**Workforce 3One**

**Transcript of Webinar**

**Overview of Indirect Costs for ETA Discretionary Grantees**

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BRIAN KEATING: All right. Welcome, everybody. Thanks for joining us today. My name is Brian. I'm here if you need anything technically today. Hopefully you won't. I'm going to get myself right out of the way here. We have a large audience today. Thanks for joining us on this Friday afternoon.

Do want to appreciate everyone who's taken time out of their day so far to go ahead and attend and also to type in who you are in that welcome chat on the left-hand side of your screen. If you haven't already done that, go ahead and type in now who you are, the name of your organization or group, where you're physically located in the country, and how many are attending, if you are in a group.

And we're going to leave that welcome chat up for another minute or two, and then we'll have an opportunity to – some very similar chat will be there so you can ask questions and make comments throughout today's event. We definitely invite you to do that at any point throughout today's webinar, and we'll make room to answer as many as we have time for.

Also maybe you notice we have a polling question on your screen right now. We'll go ahead and bring that up in a minute or so, if you didn't get a chance to vote yet there. And last but not least, the file share window has today's presentation. So feel free to go ahead and download that, if you haven't already done so.

Also you may have noticed that my voice should be coming through your computer speakers right now, but just in case it isn't or you have trouble with that, we've got some guidance for you. You might need to close any windows on your screen or programs that might be taking up bandwidth but – so feel free to go ahead and do that.

Close any programs you don't need because it is depending on your internet connection. And we do have limited room on the teleconference, but if you need it and you're having trouble with the audio, go ahead and use the information on your screen to dial into the teleconference. So again, only if you need to, but if you're having trouble with the audio, go ahead and dial in. That's available for you as well.

All right. I'm going to go ahead and get myself out of the way as promised. Welcome, everyone, to the "Overview of Indirect Costs for ETA Discretionary Grantees" webinar. And to kick things off I'm going to turn things over to Debra Galloway, fiscal policy lead in the Office of Grants Management. Debra?

DEBBIE GALLOWAY: All right. Thank you, Brian. Good afternoon, everyone. On behalf of the Employment and Training Administration, we welcome you to this afternoon's webinar on indirect costs for discretionary grants. This is the second part of a three-part series. Joining me today is Victor Lopez, the division chief of the Division of Cost Determination, otherwise known as DCD located in the Office of the Assistant Secretary for the Administration and Management also located in the Department of Labor.

Victor has started working in the Department of Labor in 1987, and he joined the Division of Cost Determination as a cost negotiator in 1995. He was promoted to DCD chief in 2003, and he currently supervises seven cost negotiators that are responsible for the review of indirect cost proposals across the country and the territories. He is also a member of a work group that includes cost negotiators from other federal cognizant agencies such as HHS, education, the Department of Interior, National Science Foundation, the Office of Naval Research, and the United States Agency for International Development that work collaboratively on monthly calls.

He has also worked closely with the grants management office and has consulted with ETA on audit and closeout matters affecting the tracking and reporting of indirect costs. Victor resides in Virginia and he is the proud father of two daughters, ages 10 and 19, and he holds a bachelor's degree in finance and accounting from the University of Puerto Rico.

Today's webinar is designed specifically for discretionary grant recipients and its subrecipients and will cover some of the same areas as last week's webinar on Cost Allocation 101 but we'll go into more specifics about what your organization will need to do in order to obtain an indirect cost rate. Thank you, Victor, for participating today and in the next webinar in a couple weeks.

As we get started, please type in any questions that you may have in the chat room so we may answer those at the end of the webinar. For those questions that we do not have time to answer, Victor has graciously agreed to post those questions on his office website which can be found in the resource section of the webinar. Before we begin we also have a polling question that is on your screen, and we would like you to take a few minutes to answer the question so we can better gauge the audience that is joining us today.

MR. KEATING: All right. And we just brought that up for you. So you may have already voted in this earlier, but we brought that up again. So if you haven't voted previously, go ahead and vote now. And the way to do that is the question and the choices are on your screen. So again, the question is, what is your involvement in the indirect cost process? Go ahead and choose one of these options by clicking the radio button on your screen right now. So your choices are extensive, limited, ancillary, or none.

Go ahead and vote now. I'll give you another few seconds to do that, and then we'll go ahead and move on. So talk amongst yourselves, if you're in a group, and make sure to choose one of these options if you haven't already voted.

All right. Debra, I'm going to turn things back to you to comment on what you're seeing.

MS. GALLOWAY: OK. All right. So it looks like we have a good mix of people here joining us today. We have a lot of people that have a limited knowledge of indirect cost and it looks like they're here to learn a little bit more about the whole entire process of submitting an indirect cost proposal and finding out some answers as to what does it take to get a rate approved along with some other people that probably have intimate knowledge in preparing an indirect cost rate proposal as well as people that otherwise support the process either as a federal project officer or an auditor. And then of course we have a few people that would have no familiarity with the indirect cost process and want to hear more about it.

With that being said, I will now turn it over to Victor who will lead us through today's webinar, which if you have not received the update, we expect to host this webinar for the next 75 minutes rather than 90 minutes. Now, I'll turn it back – or turn it over to you, Victor. Thank you.

VICTOR LOPEZ: Oh, thanks, Debbie, and thanks Brian as well for putting this webinar together. Why don't we slide to the next slide? Here we go. Our office has been in – the Division of Cost Determination has been in existence since 1972 when we were responsible for negotiating indirect cost rates and cost allocation plans from grantees, contractors, state and local governments. And the –

MR. KEATING: And, Victor, just getting some – sorry. Just getting some feedback. If you could speak a little bit louder or get closer to the microphone, that would be great.

MR. LOPEZ: So briefly again, this slide just to show the little brief explanation of what we do for the Department of Labor, and we've been working in the capacity of federal cost – (inaudible) – since 1972. And we are reviewing direct cost rates and cost allocation plans along the lines with the applicable cost principles for state and local nonprofits and also commercial entities. And to the next slide.

