



Indirect Costs and Federal Funding: What You Need to Know

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Financial Services Director

Agenda

- What is a Cost Allocation Plan?
- What does a Cost Plan Show you?
- Cost Plan Trends
- Full Cost vs 2 CFR part 200
- Methods & Uses for a Cost Allocation Plan
- Stakeholders
- Benefits of a Cost Plan for Grants
- Case Study
- Tailoring Cost Plan to meet requirements
- Accounting Anomalies for ARPA.
- Maximize your Indirect Cost Reimbursement
- Conclusion



Introduction – Nicolie Cass Lettini, MBA

- VP of Indirect Services at eCivis, Inc.
- Owner of Capital Accounting Partners – Consulting firm that specializes in preparing Cost Allocation Plans and User Fees
- CEO/Founder of CostTree – Cloud Based Cost Allocation Plan Software Company
- 20 years dedicated solely to preparing cost allocation plans for cities, counties, special districts and nonprofits
- Prepared over 800 Full Cost and OMB A-87 (2 CFR part 225/200) plans
- Successfully defended numerous Federal and State level audits



Introduction – Jennifer Becker



- Financial Services Director at City of Burbank
- Served 12 years as Assistant Director, overseeing Budget, Revenue/AR, Purchasing, Accounting
- Coordinated the annual Cost Allocation process for the City of Burbank for over a decade
- Worked in Public Safety Finance and Emergency Management
- 21 years experience managing federal, state, and local grants from the application stage through the audit and closeout process



What is a cost allocation plan?

A cost allocation plan is a tool used to calculate the “total indirect costs” of the Central Support Departments/program (e.g. Finance, Human Resources, Information Technology, Facilities, etc.) to distribute to Receiving departments/programs/grants (Health and Human Services, Community Development, other Enterprise Funds, Grants etc.) in order to get reimbursement for services rendered.



Cost Allocation – What does it show you?

True Costs

- **Direct Cost + Indirect Cost = True Cost of service**
 - One can not happen without the other!
- **Local Government** – the full cost of a service. The General Fund supports other funds and departments throughout the agency. What does it really cost to perform a program or grant?
- **Nonprofits** – what does it cost to perform a program or grant?



Cost Allocation – What does it show you?

Strategic Views

- **Budget** – allows you to know what your true cost (indirect + direct costs) of service is so you can plan for the budget accordingly
- **Strategic views** to improve performance and long term sustainability. Should I take on this project or grant?



What are we talking about now?

- Cost Plans have been around for almost 70 years!
- Change to the guidelines
- Significant funding released for ARPA funding to agencies
- Uniform Guidance -
 - Procurement, audit thresholds, measuring performance
 - Reimbursements for overhead (nonprofits)



Sustainability & Impact

Indirect Cost

- Cost Allocation Plans (Annual \$ amount per dept/prog)
- Indirect Cost Rates (NICRA) (% rate to apply to direct projects)

Sustainability

- Understand true full cost of service
- Make strategic decisions on how to move forward

