**Applying Your Indirect Cost Rate at Centers for Independent Living**

**March 22, 2017**

**Presented by John Heveron and Paula McElwee**

>> Good afternoon, everybody. I'm Tim Fuchs and I want to welcome you all to our latest teleconference, applying your indirect cost rate. Today's presentation is brought to you by the IL-NET and it's brought to you by a partnership with support for the project provided by the administration of community living. As always, we are recording today's call so we can archive it. And that recording will be available within 48 hours. And we do have several Q&A breaks during the call today so I hope you will take advantage of those.

 There is a few ways you can ask questions depending how you are participating. If you are on the phone you press star pound on your keypad to indicate you have a question when we announce the Q&A break. If you are on the webinar as most of you are, you can type your question or comment in the chat box. So that's the text box underneath the list of participants. You can enter the comments or questions but we will wait for our Q&A breaks to address them. And then finally of course there is captioning on the webinar platform but I know some of you prefer the full screen captioning. The StreamText link that was sent to you in the confirmation e-mail. I'm logged into the chat feature there and you are welcome to enter your questions or comes there as well. So whatever you prefer. I will remind you guys that the questions instructions each time we take a break.

 The other thing I want to mention is the PowerPoint. If you are on the webinar it will display and change automatically. But if you're on the phone or don't have the webinar in front of you, you want to make sure have the PowerPoint. That was sent to you in a confirmation e-mail. And finally when we finish the call I hope you fill out the evaluation form. It's short and easy to fill out. There is a live link at the end of our power point presentation today. The eval link was included in the conversation e-mail that you got. And I will remind you all at the end of the call. Okay, those are the few housekeeping things I wanted to go through. Before we start I want to introduce our presenters. John Heveron and Paula McElwee, we have proven to be a really competent and fun presentation team. Accounting maybe not always fun, but John and Paula bring as much excitement as possible and certainly a lot of experience and real world examples. So from our more comprehensive financial courses to the specific things around the new rules around indirect cost rates, they have just been so helpful, I know, for all of us. John is from the CPA in New York. And John has worked with centers for years for decades actually and so that's really given him the experience of the ins and outs of CILs and the regs. And Paula has been involved with IL for years. With that I will turn it over to Paula and go ahead to the next slide and sleets get started

>> Thank you so much. As Tim said, the evaluation information will be at the end, but we know that you may have questions. We do have our e-mail here as you go back and take a look at what we present, you may have additional questions or -- that will come up, so please drop us a note in the e-mail and we will make sure to answer that as well.

 Let's look at slide four. So what we will cover today is the practical aspects of actually applying your indirect cost rates. So earlier in the year and if you didn't see these there you can go back they are archived. Earlier in the year we described why you want an indirect cost rate and we described how to that was a PowerPoint that actually was the pieces of an indirect cost rate proposal. But now most of you are applying an indirect cost rate and you began to do that October 1 with this new fiscal year and now the questions that you have are more around the practical aspects of applying it. So we have heard those questions and we decided this would make a great topic so here we are. We will talk to you a little bit about how you prepare drawdowns and vouchers using your indirect cost rate. We will talk about what documentation you should have and keep in order to drawdown your funds or to build the state for your funds or both. We will talk about how to determine whether you are on target with your indirect cost rate and what to do if you are not. What to do if what you submitted is very different from what you are finding in your day-to-day application. We will also talk about what will happen if your provisional indirect rate is too high or too low. We will talk about how to simplify the annual indirect cost rate reporting which is coming at the end of this year. So for most of you anyway that's the case. And then if you elected the 10% deminmous rate, what that means to you, how that will affect you as you go through this -- and we do recognize that some of you who receive state funds only are being told by your state that you do not need an indirect cost rate. We are not going to address that in detail here, but we recommend that you still look at that indirect cost rate and so we would like to help you work that out if that's the case, if you are still using the cost allocation plan with your state. And everybody else should be on indirective cost rate or deminimis rate

>> John, why don't you take the lead on this one? I love what you said here.

>> Thanks, Paula and thank you for the introduction, Tim. First I wanted to say this is complicated and confusing stuff. Some oversight agency folks struggle with this themselves. We want to help you avoid any problems, any loss of funding. We want to help you defend the indirect cost rates that you are claiming and we will tell you to the best of our ability tow to do that -- how to do that.

 One of the first things to point out is your final rate will be different from your proposed rate. You have an approval for formula and approval for a provisional rate but that's not your final rate. So you are going to get a final rate for your year that began October 1 that will hopefully be close, but will almost always be different from your provisional rate. You may do some calculations during the year to see if you are on target. I would say that your indirect cost rate will always be wrong. One reason for that is because some costs aren't incurred uniformly. Insurance may be one bill a year or you may pay that in payments, but not throughout the year. Some years have vacation time -- summer is vacation time and you have more leave cost and less direct payroll cost. And your annual audit or preparation of your 990, that's a cost you incur really just one time a year. So if you were to add up all of your indirect costs compare them to your direct costs, they would vary. They might be higher in the summer and lower in the fall. And that's normal. But after year end, you will need to put your actual final numbers into a spreadsheet and recalculate your rate. HHS will review that rate, review your updated spreadsheet and approve a final rate for this past year and then a provisional rate for the coming year. And they should generally accept what you submit as long as you prepare it in the same way as you prepared your indirect cost rate proposal.

 The final rate will be used to determine whether you overbilled or under billed.

 So you can't bill more than your approved rate and you shouldn't bill less unless there have been some significant changes. I'm not talking about these little changes that occur during different months of the year, but really some significant changes which will ultimately reduce your overall rate.

 If it turns out you did overbill you may be required to pitch that back or your future rate may be reduced. I'm hedging here. I don't know the answer. My experience generally is that if you overbilled and it hasn't been too significant you won't be required to write a check out to reimburse that, but your rate for the coming year will be reduced so that by the end of the subsequent year you will have reduced your recapture of indirect costs by enough to offset the overbilling. But we will have to wait and see how that plays out.

 If it turns out you under billed, they won't write a check to you. You may be able to adjust your future rate to catch up. This is new for all of us, so we will learn together. But just keep in mind that's a possibility if you find you have not billed enough, then you should ask for an adjustment to your provisional rate for the coming year to catch up with cost that you were shorted on.

