



Understanding Indirect Costs

National HOPWA Institute - 2017
Tampa, FL



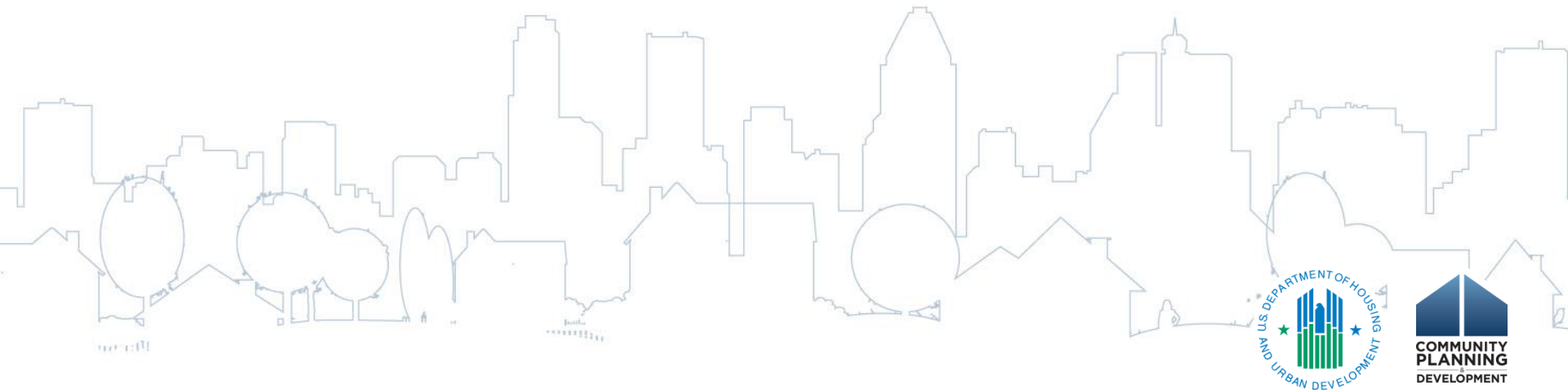
Presentation Objectives

- Increase understanding of federal Cost Principles and their implementation in day-to-day program activities
- Define common technical terms to facilitate discussion
- Provide descriptions and examples of direct and indirect costs and approved cost allocation methodologies
- Stimulate thought-provoking questions & critical thinking



The HOPWA Institute:

“Housing’s Role in Ending the HIV Epidemic”



Direct & Indirect Costs

Direct Costs

- Directly performing activities related to HOPWA objectives

Indirect Costs

- Serving “common” or joint objectives of the organization as a whole

What Are Direct Costs?

Association with the Federal award is the determining factor in distinguishing direct from indirect costs.

Examples of **direct costs** include:

- The salary and benefits paid to a case manager
- A rental assistance check paid directly to a landlord
- Staff time spent in qualifying a client for STRMU
- Mileage reimbursement for making home visits



'True & Total' Direct Costs for HOPWA

Using TBRA as an example, true & total Direct Costs include:

- ***Staff time qualifying a client*** for TBRA assistance, such as:
 - ❖ Assessment for program eligibility
 - ❖ Verification of employment income/benefits
 - ❖ Communications with landlords & property managers
 - ❖ Conducting housing inspections and walk-throughs
- ***Rent & Utility subsidies paid*** with HOPWA \$, including:
 - ❖ Time and costs spent cutting and mailing checks
 - ❖ Costs of check stock, envelopes and postage



What About Indirect Costs?

Indirect Costs = Costs of goods or services that are ‘common’ or shared across multiple programs/cost centers. 2 CFR 200.414 defines 2 types of indirect costs:

- **Facilities**
- **Administration**
 - ❖ HOPWA regulations narrow this to only costs for: “general management, oversight, coordination, evaluation & reporting HOPWA eligible activities.”

Please note that not all ‘administrative’ costs are indirect and not all ‘indirect’ costs are administrative.



Examples of Indirect Costs

Typical examples of **indirect costs** include:

- Rent, utilities, insurance, maintenance and other expenditures related to shared space
- Administrative and executive team functions that support multiple program areas
- Purchases, transportation and staff expenses that benefit multiple program areas



What is Cost Allocation?

Cost Allocation:

- Charging an expenditure (in part or as a whole) to a particular contract or project
- Each cost must be fully allocated to one or more **'cost centers'**
- Each cost incurred for the same purpose must be treated consistently in similar circumstances – as either a direct or an indirect cost
- Cost allocation ***applies to all expenditures*** across the entire agency budget



What's in a Cost Allocation Plan?

- Guidelines for allocating **Shared Costs**, based on the relative benefit to respective program activities
- Articulation of the **various methods used**, based on cost types. These methodologies should be:
 - ❖ Reasonable for the cost type and program environment
 - ❖ Consistent with agency policies and Generally Accepted Accounting Principles (GAAP)
 - ❖ Reassessed annually as part of the agency's budget development process



Defining Admin Costs for HUD Purposes

Administrative costs, in general, include overall program management, budgeting, coordination, monitoring, reporting and evaluation.

- This includes the salaries and benefits for personnel, as well third-party costs, such as legal, accounting and audit services.
- Also included are goods and services required for program administration, including equipment, insurance, utilities, office supplies and the rental & maintenance of office space.