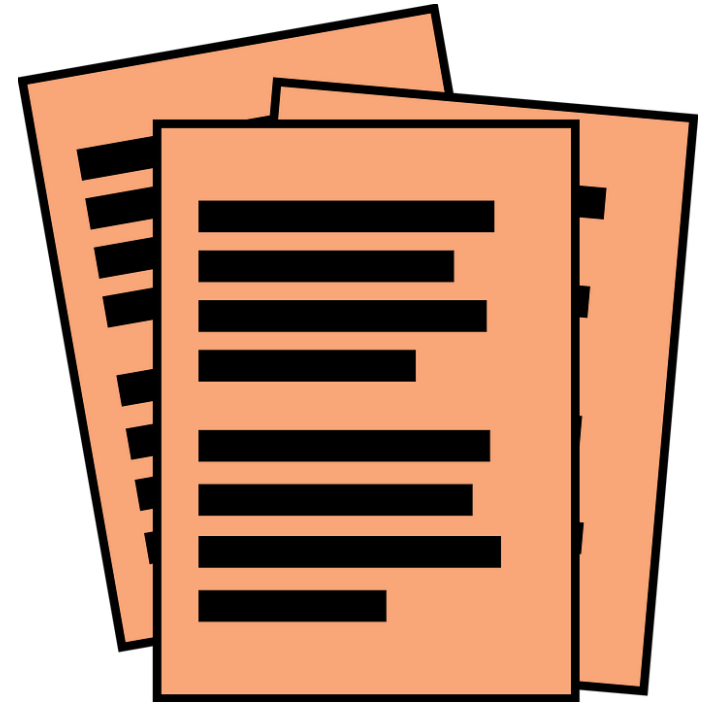
Impact

- Know your cost to achieve maximum reimbursement
- Maximize impact on programs



Full Cost vs. 2 CFR Part 200 Plan

- A full cost plan is *less conservative*, but still follows the process that 2 CFR part 200 lays out.
- Uses budget numbers to more accurately reflect what is truly going on in the city going forward.
- Includes costs that are excluded under 2 CFR part 200 guidelines, such as general government expenses, sub recipient funds, fundraising, etc.
- More accurately reflects the true full cost of doing business.



Full Cost vs. 2 CFR Part 200 Plan



- A 2 CFR part 200 plan is a *very conservative* cost plan that strictly follows the guidelines put in place by the feds.
- Actual costs of the last closed book fiscal year must be used to estimate future cost (Costs are always looked at in arrears).
- Many costs are excluded from the 2 CFR part 200 cost plan (e.g. sub recipient, fundraising).
- 2 CFR Part 200 also excludes departments that do not support the entire city as a whole (Public Works and other departments that are administrative in nature).



Methods Used to Calculate a Cost Plan

The allocation bases used in the cost allocation plan are based on the service that is received.

If you do not receive a service, you do not receive a cost associated with it.

As the years go on, staff will continually refine and improve allocations as they determine what information is pertinent.

First year methodologies are based on the best information available. It is sometimes necessary to allocate out the cost based on an allowed general allocation, such as expenditures or FTE's per department/program/grant, until better data collection methodologies are implemented.



Methods Used to Calculate a Cost Plan

All Costs must be:

Reasonable

- Ordinary and necessary to accomplish the purpose of the contract and comparable to market prices.

Allowable

- As per the regulations. An example of unallowable costs are the costs for fundraising activities. Those costs are not allowed.

Allocable

- The expense must benefit the cost objective per the Scope of Work.

Consistently Applied

- You cannot switch methods to generate more revenue or treat one cost as direct for one contract and indirect for another.

Documented

- The methodology for allocating cost must be documented. This includes Time Studies and Functional timesheets.



Uses for a Cost Plan

FULL COST

2 CFR 200

- Reimbursement for services from non-General Fund operations within the agency.
- Calculate the indirect cost for strategic budget decisions. Should we take on the grant or pass?

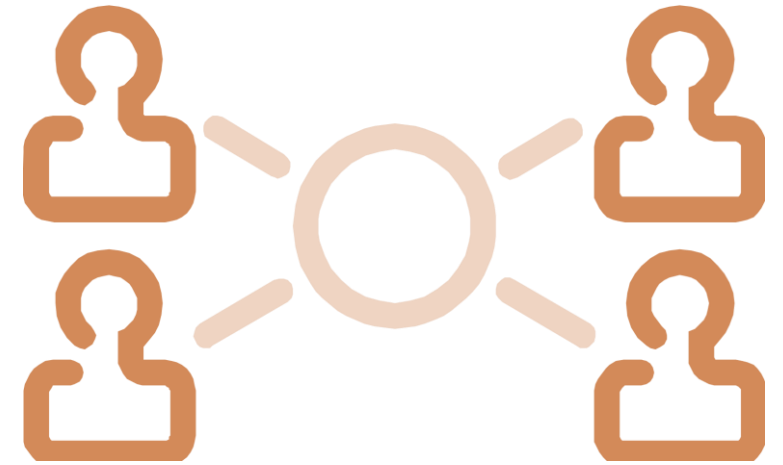
Federal State grant reimbursement

Fully understand the true cost of a department to make sure that leadership team can effectively manage department's resources and demands.