 I also wanted to mention there is a rule that prohibits charging something both as a direct cost and then also as an incorrect cost. It's a very specific rule in uniform guidelines. So you can only ask once for a specific cost to be paid with your grant. You must be able to show what costs were included in your indirect and to confirm that you didn't ask for direct reimbursement under another program for the same co

>> And John, we put in this slide for questions and answers because this is so foundational, the two slides we covered, so we want to make sure that they are clear. So, Tim, we will let you pull in any questions.

>> Sounds good. Let me remind you all you can press star pound on the phone or type your question. Either chat, either on the webinar or the full screen CART and since this is early, I will give about 30 seconds to see if any questions roll in. And if not we will move on.

>> We have plenty of Q&A time.

>> It looks like several people are typing. We will wait. Be sure to press enter when you finish your question. It doesn't appear for the rest of us.

>> First question comes from Kelly who is wondering, will you differentiate the basis and impacts?

>> So I may need to get a little clarification on that, but when you are talking about basis, I assume that is the base that you divide your indirect costs by. And we will talk about this a bit later. But if you have an indirect cost rate, you have chosen a base that might be total direct cost. It frequently is, probably most frequently is total direct cost. But it might also be total direct payroll. Whatever base you selected you need to stick with that. So I don't know if that addresses the first part of your question. And I will scroll back up and see. It was a two part question. So I'm not sure what you mean by impacts. So if you can maybe come back with what you are looking for there, maybe we could help. Looks like Kelly is typing.

>> She says MTDC versus total direct cost with salary and fringe, et cetera, and then MTDC doesn't cover represent costs, question mark.

>> Okay, you know, you don't mind we will cover that. MT -- modified total direct cost are what a deminmous cost rate would be based on and we will talk about that near the end and we will get into that because even though this is about indirect cost rates, we know some people have gone with the deminmous 10% rate and we really want to discuss the impact and the options with that. So let's wait until then. We will definitely have another Q&A session where we can talk about that.

>> You know there isn't and one of the biggest challenges for both John and I and all of you has been that there isn't a single office that is giving us guidance on this. ACL is using the regional offices to provide information and the letters you are getting are not 9 same, one to the -- the same, one to the next and the guidance has varied a little bit, too. With some people there is more negotiation to their negotiated indirect cost rate than there is with others and some are quick to kind of look through the paper work and say it's provisional anyway so we will approve it and then take a look at it at the end of the year. Right now they aren't giving us guidance and some of us got a letter that gave you longer period for your provisional rate. So your date may be 12-31-17 but your date may be October 1 or it may be next year sometime. So you look at your letter to determine what the actual date is. We hope as we get closer to that date that we can tell you more, but right now they have not given us a single set of guidance and right now the various offices are treating this slightly differently. So sorry. We don't have an answer on that one.

>> Okay, well, thank you for the explanation anyway. Go ahead, John.

>> Let me add to that that my experience with other organizations that have indirect cost rates. Even in those cases the amount of time from the end of the year to one, you have a final indirect cost rate can vary quite a bit. It isn't really based on the complexity of your agency necessarily or how quickly you get things in, but it's even based to an extent on how quickly the federal agency gets around to reviewing these things. And because there are so many new ones this year for HHS, I think there may be a longer lag time, particularly this first year. Having said that, if you do a proper computation of your final indirect cost rate for the prior year and an assessment if there are any big changes going forward and particularly if you assess there aren't really big changes, then it makes sense to continue with the same rate during that interim time frame.

>> Okay. Great. Thank you, John.

 Next question is from Cory. And, John, Cory is wondering how do we approach drawdowns and reporting if our direct costs are more than our grant amount?

>> Okay, well –

>> I'm trying to figure it out.

>> I think you are in a situation where you are not fully funded for this program. And you are looking to some other source, whether it be contributions or another funding source to cover part of the program. And that's a very practical reality for a number of organizations. You still need to go through the calculation. You still need to assess what the total costs of the program are. And the one little benefit that you get if you are -- let's say you have 20% indirect cost rate, but you are limited to $100,000 and your direct costs are $110,000, well, all you would need to prove for this program is that 80,000 of it -- my math isn't working out quite properly here, but you would not have to provide proof of direct cost for all of that. You would only need to have proof of direct cost for the 80% of it that's direct. The 20% that's indirect you wouldn't need proof for. But you aren't -- you are probably not going to get any more funding if you are limited to $100,000. So the question becomes do you have additional funding so you can run that program at its full level? Or do you need to reduce the scope of the program?

>> Okay, all right. Good guidance. And finally, John is wondering, is our approved rate only applied to the base we've selected?

>> Yes, it's very hard to get a change in the base. So if you select a total direct cost then it's always going to be total direct cost. And if you selected a direct payroll, it's always direct payroll. Very, very difficult to change that. But keep in mind the numbers in the base keep changing. So all you really committed to is the formula, that process of dividing these indirect costs by the actual numbers that are in your base year after year. So you are not bound by a number. You are only bound by a process.

>> That's so important, isn't it, John? A lot of questions we get are having with people worry being the fact that their numbers return exactly what they submitted but they didn't really submit only the number. They submitted how they would come up with that number and that formula has to apply no matter what and it will vary.

>> Yes, absolutely.

>> Yes

>> All right, we have three more Q&A breaks during the call so I will go to slide eight and turn it back to you all.

>> Thank you.

>> You know when someone comes on site to review you that might be your state, people at some point in the future the folks from ACL to take a look at what you are doing. It may be that you are going to be reporting from a paper standpoint. It may be that your audit is going to look at this. But you need to make sure that you have an electronic file and you can have a paper file too, but we suggest you definitely have an electronic file to keep the direct cost rate conversation. That would include your original proposal and any documents that were based on that proposal so you got your supporting documentation with your proposal. It would include, of course, your follow-up submissions as you get these notices to give the actual rate so you will want to -- anything you submit to HHS for related to your indirect cost rate will be in that folder and the approval from HHS. They are going to be approving or have approved your first rate. Eventually will approve a second rate so you certainly want that final rate also to be there and then the spreadsheets you use to calculate any of this. So your Excel spreadsheets or other spreadsheets that were used for your calculation will be very useful for your funders if they come this and take a look. For your auditors and for anything you might do in the future to update your calculations. So if you haven't already done it, you really do want to keep all of this documentation in one place where it's easily accessed. So as your questions come up from anyone internally, externally, you have in place that kind of thing. So it's easy to get to.

