



# TRUE COST FOR SUSTAINABILITY AND IMPACT

## UNIFORM GRANTS GUIDANCE

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OWNER OF CAPITAL ACCOUNTING PARTNERS

CEO & FOUNDER OF COSTTREE

# AGENDA

- Feel for the room.
- What is a Cost Allocation Plan?
- Department Types
- Indirect vs. Direct
- 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
- Indirect Cost Rate Proposal (ICRP)
- Uniform Guidance/ Risk Assessments
- Sustainability/ Impact
- Conclusion



# INTRODUCTION – NICOLIE CASS LETTINI, MBA

- 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
- 17 years dedicated solely to preparing cost allocation plans for cities, counties, special districts and nonprofits
- Prepared over 600 Full Cost and OMB A-87 (2 CFR part 200) plans
- Successfully defended numerous Federal and State level audits



# WHO DO WE HAVE IN THE ROOM?

## Government

- We don't get any indirect reimbursement for our grant
- Should we go after this grant, does it make sense?
- I am only allowed 10%
- Finance handles the indirect cost and I don't know anything about it.

## Non Profit

- "All of the funding should go to the program not indirect."
- Should we go after this grant, does it make sense?
- Will we have to fundraise to cover our admin?
- I don't get any federal funding so it doesn't matter.

# 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

- **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 of service is so you can plan for the budget
- Strategic views to improve performance and long term sustainability. Should I take on this project or grant?



# WHY ARE WE TALKING ABOUT IT NOW?



- Cost Plans have been around for almost 50 years
- Change to the guidelines (Government)
- Uniform Guidance-
  - Procurement, audit thresholds, measuring performance
  - Reimbursements for overhead (nonprofits)



# DEPARTMENT TYPES

Central  
Support

- **Central Support** are those departments/ programs or grants whose primary purpose is to support the other department/funds/ programs in the agency.

Receiving

- **Receiving** are those departments/programs or grants who receive costs for services performed for their benefit.

# DIRECT COSTS

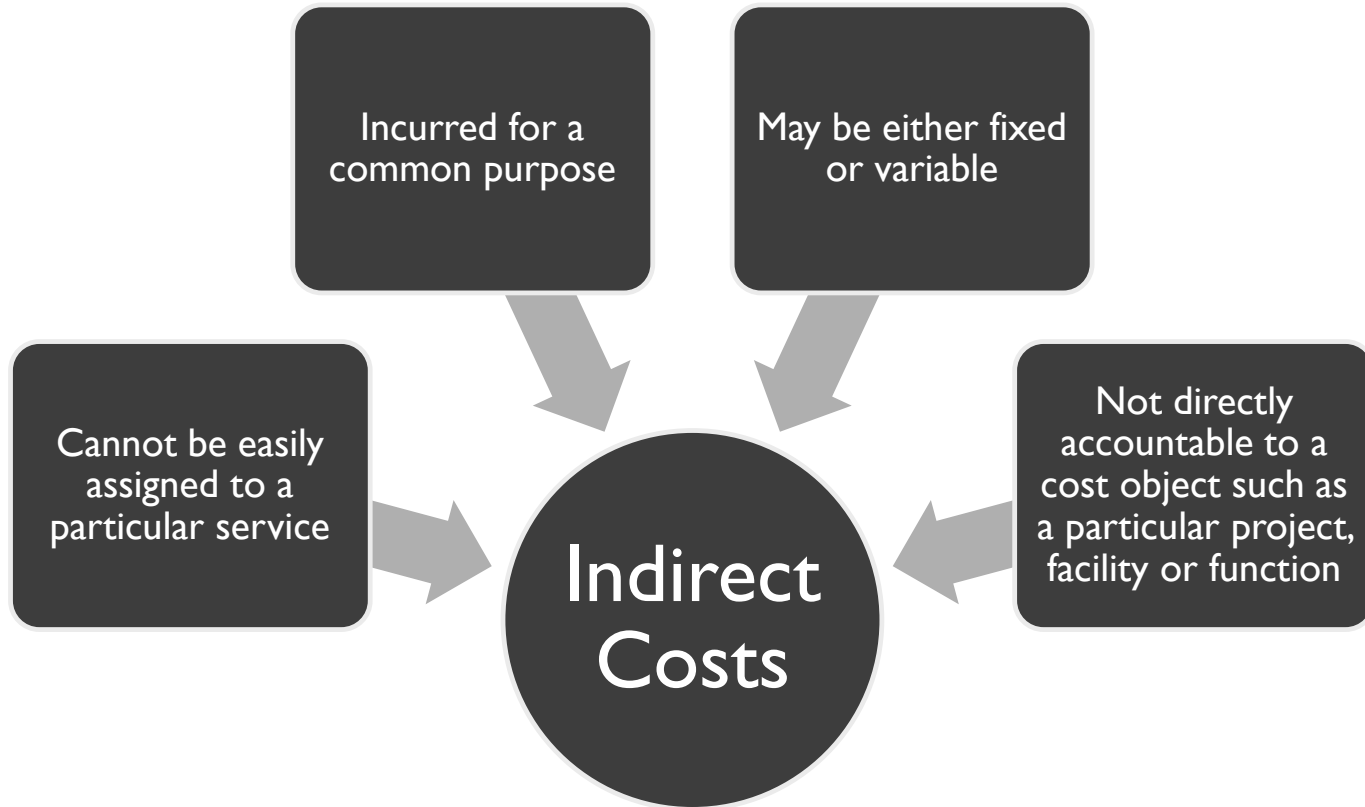
An expense that can be traced directly to (or identified with) a specific cost center or cost object such as a department, process, or product.