Stakeholders – Getting “Buy-In”

- Getting organizational buy-in early benefits the entire planning process
- Departments/Staff who participate in the review process:
 - Take ownership of their allocations
 - Obtain a more accurate reflection of costs
 - Understand the services being received



Benefits of an Approved Cost Plan for Grants

- Full cost of service enables you to calculate accurate cost of grants
- Single source for all agency-wide indirect costs that can be traced, audited and understood by any person interested in reviewing
- Only paying for cost related to your operation and the services you receive, not covering any other cost
- Able to use the OMB plan to receive federal grant funding
- Provides a uniform method for:
 - Funding indirect costs
 - Charging indirect costs
- Understand Full Cost of the services so you can make strategic decision on whether or not to take on a particular program or grant.
 - It might cost you more to take on the grant then if you chose to pass on it.



Case Study :

American Rescue Plan Act (ARPA) Funding and General Long Term Grants

1

No Indirect Cost
Reimbursement - SUBSIDY

2

Indirect Cost Application
and Strategic Decisions
and Reimbursement



Scenario (1) ARPA Funded Project

Police Department							
Understand your True Cost to make better strategic decisions.							
Expenses	Patrol	Operating Grant	Mobile Command Post Upgrade	Police CAD System Replacement	Police Admin	Indirect Cost	Total Cost
Salaries	\$1,500,000	\$350,000	\$10,000	\$250,000	\$650,000	\$2,000,000	\$4,760,000
Benefits	\$700,000	\$125,000	\$3,000	\$78,000	\$275,000	\$800,000	\$1,981,000
Office Supplies	\$50,000	\$10,000	\$0	\$5,000	\$15,000	\$50,000	\$130,000
Prof Services	\$200,000	\$0	\$0	\$1,000,000	\$0	\$250,000	\$1,450,000
Printing	\$500	\$15,000	\$0	\$0	\$1,500	\$10,000	\$27,000
Telephone	\$100,000	\$1,000	\$0	\$0	\$15,000	\$4,000	\$120,000
Other service and Supply costs	\$75,000	\$25,000	\$120,000	\$150,000	\$0	\$7,000	\$377,000
Capital Outlay	\$50,000	\$750	\$0	\$2,817,000	\$0	\$4,625	\$2,872,375
IT Cost of Service						\$350,000	\$350,000
Building Occupancy Cost						\$450,000	\$450,000
TOTAL Direct and Indirect Cost	\$2,675,500	\$526,750	\$133,000	\$4,300,000	\$956,500	\$3,925,625	\$12,517,375
Total Indirect Cost Allocated through CAP	\$686,640	\$1,033,826	\$150,000	\$2,023,706	\$31,453		\$3,925,625
Total Police Admin Cost allocated through	\$363,019	\$150,000	\$160,984	\$313,950	\$ (987,953)		\$0
Total TRUE COST	\$3,725,159	\$1,710,576	\$443,984	\$6,637,656			\$12,517,375
Subsidy	\$1,049,659	\$1,183,826	\$310,984	\$2,337,656	\$0	\$0	\$4,882,125
			70.04%	35.22%			

- The police department has major programs such as Patrol but it also supports the grant related project.
- The total cost of the Police CAD System Replacement (ARPA Funds) support is \$4.3 Million of which approx. \$1.48 Million is operations.



Scenario (2) Full Cost Recovery with a Cost Allocation Plan (Green Column)

- Department can recover the fully loaded, true cost of the grant program. All agency-wide indirect support is accounted for and reimbursed as well as department level administration.
- Department can use the cost allocation plan as a managerial tool to optimize their resources.
- Shows not only the true cost of all operations, but also the true cost of individual grant programs.
- With a cost allocation plan, you can make an informed decision about whether to take on a grant program because you know how much it will really cost you.

