



American Rescue Plan
Grant Implementation:
Administrative, Indirect and Direct Costs

Kansas Office of Recovery

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Questions
Being
Answered
Today

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What administrative costs are permitted for SLFRF?

2

What are direct and indirect costs and de minimis 10% Modified Total Direct Costs?

3

How can I categorize costs and know which cost base(s) to choose?

4

What are the key considerations for compliance?



What administrative costs are permitted for SLFRF?

Administrative Costs Generally:

SLFRF FAQ Question 10.2 provides the following guidance:

Can recipients use funds for administrative purposes?

- Recipients may use funds to cover the portion of payroll and benefits of employees corresponding to time spent on administrative work necessary due to the COVID-19 public health emergency and its negative economic impacts
- This includes, but is not limited to, **costs related to disbursing payments of Fiscal Recovery Funds and managing new grant programs** established using Fiscal Recovery Funds

SLFRF's Compliance and Reporting Guidance D. Uniform Administrative Requirements, Allowable Costs/Cost Principles, 2a (p.7) citing 31 CFR 35.6(b)(10) indicates:

- Administrative costs: **Recipients may use funds for administering the SLFRF program**, including costs of consultants to support effective management and oversight, including consultation for ensuring compliance with legal, regulatory, and other requirements
- Further, costs must be reasonable and allocable as outlined in 2 CFR 200.404 and 2 CFR 200.405



What administrative costs are permitted for SLFRF?

Indirect and Direct Costs as Administrative Costs Generally:

Pursuant to the SLFRF Award Terms and Conditions, Recipients are permitted to charge both direct and indirect costs to their SLFRF award as administrative costs

- Direct costs are costs of implementing SLFRF program objectives, such as contract support, materials, and supplies for a project
- Indirect costs are general overhead costs of an organization where a portion of such costs can be allocated to the SLFRF award such as the cost of facilities or administrative functions like a director's office
- Each category of cost should be treated consistently as direct or indirect
- Recipients may not charge the same administrative costs to both direct and indirect cost categories, or to other programs
- If a recipient has a current established Negotiated Indirect Costs Rate Agreement (NICRA) with a Federal cognizant agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals, then the recipient may use its current NICRA
- If the recipient does not have a NICRA, the recipient may elect to use the de minimis rate of 10 percent of the modified total direct costs pursuant to 2 CFR 200.414(f)

See SLFRF Compliance and Reporting Guidance D. Uniform Administrative Requirements, Allowable Costs/Cost Principles, 2a (p.7) citing 31 CFR 35.6(b)(10)

What are **Direct Costs**?

- An expense whose benefit can be **specifically identified with a particular funding source and/or program**

For example: If an organization provides one service to the community and is funded by one grant award, all expenses benefit that one funding source. All expenses would be charged as direct costs.

- A shared or common direct cost is an expense whose benefit can be specifically identified with **more than one funding source or program**
- When another program and/or funding source is added, a determination needs to be made on which costs are direct, which costs are **shared direct** and which costs are **indirect** as well as how to charge each of the programs and funding sources for expenses that occur
- Costs funded as direct must be excluded from any indirect cost base to prevent duplication of reimbursement of costs across all programs

See 2 CFR 200.213

What are Indirect Costs?

- A shared cost whose benefit is **not readily identifiable** with a specific program or programs but is **necessary to the general operation of the organization**
- Some typical indirect costs include some percentage of the salaries of the executive director and accounting staff, the annual audit and other accounting fees, depreciation on buildings and equipment, costs of operating and maintaining facilities, general administration and expenses, liability and directors' and officers' insurance and board travel expenses
- Indirect costs can be **allocated individually by line item** (e.g., "board expense" or "audit") or accumulated in a single indirect pool and expensed as one line item ("indirect expense") **using some type of indirect rate**
- Contractors are **not permitted to seek reimbursement** for indirect costs

Note: Sub-recipients may seek reimbursement for indirect costs either by applying the de minimis indirect cost rate of 10% of Modified Total Direct Costs (MTDC) or by negotiating an indirect cost rate with the federal agency with whom they utilize most

Three options for indirect costs to be charged against SLFRF:

- *Current Negotiated Indirect Cost Rate Agreement (NICRA) with a Federal Agency*
- *De minimis 10% MTDC*
- *Negotiated rate with the Pass Thru Entity*



