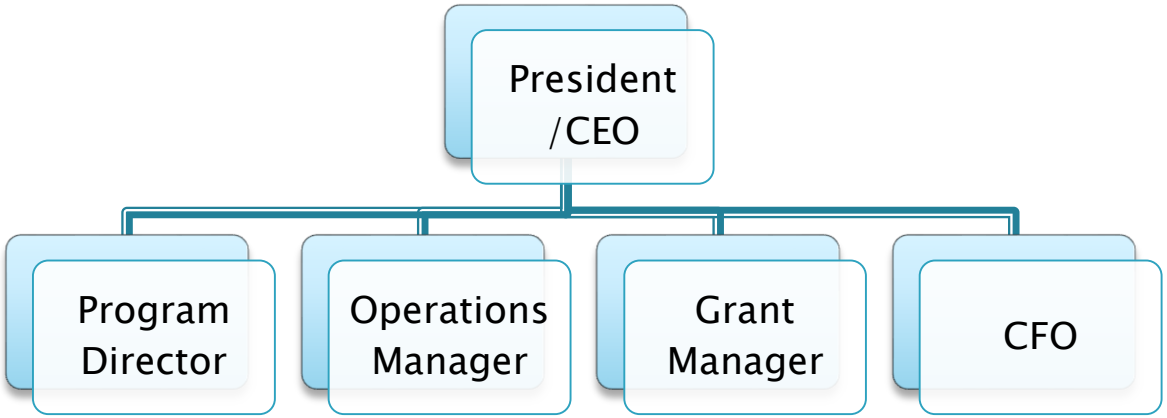
Chart of Accounts (Continued)

Account Number	Account Name	Type Description	Allowability
2030	Rent	Indirect	Allowable
5010	Salaries	Direct	Allowable
5011	Salaries-Admistrative	Indirect	Allowable
5030	Utilities	Indirect	Allowable
5020	Supplies	Indirect	Allowable
5070	Fundraising		Unallowable

- Regularly review allocation of expense accounts including employee salaries and benefits
- Analyze usage of space; use square footage percentages for expenses such as rent, utilities, and depreciation

Organizational Chart

- Provides a depiction of the various services/functions for each unit
- Determine which personnel within the units are classified as direct, shared (mixed) or indirect for the organization



Audited Financials / Single Audit

- Most current audited financials must be used in the ICRP development and submission
- Subsequent ICR proposals are required 6 months after the organization's fiscal year end (FYE)
- If Single Audit threshold is met, the organization has 9 months or 30 days after issuance (whichever is earlier) to submit a subsequent proposal

Audited Financials / Single Audit (Continued)

- IRS 990s maybe used if audited financials are unavailable
- Audited financials must reconcile to the ICRP worksheet
- Expenses submitted for audit by management should be converted to Cost Principle categories for ICRP development (e.g. Budget Narrative)

Organizational Budget, if Applicable

- An organizational budget may be applicable if the organization had significant changes from its most recent audited year financials:
  - Material increase / decrease in grant funding
  - Material increase / decrease in other activities
- Organization is responsible to submit their annual budget and notify the ICRP reviewer of significant changes:
  - Significant programs added/removed from prior year
  - Consolidation of 2 or more organizations

Cost Allocation Methodologies

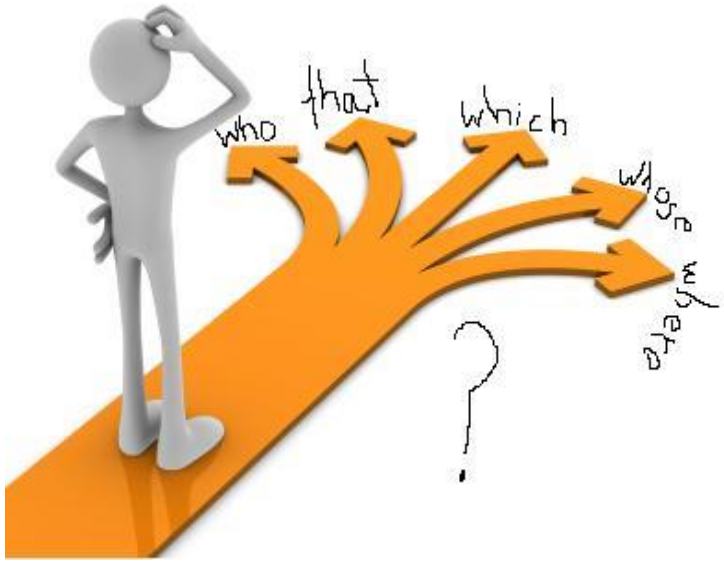
- Know the facts:
  - 2 CFR 200 Subpart E – Cost Principles
    - 2 CR200.405 Allocable Costs
  - Appendix IV, V, VII

ALL !