This slide shows the Division of Cost Determination website, and there's a highlight in yellow the actual URL address so you can access those resources that we have. In that again we provide a brief explanation of what we do. We negotiate rates, cost allocation plans. We also do pre-award cost price analysis, and we also help with audit resolution. On the left side of that website when you access, there is good information as well on the topic side. We got frequently asked questions. For example, the questions that we're going to attempt to answer at the end of this session, where they're going to be – we're going to attempt to have them there in that link under topics under frequently asked questions.

We also got guidance for indirect cost rate determination for nonprofits and commercial entities, and that's basically a pamphlet, 50 or 60 pages, that has information on how to put a cost proposal together. We also got external links that will give you to the regulations that we administer to CFR Part 200 or the federal requisition regulation, links to the HHS site as well. So there's also a link to partial list for other cognizant agencies.

So we got about six or seven links to, for example, the HHS site or Department of the Interior site, the Department of Education site. So if we happen not to be the federal entity that's giving you the – (inaudible) – direct federal funds – that is, the federal cognizant agency concept – then you can go to them and talk to them about the – about putting the proposal together and get guidance directly from them. Next slide.

This is a screen shot from the website, and that shows the guide that I was talking to you about, the – which you can use to put a – to use as a resource to put a proposal together. There's a number one and there's a number two. The number one applies for organizations that have – for proposals that are with fiscal years beginning prior to 12/26/2014, which are the old regs. And then we got on number two the guidelines related to how to put a proposal together using the super circular or 2 CFR Part 200.

Last week we added Excel sheets which provides schedules of the exhibits that typically that I use to put a proposal together. And again, that is helpful there. So you can access as well as the Excel sheets are also a good source to start putting a proposal together. Obviously, you will need to check formulas, you wanting to follow your own chart of accounts; but at least that gives you a framework on at least something to start with when you put a proposal together.

Again, I told you that we have regulatory guidance in there. So there's regulatory guidance related to 2 CFR Part 200, frequently asked questions from the COFAR website – the Council on Federal Assistance Reform website – which works, dated September 2015. Again, something that is not answered in the uniform guidance, that's something – that sometimes I go to those questions to find out the answer.

So the old guidance, OMB Circular 122 is there for nonprofits, 87 as well as the federal acquisition regulation. So think about this website as your one-stop shop to find resources related to how to put a proposal together. You don't need to go anywhere else. The regulatory guidance is going to be there, and we got the frequently asked questions, like I said. So when – plus also there is contact us. When you click on contact us, my name and number is going to be there as well as the other cost negotiators that we have available. We got a total of seven cost negotiators working for this office.

Again, topics that we will cover, we talked about the DCD website and why does an organization needs to have a federally approved rate? How often proposals are due, what is a rate, common allocation bases and examples, types of indirect cost rates? What should be included in proposals? Our negotiation process. Something very interesting that has come up, who approves indirect costs when receiving a federal award as a subrecipient? What are the requirements of pass-through entities, prime recipient, in reviewing and approving indirect costs of its subrecipients? And other common Q&As that we have elevated to putting into the presentation. Why don't you go ahead?

When we're talking about indirect cost, I notice on a lot of people have limited experience about this process. Sometimes I just go to basics, and back in the day when I was in college, I had roommates and we didn't know how to split rent. We thought how we wanted to split rent cost and utilities, and back in the day this is elevated just in present value I guess – $2,650. There's two methods showing there in that slide just a simple example on how to calculate an indirect cost rate on method two.

But on method one we use splitting rent and utilities on an example of three roommates splitting rent and utilities I guess. So $2650 divided by three, everyone will pay $883 of rent. That's one method. Again, there's costs that you can readily identify like rent and utilities how you typically do that. So most people would split it three ways, and everybody will pick up a share of those costs.

So method two is basically using an alternative method to allocating direct cost. So the alternative method to allocating direct cost is using those same roommates' salaries on a monthly basis. So one roommate earns $5,000 a month and the other one $4,000 a month and the roommate C earns $2,000 a month. A total of those salaries is $11,000, and we divide the total rent cost of $2650 over $11,000 and that will give you a 24 percent rate.

You multiply that rate times each salary, and that will give you the share of allocable rent and utilities cost for each roommate. So roommate A will pay $1205, $964 for the second roommate, and roommate C $482. Again, total of that is $2650 all allocated. So again, if you understand that, I mean, this is what we're going to discuss next. Other examples are not different from this. Again, we got costs that we need to allocate.

We find a reasonable way to allocate the cost using salaries and we calculated a rate. We apply the rate times the applicable salaries and we come up with allocable expenses for rent and utilities. Hopefully you get that. If you get that, you're going to get, like I said, the other examples that we're going to show you. Why don't you go ahead to the next one?

Again, so this is one of the Q&As that we got on the website. A lot of people ask about this question. Why do we need to have a federally approved indirect cost rate? Well, for starters, it's for compliance with federal regulations and cost principles. The cost principles actually state that in a nutshell, that you want us to pay a reasonable share of the indirect cost that you have, you have to come up with an indirect cost rate in order to pay our fair share of indirect cost.

It's also required in federal awards to support claimed indirect costs when the organization receives more than one federal grant or contract in a given fiscal year. It's also good for management information, documentation for auditors, and closeout purposes. Sometimes I highlight it a lot, management information. Even if you are not federally funded, you like to know what are your overhead expenses and what type of allocable cost you have. So it's good to always have what is your typical overhead rate and so you can know how much overhead you have across the company or across the nonprofit. Why don't you go to the next one?

This slide relates to how often the proposals are due. 2 CFR Part 200 provides guidance on how often these proposals are due. The federal organization regulation also has – on the contractor side has similar requirements. In 2 CFR Part 200 when, for example, you get a grant today, the federal regulations say that within 90 days of the grant award you have to submit a proposal for indirect costs to your federal cognizant agency.

