IL-NET T&TA Center Presents

Financial Risk Mitigation in Independent Living

Presenters: Aaron Taylor, Paula McElwee, and Mary-Kate Wells

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Live captioning by Ai-Media

MARY-KATE WELLS:
Hello everyone. Welcome. We are going to give it a moment to let people sign on. I see our number rising. Thank you for joining today. Give it another 30 seconds.

We will get started with some housekeeping items. Hello, everyone. Thank you so much for joining us today. This has been a popular topic requested and I'm excited we are able to bring this to you today.

My name is Mary-Kate Wells. I'm the program director at the National Council on Independent Living. I helped coordinate the logistics for these events. I wanted to welcome you to our latest webinar on financial risk mitigation. Today's presentation, Jenny, are you able to share the screen? Thank you. Today's presentation is brought to you by the administration for community living at the United States Department of Health and Human Services. In conjunction with Il-NET which is operated by ILRU and collaboration with NCIL, APRIL and the university of Montana. Here are the logos of each of those organizations. For those that have been joining these types of webinars for many years, you will notice that we have a new format on the screen. We now have the English text on the left and the Spanish text on the right.

Giving a visual description of myself, my pronouns are she/her, I am a white female with short reddish hair wearing a white shirt and pink scarf. Some housekeeping items. Captions are available today. If you click show subtitle in your resume menu and click them -- zoom menu and click them to turn on. We will have captions running through Ai-Media and the link will be shared in the chat box. In Ai-Media, you will be able to enlarge the font and change color and contrast of the captioning.

We have ASL interpreters present today. They should always be visible in gallery view. Please let me know if you cannot see the interpreters at any time. In addition, we have Spanish translation available. In order to access that, you can go to the zoom bar on your screen and choose the language you would like to hear the presentation in. We will be reading all of the content on the slides and all questions out loud So that it will be available to individuals calling in on the phone or who can't see the visual content.

Public chat is turned off. You are able to chat with panelists. We ask that you reserve the chat for requests for technical assistance. Please submit your questions in the queue and day feature. Speaking of questions, we have saved I can't see the translator. If you are looking for the Spanish translator, you can click at the bottom of your screen. We anticipate you will have a lot of questions today, so we saved a good amount of time at the end of the training to answer those questions.

JENNY SICHEL:
Hold on one second. The ASL interpreter Spanish translator? I can unmute you if that would help.

SPEAKER:
I only see the screenshot. Just a little logo. Nothing else.

JENNY SICHEL:
You cannot see the ASL interpreter?

SPEAKER:
No.

JENNY SICHEL:
Hold on one second.

MARY-KATE WELLS:
Are you on a phone?

SPEAKER:
Yes, I can see you all now.

JENNY SICHEL:
Are you on a phone? Can you swipe so if I share the screen again, can you swipe to the left? That doesn't help.

SPEAKER:
No, I am trying to sideways and everything. It's fine with me, but

JENNY SICHEL:
That's good to know. Thank you. If anyone else has problems, please type in the chat if you are unable to swipe either direction and we can get that figured out.

MARY-KATE WELLS:
Let the host and panelist know that in the chat. To finish off our housekeeping, you can submit your questions in the question-and-answer box and our presenters may answer questions along the way if they feel it is relevant to the current slide and can be quickly answered. If you are on zoom, you can type your questions in the Q and a box. You are also welcomed to email me at Mary kate@ncil.org. I will provide my email in the chat if that is more accessible to you. And also, if you are on the phone, you can press\*nine to indicate that you have a question. When you're selected, we will ask you to press\*six to unmute. Finally, we ask that if you could complete our evaluation survey, so Jenny, if you can go to the next slide, we use these surveys to generate these topics. So, we heard you during the August quarterly connect call and in your evaluations resulted in this webinar. We hear you and your evaluations and appreciate you taking the time to complete those. Next slide.

Our topic today is financial risk management. We hope you will learn today what indirect costs are, including an introduction to the regulations, what indirect cost methods are available and how to decide which to use, how to charge indirect costs and how to get started. And how to continue charging indirect costs long term. Finally, cost allowability reminders and best practices. With that, I'm going to hand it off to our speaker today, Aaron Taylor, who is a supervisory Grants Management Specialist at ACL. I will hand it off to you.

AARON TAYLOR:
Good afternoon. I'm excited to be back from August and looking forward to the discussion today. As Mary Kate said, I am a supervisory grant management specialist and I think we need to go back one slide. I work in ACL's office of fiscal operations. I will be leading us through the discussion today.

We wanted to start by sharing a reminder and that is when it comes to uniform guidance, we use 45 CFR 75. This is health and human services, or HHS's version of 2 CFR 200. It says specifically on the screen, the department of Health and Human Services, HHS grant recipients, including those that get funding from the administration for community living must comply with the ministry of requirement, cost principles and audit requirements that govern federal monies associated with an award. As applicable in the uniform guidance and in HHS, we use 45 CFR 75.

There's a link provided on the slide that will go out when materials are shared. Next slide, please.