- Acceptable Cost Allocation Methodologies for ICRP Development
  - Simplified Allocation Method
  - Direct Allocation Method
  - Multiple Allocation Base Method

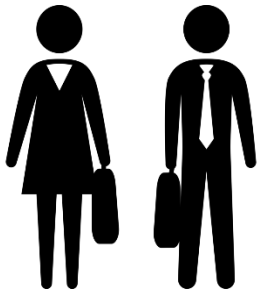
Cost Classification

- Before we discuss the acceptable allocation methodologies for ICRPs, let's briefly review how to classify a cost per Uniform Guidance.
  - Classification of costs
    - ❑Direct or Indirect
    - ❑Allowable or Unallowable



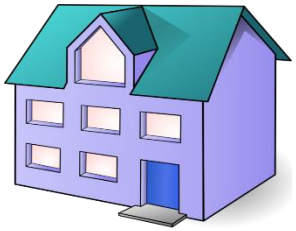
Direct or Indirect?

- Are the costs below Direct or Indirect?
  - Grant Manager
  - Rent
  - Computers
  - Copier
  - Travel



Direct, Indirect or Both

- ALL costs below could be classified as Direct, Indirect or both.
  - Grant Manager
  - Rent
  - Computers
  - Copier
  - Travel



- 200.412 – There is no universal rule for classifying costs as direct or indirect (F&A) under every accounting system
- A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective

(Supporting Documentation and Allocation Methodology)

Travel Costs

- Travel costs can be classified as both Direct and Indirect
- Determine if costs are allowable per Federal guidelines

1. Travel costs for mandatory training for Program A (Direct and Allowable)
2. Travel costs for nonprofit CEO to conduct fundraising activities (Direct and Unallowable)

3. Travel costs for organization holiday party (Indirect and Unallowable)
4. Travel cost for personnel manager training (Indirect and Allowable)

Cost Allocation Methodologies

- Simplified Allocation Method
- Direct Allocation Method
- Multiple Allocation Base Method

Simplified Allocation Method

- When the organization's major functions benefit from indirect costs to approximately the same degree, indirect costs may be allocated by:

  (i) separating the organization's total costs for the base period as either direct or indirect, and

  (ii) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base

Simplified Allocation Method

		Indirect		Direct					
Functional Expense	Total	Allowable	Unallowable	Federal Programs	Unallowable	State/Local Programs	Other Programs	Fund Raising	Other Activities
Direct Personnel costs	$ 389,688			201,065		170,876		12,676	5,070
Indirect Personnel costs	$ 297,187	297,187							
Professional fundraising fees	$ 8,500							8,500	
Accounting Fees	$ 15,000	15,000							
Legal Fees	$ 250	250							
Supplies	$ 8,100	8,100							
Telephone	$ 3,600	3,600							
Postage and shipping	$ 500	500							
Occupancy	$ 42,000	42,000							
Equipment Rental & maintenance	$ 6,700	6,700							
Printing & publications	$ 750							750	
Travel	$ 3,900	2,000		1,200	125	450		125	
Conferences/conventions/meetings	$ 11,560	7,500		3,500				560	
Food	$ 110,000			63,000		47,000			
Contracted Labor	$ 198,500			112,000		86,500			
Interest	$ 17,000	17,000		.					
Depreciation	$ 40,000	12,000	28,000						
Total Direct and Indirect Costs	**$ 1,153,234**	**$ 411,837**	**$ 28,000**	**$ 380,765**	**$ 125**	**$ 304,826**	**$ -**	**$ 22,611**	**$ 5,070**
Allocation Base:									
Total Allowable Direct Costs		$ 713,273							
Indirect Cost Rate	**57.74%**								
Allocation of Indirect Costs	**$ 411,837**			**$ 219,850**		**$ 176,004**	**$ -**	**$ 13,055**	**$ 2,928**