I mean, that concept of federal cognizant agency is going to come up in the next couple of slides. I'm going to explain that. And then after your costs are incurred for the applicable fiscal year, you have to submit another proposal within six months after the close of each fiscal year – I meant to say proposals.

For example, if you got a grant that is a three-year grant, you will need to submit probably four proposals all together, depending on the overlap on fiscal years that you have. Rates are negotiated on a fiscal year basis, per the regulation, and they must be calculated based on actual costs incurred. And why don't you move to the next slide?

Who approves indirect costs for direct federal awardees? This is the federal cognizant agency concept that I was talking to you about. Basically, whoever gives you most of the federal dollars directly is your federal cognizant agency. Like I said, there's a link there to Department of HHS, Education, Interior, and a couple of others that you might need to contact they happen to be your federal cognizant agency. This is important to highlight.

For example, you may be a grantee of Department of Labor. For example, you get a grant today, but you happen to receive most of your direct federal funding from HHS, Health and Human Services. The Department of Health and Human Services will be responsible for negotiating and approving the indirect cost that you have, not this office, not Division of Cost Determination. Only one federal agency approve indirect cost rates federal-wide.

So that way you don't have to submit proposals to a lot of federal agencies. So once it's approved, the rate that we approve is approved federal-wide. So you can use the rate agreement that we issue as support for your – the indirect cost that you're claiming on other federal awards, then the next.

These are talking about the cost principles. The cost principles say that in order for cost to be allocated, they must be allowable, reasonable, and also allocable. There's definitions of those terms in 2 CFR Part 200.403 through 405. And I won't get into the details on it, but remember that they actually got into the details in the prior presentation. Why don't you go ahead?

Unallowable costs, there's certain unallowable costs that are not allocable to the federal grants and contracts such as expressly unallowable advertising and public relations cost, bad debts, contributions, entertainment costs, fundraising and lobbying. Fundraising and lobbying is the cost that a lot of nonprofits incur. It's expected because they don't make a profit. It's a cost that they typically incur but cannot be allocated to their federal grants and contracts.

Similar with advertising. You can advertise yourself on TV, radio, and so on. That type of advertising will be unallowable unless it's required by the grant to actually be advertised following the grant requirements with approval from the grant officer or contract officer.

Entertainment costs as well. I mean, if you got a party at the end of the year, for example, and you're going to incur alcohol expenses, alcohol expense is the cost that you can incur but you cannot allocate back to the federal grants and contracts. So along those lines is what this – the – what this slide is trying to get at. Why don't you go ahead to the next one?

Total costs. What are total costs according to the federal cost principles? Total costs equals direct costs plus indirect costs less applicable credits. There's the citation there so you can see more on that. Why don't you go to the next one?

Direct costs. What are direct costs? They're costs that are not readily identified with a particular cost objective, and that could be, for example, salaries for ETA program staff, staff that are directly allocated to the program 100 percent. That's a direct cost. Space occupied by direct staff. You hire staff for that grant, for example, and they – obviously they need space to have – so they can work.

So the space – if, for example, square footage is used as a base, that could be also directly charged and consistency, that's something that is part of the cost principles as part of allocable costs – allowable costs. I'm sorry. That also need to be considered consistency when you allocate, for example, space, space costs. Supplies, again – (inaudible) – nickel and dime.

It's not overhead type of expenses, but there's supplies that you can associate with direct staff that could also be directly charged. Communications, for example, instruments or cell phones and – which are required by the grant and direct staff needs it, that could be also directly charged.

So what are indirect costs? Why don't you click it again? Go all the way. I'm sorry. Indirect costs. Indirect costs are costs that are not readily identifiable with a particular cost objective. And again, that will be – when you're looking at a nonprofit, for example, you're going – (inaudible) – director, accountant, fiscal, HR, the payroll function, IT. Those type of costs in general sense are overhead expenses.

Space occupied by indirect staff – and I will go – push more, for example, the common areas, the bathrooms, that will be overhead. Supplies used by indirect staff, obviously any pens or pencils that they need in order to work, that will be also an indirect expense again associated with the indirect staff.

Communications, similar to the other one, cell phones that they need. If those folks work 100 percent, it's overhead expenses. If they share some of their time directly and indirectly, costs would be charged as an indirect cost.

Consistency must be observed. When we're talking about direct and indirect cost, consistency must be observed to consider them allowable. In the example that I provided before – for example, rent – again must be allocated directly and indirectly consistently across all grants and contracts and any overhead, for example, using one common allocation base, for example, square footage. If you use square footage as a base, square footage should be the basis to allocate rent directly and indirectly. So consistency is a really key in allocating costs. That's something that we look at.

We also have – when we're talking about the – we're going to talk about the things that are – should be included in the proposal but the cost policy statement is a document or a narrative that is submitted typically once a year unless you got changes in the way you allocate costs.

We need to somehow in the cost policy statement – you provide narrative as to how you allocate cost from salaries and – (inaudible) – all the way down to all the costs that you have using the chart of accounts. That tells me – because I'm not on your end, that tells me how you allocate costs directly, indirectly, and so on. Why don't you go ahead?

Typical nonprofit organization, this is an organizational chart. This is very simple, but I just want to get the point across. Again, you got your executive director, fiscal officer, secretary/receptionist, and those – that left side of the screen, for example, that will be the folks that are – that the costs that are associated with overhead expenses, your indirect costs, your indirect cost pool.

So the left side of that org, that shows the overhead expenses. On the bottom side of it is the operating programs of the nonprofit hat. So you got HUD programs, DOL programs, nonfederal programs. So all costs associated with those programs, they're direct. So they're considered part of the allocation base. So as you see that graph, obviously all the programs that are there benefit from the executive director, fiscal, secretary/receptionist, and all associate costs on the left side of that screen. So it's a good slide to show. Why don't you go ahead to the next one?