Paula>> John, you want to do slide nine?

>> Thanks, Paula.

 So we are going to suggest that you don't wait until after the end of the year to find out if changes might be necessary, particularly this first year it makes sense to look at things at some point during the year. In fact, for many if not most of you, you are going to be coming up on six months very shortly and it might be a good time to do an assessment and see if you are on target. So again if you used your financial statements specifically that statement of functional expenses from your annual financial statements, or that page from your 990 for your initial rate, you may want to go to whoever prepared it, your accounting firm if it was prepared by an accounting firm, and find out what accounts from your general ledger go into what lines on that statement of functional expenses or on the 990? They call that mapping where you take several general ledger accounts and map them all to an account in your financial statement there.

 If you can, do a calculation of how your current rate compares to your approved rate with the caveat that we know it's going to be different. If it's too Ho high, if it's -- if it's too high or low, it could be timing, as we discussed. You might have had an error in the proposal of the calculation. Is it possible you understated your rate or did things actually change because of new programs or lost programs? So do the analysis. Six months really makes a lot of sense to me, and try to understand it's going to be different. It shouldn't be really dramatically different, but if it is, is it timing? Is it because of true changes? And follow-through with that now because it will be more of a problem if you don't address it right now and make some corrections

>> Can we go to the next slide, Tim?

 We talked about modifications to the general ledger in the past. Paul, I don't know if you have thoughts on this, if you have more practical experience than I do. But I think it helps a lot for people to reduce the number of accounts just to make this more manageable. I don't think most funders look for an excessive amount of detail. Group or combined accounts that don't have a lot of transactions or don't have a high dollar value. Most general ledgers allow you to go back and get those details. When you combine for five small accounts, it's not that detail is lost, if you use QuickBooks which I think probably is the majority of people do, you can just double click and get the details of the different things that are in those combined accounts. So you haven't lost that detail. You haven't lost information. It becomes more manageable when you combine things.

>> And I might just mention that one of the things we see if you have someone who is not really as familiar as they should be with QuickBooks, they can also mess this up really quickly. They can go in and not see the account they are looking for and they create a new one and then you got this really complex stuff happening because they were not well informed. So from the very beginning make sure you know what your accounts are and your sub accounts. Classes or however you use that and don't be afraid to get somebody who is pretty expert in that to help if your bookkeeper is not. Because if your bookkeeper is not, it can be quite problematic as they begin to do entries if they aren't familiar and sticking with your sub accounts and classes and accounts. And I have seen that so many times. It doesn't take very long for somebody to make a mess of that. So coach whoever you have coming in to write the checks, especially if they are not somebody with the actual experience.

>> I agree with that. That's time really well spent to get somebody with some expertise to get QuickBooks down to a manageable level. When you buy QuickBooks, even if you have QuickBooks for non-profits, QuickBooks pro for non-profits, they have an extensive number of accounts built into it you need to modify that down for your circumstances because if you have several different accounts that sound similar, you will have the same type of expenditure in different accounts at different times.

 I wanted to mention that in addition to having a proper breakdown between what's really direct and what's indirect, keep in mind that there can be minor items, small costs and maybe a lot of transactions and technically they might be direct. They might be directly allocable but it would be more efficient to treat them as indirect and pull them with other indirect costs and that will save time and make this process more manageable

>> This might be a good point at which to mention that sometimes doing that does give you a little higher and direct cost rate than you might have had otherwise and your funders may be looking at your indirect cost rate. We are finding this in some states where they are seeing it as an administrative rate instead of as an indirect cost rate. An indirect cost rate will typically be higher than your administrative rate because you have these shared costs that might be technically direct but it makes sense to pull them and have them be included -- examples would be things like phone and photo copying and office supplies that you might -- in another day have divided out and made everybody sign up for everything with their own little sub account. Now you find it doesn't make sense. We ought to just put our phone in indirect costs and share it back out based on our formula rather than have people do it another way. I don't know if that's a good example, John, but it seems like we had codes on the photo copies.

>> Exactly. Exactly. And track phone calls and the like and now I don't think anybody is going to opt for that. Good point, Paula.

 So whenever you add an expense account, sometimes there are legitimate cases where you have a different type of expense account that you haven't incurred before, but be thoughtful about whether it's direct or indirect and make sure it goes into the proper grouping and I would add to that challenge if you need to add another account if it's large but infrequent can it be combined with miscellaneous account. If it's small, again, can it be combined with another account?

 So we've talked about doing this in the preparing for your indirect cost rates. So I know this is territory we've covered, but if you haven't done this already, you probably feeling an impact or will feel an impact when you try to do your initial calculation of how your indirect cost rate is going. So if you haven't set up sub accounts or classes or groupings in your general ledger, consider doing that. And one of the groupings should be for indirect costs. So you are going to have an account heading called indirect costs. Under that you will have -- under that you will have different types of expenses. You will have some of your payroll and payroll taxes, insurance, office supplies, your outside CPA costs, things of that nature. All of those accounts would be in the QuickBooks world we call them sub accounts. They will all be sub accounts of indirect costs. That means you haven't lost any of that detail, but now you've managed to combine all of these together. And I also would like to suggest that you add another account, an income account under indirect costs where you just put in there how much you have billed for indirect. And so rather than put expenses into indirect and then take them out or reduce them when you bill them, just have another account, a revenue account for your billings of indirect. And then you will actually have a running tract of how your billings of indirect compared to your costs for indirect. And that may generate a question or two. That's a tough concept so we will deal with them when they come up.

 Not in my expertise and I talked to our QuickBooks person and this is what she said to do to set up sub accounts on QuickBooks here and it's on the list. I will just go through it quickly. You select lists, chart of accounts and then account on the bottom of the screen. You highlight an account and select new or edit. And you right click on an account, for example insurance, and then you check mark it and make -- to make it a sub account and then it will say a sub account of what? And you just find indirect. So that's how you would make it, how you would make insurance. Sub account it and then indirect it in QuickBooks. We can't address the different general ledgers but if you have any sort of capability for groupings, there will be a process similar to this.