This slide goes over why we have 45 CSR 75. Why don't we just use 2 CFR 200? HHS uses the separate version of the uniform guidance. I won't speak up, thank you for putting the message in the comment, HHS uses a separate version of the uniform guidance in order to manage its diverse grant portfolio. HHS makes a lot of investment in research. An indirect patient care grant. This portfolio is different than a lot of the grants that are managed under 2 CFR 200. Many of the subsections within 45 CFR 75 are the same. But there are some nuances and in our discussion today, we will go over a few of those nuances.

As an update, HHS is working to further align with 2 CFR 200. A recent update that went through on 45 CSR 75 was adapting the closeout requirements in 2 CFR 200. I've had several discussions with designated state entities in the past couple weeks. Our old awards used a 90 day liquidation period. And new awards are using the two CFR standard. 120 days. So, it has been causing some issues since the states are used to having an extra 30 days for liquidation. We have to do an extra process to make up for that. Next slide.

MARY-KATE WELLS:
. Sorry, this is Mary Kate, would you be able to move your microphone? Some people are saying it's a little quiet.

AARON TAYLOR:
Alright. I will try my best.

MARY-KATE WELLS:
That's better.

AARON TAYLOR:
I will aim to speak up more as well.

MARY-KATE WELLS:
Thank you.

AARON TAYLOR:
A lot of today's discussion is about indirect cost. The indirect costs definition in 45 CFR 75.2 is as follows. Indirect or facilities and administration cost means cost incurred for a common or joint purpose benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefiting without effort disproportionate to the results achieved. That is a mouthful. In the next slide, we wanted to bring it into more common terms.

In basic terms, indirect cost represents the expenses of doing business that are not readily identify with a particular grant contract, project function or activity. That are necessary for the general operation of the organization and the scope of the activities it performs.

Generally, a cost can be indirect or direct costs. If you are able to identify your direct cost, any costs remaining are indirect costs.

45 CFR 75, 414 subpart B provides some common examples of indirect costs for nonprofits. They list out examples including depreciation on buildings and equipment, the cost of operating and maintaining facilities, and general administration and general expenses, including salaries and expenses of executive officers, personnel, administration and accounting.

As we go through today's discussion, you will understand the indirect costs are unique to the organization, and how the organization does business and its accounting. These are common general examples but they might not be actual in your situation.

Next slide.

Over the next couple slides we are going to hit on all of the key regulations for indirect cost. They are primarily housed in 45 CFR 75.414. With of the subsections of this regulation, we go to the key components of indirect cost, and it also provides a guide to the appendices.

I am going to read through each bullet to identify the regulations and provide them as a clean reference. As we go through the remainder of today's discussion we will make a comeback and make connections to these regulations I'm introducing.

Guidance on obtaining and using a negotiated indirect cost rate, including charging caps or exclusions as provided in 45 CFR 75.414(c).

Information on applicable appendices to obtain guidance on negotiated indirect cost rates, for Centers for Independent Living, and these are for nonprofits, as appendix XLII part 75. So this is an appendices on 45 CFR 75. The appendices is called indirect or F&A cost identification and assignment, and Rate Determination for Nonprofit Organizations.

The F&A acronym is for facilities and administration. This is a common indirect cost component in universities, because HHS miscreants to lots of universities and higher education institutions. It includes F&A workup facilities and Administration often in its discussions of indirect cost.

Next slide please.

We are going to continue to work through these regulations.

The guidance and parameters on using the 10% De Minimis indirect cost rates are identified in 45 CFR 75.414(f).

The guidance on a one-time extension of your negotiated indirect cost are in 45 CFR 75.414(g).

Next slide please.

So we are going to go ahead and jump into a more detailed discussion of indirect cost and the different types of rates which you can utilize.

The primary types you can utilize our first, negotiated indirect cost rate. You can learn about negotiated indirect cost rate regulations at 45 CFR 75.414(c) and subpart E. You could also get additional information in the appendices four, 245 CFR 75. We have all this detailed out on the slides and links as applicable.

Next slide please.

The 10% De Minimis Indirect Cost Rate is discussed at regulation 45 CFR 75.414(f). A lot of SILS use De Minimis 10%, it's important to notice regulation. It's only about four sentences long but it has some key information. Next slide please.

One important notation to make for 45 CFR 75, compared to 2 CFR 200, is around the De Minimis cost rate regulation under 45 CFR 75. A federal grantee cannot use the 10% De Minimis indirect cost rate method if they have previously had a negotiated indirect cost rate.

This is different than the requirement stated in 2 CFR 200. If you are working a ward under 2 CFR 200, you would be able to take the De Minimis indirect cost rate, even if you had a negotiated indirect cost rate in the past.

Earlier in the slides I said HHS is working to adopt more of 2 CFR 202 45 CFR 75, I have not heard about updates or changes to this subpart. Next slide please.

If you are interested in obtaining a negotiated indirect cost rate, the first thing you need to do is determine your cognizant Federal agency. For most grantees the cognizant Federal agency is the agency that provides the largest amount of grant funding. I know for many CILs, this would mean the cognizant agency is HHS.

If you elect to obtain a negotiated indirect cost rate, then you need to work with the applicable office within your cognizant agency. Next slide please.