Indirect cost rate. When we're talking about an indirect cost rate, what is it? I mean, we talked about it in the simple example that I mentioned to you earlier today. But it's a ratio whereby an indirect cost pool is divided by a direct cost base which is then expressed as a percentage. So pool divided by base equals rate. Go ahead on.

So what are common indirect cost rate allocation bases? Direct salaries including or excluding fringe benefits, total direct costs, modified total direct costs. We had another example, for example, total direct costs excluding capital expenditures, flow-through funding, participant support costs, and the first $25,000 of each subaward. There's actually a definition for MTDC – or modified total direct costs – in the 2 CFR Part 200 guidance.

Again, these allocation base, again you need somehow, some way you need to somehow allocate indirect cost to the benefiting funding sources. So the benefiting funding sources that you have, you may use the associated direct salaries and benefits, total direct cost, or some type of allocation base. So you can put those costs in the denominator so you can properly calculate the indirect cost rate and put the proposal together.

We're going to show you two other simple examples – in my view, hopefully in your view too – of using total direct salaries and total direct costs. In these examples, we got total costs on the left side of $936,700, and on the left side you got salaries, benefits, and other costs, obviously because we putting a lot of information in this slide, this could be a comprehensive worksheet.

The left side would typically have your chart of accounts, salaries, benefits, travel, supportive services, legal, all costs will be on the left side of that spreadsheet listed in the first column. Then to the left you got total costs in green, which is a column that totals B plus C plus D, which is any unallowable costs that that entity incurred that must be taken out of the indirect cost pool in order to be allocated out.

You got indirect costs in column C which shows $150,000, and that shows costs again that are not readily identified with any grant or contract, your overhead type of expenses like your fiscal operation, HR, payroll, IT, and so on. And then you got in yellow in columns D, E, and F other – your direct costs, associated salaries for them, benefits associated to them, and other costs.

So what goes in the numerator? We talk about what is a rate? A rate is full divided by a base equals rate. So if we got $150,000 of indirect cost not directly identifiable with any grant or contract, that goes in the numerator. And we divide that by the denominator which is $519,000, and those will be the salaries. So we're just taking the salaries to allocate those costs out. So if you look at the arrows, we take from column C $150,000, and then we look at the second arrow. We take from column – sorry. That was column D the actual total direct salaries of $519,000. That's going to give you a 28.9 percent rate.

So then what do you do with the rate? You then will multiply the rate times the allocation base for each funding source. So when we apply the indirect cost rate to each funding source, 28 percent – 28.9 percent, for example, times the $219,000 under the VETS program, that will give you $63,000 of allocable indirect cost. And then the difference will be $86,000 to all other funding sources.

So again we allocated out $150,000 that were not directly identifiable to any grant or contract, and then we got total costs per cost center – that is the last line – showing total direct costs for VETS, for example, $324,000 plus their allocable indirect costs of $63,000. That will be $387,000 under VETS and $538,000 under all other funding sources. Again, this is typically same as total costs, just to try to get the point across – total costs must reconcile to the financial statement. That's the footnote that we have in there.

This is similar to the previous slide but rather than be using total direct salaries, in that case we're using total direct cost. As you notice, the rate goes down to 19 percent. We took $150,000 divided by total direct cost of $776,700. Look at the arrows, and that will give you the allocable share of indirect cost to the funding sources, $62,708, $87,292. If you notice, I just want to get the point across, that sometimes organizations ask me, well, how can I get the rate up or how can I get the rate down?

The rate, in a way, is cosmetic. You need to see what that rate is applied to and then determine how those costs are allocated and how much money each funding source gets when applying either methodology, the methodology that you want to propose versus another methodology to allocate indirect cost. Next slide.

So we're going to talk about rates that we could approve or grant officers can approve. Billing rate is typically negotiated for 90 days by grant or contract officer here in the Department of Labor. For example, you got a grant today. By the time we get the proposal, which the regulations say you got 90 days to submit it, and by the time you start properly billing indirect cost, it could take some time.

So organizations – here in the Department of Labor, grant officers allow them to bill indirect costs using a billing rate for 90 days that is approved by a grant or contract officer. Again, when they approve that, when we – we meaning the federal cognizant agency – when we approve the rate – any rates that are approved by the grant officer or contract officer – (inaudible) – will need to be adjusted going back to the rates that we approve because obviously we get the proposal; we see all the scales; we reconcile back to financial; we see the budget; we see the proposal prepared based on some type of basis and that type of thing.

The de minimis. The de minimis rate is guidance that we got in the 2 CFR Part 200 and that is available for organizations that have never received a federal indirect cost rate. That is reviewed and approved when you apply for the grant. I believe it's one of the options that you have when you apply for the grant.

So if you have never negotiated federally approved indirect cost rate before, that's an option that you could entertain in using as opposed to, for example, submitting proposals to us and negotiating rates and so on. The whole intention of that de minimis rate is to alleviate burden in a way. So that is something available per the regulations that organizations could consider using to support the indirect cost to subsidize in a way the indirect cost that the organization has.

There's a ceiling rate. I think that's going to go – I mean, that's been in prior slides, but I think it's going to go. Per the regulation now in 2 CFR, the ceiling rates are no longer permissible unless it goes all the way and clears up the chain of command here Department of Labor or any other federal entity, for that matter. But it's a maximum rate at which indirect costs may be covered under a particular award. And what I just said, there's guidance in 2 CFR Part 200. I can't recall, but I can put in the Q&As related to the ceiling rate issue. I can elaborate later on in one-on-one if anybody has questions on that. Why don't you go ahead?

This is typically what we in the Department of Labor, we approve. We – for most nonprofits it's a low risk, and we approve this type of rate, provisional to final. Provisional rates are set by the federal cognizant agency, a rate based on projected information, historical information, or a combination based on the entity's fiscal year. The rate allows for indirect costs put in the grant until the rate can be finalized.