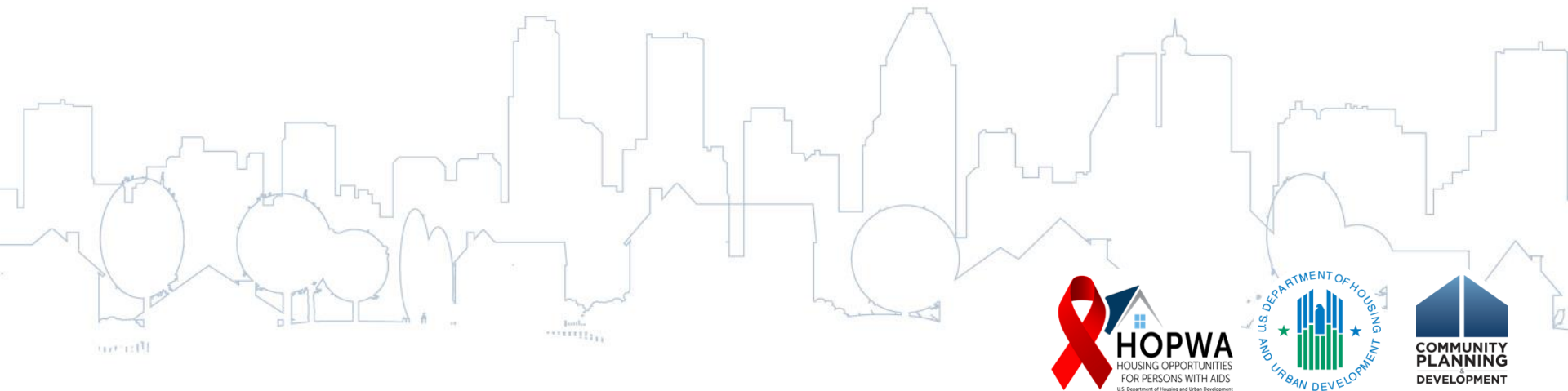
Methods for Allocating Indirect Costs

- Most government entities and ‘major’ nonprofit organizations have a negotiated **Federally Approved Indirect Cost Rate**.
- Appendix IV to Part 200 lays out three alternative methods that nonprofit HOPWA Project Sponsors are most likely to use:
 - ✓ **Simplified Allocation Method**
 - ✓ **Direct Allocation Method**
 - ✓ **‘De Minimis’ Indirect Cost Rate**



Option 1: Simplified Allocation Method

Simplified Allocation Method: Used when all of an organization's major functions benefit to approximately the same degree – or when an organization has only one major function with a number of individual projects or activities – and may be used when the level of Federal funding is relatively small.



Simplified Allocation Method continued

The distribution base may be:

- Total direct costs (excluding capital expenditures and other distorting items, such as sub-awards for \$25,000 or more),
- Direct salaries and wages, or
- Another base which results in an equitable distribution

(Note: organizations with greater than \$10 million per year in federal spending have additional requirements.)



Option 2: Direct Allocation Method

Direct Allocation Method: Direct charging of admin and clerical staff salaries...if **all four** of the following are met:

- (1) Administrative/clerical services are integral to a project or activity;
- (2) The individuals involved can be specifically identified with that project or activity;
- (3) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
- (4) The costs are not also being recovered as indirect costs.



Direct Allocation Method continued

Using this method, all costs are limited to 3 categories:

- Program activities, including those paid for by federal grants
- Management functions and general expenses (M&G)
- Fundraising, which, under the OMB regulations, is never eligible for HUD reimbursement

The prorated indirect costs are treated as if they were direct costs and are assigned to one of the categories above using an allocation strategy appropriate to each particular cost type.



Option 3: 'De Minimis' Indirect Cost Rate

2 CFR 200.414(f) allows for an easily calculated rate of 10% of the 'Modified Total Direct Costs' (MTDC):

- All direct salaries & wages, applicable fringe benefits, services, travel, materials and supplies, and up to the first \$25,000 of each sub-award (regardless of the timeframe for spending those funds)
- The MTDC specifically excludes: equipment, capital expenditures, charges for patient care, **rental costs**, tuition remission, scholarships and fellowships, participant support costs and the portion of each sub-award in excess of \$25,000
- It is called a “**de minimis**” rate.



HOPWA Limits for Administrative Costs

HOPWA's "Administrative Costs" category, which may include a portion of shared facilities and M&G costs, as well as direct administrative costs incurred specifically to support HOPWA activities, is capped by statute at:

- 3% of total outlays for Grantees
- 7% of total outlays for Project Sponsors

(Please note that even if an entity has a federally approved indirect rate & basis/methodology for that rate, HOPWA reimbursements cannot exceed the limits outlined above.)



What about Personnel Costs?

As with all other expenditures, to be reimbursed by HOPWA, wages, salaries and benefits must be:

- Allowable
- Reasonable
- Allocated properly
- Treated consistently
- Well-documented



What Do We Mean by ‘Well-Documented’ Personnel Costs?

2 CFR 200.430(a)(i) states:

“To be allowable, ***labor costs***, whether charged directly or indirectly, ***must be based on accurate time records reflecting the actual activities of all employees***. These records must account for the ‘total activity’ for which employees are compensated and which are required in fulfillment of their obligations to the organization.”



A Note About Staff Timesheets

- Timesheets must both reflect ***actual hours worked*** - not percentages based on budget or estimates – and account for all work hours every week.
- If time is split between programs (RW, HOPWA, homeless), then the time sheets should reflect true time splits.
- Only actual HOPWA-incurred costs should be charged to HOPWA.
- No time should be left un-allocated.



The 3-Way Match for Client Services

For HOPWA compliance, all staff members billed to HOPWA should be completing ***both timesheets*** and ***activity logs*** that document what they did during the time that is billed to HOPWA.

For those engaging directly with clients, these records should also cross reference with parallel systems, such as case management notes, etc., thereby providing the three-way match required for HOPWA reimbursement and monitoring.



Q & A