 Paula, any other general ledger procedures you are familiar with or --

>> Not right there, but I think this next slide might be helpful for the conversation because it's also a place where you are dividing things out. And that's slide 12. And it has to do with our cost objectives. Now I will take ya'll down memory lane to remember what a cost objective is. Because there was a time a few years ago where objective cost was almost always interpreted as a funding source. But the new uniform guidance and uniform administrative requirements are very clear that are exactly what a cost objective is and it has become very clear that you can combine multiple funders into a single cost objective. Now most of our conversation around this had to do with staff time. And we have some training on that and we can go over that more later. If this sounds familiar it's because we talked about it in how you divide out staff time on your time sheets. The idea is that all of your costs should have a cost objective that they are attached to, but sometimes they make the cost can be from multiple funders. The most common example here is if you receive both part B and part C money for independent living services. If you are serving the same people all disabilities, all ages which are required by our grants and you are doing that in the same general graphic area, it's not only not necessary that you divide your time and cost by grant, it is also almost impossible because you are doing exactly the same thing whichever grant you are working on. And most of you found if you tried to do it by funding source, most of you found that you were doing it artificially. You were making up a percentage to split it out that fit with your grant application, but not based on the actual time or the actual things that people were doing. So if you have a single cost objective with more than one funder, you may not want to break those costs out by funder. It's not necessary for you to do that except that at the time you apply for your funds and when you drawdown you need to know how much of each you did. So the expense accounts that you voucher will help you calculate each funder's share and that is sufficient. You do not have to split them all out at the time that you are paying the bill or at the time that you are looking at your costs.

 You can certainly combine them if it's a sickle cost objective. In some ways this is more complicated than splitting it out by funding source. I think in the big picture in the long run you will find it much easier. Don't you think, so John?

>> I agree. And particularly once you go through the process once or twice, if you keep those costs for that single cost objective together in your general ledger and then when you are ready to bill the cost to one or both funders that apply, you might transfer all of those expenses to an Excel spreadsheet and multiply each one -- now this is -- we are talking the direct now, but multiply the direct expenses like payroll for that entire cost objective by the percentage that each funder is covering. So if one funder covers 60% of the cost of the program and another covers 40, you have $10,000 of payroll for this time frame then 6,000 of that gets billed to let's say part B and 4,000 to part C and similarly with all of your other direct costs. So once you set that up, many general ledgers will allow you to send a group of accounts or send a report right to Excel once you get that Excel spreadsheet set up it will be fairly easy to get a total for those direct costs for that time frame and then just multiply them by each funder's share. And keep that spreadsheet. Keep that spreadsheet. That's important documentation for you. To show how you went right from your general ledger to what you were drawing down or vouchering for.

>> Let's look at slide 13. Some of your fundraise also pass through funds and we treat them a little bit differently. And so some examples would include community development block grant funds that county has and they are granting them to you for helping people have accessible homes. So somebody is building a ramp or whatever, you are passing that money directly to the consumer, equipment loan, library is another one. Sometimes people get transportation passes for the purpose of teaching the independent living skill of using that public transit so they have those passes that you can use during that teaching time and the cost of those passes is actually passed on to the benefit of those passes. It's actually passed on to directly to the consumer and is in the cost that you actually end up administering except for just passing it on. So if you are indirect cost rate proposal, you could actually propose to treat these costs differently by allocating less than direct cost to them if you did that in your indirect cost proposing. Some of proposals that I looked at actually removed these from the calculation for the indirect cost rate and they said these are not things that have an indirect cost applied because they are pass-through funds. John, what do you think about that process?

>> Well, putting nothing on it is a little harsh because you certainly have responsibility, you have accounting and oversight responsibility. What some funders do that provide money to other agencies that pass these moneys through is to limit the indirect to 10%. That's pretty arbitrary. It's not like the 10% to de minimus but they just say in applying for an indirect cost rate we want these treated differently, these pass through dollars. Having said that, if you didn't do that in your proposal, you really can't do that now. You can't change how you are doing this unless you get some feedback from your HHS that they are not going to allow the full indirect cost rate on pass through funds and that will force you to modify the rate. You will have to make it up in other areas and your rate in other areas will go a little bit higher. But a few prepared your indirect cost rate proposal treating pass through costs like any other direct costs you need to stick with that and you can't initiate that change.

>> And that's really a sticky place, I think, with a lot of our centers because there are some of those funds and I think it's been inconsistent how they were treated in the different proposals that were out there. Yeah, otherwise you just have to apply that same indirect cost rate to everything and that's the intent is that you are implying that indirect cost rate to each and every thing that comes through your center. And unless your proposal allow yoked you to do it differently -- allowed you to do it differently.

>> Paula and I are learning here too and we are going to learn from feedback from you. So as you have experience with this and all of these areas, it really helps to share that. Paula, are you doing a blog or --

>> I do. I do a blog. When anything new comes up, and you talk to somebody at your HHS office and they give you specific feedback, let's talk about it because it may be beneficial to everybody else to know how that's going to work. I noticed one of the people who has dropped a note in the chat said that they are supposed to send their calculation around their indirect cost rate at the end of this month. That's what their letter said. Oh, wow!

 You may be the first one to know how that process works so please let us know because there is -- like I said before, there is not consistent treatment of it from one office to the next and we really need to learn from everybody. So that's very helpful.

>> And by the way, that's an interesting request, Paula. Presumably it's going to be less than a year. So the rate will be skewed to some extent. So, yes, we would love to hear back what the result of your submitting that information is.

>> And there were a couple of comments on that and the questions and we will have questions in a minute but we couldn't answer that one. Your regional office will have to tell you exactly what deadlines you have related to your proposal because they aren't uniform.

>> Okay. So on slide 14, you may not -- you need to keep an electronic file of documentation for drawdowns and vouchers. You might not need to submit it you probably don't need to submit it. But you need to have it. And some funders may require this immediately after request for a drawdown. Some come in and audit your organization a year or so down the road and you need to have this information. This is a second electronic file of your vouchering. Keep everything that goes into your calculation and just keep files or folders for each drawdown. If you require to provide additional details for -- at the time, well, if you have a general ledger grouping for indirect like we were talking about earlier, you will be able to voucher for a portion of each of your indirect costs. But in most cases you should be able to just voucher for indirect based on your direct cost keep your documentation for that. Best if that documentation starts with a general ledger. It won't exactly come from the general ledger but it should start with the general ledger and then it will be analyzed for example if you have multiple funders for one cost objective. So you will start with your general ledger and in that case go through an Excel spreadsheet or some other analysis but always try to start with your general ledger. That way you're sure you are not missing anything and you are not duplicating anything.