So say that you submit a proposal today, for example – and this is federally – so say you get a grant today and you submit a proposal within 90 days. So June, July, based on the information that you provide, for example, we could approve an indirect cost rate starting – assuming calendar year 1/1/16 – through 12/31/16. Obviously that's – that will be budgetary. It will be on a provisional basis. So six months later, coming June 30, 2017, that rate will need to be finalized, again, because what we approved was based on a budget on a provisional basis.

So when your actual comps come in, then we would need to get another proposal to finalize that rate and determine whether or not you need to – you want to recoup indirect cost or you over-collected indirect cost. It could be either or with that type of rate structure.

Finalized, we briefly talked about it, provisional to final. Again, it's set by this office or any other federal cognizant agency. It's experienced rate-based on the actual data from the organization's fiscal year based on actual cost. All provisional indirect cost rates must eventually be finalized. There's a citation there from 2 CFR where you can actually look at the definitions for provision, final, fixed, predetermined, and so on. Next slide.

Fixed rate is also set by us. It's not typically available for nonprofits. We typically do those type of rates for state and local organizations or organizations that have been in business for a long, long time. So it's a permanent rate that is not subject to change. Any difference between estimated and actual costs are carried forward to adjustment to rate computations in future periods. That's typically two years ahead. Next slide.

Predetermined rate is set by the federal cognizant agency again. It's a rate negotiated certain – by a certain length of time, usually several years. Not subject to change. That could be available for also organizations that are – that their funding is pretty steady, consistent for many years, and this is a high risk type of rate in a way where it's a good rate to have because, I mean, that way you don't submit proposals on an annual basis.

But it's risky in a way because if, for example, we negotiate a rate of, say, 25 percent based on direct salaries and wages, and then the actual indirect cost rate happened to be 30 or 35, you may not be able to recoup those costs. Actually, not may not be able, but rather, you're not going to be able to recoup those costs based on the concept of what a predetermined rate is to begin with.

What should be included in proposals? This is available in our website in the resources that we have for the how to put a proposal together. It's in one of the screenshots that I gave you where you can get access to our indirect cost guide. So when we get a proposal, we typically will have a checklist where you can reconcile what you submit to that checklist.

So typically the first year we get the organizational chart again just to get a sense of how you guys are structured. We get examples of timesheets as documentation to support personnel expenses. That is important to address. Debbie talked about that last – in the last presentation where obviously you need to – in order to – you have to have some type of system where you can allocate time for staff directly and indirectly.

You should want the federal government to recoup – if you want to allocate any salary portion of those salaries, somehow they need to be verified, documented, and there are standards for documentation of personnel expenses in 2 CFR, which were highlighted in the previous slide presentation and also – (inaudible) – in 2 CFR. We're not going to get into the business of it, but you got any questions, give us a call.

So going down the list, we mentioned in the previous slide that we need to have the cost policy statement, which is the narrative title to the proposal. The cost policy basically tells me how you allocate costs. So it's needed. We need to know that. We ask for a personnel cost worksheet or an allocation of personnel costs showing a list of individuals that are part of your organization and see how they allocate time directly and indirectly.

We also want a statement of fringes, fringe benefits, statement of total costs. Statement of total costs we talked about that in the examples that I was giving you – simple example, that is. At the end you also need to certify the proposal, certify in the sense that you exclude unallowable costs, the costs are local or regional. There are examples of those certificates in 2 CFR Part 200 and also in our website in our guidance. That one basically you need to fill in, date it, and you'll be done obviously realizing or recognizing that you put a proposal together in the sense of what is allowable, what is allocable, and what is reasonable?.

We also ask for financial statements. Financial statements especially needed to support final rates so we can then reconcile total costs in the proposal for indirect costs and total costs in the financial statement.

Lastly we ask for a list of federal grants and contracts showing source of funding, grants/contract amounts, and relevant dates. And that is needed because in my office I don't know who is funding you. You may get grants from the Department of Labor or any other federal agency, but for example, if I'm the federal cognizant agency, there's no way that we would otherwise – we would know who's funding you without that listing. (Supporting is ?) notification of grant awards. We typically ask for the first page so we can verify that you're getting funding – again, getting funding from the federal government and the U.S. Department of Labor.

There's example of exhibits to support the proposal that were – again, I mentioned to you that we got Excel sheets in the website on – if you click on that link, you could also get access to it in a PDF type of version.

The indirect cost negotiation process, rate negotiation process. So what do we do? So when we get the proposal and assuming that we're your cognizant agency, we review the proposal for what allowable and allocable and a reasonable cost. We review additional document, if necessary. We actually contact you on the phone, and if we've got questions, we try to e-mail you. We perform trend analysis, if needed.

We advise of any unallowable, unallocable, or unreasonable cost. We negotiate this cost, if appropriate. We issue a rate agreement to formalize the negotiation and propose a certificate review within 120 days. So we got four months more left to review proposals. Typically we're on target for most organizations, not all. We also – always every year, being here for a long time, and every year we're always going to have a few proposals that are not completed. That's mostly because the proposals are not – didn't follow the applicable cost principles. And we get questions. Sometimes we need to consult with the solicitor's office on a few issues.

So they may take some time to get them completed. But for the most part we issue more or less 400 agreements a year and most of them are taken care of on an annual basis. But anyway, if you got any concerns on – the few people that are there, we got pending proposals to complete. I encourage you to contact me directly. I will try to be as cooperative as I can and find out what's the hold-up on the issues that you have.

So you submit a proposal to us. We work through negotiation. And then what do we do next? The end of the day we issue a rate agreement. The rate agreement will show a boiler plate which cost principles we will follow and so on, and that template more or less is what all federal entities have that issue rate agreements. We label it negotiated indirect cost rate agreement. We date it. Why don't you go to the next page?