Simplified Allocation Method

- The simplified method generally results in a higher indirect rate vs. the direct method
  - This is because General and Administrative indirect costs are grouped together with jointly shared indirect costs

- Unallowable costs must be excluded while unallowable activities (e.g., fundraising) must be allocated their share of the organization's indirect costs [2 CFR 200.413(f)]

Direct Allocation Method

- Some nonprofits treat all costs as direct except general administration and general expenses
- It's common for these organizations to separate costs into 3 basic categories:
  - (i) General administration and general expenses,
  - (ii) Fundraising, and
  - (iii) Other direct functions (e.g., projects performed under federal awards)

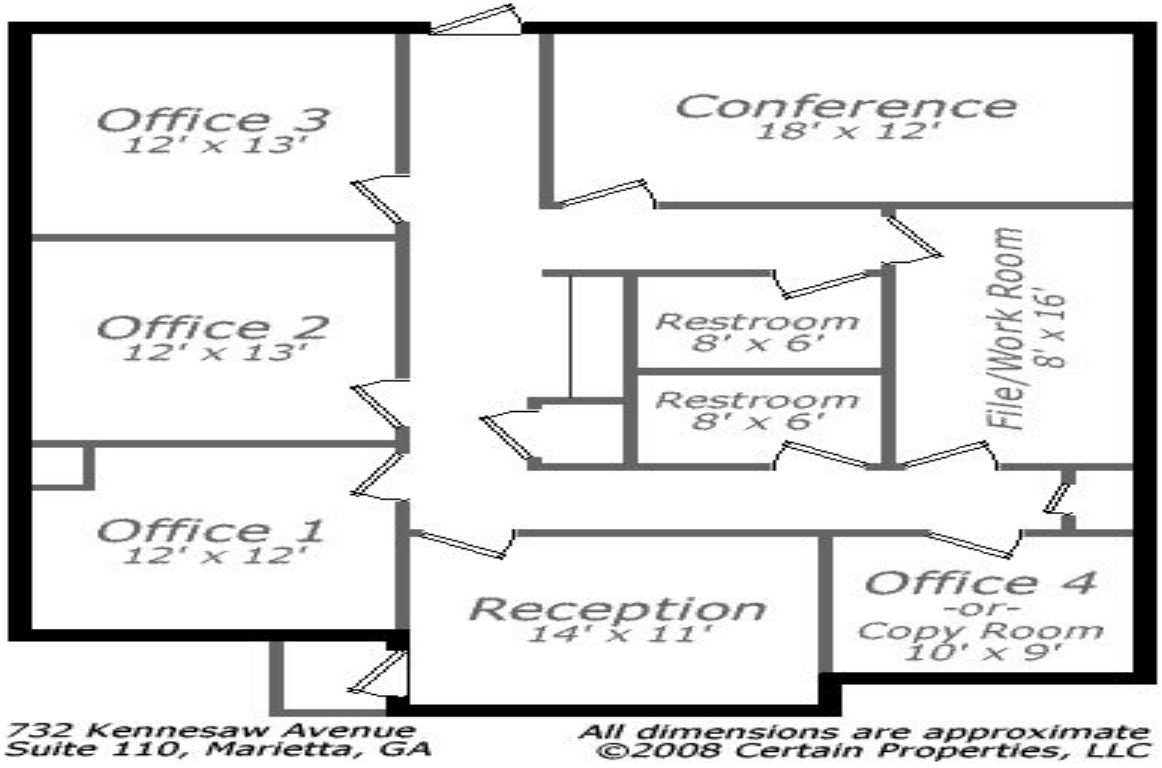
Direct Allocation Method (Continued)

- Joint costs such as depreciation, rental costs, facilities operation and maintenance, phone expenses are prorated individually as direct costs to each category and to each grant award and activity

- Use a base most appropriate to the particular cost being prorated

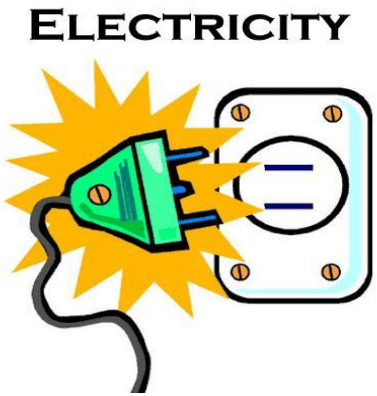
Direct Allocation Method (Continued)