 Of course, you should have all of the details of payroll, payroll taxes, supplies and other direct costs. And that's 14.

>> Let's look at 15.

>> Yup.

>> Before we have our next break.

>> Okay.

>> So that same file, this is financed. Make sure you have all of the calculations in there so you know exactly how you did your calculations including your base and your base is determined by your proposal. So remember it may have been all of the direct costs. It may have been based on direct payroll specifically as your base. But whatever you said in your proposal is what you do. So you follow your own formula in doing this. If you don't have proper documentation, you do run a risk of being asked to go back and submit all of your receipts and expenses for each drawdown. That's usually the procedure both of the state and the federal level with your grants if you're found to not be in compliance with any of this. And so then the next step is to go back and have you submit all of that documentation with each and every drawdown. So you need to have it there to back you up so people can see it if they come in to do an onset review so you can provide it to them if they do a remote review, but you certainly want to make sure that you have all of that in place. Some funding sources also prohibit you from taking any advances so they are based on your actual costs as they happen. And that's true with your drawdowns. You should be basing them on your actual or anticipated in a very short period in the future the actual costs that you are going to incur. The checks you are going to right as you do -- write. As you do your drawdowns they should be related back to direct and indirect costs and see all of that in your documentation.

>> And we've seen that we experienced that with some agencies. It's unpleasant. It's a lot of work. It will definitely slow down your cash flow. It really can create a serious cash flow constraint depending on the level of detail you requested to provide and then the level of review the funding oversight agency intends to do, it may really slow the process down for getting reimbursed for costs. So you want to avoid that at all costs and I think if you just keep good documentation for what you did, that's less likely to happen. Looks like we are ready for Q&A here.

>> Yup.

>> Sounds good.

>> Here we are in slide 16. So we will take questions again. Here on the phone press star pound. And we will take those in the order they come in. And you can type your questions or comes in either one of the chats. So we have a good list of questions already that have come in during the last segment I will start with those in order. Nicole and Michael have essentially the same question. And I'm going to toss this to you first, Paula. Basically they received a statement that their rate was approved until September 30th, 2018. But then received notice that their next proposal would be due March 31st. Do they need to submit their next proposal on the 31st of this year? Should they contact the regional office? What would you recommend?

>> I would recommend that you contact the regional office. I would recommend that you compare the two letters. Once in a while you will have a situation where it's not from the same person and so they are actually not asking for exactly the same thing. So you want to double-check. Make sure that you are talking about the already approved rate and make sure that dates are right. The date doesn't look right. I mean, it seems very soon, you know you are only six months into the use of the new rate and your rate was good for two year period. So it seems too soon. But I think you need to call the person and talk it through with them. That's the only way we will know and then let us know what they tell you so we can learn.

>> John, my favorite question so far and I'm not picking on him. Comes from one of our guests that didn't list the name. They said how much does my rate have to be off before I should be concerned.

>> Boy, that's a tough question to answer here. You know, it's very, very dependent on the size of your budget and how it would impact the organization. I guess the best answer is if you calculate that there is a difference, apply that to your total indirect cost rate and you come up with a number that is a concern for you, you know, whether it's a potential overbilling or a potential under billing, then at the very least you should do some investigation. As we said from the start, there is going to be a difference. So small differences. Maybe something within one or 2%age points -- one or two percentage points may not be material for most agencies. Although if you have a large agency, one or two percentage points, one or two of your direct cost -- percent of your direct cost will be a fairly big number. I can't answer that specifically but that's the approach I would take is to see how the projected difference would impact your agency.

>> Great. All right, Kelly is wondering if she says the base dictates how things are applied. So I'm wondering if you all will differentiate the differences between bases and I'm adding as that would impact the indirect cost rate.

>> Again, that question I guess is most pertinent to somebody who is making -- who is still in the process of determining whether they are going to do an indirect cost rate proposal because you really don't have any choice once your proposal is submitted and approved. What we do recommend if you are in that situation, if you are still evaluating it, is to calculate how your funding would be impacted using a total payroll as a base versus total direct cost or possibly even some sort of a hybrid. I will tell you that as several agencies were doing this a couple looked to us for some help and we found that there actually was quite an advantage to a couple of agencies to go if one direction or the other. In other words, to check direct payroll as the base versus direct -- total direct cost. And they actually would get more funding from their federal source. They had another program that wasn't federally funded and they were really struggling with funding for that other program. It still was legitimate and it still was appropriate and it was approved by their federal agency by HHS, but it worked out better for them because it required less indirect to be applied to this non-federal program.

>> The main thing to remember is you are stuck with your proposal whichever way you did it. I know that a lot of you are the fiscal people at your organizations and you are concrete thinkers. And I know this is uncomfortable. Is it for all of us? We have a lot of choices we can make and there were choices that you could make at the time you did your proposal and if you have not dawn proposal yet as you approach that about how you do your formula, the base being part of that or a big part of that, and I know it's not comfortable.

>> Thanks. The next question comes from Brenda. And -- okay, I think I've got the wording here but maybe you can decipher this. Pass through funds that CDBG community development block grant requested for the federal match to cover indirect costs but I was told that might be a big no-no. Can you tell me if that's a possibility to cover the indirect costs for a CDG -- CDBG.