We show the rates that were approved and whether or not – what type of indirect cost rate was approved and for what fiscal years were approved. Again, we're using the entry fiscal year and what is applicable to all programs or certain programs that you have. Go ahead again.

We also describe what the allocation base. We describe how you'll get fringes and treatment of paid absences as well. This is part of section two of the rate agreement. I just want to highlight there the limitations of the rate agreement. There's limitations on indirect cost that you can't recover. You got administrative limits in certain grants that overrules in a way.

And it's also subject to funds available as well. So the rate could be at a certain level – certain products could be at a certain level, but if there's no funds available, you cannot be reimbursed. Also at the bottom we're saying that, highlighted in red, all the rates cited in the agreement are subject to audit. When we get the proposals, we're not auditing them. Audits involves more than that; may require a site visit and so on. We actually do reviews of these indirect cost proposals following guidance that we have internally in the office. Why don't you go to the next one?

Again, if you get this rate agreement, you got to notify the other federal entities that are giving you money and provide a copy of that rate agreement to them. Any changes that you have that are highlighted in the – that, for example, if you reorganize and that's something that may or you planning to move to another location and your rate costs are going to go up and blah, blah, blah, the rate most likely is going to go up.

So we like for you to contact us to seek prior approval to avoid issues. You don't want to move to another location, maybe high-priced location and then allocate those costs to the indirect cost pool. We may get into issues of reasonableness; for example, ways that you try to find out whether or not the new location that you're moving at is comparable to other places that you could do business at. Why don't you go ahead?

If we use provisional-final rate, I just want to highlight that we just revised the rate agreements in early this year and we are adding language related to adjustments. Why don't you go ahead to the next one?

It's basically boilerplate, but, I mean, on the contract side, for example, if we're issuing a contract and you follow the federal acquisition regulation, the FAR says that within 60 days of the (settlement of ?) indirect cost rates, you need to forward that rate agreement back to the contracting officer so they can do proper adjustments and closeout.

On the federal – on the 2 CFR side, on the grant side there's also guidance related to adjustments of final indirect cost rates. So the grant could be closed, but if there's a final rate after the grant is closed and you over-collected indirect costs, for example, and the grants were closed with provisional rates, the 2 CFR is very clear – it says in number 12 as part of the closeout guidance, the obligation of the nonfederal entity to return any funds due as a result of later refunds, corrections, or other transactions including a final indirect cost rate adjustments and collect sensible amounts too. So again, this is boilerplate guidance that is available in 2 CFR basically copy-paste into the rate agreement.

We also got language there for special remarks, and why don't you go to the next one? And the end of the last page you will sign the rate agreement and that we will sign it. We will sign it on the event. So that's basically the whole indirect cost process.

We're getting towards the latter end of the presentation. This issue has come up many times recently. So we decided to go ahead and add a slide to cover – at least address some of the concerns that you have and give a good faith effort to put guidance out there to hopefully address the concerns and questions that many grantees have.

So we were talking who approves indirect costs when receiving a federal award as a subrecipient? Many of the grants provided by Department of Labor, they're provided to pass-through entities who then in turn take that money – pass through that money to a subrecipient who actually does the work.

So at Appendix VII of 2 CFR Part 200 provides guidance on that and basically says that the pass-through entity – and I'll underline that – the pass-through entity will be responsible for negotiating and/or monitoring the subrecipient's indirect cost. That means that you have to review the proposal from the subrecipient and assess whether the allocating direct costs are allowable, allocable, or are reasonable.

Part of 2 CFR guidance 331 also says that as part of the – why don't you go ahead to the next slide? It says that they – that – go back to the previous. I'm sorry.

So the guidance in 2 CFR 331 says all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward. So now, the next one.

So what are the reasons – I'm labeling this one, what are the requirements of the pass-through entity private recipient in reviewing and approving indirect costs of its subrecipients? So we're recommending that, well, you have to require a proposal from each subrecipient every year just like following the guidance that we typically have. This is applicable for provisional, final, fixed with carry forward, or predetermined.

Note that predetermined rates for a number of years or de minimis rate could also be negotiated with subrecipients. We published the guidelines on how to put a proposal together. You have to evaluate the costs; when I say "you," meaning the pass-through entity. The pass-through entity has to evaluate the costs in terms of allowability, allocability, and reasonableness, negotiate and issue a rate agreement to them for the applicable fiscal year, and keep documentation on file. I shall move to the next one.

So in this slide we work quite honestly many hours to try to get the point across. If you look at this slide, the top part, when there's – we try to say when there's direct federal funding and the pass-through entity gets the grant, the pass-through entity has to negotiate a rate with the federal cognizant agency. That will be the same thing for pass-through number one, pass-through number two, pass-through number three. So again, if the pass-through entity is getting a grant from Department of Labor or – they will need to negotiate an indirect cost rate with the federal cognizant agency.

Now, the pass-through entity, like we said, may take some of that money and provide it to a subrecipient so they can do the work. So when that happens, the previous guidance said that in 2 CFR that you either have to negotiate a de minimis rate with the subrecipient, negotiate a rate with them, or if – I went blank for a moment. I'm sorry. Either negotiate a rate with them, do the de minimis rate, or – I guess I went blank.

MR. : (Inaudible) – have a federally approved rate?

MR. LOPEZ: Oh, they have the federally approved rate. I mean, they could certainly use that one, but that will be on right – arrow on the right side. But anyway, we're saying that the pass-through entity should establish a NICRA with the sub or may accept the NICRA approved by the pass-through entity number two or three.

And we put an asterisk on that, and that goes along with pass-through entity number two and three. Again, either pass-through entity should establish a new NICRA with the subrecipient or may accept the NICRA approved by other pass-through entities with the caveat that the proposals must – and this is an asterisk – any – (inaudible) – proposals must be based on provisional/final rates and all pass-through costs from pass-through entities to the subrecipient must be included in the subrecipient's allocation base to recalculate the rate. I know we could try to come up with this language and we try to bring some guidance out there because the guidance that we have in 2 CFR in a way limit it.