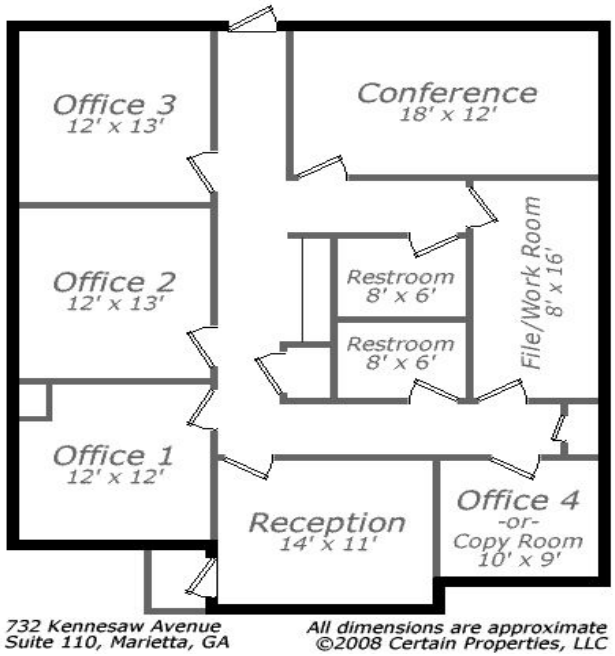
- Square footage is an acceptable allocation method to prorate a cost directly to a program for the space used



Direct Allocation Method (Continued)

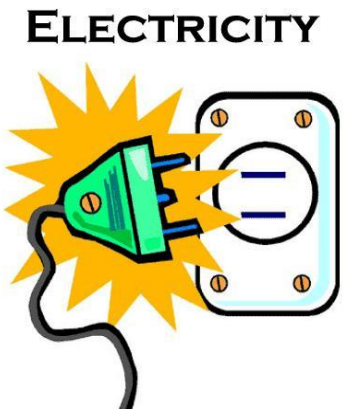
- Square Footage is an acceptable allocation method to prorate a cost directly to a program for utilities charges in the rental space used

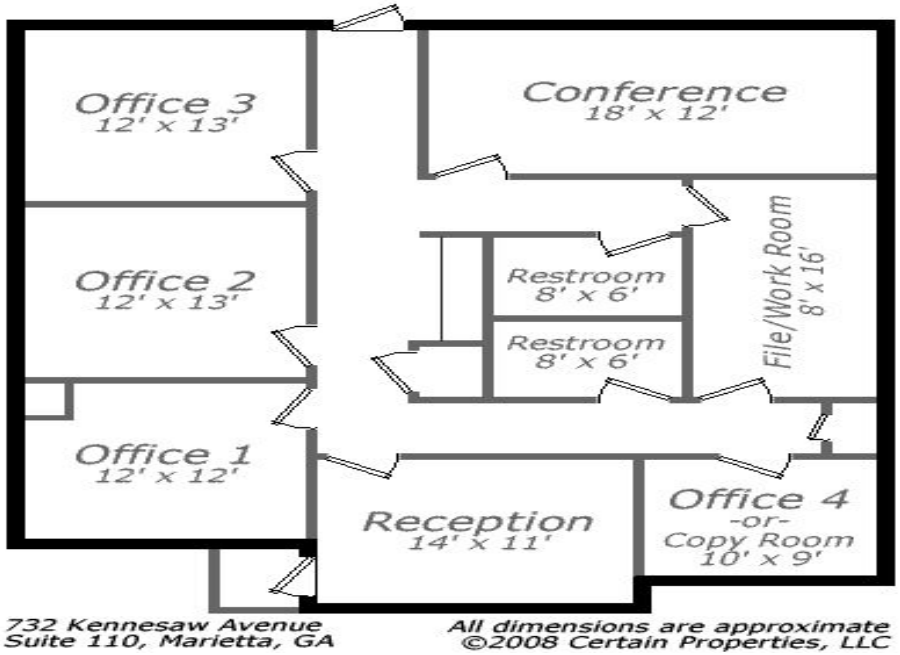




Direct Allocation Method (Continued)

- Square Footage is an acceptable allocation method to prorate a cost directly to a program for janitorial services and utilities charges in the rental space used