Can be assigned to a particular service and can include labor, service and supplies, outside services, etc.

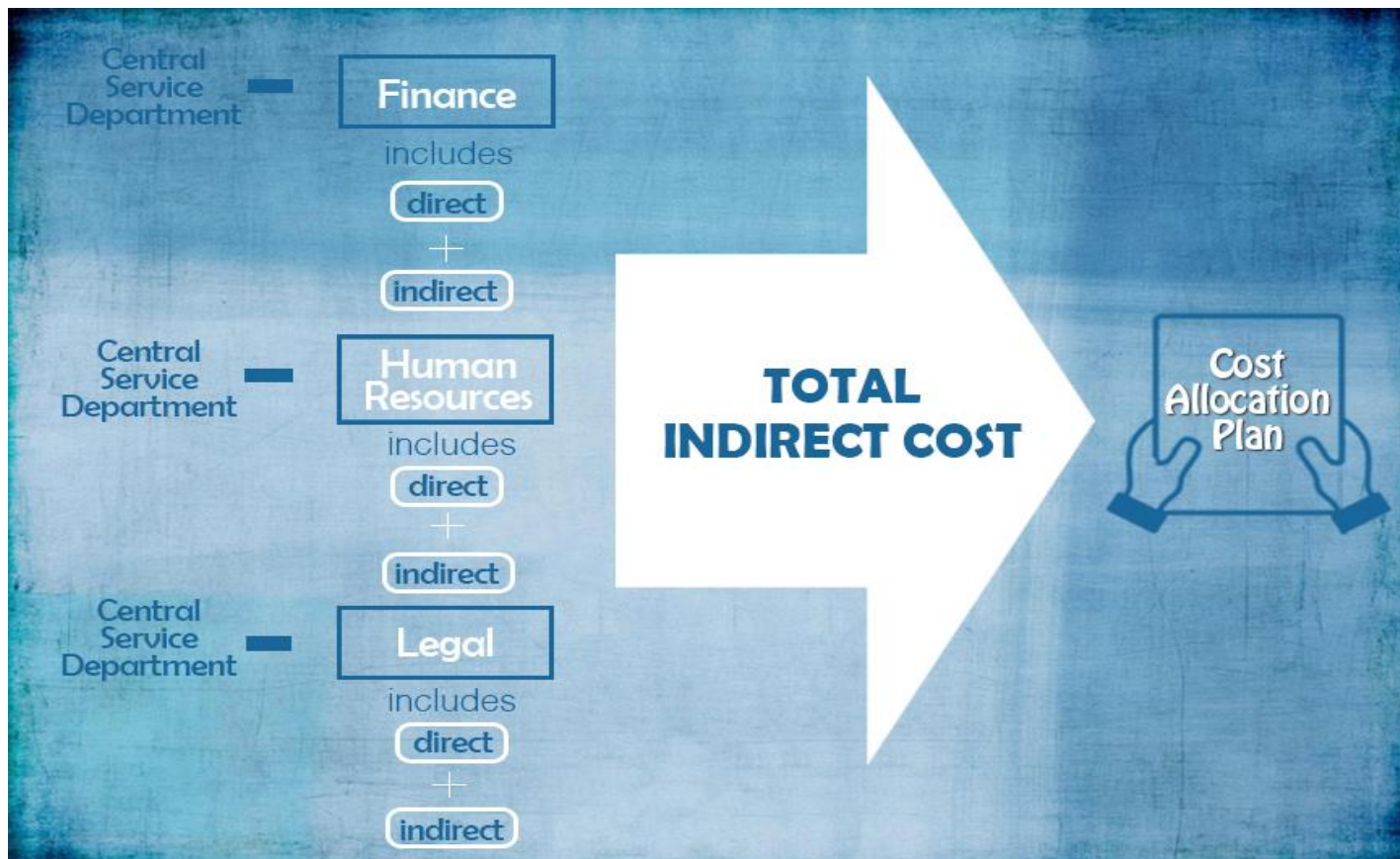
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graph TD; A[An expense that can be traced directly to (or identified with) a specific cost center or cost object such as a department, process, or product.] --> B((Direct Costs)); C[Can be assigned to a particular service and can include labor, service and supplies, outside services, etc.] --> B;
```

Direct  
Costs

# INDIRECT COSTS



# RESULTS IN A TOTAL INDIRECT COST ALLOCATION PLAN



# COST PLAN TRENDS

**Counties:** Started over 45 years ago as a requirement to get reimbursement for Social Services.

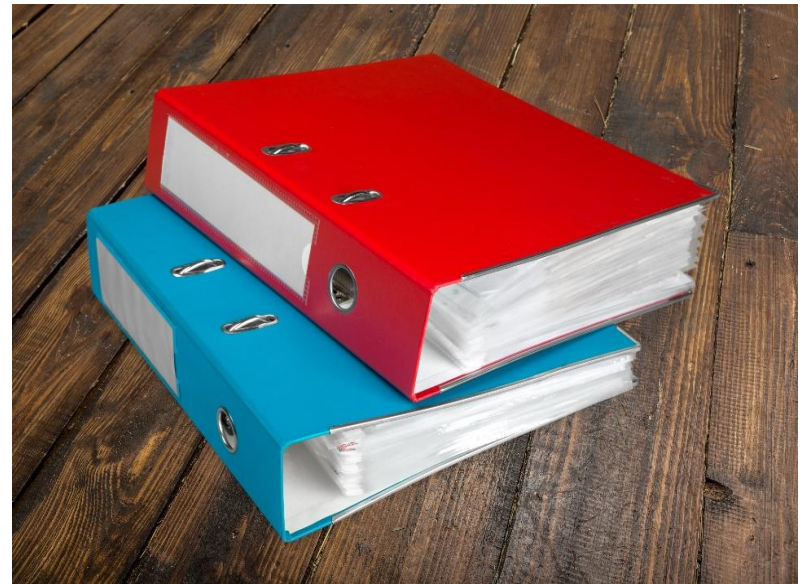
**Local Governments:** Approx. 20 years ago local governments (cities, counties and special districts) started using full cost plans as a management tool and to include in user fee studies.

**All Agencies:** Today, it is more common than not for agencies to use a cost allocation plan to calculate their indirect costs and to use it for a strategic budgeting tool.

- With today's tight federal budget, many agencies are required to submit cost plans for grants and when filing for reimbursement with federal agencies.
- Agencies also use it internally to charge outside funds for reimbursement.
- Agencies use it to understand their true cost of service to be sustainable.

# FULL COST PLAN 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.

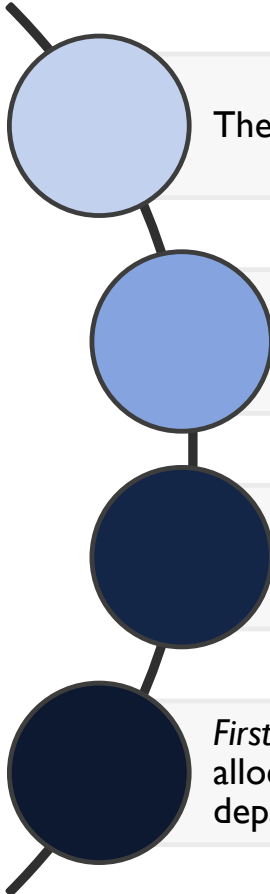


# FULL COST PLAN VS. 2 CFR PART 200 PLAN



- 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).

# 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.

# UNALLOWABLE COSTS



Unallowable

- Alcohol, Bad Debts, Contingencies, Memberships & Dues
- Self Assessed Taxes, Under recovery of costs, General Government
- Contributions & Donations, Entertainment, Fines & Penalties
- Legal for criminal proceedings, Lobbying
- Fundraising

# USES FOR A COST PLAN

## Full Cost

- 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?

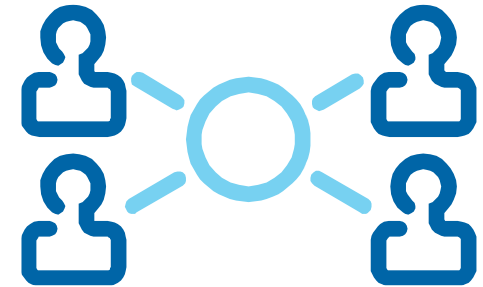
## 2 CFR 200

Federal State  
grant  
reimburseme  
nt

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
- Example: Foundations giving unrestricted funding