>> Yes, it's handled differently while that's hued money and federal and -- HUD money and passed through your city or county and passes that through, the city and county makes those rules. So you need to look at that but when you have an indirect cost rate you really are expected to charge those indirect costs to all of the different funders even if they aren't ACL. So ACL is who required you to -- the Administration for Community Living in HHS is who required you to have an indirect cost rate. But the reality is once you have an indirect cost rate, you should be able to apply it to everything you do. We even talked to you about applying it to your fundraising so you can keep track of all of your actual costs and not just your direct costs related to fundraising. We suggest that you do it related to lobbying because we know you do some lobbying or may do some lobbying with discretionary funds while the indirect costs related to that need to also be charged to that pot of money you can't charge it back to the federal pot of money because they can't pay for lobbying. So you are in situation where you are expected to apply it to everything if that funding source won't pay that cost or won't allow that cost, then there are a couple of ways you approach that of course, one is you may have to pay for it with discretionary funds so that every cost objective is having its own share of indirect costs. It's fair share of direct costs. So you may be needing to do that. And the other possibility is you may need to negotiate with the funder and say, okay, I'm going to identify these as direct or indirect but I'm going to put them back in the actual line item of the budget so I'm going to put the portion of my administrative salaries that are indirect -- salaries that are indirect back into the salary line of my budget and my budget includes both direct and indirect. John, have you seen any other solutions to that dilemma?

>> No. And I have to agree with what you just said particularly about the administrative salaries. I think that's the proper way to handle it.

>> Okay, great.

 Sally is wondering some of the grant applications we prepare united way, for example, require expense line items. Would you suggest including a line for indirect cost rate or calculate how much of that rate is for rent, supplies, et cetera and including them in the expense line items?

>> So let's see. We were talking about non-federal awards, in fact, Sally mentioning united way. You probably do need -- you probably do need to list the individual components of your indirect cost rate for an agency like that. Now you might be able to say to the agency that we are federally approved for an indirect cost rate. Here is how we calculated it. Can we just provide that as a percentage as we do to our federal funders? The normally I would expect that they would want to have the details. They would want to have each of the components of the indirect costs.

>> Okay. Great.

 Again, for you John, barb is wondering if you check the sub account and choose indirect, is there a way to introduce the approved percentage rate formula for it to calculate correctly.

>> To the best of my knowledge there isn't. I don't know that -- I don't know that there is any way that could be built into QuickBooks and I don't think it could be in other general ledgers. I think all you can do is to use your general ledger to gather and combine your costs for a specific time perked. And then you have to do those calculations manually. Or set up a spreadsheet to do them.

>> Okay, thanks.

 Paula, Linda is wondering, she says in the past we haven't included the estimated indirect cost rate in our budget proposals to the DSU. This year we are experiencing costs not budgeted at the beginning of the year. Is it acceptable to add a new cost line item to include indirect costs?

>> This is I think a two part question. The first part is can we bill our indirect costs to the DSU or we are now calling the DSE, the designated state entity that passes the money through. Is it okay to include indirect cost rights? We are finding the different states, the different DSEs have different policies around this. And some of them have -- don't have anything for indirect costs or I talked to one centered where they said they blocked it out so that you couldn't write anything in that line for indirect costs. You need to have a conversation with them about that, all of your entire state network maybe to want to do that. So you are all on the same page related to the fact of whether or not they allow you to apply the federal and indirect cost rate to your funds. Typically they are supposed to. So typically you should be able to have this conversation and clarify an indirect cost rate is not the same thing as an administrative rate and see if you can make that work.

 If you are experiencing costs that you didn't budget for, you do need to be watching how that affects your indirect cost rate. And you may -- yes, you may need to add cost line items but that policy varies so much from state to state. We can't advise you on how you do budget revisions. Or revisions to your indirect cost rate because it's going to vary -- it's going to vary quite a bit. Your state may say to you, oh, you are only allowed to two revisions a year or may not care and may let you revise your budget every month when you redo whatever. The different states and different DSEs have different policies and you need to ask them how they want you to treat that once you have that additional cost to proof, your full direct costs or your salary related to your direct calorie related to your costs whatever you had as your basis in your proposal is what you apply.

>> And let me add right in uniform guidance, there is a pretty clear mandate for federal funds fully covering programs that -- in other words, covering the direct and indirect costs of the programs they are funding and while that's not directed to the state agencies and the way it is because they become pass through entities. So they are really bound by uniform guidance as well. You can't just throw it in their face but you -- if you can put together a meeting, it might be good to share this and ask how they interpreted it or how they will deal with that or how you need to provide information so that this can be done.

>> Great. Thanks.

And back to you, Paula, Lydia asks, they have a rate agreement from HHS that lists the effective period as starting April 1-2016. But she is asking are we not supposed to apply that rate until the beginning of the fiscal year which is October 1, 2016? How would you apply that?

>> Some of you in your proposal gave a starting date. So if your proposal says we will start this next fiscal year which was we entered the beginning of that year now, but October 1, if that was your proposal, then that makes the most sense. If that was not your proposal and they gave you a date, then you probably really are responsible for applying that indirect cost rate from the date that they gave you.

 John, is that how you would see it?

>> Yes, but we are going to learn as we go through this first round. That's what we believe at this point in time. We really do want to get your feedback as we are going through this.

>> Drop by your office and ask for some of the answers to the questions. We don't really know, we would love to learn from you. It would be helpful to everyone.

>> Okay. Great. Let me get in this last question from Kevin before we go back to the slides. Kevin asks, John, what is the difference between indirect costs and administrative costs? We can see where unallowable costs could be administrative but not indirect and also asks what is another situation where this may occur?

>> Well, to address the core question, what's the difference, although we -- particularly for small organizations, small agencies. There are circumstances where an administrative cost may be an administrative person might be directly charged to a particular program. So that's an instance where an administrative cost might be directly charged and actually there are -- there can be a lot of those. We mentioned an example of a while ago where smaller direct costs can be pulled and combined and created like the administrative costs are treated. So by definition direct is something that can be tracked to a single program or multiple programs but not all of your programs. And indirect are things that benefit all programs and relatively equal way. And so you can see that definition is a little different from administrative which administrative more of a supportive service concept is. It supports your program but it isn't your program. But it's a practical matter most organizations are going to find that administrative and indirect are at least start out similarly.

>> I find it useful, John, to say they aren't the same to get the confirmation going when somebody just kind of blocks out the conversation regarding a rate that's more than what they think is a good rate. So you will find some of the funders might think that 15% is the most it ever ought to be. It depends on how you deal with your different costs. How that should be and somebody else will say 25 and somebody else would say what do you mean you have a 40% indirect rate? And depending on the different costs are handled, it may be very reasonable. You can't just say, oh, that's too high or that's too low based on the number. You have to actually see what is happening in order to know that. So sometimes I say that it's not exactly the same to get the conversation going so they can look at it more reasonably when you talk to funders who are objecting to your rates.