Direct Allocation Method (Continued)

- Besides square footage, Full Time Equivalents (FTE) is another acceptable and widely used allocation methodology for prorating or direct charging certain expenses

Expense	FTE –Direct (4)	FTE– Indirect (2)
Cell Phones	4/6 = 67%	2/6=33%
$600 mo.	$402	$198
IT Support		
$950 mo.	$637	$313

Direct Allocation Method (Continued)

- Direct Allocation Method is recommended to maximize direct cost recovery associated with a program
- Most widely used allocation methodology
- IMPORTANT: Any method of allocation can be used if it results in an equitable and reasonable distribution of costs.
  - The organization must support the rationale and documentation for the selected method of allocating indirect costs

Direct Allocation Method Example

		G&A		Direct					
Functional Expense	Total	Allowable	Unallowable	Federal Programs	Unallowable	State/Local Programs	Other Programs	Fund Raising	Other Activities
Direct Personnel costs	$ 517,361			307,589		188,876		14,926	5,970
Indirect Personnel costs	$ 227,187	227,187							
Professional fundraising fees	$ 8,500							8,500	
Accounting Fees	$ 15,000	15,000							
Legal Fees	$ 250	250							
Supplies	$ 8,100	2,472		3,346		2,055		162	65
Telephone	$ 3,600	1,098		1,487		913		72	29
Postage and shipping	$ 500	153		207		127		10	4
Occupancy	$ 42,000	3,150		30,450		8,085		221	95
Equipment Rental & maintenance	$ 6,700	1,900		2,200		1,000		1,200	400
Printing & publications	$ 750							750	
Travel	$ 3,900	2,000		1,200	125	450		125	
Conferences/conventions/meetings	$ 11,560	7,500		3,500				560	
Food	$ 110,000			63,000		47,000			
Contracted Labor	$ 198,500			112,000		86,500			
Interest	$ 17,000	1,275		12,325		3,273		89	38
Depreciation	$ 40,000	3,000		1,000	28,000	7,700		210	90
Total Direct and Indirect Costs	$ 1,210,908	$ 264,984	$ -	$ 538,304	$ 28,125	$ 345,978	$ -	$ 26,825	$ 6,691
Allocation Base:									
Total Allowable Direct Costs		$ 917,798							
Indirect Cost Rate	28.87%								
Allocation of Indirect Costs	$ 264,984			$ 155,418		$ 99,890	$ -	$ 7,745	$ 1,932

Multiple Allocation Base Method

- If an organization's indirect costs benefit major functions in varying degrees, indirect costs must be accumulated into separate cost groupings
- These groupings are classified within the two broad categories: “Facilities” and “Administration”
- If the organization receives more than $10 million in annual, direct federal funding, Facilities and Administration breakdown is required

Multiple Allocation Base Method Example

		Indirect Cost Pools					Direct				
Functional Expense	Total	{1} Employee Overhead	{2} Facility A	{3} Facility B	{4} Facility Mgmt	{5} G&A	Federal Programs	State/Local Programs	Fund Raising	Other Activities	Unallow Costs
Labor Costs	$ 2,810,500		6,600	85,050	132,000	673,900	1,583,811	240,039	27,150	61,950	
Employee Benefits	$ 821,694		1,930	24,866	38,592	197,025	463,052	70,179	7,938	18,112	
Professional fundraising fees	$ 18,000								18,000		
Accounting Fees	$ 25,000					25,000					
Legal Fees	$ 3,700					1,200					2,500
Supplies	$ 75,714	24,589			17,360		18,765	15,000			
Telephone	$ 208,000	30,000					123,000	55,000			
Postage and shipping	$ 12,814				320	4,000	867	127	7,300	200	
Occupancy	$ 534,000		62,000	420,000				52,000			
Equipment Rental & maintenance	$ 42,142	27,693					4,799	9,650			
Printing & publications	$ 2,745					500			2,000	245	
Travel	$ 13,219				325	2,000	3,533	1,236	1,125	4,500	500
Conferences/conventions/meetings	$ 34,665				1,000	20,000	3,500	268	4,500	2,000	3,397
Food	$ 280,000						280,000				
Contract Labor	$ 33,000						23,000	10,000			
Interest	$ 55,773		12,000	36,000		4,500		3,273			
Depreciation	$ 87,540		10,750				12,840	7,700			56,250
Employee Overhead	$ (0)	(82,282)	211	2,723	4,225	21,572	50,699		869	1,983	
Facility A Expense	$ -		(93,491)		21,742	32,613	39,136				
Facility B Expense	$ -			(568,638)			568,638				
Facility Management Expense	$ -				(215,565)	7,520	197,016	11,029			
G&A Expenses	$ (0)					(989,830)	820,502	115,680	16,758	21,650	15,241
Total Direct and Indirect Costs	$ 5,058,505	$ -	$ -	$ -	$ -	$ -	$ 4,193,158	$ 591,180	$ 85,639	$ 110,640	$ 77,888
Allocation Base:											
{1} Labor Costs	$ 2,570,461		$ 6,600	$ 85,050	$ 132,000	$ 673,900	$ 1,583,811		$ 27,150	$ 61,950	
{2} Square Feet of Facility A	4,300				1,000	1,500	1,800				
{3} Square Feet of Facility B	37,500						37,500				
{4} Square Feet or all Facilities	43,000					1,500	39,300	2,200			
{5} Total Costs excluding G&A	$ 4,068,675						$ 3,372,656	$ 475,500	$ 68,882	$ 88,990	$ 62,647
Indirect Cost Rates		3.20%	$ 21.74	$ 15.16	$ 5.01	24.33%					