# 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 service so you can make a strategic decision on whether or not to take on a particular program or grant. It might cost you more to take on the grant than it did to pass.



# BENEFITS OF UPDATING YOUR PLAN EVERY YEAR

- Annual update of OMB plan is required
- Other Internal benefits:
  - Opportunity to reflect actual services received as changes occur
  - Ability to continuously improve allocation bases and data collection methodologies
  - Increased clarity of your cost plan throughout the entire agency
  - Opportunity to validate support levels as personnel shift



# CASE STUDY – 4 ALTERNATIVES

- No indirect cost reimbursement
- 10% De-Minimus
- Uniform Spread (one basis)
- Cost Allocation Plan (multiple bases)

# POLICE DEPARTMENT

<b>Police Department</b>							
<b>Understand your True Cost and be able to make strategic decisions.</b>							
<b>TRUE COST through Cost Allocation</b>							
<b>Expenses</b>	<b>Patrol</b>	<b>Investigations</b>	<b>Violence Prevention Grant</b>	<b>Body Cam Grant (D)</b>	<b>Police Admin</b>	<b>Indirect Cost</b>	<b>Total Cost</b>
Salaries	\$1,500,000	\$758,000	\$450,000	\$350,000	\$650,000	\$2,000,000	\$5,708,000
Benefits	\$700,000	\$350,000	\$175,000	\$125,000	\$275,000	\$800,000	\$2,425,000
Office Supplies	\$50,000	\$15,000	\$4,500	\$10,000	\$15,000	\$50,000	\$144,500
Prof Services	\$200,000	\$0	\$50,000	\$0		\$250,000	\$500,000
Printing	\$500	\$100	\$0	\$15,000		\$10,000	\$25,600
Telephone	\$100,000	\$350	\$1,500	\$1,000	\$1,500	\$4,000	\$108,350
Other service and Supply costs	\$75,000	\$3,000	\$75,000	\$25,000	\$15,000	\$7,000	\$200,000
Depreciation	\$50,000	\$275	\$75,000	\$750		\$4,625	\$130,650
Server Support						\$350,000	\$350,000
Occupancy Cost						\$450,000	\$450,000
<b>Total Direct Cost</b>	<b>\$2,675,500</b>	<b>\$1,126,725</b>	<b>\$831,000</b>	<b>\$526,750</b>	<b>\$956,500</b>	<b>\$3,925,625</b>	<b>\$10,042,100</b>
Total Indirect Cost Allocated through CAP	\$686,640	\$470,955	\$542,381	\$2,023,706	\$201,943		\$3,925,625
Total Admin Cost allocated through CAP	\$363,019	\$122,575	\$82,848	\$590,002	(\$1,158,443)		\$0
Once Indirect agency cost have been allocated to all programs including Admin, Admin allocates to remaining programs.							
<b>Total TRUE COST</b>	<b>\$3,725,159</b>	<b>\$1,720,255</b>	<b>\$1,456,229</b>	<b>\$3,140,458</b>			<b>\$10,042,101</b>