>> I'm going to slide 17 and we will wrap up these last few presentation slides and then take a final Q&A break.

>> Paula, you want to cover 17.

>> I will do this one. We covered this before and we have a whole training just on this issue of how you allocate payroll. And we are not going to go through all of that information here but I want to remind you that you need to do this after the fact. So the documentation of how your actual payroll time is direct and indirect has to be determined after the time has taken place. So it's an after the fact documentation. We suggest using a personnel activity report and you can have different columns for the different cost objectives including indirect and you can then go in and check on those -- and that's how you determine your payroll. If your payroll is your base, these become even more urgent to have them done properly. So make sure that you do understand how to do personnel activity reports. You know it may be that we are not required to do it in quite this much detail. We are still interpreting the uniform administrative requirements as they have come down from HHS. Because there haven't been any on site reviews, we really don't know how they will treat this issue of how you keep your track of the activity of your personnel.

 So we are suggesting that you do it based on a payroll period or the full month or the four weeks of their payroll period. It's got to agree with your payroll period. We are suggesting we keep track of people's actual time after the fact payroll by payroll or month by month or four weeks by four weeks. So that you have an accurate documentation and then that's what you use to determine if you your allocations are proper with a number of things including the indirect cost. We have a link there where you can go back and look at more detail about this. And we have sample forms and all of that kind of stuff in our financial resources on our website. But do remember that payroll is a big piece of this and you have to make sure that your record keeping on payroll is accurate. We haven't seen this happening with any of our centers, but we did see a number of other organizations in the past who had cost disallowed because they didn't keep this record accurately. So you do want to make sure that you don't find yourself in that situation. If cost is disallowed by somebody who comes in and reviews you that means that you have to give back the money, their money that you use to pay for it. So you don't want to get in a situation where it's disallowed so we recommend that you use this payroll by payroll tracking system to know how to allocating your payroll and then check and make sure that it's happening accurately. I think that's all on that one unless you have something else, John

>> Nope. I think that covers it, Paula. Let's go on to slide 18. And I am hoping we answer the question about the 10% de minimus rate. If not, we will come back to that. We will come back to that question.

 You know it wasn't our intention to go into detail on the deminimous, ask direct cost rate here. We -- this is really about how to deal with your indirect cost rate, but we want to remind you that there is not a formal application process. This is what you have decided to go ahead with. You really just need to put it into your budget to elect the 10% de minimus option. And I also want to say that we have talked to some agencies that chose this because of the complexity of applying for an indirect cost rate and they expressed concerns that they are going to be under reimbursed. Maybe seriously reimbursed. And we believe -- under reimbursed and not many agencies will be able to operate with 10% reallocation. When you apply your indirect cost rate you apply it to your base, either total direct cost or total payroll. With your 10% de minimus, you apply this only to what is called modified total direct cost. That's payroll and payroll taxes, materials and supplies, direct services and travel. You don't apply it to equipment. You don't apply it to rent or facilities maintenances. You don't apply it to participant support cost. So you multiply the 10% only by the modified total indirect -- or direct cost. The modified direct or indirect cost. And that really means it's not -- it's less than 10% of your total direct cost and it's probably not going to be adequate for most of you. So if you elected that method, the good news is you are not locked into it you can still apply for an indirect cost rate at any time, but it probably won't be effective until the coming year. You are probably going to be locked in for this current year to your 10% de minimus. Although I probably shouldn't say that. What are your thoughts on that if --?

>> I think that you are pretty much right and I have some concerns about those of you who might be doing the 10% de minimus and maybe set our fears at rest because we -- the ones that we worked with on proposals they have come in at quite a bit more than 10%. Typically double that or more. And we found that 10% especially when it's applied to this modified -- these modified direct costs doesn't seem like it can be enough but maybe we are wrong. If it's working well for you, we would love to hear that, too. Because the new centers come on board or as some of the organizations that are state funded only shift over to an indirect cost rate and it would be helpful to know if some of you feel like it's going well for you.

>> Tim, did we properly address that question that came up regarding this 10% de minimus? I think the question was about what it was based on, if not we should revisit that.

>> Yeah, will you differentiate the basis and impacts? I think Kelly can let us know if there are still questions remaining. You addressed that a little bit more on the last Q&A break but Kelly let us know if you like us to clarify anything more.

>> We can move on to slide 19.

>> And our summary. Your indirect cost rate is a formula. Apply the formula as you described that you would in your proposal. So you chose your formula and now you need to apply it. Measure your performance related to your indirect cost as part of your monthly reconciliation of cost. Make sure you know if it's high or low and why so that you know what to do related to that. And keep the records. So important to know how you came up with your figures. In case you ever have to -- or decide you need some adjustments based on what you know now. Other thoughts, John?

>> No, I think that covers it. I'm sure we probably generated a question or two.

>> So, Kelly, said no more questions at this time so we addressed everything she wanted to know. How about the rest of you? We have plenty of time for final Q&A. You can press star pound if you are on the phone or type your questions in the chat. You have a few seconds for questions to come in.

>> There are no bad questions here. Anything goes. We will all learn from the questions.

>> So again star-pound if you are on the phone or type your question in the CART chat or the webinar chat. Here is a question from Mona. Mona says so we have a 23.7% indirect cost rate. Do we apply that only to salary since that's how the base was determined?

>> Well, if that was the base that was used then the answer is yes. So you would voucher for all of your direct cost, but apply your indirect only to a direct payroll.

>> That's assuming that you have reduced your other line items by that indirect amount. You can't charge both your 23.7% and 100% of whatever you had in your indirect costs or your direct costs. You have to make sure to follow your formula all the way through so you are only asking for that once.

>> Great. And then several of our attendees are describing still feeling pretty lost. So I would encourage you all really to start by -- well, talking to your accountant if you aren't already or your auditor for some hands on help. But also go back to the earlier versions of these trainings where we talked about the introduction to the indirect cost requirement where we talked about a developing the indirect cost rate formula. And then you may want to re-listen to this one after you have done that. Those are all available on the on demand training page on ILRU website. If you have done that, if you are still lost please let us know and send in more questions or e-mail me or Paula and John. Anyway, that's where I would start. What other tips do you have for folks to get more in-depth on these answers, John and Paula?