So I think this is a reasonable way to handle the flow of thoughts as it relates to indirect costs. And on the right side of the bottom we also got a note that if a subrecipient at some point receives direct federal funding, then a new NICRA would need to be established directly with the subrecipient, direct federal funding. That's that arrow in red going from the top to the subrecipient. That is in the case that the subrecipient starts having direct federal funding at some point.

And also I say in there lastly – we're saying this is something that, quite frankly, perhaps we need to get a legal opinion on it or I think it's a regional attempt that if you get NICRAs between the subrecipient and the pass-through entities, those need to be expired before the federal rate agreement kick in.

Say, for example, that I'm a subrecipient and you're the pass-through entity and you want to negotiate a rate today. Three months later I, the subrecipient, happen to receive direct federal funding. I don't think, quite frankly, it wouldn't be fair to go ahead and throw away what we approved, what we negotiated as part of the rate agreement. So we would then – I think it would be reasonable for those rate agreements to expire and then the federal rate agreement will kick in across the board.

It's almost 3:00 p.m. We have got some other Q&As that we want to throw out there. Again, question number one, "Where do I find common Q&As related to indirect costs?" And again, like we said in the beginning of the presentation that we got, the website has FAQs where you can look at those most common questions typically that they have.

So question number two. "If an entity doesn't charge their full indirect cost, how is the difference absorbed?" Can we charge some grants less on the rate and others the full rate? There is actual guidance in the COFAR website, the Council on Federal Financial Assistance and Reform (sic). And the answer is yes. An organization could charge less than the full rate to applicable funding sources. Why don't you go ahead to the next one?

"Are electronic versions of the ICR spreadsheets available?" We talked again in putting an indirect cost rate together, we got exhibits on how to put a proposal together. They're in PDF, but in the website as well we recently post those in Excel. So basically they're the same sheets, but you can play around with the Excel, again making sure that you convert them to the proper format following the shadow of accounts that you have. Make sure that the formulas are correct; you don't have mistakes in calculating costs and so on.

Question number four, "Is the uniform guidance saying all nonfederal entities must have an indirect cost rate, or is it just guidance on how to implement/use ICR for entities that choose to use an ICR?" We're saying all organizations that want to claim indirect costs and are multi-funded must have an indirect cost approved, including subrecipients. Next one.

"Are indirect cost and direct administrative costs part of the grant's administrative cost limitations?" We're saying indirect costs and direct costs may be classified as administrative or programmatic costs. Either the grant agreement or program statute specifies the cost limitations. The share of indirect administrative costs allocated to a grant must be added to the direct administrative costs to calculate total administrative costs for the grant. These costs must then be compared to administrative cost limitation for that program or grant. We talked about that in the previous session, and you can also contact me directly because I think I can give you good guidance on that.

"Lastly, we're a commercial or for-profit entity who has received a subaward from a grant recipient. Should we follow the Federal Acquisition Regulation, which is the typical regulation for commercial organizations, or 2 CFR?" We're saying for indirect cost purposes, you should prepare a proposal based on the FAR, Federal Acquisition Regulation. For administration – for the administration of the subaward, you must adhere to the uniform guidance at 2 CFR Part 200. I think that's – why don't you go ahead in the –

We got a recap of the stuff that we talked about. Again, why does the organization need to have a federally approved rate? How often proposals are due? We briefly talked about total costs, indirect, direct, allowable, what's allocable, what's reasonable. What is an indirect cost rate? We talked about common allocation bases, type of rates. What should be included in proposals; our negotiation process. Who approves indirect costs when receiving a federal award as a subrecipient, and what are the requirements for pass-through entities and other common Q&As.

I think that's it. We got questions. Debbie, you want to jump in or Brian?

MS. GALLOWAY: Sure. Sure, Victor. I'll give you a little breather, if you want to take a look at the questions that came in. While you were doing your presentation, I looked at a few of the questions, and I'm able to answer those.

Quite a number of questions that came in were around the modified total direct cost and the definition of modified total direct cost. As you know, the uniform guidance was originally published in December of 2013. Since that time I think at least three, if not four, sets of technical corrections have been released since them.

And in the technical correction for the publication that was issued in the Federal Register on December 19th, 2014, the definition for modified total direct cost did change. And so originally when everyone was first introduced to the uniform guidance, it had included both subawards and subcontracts. The new definition, however, only includes subawards. So the slide that a few of the folks on the line had asked about was in regards to whether or not contracts are included in that.

And so the definition at 2 CFR 200.68 says that it's up to the first $25,000 of each subaward. So it does not include subcontracts for the purposes of using the modified total direct cost as a basis to allocate indirect cost. So that's one question that came in.

And just another good tidbit of information is, if you are using or training your staff on the uniform guidance, I would suggest pulling down the uniform guidance from the actual government publishing office. And so the government publishing office at www.ecfr.gov does contain all of the technical corrections that were published over the last year or so. So if you're using an actual hard copy of the Federal Register, those federal registers of course does not contain subsequent technical corrections.

One other question – or a few other questions that came in. One question came in. "How can an agency obtain approval for using the de minimis rate of 10 percent? What specifically is the process for gaining approval?" As Victor had indicated throughout his presentation, there's a few conditions that must be met in order for an organization to use the de minimis rate. The first condition is the agency must not have ever received an approved indirect cost rate.

So you cannot have had a negotiated or approved rate at any given time, and you must be an organization that receives less than $35 million in federal funds in a given year. And if you have received a discretionary grant from the Department of Labor, if you look at your grant agreement, there is a section in there. I think it's called special terms and conditions, section, I think, four, and there's one section in there on indirect cost. And so there is a new section in there that allows you to check off or ask for the de minimis rate. And so there's an expectation that you meet those conditions in order to obtain that rate.