- The police department has major programs such as Patrol and investigations. It also works on programs for the violence prevention and body cam grants.
- The total cost of the Body Cam Grant Direct support is \$526,750
- (If you are a nonprofit just replace the names of these functions with programs you perform for your mission and grants you are looking at.)



# Scenario (A) 0% Indirect Cost Recovery – No Cost Allocation Plan or Indirect Cost Rate

- Department receives only direct costs of grant program. No indirect costs are collected.
- Department subsidizes all administrative services at the department level and agency-wide.
- Department does not know their true cost of the grant program. Subsidy and the total costs are unknown. (\$2,613,708 in this example. Cost of indirect cost almost 5 times direct cost)
- Department does not see how much support is being provided to the grant program so they are unable to optimize their resources.
- Difficult to know if you should take on a grant because you don't know what it really costs.

Police Department							
Understand your True Cost and be able to make strategic decisions.							
TRUE COST through Cost Allocation	Patrol	Investigations	Violence Prevention Grant	Body Cam Grant (D)	Police Admin	Indirect Cost	Total Cost
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Once Indirect agency cost have been allocated to all programs including Admin, Admin allocates to remaining programs.

Can make decisions of whether or not you can afford the Violence Prevention Grant or the Body Cam Grant based on knowing what your true cost are.

	(A)	(B)	(C)	(D)	
<b>Body Cam Grant</b>	0% Indirect Funding	"10%" de Minimis Rate	Fully Funded - No Alloc	True Cost - Allocated Overhead	
	actually 7.93%			Ideal Scenario	
Reported Direct Costs	\$ 526,750	\$ 526,750	\$ 526,750	\$ 526,750	Direct Cost of the Grant
Allocated Admin/Indirect	\$ -	\$ 40,525	\$ 498,386	\$ 2,613,708	True Admin cost calculated under different methods
Funded Amount	\$ 526,750	\$ 567,275	\$ 1,025,136	\$ 3,140,458	
True Costs	\$3,140,458	\$3,140,458	\$3,140,458	\$3,140,458	
(Subsidy)	\$ (2,613,708)	\$ (2,573,183)	\$ (2,115,322)	\$ -	Additional amount it cost but you are not being reimbursed

# Scenario (B) Using the 10% de Minimus

- Department only collects 10% indirect of modified total direct costs (MTDC).