>> Well, actually, we have got that on these last few slides we can go back to the questions and show those if you don't mind. Let's look at slide 21 has the federal resources and health of human services provided. They have three links there of things they provided on how to do -- their guidance and then check list for how to do the proposal and then also an actual sample, indirect cost rate proposals. If they are finding themselves looking at their rate and wondering what to do with that, you will find those there. On slide 22, you will find the actual link to our content on financial management. Some of that is an actual two and a half day training that we did that is all video and all of the PowerPoint and captioned and everything and it's on our actual website at ILRU.org and if you look for financial management or krill financial mansion -- CIL financial management there. Sometimes that's more information than you want, so sometimes it is helpful for you to write your questions out and give me a call or drop me an e-mail. I live in California so sometimes the e-mail works better for those of you on the East Coast just because of the time difference. But anyway, you call or e-mail me any time and I will look at your individual information and then if it's kind of confusing to me which sometimes it is, I will pull John in and get his help so we can kind of make it make sense.

 Now the interesting thing I'm finding with all of these questions is I'm not sure who internally then did your proposal. If you have a rate and you have had approved in your proposal, then I'm hoping you go back to the person who created that proposal and get some answers about your individual differences there because I would have to read through your entire proposal and get a handle on it before I could give you any other information about it. So if that helps to kind of think about that.

>> Great.

>> And then somebody asked how to reach me, I will put my e-mail and phone number in here again right now.

>> Thank you, Paula. Its back on slide two or three and I think its slide three and then I want to offer my contact information, too, because I said this about somebody else on our recent call too. John was generous enough to provide his e-mail address but for Paula and for me it's truly our job to respond to your requests. Full time. Paula at ILRU and me here, and please let us know how we can help answer these questions today, that is part of our job with the IL-NET project.

 Before the content questions, I saw someone else ask if we were going to have face to face training. And that multi-day training that Paula talked about a moment ago was the last on site we had. It's the only planned on site. Speaking of grant application, this project is a federal grant and that's up for funding. We can only plan activities through September 30 right now. We would love to host another on site management training. The last two we have done have been very big and very popular. We know there is a need for it. The grant needs to be continues first. No imminent plans but we know how much you all like those.

 Let me go back to a couple of content questions I saw. Audrey asks, our part C grant doesn't cover the full program. We use other funds to cover expenses. Our auditors are asking how we determined what portion of the expense get is a plied to the part C fund when we drawdown funds. We are unsure how to address this. Staff wages are more than the grant so we only charge a portion. How else should we justify this?

>> This is a mechanical question, but if you have a program that's not fully funded, you still need to record the full cost of that program including direct costs and indirect. As part of that program. And it's the result of that is that your expenses exceed your income, that's your reality. I assume that you have other sources for covering those costs, but you don't want to record only a portion of the costs of a program simply because you're not fully funded. You still want to show the total cost of that program and then what the different funding sources are.

>> If the different funding sources are the same cost objectives, that's your answer to your auditors. It's these two funding sources together and these expenses specifically are a single cost objective. And we can give you more of a reference from the regulations and more information about that. But if it's the same cost objective you can share the cost back and forth are real. You can just -- ask. Part C will pay for this and part B will pay for this when you have different cost objectives you can only charge to part C specifically what you would charge to part C and separate it all out, time and everything else. That's a lot more complex to separate it out than to keep them as a single cost objective.

>> Great. And Karen says, they selected the 10% de minimus and she says our federal office which I assume would mean the office that receives part C fund has its own direct cost because it's a separate building. Are we able to count that office's rent, utilities, maintenance as a direct cost?

>> I'm not sure I understand the situation. So is the agency in -- are you sharing a facility with another agency?

>> I paraphrased because I was trying to imagine what Karen meant. What she wrote was our federal office has its own costs. And what I taught it meant as first is she was a Supersonic in a federal building -- SILC in a federal building in an office that received its own federal funds as opposed to other offices that receive state funds.

>> I think she will clarify that for us. Karen, if you are talking about part C funding having a district office and can you charge those distinct costs as direct costs and the answer would be yes. So if you have costs that are not otherwise separated out and she said yeah, it's a stand-alone office for part C, totally separate office, totally different county you can't consider it a single cost objective with whatever counties are funded with part B or other funds. Yes, it can be a distinct and direct cost as a stand-alone office. I can't see any reason to divide it out as indirect. I think their administrators that would divide out as indirect but what the office covers could be indirect. What do you think, John?

>> I would agree.

>> Okay, great. And finally Barb a suggestion here she says we still use our old cost allocation plan document to distribute or cost to each grant. It works. So is that something that others could do if they have the cap plan? How can you reasonably rely on that in this process?

>> Well, what you need to know is that HHS required us to go for a federal funding for a part C funding required a move from a cost allocation plan to an indirect cost rate. If your sender is funded by the -- center is funded by the state, they can a cost allocation plan. For the federal plan they are requiring an indirect cost rate. And John you were going to say?

>> Simply that if you had a cost allocation plan, it had a lot of similarities to the indirect cost rate to process and so the part of it where you allocate indirect cost to direct cost may not have to change at all. But you do need to get approval for that if you don't go in for an indirect cost rate your only option is the 10% de minimus. You can't just continue to use your cost allocation plan, but you can submit an indirect cost allocation plan using the same process, the same formulas.

>> The last step, right, is deciding how to apply the formula is what's different.

>> That's what I would -- that's what I assume Barb meant. I remember you saying on earlier calls you can use those calculations as a starting point and then go ahead to create the formula to come up with a rate.

>> All right, this has been a great discussion. We are at 4:30 so I have to move to close. Luckily we made it through all of the questions. Thank you to all of you for being with us and I want to re-iterate on two things quickly. First the evaluation link here on slide 23. And second as you heard all throughout the call we want to hear from you. We want to hear the barriers, the stopping blocks. We want to hear the answers you hear from ACL and the regional offices and we want your questions. So let us know how we can help going forward. Thank you so much for joining us today. And just please be in touch. John and Paula, I can't thank you enough. You all have done a really great job with the past trainings from webinars to the on sites and again today. So this is complex stuff and I really appreciate you all making yourselves available so off then to help us through it. And with that, folks, we will end the call and I hope you have a wonderful afternoon. Bye-bye.