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(In our example the project will cost 1.5times more than originally budgeted. Do you have the subsidy available? How will you get it?)



Tailoring Your Cost Plan to meet the requirements of ARPA and Grant Funding



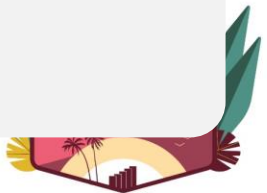
Do you have a 2 CFR part 200 Cost Allocation Plan?



Do you have a Negotiated Indirect Cost Rate Proposal? (NICRA)

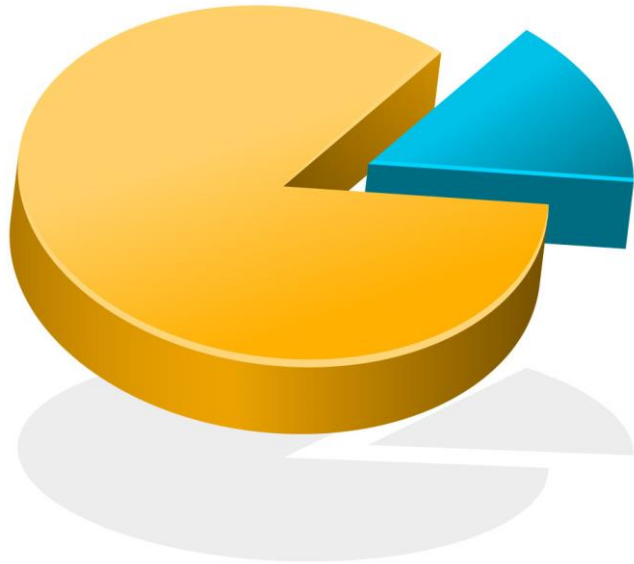


How do you obtain one?



Accounting for Cost Plan Anomalies Related to ARPA

Did you establish a separate special revenue fund or cost center to account for ARPA?



- Consider the impacts to your cost plan, as indirect costs that are allocated to ARPA will reduce the allocations to other funds
- If you don't collect for indirect costs, your support departments are essentially subsidizing ARPA at the expense of other programs and funds
- Indirect costs should be allocated to ARPA on an individual project basis



Maximize your Indirect Cost Reimbursement EVEN if there is a CAP

- Does your grant have an administrative cap? (i.e. 5%, 10%)
- Having a NICRA allows you to maximize this cap.
- EXAMPLE:

	Awarded	Draw Down based on actuals	Balance Remaining
	\$5,000,000	\$2,500,000	\$2,500,000
admin cap 10%	\$500,000	\$250,000	\$250,000
NICRA 37.5%		\$937,500	Admin based on NICRA
		\$250,000	Additional drawdown
		(\$687,500)	(subsidy = Stand in cost)
Total grant	\$5,500,000	\$3,000,000	\$2,750,000
		Collected because of NICRA	Amount to collect without NICRA



Using Indirect Cost to Meet Match Requirement

EXAMPLE:

Workforce Innovation and Opportunity Act.
(Funding Source: U.S. Department
of Labor/Employment and
Training Administration.)

Match Requirement of 25%
on \$1,000,000 grant.

Requires \$250,000 in match. Currently using
Direct cost to fulfill match requirement.

Indirect cost rate is 22% on this grant
from the agency

$$22\% \times \$1,000,000 = \$220,000$$


Your match requirement can be fulfilled by using indirect cost
\$220,000 (indirect) + \$30,000 (direct) = match requirement.

This now leaves you **\$220,000** that your agency came up with for direct expense that you can increase
in spending on this grant OR you can use towards a **NEW** matching grant.



Don't Keep it the Same!

Are There Costs That Can Be Re-Classified?

- Indirect  Direct (indirect)
- Federal guidelines have changed.
- Agencies change from year to year

← OLD WAY
NEW WAY →



QUESTIONS?



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