- Department must perform calculation to find MTDC. There are many restrictions when calculating the MTDC which reduces indirect collection below 10% from the grant funder. (actual is 7.93% in this example)
- Department still subsidizes some of their administration and does not collect the true cost of the grant program. (\$2,573,183 in our example)
- Department does not know their true cost of the grant program.
- Department only considers direct program costs and does not see the cost of agency-wide support or of department level administration.
- Difficult to know if you should take on a grant because you don't know what it really costs.

Police Department							
Understand your True Cost and be able to make strategic decisions.							
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Once indirect agency cost have been allocated to all programs including Admin, Admin allocates to remaining programs.

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# Scenario (C) Fully Loaded Indirect Rate with No Allocation

- All indirect costs are charged to the grant, but they are charged using a fixed percentage across all departmental programs/grants. (**\$498,386 in our example**)
- Will unknowingly over or under charge all of the payers since costs are spread on a single basis and are not representative of the indirect services provided to each grant program.
- No visibility into true cost of grant program making it difficult to strategize and plan for the future. (**When true cost calculated actually still subsidizing \$2,115,322 in our example**)
- Difficult to know if you should take on a grant because you don't know what it really costs.

**Police Department**  
Understand your True Cost and be able to make strategic decisions.

TRUE COST through Cost Allocation	Patrol	Investigations	Violence Prevention Grant	Body Cam Grant (D)	Police Admin	Indirect Cost	Total Cost
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# Scenario (D) 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 or not to take on a grant program because you know how much it will really cost you. (In our example the indirect cost is almost 5 times the cost of the direct cost because of but not limited to large IT storage cost, additional IT staff support to catalog and issue recordings, additional Public Records requests because public knows you have the information, and increased attorney's fees to represent city)

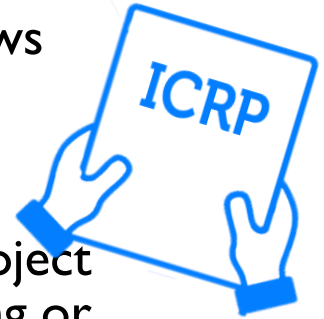