The next question that came in is, "Can a subrecipient receive the de minimis rate if the grantee does not? How would a subrecipient apply for the de minimis rate?" The first part of the question, yes. A subrecipient can receive the de minimis rate even if the grant recipient or the pass-through entity did not apply or obtain a de minimis rate. So the use or lack of use by the grant recipient in using a de minimis rate does not affect your ability or your chances in getting a de minimis rate.

Can a nonprofit which – can a nonprofit – the next question, "Can a nonprofit which contracts for accounting and human resources functions apply for an indirect cost rate?" As Victor had indicated, agencies that receive contracts along with grants can obtain indirect cost rates. You have to ensure that you're looking at the correct provisions and regulations in order to obtain that rate.

So those are a few of those questions. Victor, I don't know if you've taken a look at some of the other ones, if you want to take a few minutes to answer some of those.

MR. LOPEZ: I'm just trying to scroll down in this – just comment along the lines of what you were saying. I think what I got from that question is it's – basically it's a nonprofit but they don't carry, for example, the human resources and accounting on site. So actually they contract out that function.

So along with that, the nonprofit could have other overhead expenses, and I wouldn't see – as long as they compares and they shop around to make sure that they're getting reasonable expenses for accounting and HR, for example, those costs certainly can be allocated as part of the indirect cost pool and allocated then to all the funded sources.

I'll wait to scroll down here. We use – it says, question number seven, "Is advertising and public relations activities that directly relate to program allowable indirect expenses?" I mean, that answer will be no because just by saying that they're directly related to program expenses, I mean, that to me on the face value, taken that question, that will be a direct cost.

And going by the definition of what indirect costs are – what are direct costs are is you can directly identify those costs with the program. Those costs – the advertising and public relation activities tied to a program – will be a direct cost, highlighting again that those costs must be approved by the grant or the grant officer, if they are needed for the benefit of the program.

There's a question, "How do you determine which indirect cost stays for overhead?" It's basically we provided three or four allocation bases there using direct salaries, including benefits, modified total direct costs. You could use total direct costs. At the end of the day you can – this is for the organizations. I'm saying that this is your proposal, and you know more your entity than me or anybody else.

You need to know what we're trying to get at is you have to prepare proposal that based on benefits received, allocate a fair share of indirect cost across the board. Which base? We try to suggest – it's really, I'm not suggesting anything. I'm just giving you options of bases that could be used so you can then prepare proposal and basing your own allowances compare bases and see (what base there's ?) some benefits received, provide the best allocation out to all funding sources, regardless of what type of funding they have.

Another question said, "Contracts (rated ?) $25,000 still excluded from the entity C base?" The answer is yes. They're excluded from the entity C base, and looking at the definition it's – again, it's above $25,000. So any – sorry, you mentioned award, not subcontracts.

MS. GALLOWAY: Correct.

MR. LOPEZ: Right. So anything above $25,000 will be excluded.

"Is there a maximum threshold for an indirect cost rate?" The answer is no. That question has come up before. Obviously if you use direct sellers and weigh it, the rate is going to be higher compared to entity C's because here it should say – I mean, say you got to pull off $1,000 and you all allocate over a base of direct sellers and weighs versus NTCs. The NTC is going to give you a broader base, a bigger base.

So the rate is going to go lower, and so using compared salaries to NTCs or total direct costs, neither methodology, like I said in the beginning, that rate is going to be – from my – in my view is going to be cosmetic. What we're looking at is whether or not the indirect costs are allocated over a base, allocation base, and – (inaudible) – if it's indirect costs to all the funding sources, federal and nonfederal. That's what we're looking at.

And there are other questions, but I need to read them, and I'd be more than happy, Debbie, to answer other questions –

MS. GALLOWAY: sure.

MR. LOPEZ: – and post them on the website.

MS. GALLOWAY: OK. All right. Thank you, Victor. We're coming close to the end of our 75 minutes for this webinar, and we did receive quite a number of questions coming in regarding the carry over and the carry forward of rates and a whole bunch of other more complicated questions. And so what we'll do at this time is we'll take these questions back, and we will review those.

And Victor has graciously agreed to post the questions including the answers onto his website. And so hopefully by the third webinar we can get some of those questions that we weren't able to answer at this time or in the – in last week's webinar onto his website so that moving forward we could make sure some of those questions are answered.

So with that being said, thank you, everyone, for joining us these last 75 minutes. We hope that you found some of this information informative. Please, if you have additional questions, reach out to your FPO or to Victor or myself, and we look forward to you coming back and joining us for the third part of this series.

The third part is on indirect costs for state and local governments, and that will be held on Thursday, March 3rd at 2:00 p.m. Eastern Standard Time. Thank you.

MR. LOPEZ: Again. I want to thank Brian and also you, Debbie, for putting this together, and I also want to thank the audience for participating in this topic. And I look forward to answering the questions and also look forward to answer – put them on the website, and I'm going to be available. I'm not going anywhere. I'm just 50 years old, so I want to be here in the work for a little bit longer. So I'd be happy to answer or address any concerns that you have. Thank you.

MS. GALLOWAY: All right. Thank you, Victor.

MR. KEATING: Thanks, Victor, and thanks, everybody, for attending today. Before you log off today, we want to encourage you to go ahead and give us some feedback before you log out.

So you'll notice we brought that up for you right now. If you go ahead and give us your recommendations, your ratings here, we'd like to know if you'd recommend viewing this webinar to a colleague and then also the overall quality of today's webinar, be it technical or logistics.

And then whatever you vote for, go ahead and let us know in these chat windows here. Chat on the left let us know why you voted that way, and last but not least, on the right you'll notice we're prompting you to go ahead and let us know if there's any other topics you'd like to see covered perhaps in an upcoming webinar.

So we're going to go ahead and leave it there, but we invite you to please go ahead and type those in, and we'll leave this webinar open for as long as it takes you to give us your feedback. Thanks very much, everyone. Have a great day.

(END)