Cost Allocation Methodologies – Summary

- Simplified Allocation Method
- Direct Allocation Method
- Multiple Allocation Base Method

- Acceptable allocation methodologies for grantees within:
  - Organizational day-to-day operations
  - Cost Policy Statement (CPS) and ICRP development
  - Indirect recovery on State of Illinois awards with approved Indirect Cost Rate

Cost Policy Statement (CPS)

- The Cost Policy Statement is a description of the organization's accounting practices, policies, and procedures for allocating direct and indirect costs

- A CPS is required documentation for the ICRP submission
- CPS must be signed by an authorized representative

Cost Policy Statement (CPS)

- The CPS is the most VITAL component of an ICRP that generates an approved ICRA between the grantee and the State of Illinois
- The CPS provides clarity and assurance re: accounting and allocation practices used to develop a rate
- The CPS ULTIMATELY dictates how the grantee MUST use the approved indirect cost rate

Cost Policy Statement (CPS)

- The CPS describes your organization's accounting practices and allocation procedures for each direct and indirect expense charged to a program
- DO NOT copy examples of CPS that do not apply to your organization
- DO NOT copy policies and procedures that your organization does not practice

Cost Policy Statement (CPS) Example

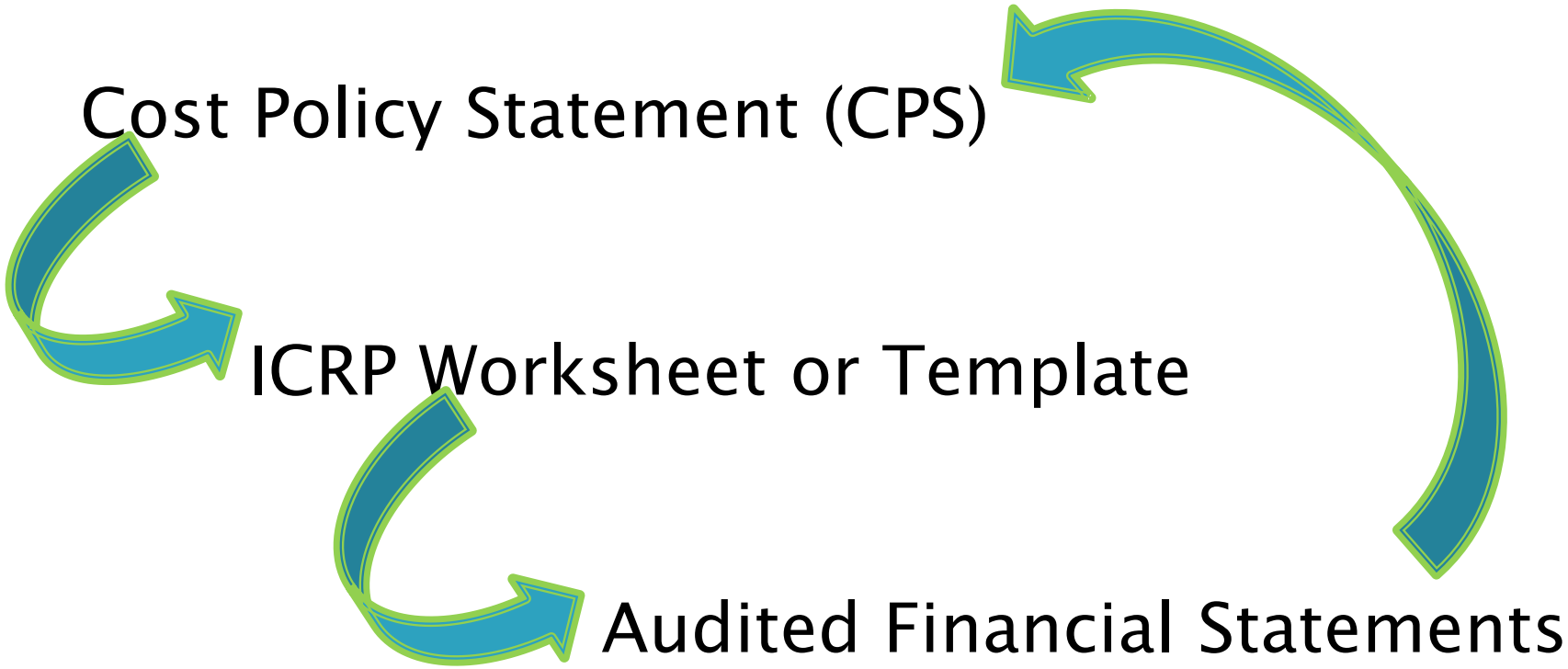
- The following model CPS is intended as guidance for organizations seeking indirect cost reimbursement under state and federal awards
- The model assumes the organization uses the direct allocation basis of charging costs

https://www.illinois.gov/sites/GATA/Documents/Resource%20Library/DOL%20DCD-2-CFR-Guide-Apr2016.pdf