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<b>Body Cam Grant</b>	<b>0% Indirect Funding</b>	<b>"10%" de Minimis Rate</b>	<b>Fully Funded No Alloc</b>	<b>True Cost - Allocated Overhead</b>	
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Funded Amount	\$ 526,750	\$ 567,275	\$ 1,025,136	\$ 3,140,458	
True Costs	\$3,140,458	\$3,140,458	\$3,140,458	\$3,140,458	
(Subsidy)	\$ (2,613,708)	\$ (2,573,183)	\$ (2,115,322)	\$ -	Additional amount it cost but you are not being reimbursed

# INDIRECT COST RATE PROPOSAL (ICRP)

- An Indirect Cost Rate Proposal (ICRP) is the step that follows the cost allocation plan.
- It calculates the rate of overhead to tack on to a service, project or grant to charge to outside individuals or agencies for using or performing that service.
- This is one of the things that departments/programs/grants can use to calculate a rate for their specific program/grant.



# CALCULATING AN ICRP

$$\text{Overhead Rate (\%)} = \frac{\text{Overhead Costs}}{\text{Direct Labor Cost}}$$

(Overhead Costs = Department/program/grant overhead + agency-wide indirect cost)

The OH rate above is a ratio of the **overhead costs** to **direct labor costs**.

- **Overhead costs** are those accumulated for the total operation over a prescribed period of time.(indirect cost)
- **Direct labor costs** are those for all direct projects in the operation over the same prescribed period of time.

# FOUR TYPES OF INDIRECT COST RATES

## Under the OMB Guidelines

### Provisional Rate (Estimated)

- Temporary rate, agreed to in advance, based on anticipated future costs(subject to retroactive adjustment)

### Final Rate (Actual)

- Established after costs are known(Underpayments are subject to availability of funds and Overpayments must be credited or returned)

### Fixed Rate (Actual with carry forward adjustment)

- Agreed to in advance and is not retroactively adjusted(difference between estimated and actual costs are carried forward to future years)

### Predetermined Rate (Negotiated)

- Agreed to in advance but is generally not subject to adjustment(Intended to be permanent, May not be used if an ICRP is not submitted to a cognizant agency)

# UNIFORM GUIDANCE (2 CFR PART 200)

- Replaces eight previously published OMB Circulars (OMB A-21, OMB A-50, OMB A-87, OMB A-89, OMB A-102, OMB A-110, OMB A-122, OMB A-133.)