De Minimis 10% Modified Total Direct Costs (MTDC) for Indirect Costs

- The 10% de minimis rate is for non-Federal entities that have never received a negotiated indirect cost rate
- No document is required to justify use of 10 % de minimis indirect cost rate

See 2 CFR 200.414(f)



Use of De Minimis 10% MTDC

- The rate may be used for all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward
- Excludes being used for equipment, capital expenditures, and rental costs
- Rate may be used indefinitely (no period of performance)

Categorizing Costs

- 1 When another program and/or funding source is added, the best practice is to determine which costs are **direct**, which costs are **shared direct** and which costs are **indirect** as well as how to charge each of the programs and funding sources for expenses
- 2 Most organizations charge everything directly and do not decide how much each program or funding source will pay “directly” for all costs that are shared
- 3 Shared costs may include office supplies, rent, audit, telephone, printing and copying, utilities and salaries as well as all the indirect costs for the organization
- 4 Having a fair and equitable allocation of costs is important for an accurate accounting of program and/or funding source expenses

Categorizing Costs: Sample Scenario

- Assume you are the executive director of a small nonprofit organization that has recently received funding to add translation services for public health precautions.
- This funding is in addition to in-language services that you already provide.
- You dedicate a part-time staff person to translate documents and hire a consultant to teach personal safety classes.

Categorizing Costs: Sample Scenario

An approach to categorize costs related to the example new programs is:

- **100 percent direct** – Purchase of materials and supplies for the class would be charged as 100 percent direct costs to the program. Also, salary and fringe and consulting fees for staff hired to only run the program would be 100 percent direct costs.
- **Shared direct costs** – Cost of the classroom rental would be a direct cost that is shared among the two new programs. The counseling program manager's salary and related fringe benefits benefit direct programs but some of that time is program administration, which is considered administrative costs even though it is a direct cost to the program. Therefore, it is marked as direct **and** administrative costs.
- **Indirect cost** – The organization's accountant does not teach or provide in-language services and yet, without this service as well as the corporate insurance, the organization could not operate.
- **Administrative cost** – Includes the allocation of the accountant salary and fringe benefits, the program manager salary and fringe benefits, office rent and utilities, corporate insurance, cell phones, and postage.
- **Overhead cost** – Shared operating direct costs considered overhead such as: rent, utilities, phones, and postage, benefit all programs and could be allocated directly or included in an indirect pool. Other overhead costs include those associated with soliciting contributions and fundraising events.

Categorizing Costs: Sample Scenario Costs Table

Using the prior example, this table shows the category of costs (direct, shared direct, indirect, administrative, and overhead costs by use) *[Note: Administrative costs can be direct or indirect]*

Line Item	Direct Cost – 100%	Shared Direct Cost	Indirect Cost	Administrative Cost	Overhead Cost
Salary – Part-time Translation of Public Health Precautions	X				
Personal Safety consultant	X				
Physical distance-enabled classroom	X	X			
Salary -Activities program manager (Manages public education and training and provides direct service to clients.)		X		X	
Handouts and information sheets	X				
Salary – accountant			X	X	X
Fringe benefits		X	X	X	X
Office rent and utilities		X	X	X	X
Corporate insurance			X	X	X
Cell phones (all staff have one)		X	X	X	X
Postage		X	X	X	X
Fundraising event expenses					X

Common shared costs and typical cost bases

The table lists common shared costs and some typical cost bases used to allocate costs. [*Note: This is not a complete list.*]

The cost base must result in an equitable and consistent allocation of costs.

Line Item/Pool	Cost Base(s)
Salaries	Time sheets showing actual time charged to programs
Fringe benefits	Salaries
Supplies	% Of salaries
Rent	Square footage by actual usage by Grant based on direct salaries
Utilities	Square footage by actual usage by Grant based on direct salaries
Telephone (basic)	# Of instruments
Postage	Postage meter OR % of salaries
Copying	Copy log OR % of salaries OR # of full-time equivalents (FTE's)
Accounting/audit	# Of transactions
Indirect pool	Direct salary and fringe OR Total or Total Modified direct costs

Cost Base Guidelines

Each cost base chosen must meet the following guidelines:

- The cost must be reasonable and consistently applied without guessing or using budgeted amounts:
 - The cost must be substantiated by actual costs with supporting receipts or invoices
 - In addition, do not allocate to a funding source because it has more available funds than other grants or contracts
- Choose each cost using accurate and current data to determine its reasonableness
- The cost base must be appropriate to the cost:
 - *For example:* The number of telephone instruments would not be an appropriate cost base to allocate fringe benefits
- The cost base chosen should result in an accurate measure of the benefit each program/funding source receives from each shared cost:
 - *This does not mean it will be an exact measure of the benefit, but rather a fair and equitable distribution*
- Costs that are funded as direct must be excluded from the indirect cost base to prevent duplication of reimbursement of costs across all programs

[Note: Most common cost bases used to calculate and allocate direct administrative costs rates are modified total direct costs and total direct salaries (with or without fringe benefits associated with those salaries)]

Common Areas to Review, Update and Check for Compliance



Considerations

1. Salary Costs - Timesheets serve as basis for allocating salaries and wages and must reflect the distribution of labor costs among multiple funding sources. Hours charged to funding sources on timesheets must match the way in which those hours were charged to the organization's funding sources or the time expenses could be disallowed.

2. Expenses - If an organization is going to charge a funding source for costs, those costs must be documented to show how the activity was related to the program. Documentation should include forms that provide the nexus to the funding eligibility criteria.

3. Unallowable Items - Expenses in administrative cost pools later determined to be unallowable items, and had been allocated across all funding sources, including federal grants would require reformulating the entire cost allocation. *For example, board meeting snacks and lunches were recorded as indirect costs and included in the indirect pool. These costs were later disallowed and had to be repaid.* All indirect charges would be adjusted for repayment.

4. Returns and Refunds - If a refund is received from an overpayment of an expense and the expense was originally expensed at least in part to a federal grant, the federal government expects that it will receive its fair share of the refund. Many organizations record refunds as unrestricted revenue, but it should, instead, be used to reduce the current year's expense.

Summary Considerations

- 1 Understand what administrative costs are permitted
- 2 Understand direct and indirect costs as eligible administrative costs
- 3 Treat each category of cost consistently, not charging a cost as both direct and indirect to avoid duplication of costs
- 4 Determine whether a Negotiated Indirect Cost Rate Agreement (NICRA) exists to use or in absence of NICRA, use 10% De Minimis Modified Total Direct Costs rate
- 5 Be familiar with and know how to categorize costs
- 6 Use cost base guidelines to ensure an equitable and consistent allocation of costs
- 7 Make sure there is a fair and equitable allocation of costs for an accurate accounting of program and/or funding source expenses
- 8 Perform reviews and updates of common costs charged to program and/or funding sources



Additional Information and Resources

H.R.1319- American Rescue Plan Act of 2021.

<https://www.congress.gov/bill/117th-congress/house-bill/1319>

Electronic Code of Federal Regulations. (2021). *Grants and Agreements. Part 200-Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards:*

- *Direct and Indirect (F & A).* 200.412-200.414. https://www.ecfr.gov/cgi-bin/text-idx?SID=05c3b5853ece19011bdaf53e88518c7b&mc=true&node=sg2.1.200_1411.sg11&rgn=div7
- *Internal Controls.* 200.303. https://www.ecfr.gov/cgi-bin/text-idx?SID=97ff28883fadf88d9f32beb89f68fce0&mc=true&node=se2.1.200_1303&rgn=div8
- *Subpart E- Cost Principles* [eCFR :: 2 CFR Part 200 Subpart E -- Cost Principles](https://www.ecfr.gov/cgi-bin/text-idx?SID=ce7b33671b19bb85cc066cb3e6522bc8&mc=true&node=sp2.1.200.f&rgn=div6)
- *Subpart F-Audit Requirements.* <https://www.ecfr.gov/cgi-bin/text-idx?SID=ce7b33671b19bb85cc066cb3e6522bc8&mc=true&node=sp2.1.200.f&rgn=div6>
- *Subrecipient Monitoring and Management through Record Retention and Access.* 200.331 through 200.338. https://www.ecfr.gov/cgi-bin/text-idx?SID=97ff28883fadf88d9f32beb89f68fce0&mc=true&node=sg2.1.200_1330.sg3&rgn=div7

Basic Considerations; (Government Regulations Uniform Guidance) 2 CFR 200

https://www.govregs.com/regulations/expand/title2_chapterII_part200_subpartA

The Office of Recovery is producing a Job Aid to provide additional context for these links. It will be added to the [Resource Library](#) once available



Questions