Cost Policy Statement (CPS)

- Your organization's CPS should correspond <u>exactly</u> to costs presented in your proposal worksheet
  - CPS did not reference "Legal Fees" but the organization incurred legal fees
  - Organization's ICRP included "Legal Fees"
- This is incorrect. CPS and ICRP must consistently present costs.

ICRP Worksheet or Template



ICRP Worksheet or Template (Continued)

- This required document allows the grantee to represent actual costs identified within their CPS to be reconciled to supporting audited financial statements
  - Any worksheet format may be used provided the level of detail and supporting information is present
  - State of Illinois recommends Excel worksheet developed by the Centralized ICR unit

ICRP Worksheet or Template (Continued)

- State of Illinois excel template is the primary ICRP worksheet for reconciliation
  - Provided within the Centralized Indirect Cost Rate System
  - Also available on the GATA website
  - https://www.illinois.gov/sites/GATA/Grantee/CentralizedIndirectCostSystem/Pages/default.aspx

ICRP Template EXAMPLE

https://www.illinois.gov/sites/GATA/Grantee/CentralizedIndirectCostSystem/Pages/default.aspx

- Instructions
- Allowable & Unallowable Costs
- Step 1 Entity Name
- Step 2 Employee Wages
- Step 3 Five Highest Paid
- Step 4 Fringe Benefits Rate
- Step 5 Cost Pool
- Step 6 ICR Calculation

ICRP Template EXAMPLE – Step 2

Step 2 - Employee Wages

Purpose: To determine total salary costs and allocate total salary costs as direct or indirect.

Supporting Documentation
Payroll Records (e.g., payroll register, insurance records, time distribution reports).