- Effective December 26, 2014 and must be implemented by the agency for fiscal year beginning after that date.

Example: If your fiscal year ends June 30, 2015, you are not required to implement this circular until Fiscal year beginning July 1, 2015 and ending June 30, 2016.





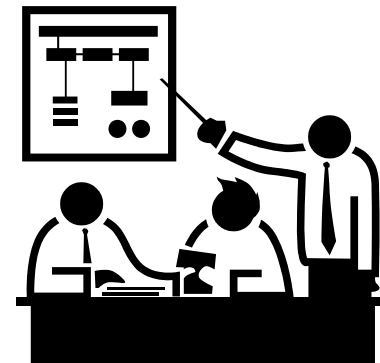
# MAJOR POLICY REFORMS

- Eliminating Duplicative and Conflicting Guidance
- Focusing on Performance over Compliance for Accountability
- Encouraging Efficient Use of Information Technology and Shared Services
- Providing For Consistent and Transparent Treatment of Costs
- Limiting Allowable Costs to Make Best Use of Federal Resources
- Setting Standard Business Processes Using Data Definitions
- Encouraging Non-Federal Entities to Have Family-Friendly Policies
- Strengthening Oversight
- Targeting Audit Requirements on Risk of Waste, Fraud, and Abuse



# SIGNIFICANT CHANGES IN THE COST PRINCIPLES

- Indirect Cost Rates (10% De-Minimus)
- Compensation – Personal Services (time & attendance)



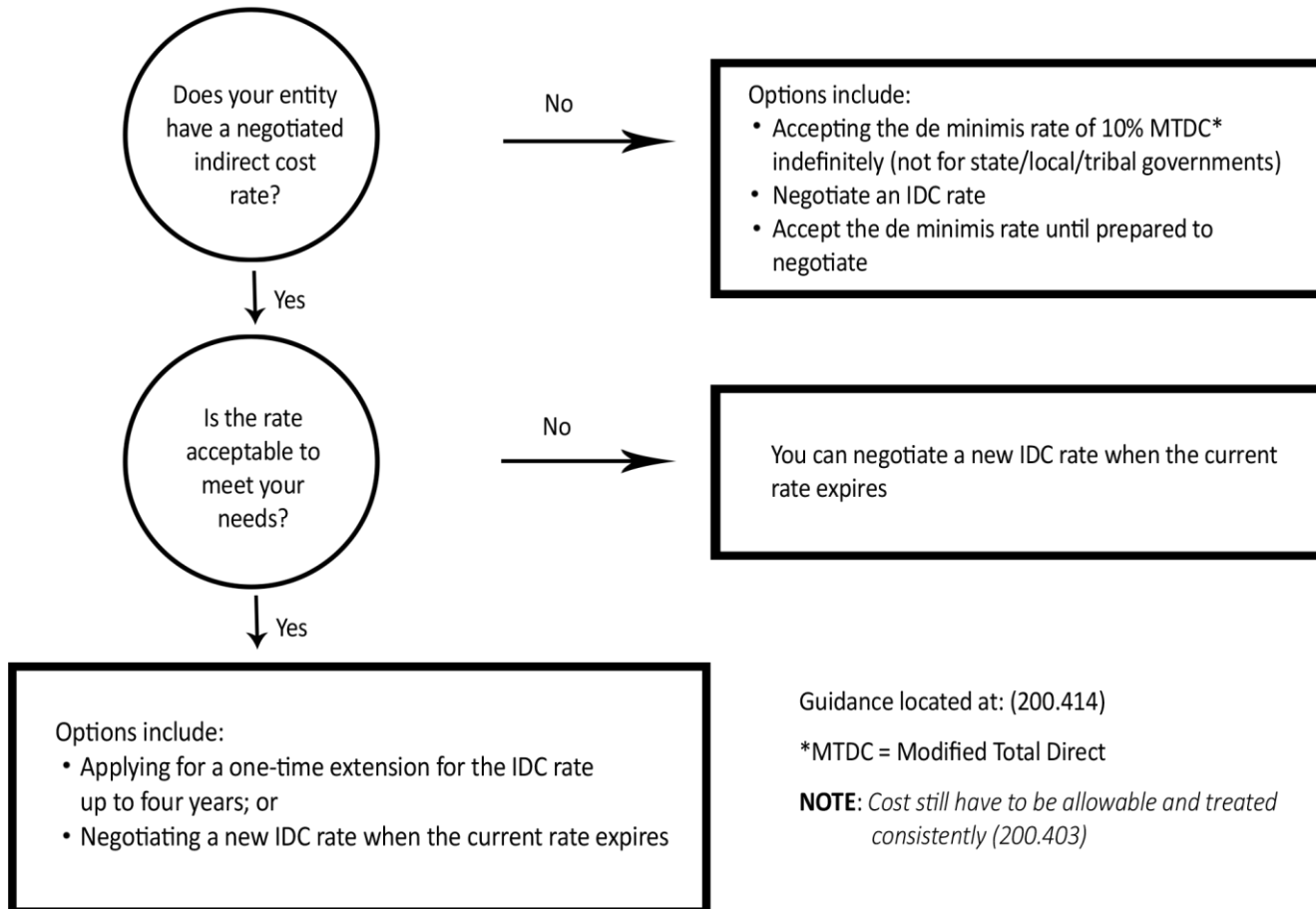
# SIGNIFICANT CHANGES IN THE COST PRINCIPLES

## ■ Indirect Cost Rates

Section 200.414 Indirect (F&A) Costs includes provisions that:

- Provide a de minimis indirect cost rate of 10% of MTDC to those non- Federal entities who have never had a negotiated indirect cost rate, thereby eliminating a potential administrative barrier to receiving and effectively implementing Federal financial assistance (sections 200.210 Information Contained in a Federal award, 200.331 Requirements for Pass-through entities, and 200.510 Financial Statements all require documentation of usage of this rate to allow for future evaluation of its effectiveness);
- Require Federal agencies to accept negotiated indirect cost rates unless an exception is required by statute or regulation, or approved by a Federal awarding agency head or delegate based on publicly documented justification;
- Allow for a one-time extension without further negotiation of a federally approved negotiated indirect cost rate for a period of up to 4 years.

# INDIRECT COST RATES



Guidance located at: (200.414)

\*MTDC = Modified Total Direct

**NOTE:** *Cost still have to be allowable and treated consistently (200.403)*

# SIGNIFICANT CHANGES IN THE COST PRINCIPLES

- **Compensation – Personal Services (time & attendance)**
  - Section 200.430 Compensation— Personal Services strengthens the requirements for non-Federal entities to maintain high standards for internal controls over salaries and wages while allowing for additional flexibility in how non-Federal entities implement processes to meet those standards. In addition, it provides for Federal agencies to approve alternative methods of accounting for salaries and wages based on achievement of performance outcomes, including in approved instances where funding from multiple programs is blended to more efficiently achieve a combined outcome.



# RISK ASSESSMENTS

- Uniform Guidance requires agencies to perform risk assessments to protect federal funds from waste, fraud and abuse.
- Uniform Guidance defines responsibilities for Federal Awarding agencies, pass-through entities, grant recipients and auditors to guarantee grant funding is used for intended purposes.
- Cost Allocation plans are the GAAP for indirect cost
- Cost plans can eliminates risk
  - Performance over compliance
  - A tool that is transparent and compliant is critical



# RISK ASSESSMENTS

- 2 CFR 200.205 – Federal Awarding Agency Review of Risk Posed by Applicants.
  - Requires Federal Awarding agencies to develop & implement a risk assessment framework.
  - Evaluate risk before making award.
  - Agencies are required to verify applicant eligibility through the SAM Exclusions Extract and evaluate applicant qualifications through the Federal Awardee Performance and Integrity Information System (FAPIIS).
  - In addition to those two requirements, agencies may evaluate an applicant's:
    - Financial stability
    - Quality of management systems
    - History of performance
    - Audit reports
    - Ability to comply with program requirements



# RISK ASSESSMENTS



- 2 CFR 200.331(b) requires pass-through entities to conduct a risk assessment as well, however they do not have to conduct it prior to making an award. Pass-through entities may consider the sub recipient's:
  - Prior experience in administering similar awards
  - Audit reports
  - Personnel
  - Management systems
  - Results from Federal agency monitoring



# SUSTAINABILITY & IMPACT

Indirect  
Cost

- Cost Allocation Plans
- Indirect Cost Rates (NICRA)

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



QUESTIONS?





## CONTACT INFORMATION

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