Position/Title (A)	No. of individuals in position (B)	Annual Salary (C)	Total Indirect Costs (D)	Unallowable Costs (E)	Total Direct Costs (F)	Federal Program Costs (G)	State Program Costs (H)	All Other Programs / Activity (I)	Fundraising Costs (J)
Executive Director	1	$ 128,952	$ 54,346	$ -	$ 74,606	$ 6,448	$ 48,815		$ 19,343
Office Manager	1	34,345	22,326		12,019	1,717	5,151		5,151
Business Manager	1	43,440	28,239		15,201	2,172	6,516		6,513
Development Coordinator	1	33,928	-		33,928				33,928
Grant Coordinator	1	40,300	-		40,300	9,489	16,119		14,692
Community Relations/Intake	1	41,058	-		41,058	20,488	20,570		
Program Director	1	78,613	-		78,613	19,653	58,960		
Program Coordinator	1	56,575	-		56,575	14,144	42,431		
Therapeutic Case Manager	4	136,694	-		136,694	25,353	111,341		
Resident Advisor	2	47,693	-		47,693		47,693		
Residential Supervisor	2	88,470	-		88,470		88,470		
Youth Development Specialist	12	352,494	-		352,494		352,494		
Relief Youth Development Specialis	10	199,928	-		199,928		199,928		
			-		-				
			-		-				
			-		-				
			-		-				
			-		-				
			-		-				

... | Allowable & Unallowable Costs | Step 1. Entity Name | Step 2. Employee Wages | Step 3. Five Highest Paid | Step 4. Fringe Rate | Step 5. Cost Pool | Step 6. ICR Calculation

ICRP Template EXAMPLE – Step 6

Step 6 - Indirect Cost Rate (ICR) Calculation

Purpose: To calculate your indirect cost rate. Please choose the rate best reflecting your organization's indirect costs and document that rate in CARS. For further details, see the Instructions tab.

Supporting Documentation

None - all information is either pulled forward from other worksheets or calculated.

Rate Calculation		
Indirect Costs		$240,528
Method A - Total Direct Salaries & Benefits		1,324,494
	Indirect Rate	18.16%
Indirect Costs		$240,528
Method B - MTDCs		1,543,442
	Indirect Rate	15.58%
Selected Indirect Cost Rate		18.16%

Distribution Bases

- The direct cost distribution base must be selected by a grantee in their ICRP.
- This base should result in an equitable distribution of indirect costs to all programs

$$\text{ICR} = \frac{\text{Indirect cost pool}}{\text{Distribution Base}}$$

Distribution Bases (Continued)

- State of Illinois Centralized Indirect Cost Rate Unit currently offers (2) distribution base options

1. Direct Salaries & Wages plus Fringe Benefits

   (S & W +F)

2. Modified Total Direct Costs

   (MTDC)

Distribution Bases (Continued)

- If the organization uses Direct Salaries & Wages including Fringe Benefits, the rate calculates as follows:

$$\frac{\text{Indirect costs} = \$382{,}200}{\text{Base (Direct S\&W+F)} = \$1{,}313{,}562} = 29.1\%$$

- If the organization uses Modified Total Direct Costs (MTDC), the rate calculates as follows:

$$\frac{\text{Indirect costs} = \$382{,}200}{\text{Base (MTDC)} = \$2{,}175{,}528} = 17.6\%$$

Distribution Bases (Continued)

- Because most grant receiving organizations are labor intensive, a distribution base of Salaries and Wages plus Fringe Benefits (S&W+F) is often recommended to distribute indirect costs equitably to all activities
- S&W+F is also the easiest distribution base to calculate when applying an ICR to a financial reporting document

Common Issues Regarding ICRP Development

1. CPS is not representative of the organization's procedures. Allocation methods are incomplete or do not provide sufficient rationale.
   - Example: How does your organization accurately account for Direct and Indirect salaries? If a combination, how is that separation determined and recorded?

2. ICRP proposal worksheet does not tie out to audited financial statements.
   - Example: Failing to accurately allocate the salary of an employee who has multiple duties in multiple categories (e.g., 3 programs allocated at 40%, 40%, 30% = 110%)

Common Issues Regarding ICRP Development

3. Cost groupings for expenses are unreasonable and contain too many other costs.
   - Example: Operating expenses of $2M include fringe benefits, office furniture, travel and depreciation. Each of these expenses should be separate from "operating expenses" and allocated separately

4. Allocating little or no expenses to fundraising

References and Resources

- https://rates.psc.gov/ HHS Cost Allocation Services
- https://www.dol.gov/oasam/boc/DCD-2-CFR-Guid.pdf Dept. Of Labor Guide to Indirect Cost Rate Determination
- https://www.illinois.gov/sites/GATA/Grantee/Pages/default.aspx GATA Website
- https://www.illinois.gov/sites/GATA/Grantee/CentralizedIndirectCostSystem/Pages/default.aspx State of Illinois ICRP Template/ Worksheet

Questions?

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