If your cognizant agency for indirect cost rate review as Health and Human Services, then you should be working with a Program Support Center, or PSC. It's the applicable office for conducting negotiated indirect cost rate reviews for all HHS grantees. PSE also serves as the review office for several other federal agencies. When I was working at the housing and urban development, we used PSC as our office for reviewing indirect cost rates.

This is important to know, because ACL staff, the stuff that you work with every day in the office of independent living program, or if you reach out to myself and others on my team, we have no authority to except -- except in a cost direct -- a cost rate... Or negotiate approval for indirect cost rate. If you reach out to us for guidance on the status of your negotiated indirect cost rate, where to submit your application, we will direct you to a Program Support Center.

PAULA McElwee:
Aaron, I just wanted to jump in and reinforce that. The ACL staff cannot approve your rate. Period. They can't track it; you have to go to a different agency for that. And just remember that as we go through it. And you may contact me, and I will help you go through it, but... For Program Managers can't (?) (Laughs).

AARON TAYLOR:
Thank you for adding onto that Paula because it's a question we get often. I work with all of the ACL formula grant programs issued under the administration on disability, plus several other grant programs, and it's a very common misunderstanding.

Next slide please.

Alright, if we haven't hammered at home enough already, PSC delivers the negotiated indirect cost rate approvals. This includes both final rates and provisional rates, and they deliver that in a letter format to the individual organization that submitted it.

Your PSC approval letter permits you as a federal grantee to charge indirect cost to active awards.

That's talk about the approval letter. The approval letter should be shared with federal agencies as directed. If you are applying to discretionary programs, or competitive grant programs, they often require you to submit this as part of your application. Under the Part C program, we don't require submission of it, but if we were to requested in response to review of a financial report, or part of a comp evaluation or technical assistance review, then you should be able to provide a support for any indirect cost charging.

Next slide please.

So, some of you might be sitting out there wondering, "Why should I apply for negotiated indirect cost rate?" Particularly if you have been successful using the 10% De Minimis rate.

Some of the reasons you'd like to, or some of the reasons you may think about moving forward with it include:

Unapproved plan will clearly outline your accounting system and distribution of direct and indirect costs. By completing the application for a negotiated indirect cost rate, you have done all the front and work to layout the internal controls, layout your accounting system set up, and to break down your financial data. Then you will have a clear map in which to apply our rates, and you can apply it confidentially.

You will have that approved plan that will explain the methodology for charging indirect cost, and it will specify any limitations or any special circumstances in which you may or may not be able to apply the rate.

Next slide please.

Also, the approved plan will provide a specific timeframe, sorry, in which the indirect cost charging is permissible. It will state the expectations for recertification or renewal of a negotiated indirect cost rate.

And probably the biggest reason is that in most instances and approved plan will likely permit you to charge a rate that's higher than 10%.

Next slide.

We are going to turn our discussion now to the 10% minimus indirect cost rate. When I reviewed CIL based financial reports, this is the most common version of indirect cost that I see.

The 10% De Minimis cost rate is available to federal grantees, including nonprofit organizations like sales, that choose not to apply and submit for a plan for a negotiated indirect cost rate.

To charge the 10% De Minimis indirect cost rate, you must have a clear understanding of your cost. You need to be able to identify the direct cost and indirect cost, and be able to consistently apply that charging method.

What this means is that even though you're using the 10% De Minimis indirect cost rate, and you chose not to do negotiated indirect cost rate application, you still need to have strong accounting set up. You still need to have a plan and understanding of your cost, and you need to be able to apply the 10% indirect cost rate consistently across all your federal (Indiscernible). Next slide please.

I share the emphasis on the importance of having the accounting system set up, the internal control set up, and having all of your policies and procedures in place when using the 10% De Minimis, because I have heard comments in the past, in my Grants Works, that grantees might choose the 10% De Minimis because it's easier and they don't have to go through the negotiated and direct cost rate application process.

I would say that either way, De Minimis or negotiated rates, you still need to have the same foundations in place and you need to have a strong systems of controls and processes within your organization to ensure that indirect costs are properly charged.

PAULA McElwee:
Aaron, I might just jump in here. There are strings attached to the 10%, it isn't just a flat 10%. He has details that here but look at it closely.

Most of you using a 10%, are you applying it against modified total direct costs, not all of your direct costs? Because there are strings attached and limitations to the 10%. We are going to go through a lot of detail there, but just know that it isn't the flat 10%. If you are applying it as a flat 10% against all costs, we need to talk.

AARON TAYLOR:
Really good point Paula, we have an example coming up to talk about that. I think this is an important nuance that gets missed a lot. It's exciting to have this opportunity to get an extra 10% in to help cover overhead or back of office costs for your organization. Really just to offset operations. But the revelations require you to be very intentional about how you utilize the 10%.

Moving into this further, as Paula mentioned, take 10% of the modified total direct costs. MTD C. Do not apply the 10% to minimus against the award amount. The M TDC definition or modified total direct cost definition in 45's 75 states that are all direct salaries and wages, applicable benefits, materials and supplies, services, travel and up to the first 25% of each grant sub award, regardless of the performance period of the sub awards under the grant award. This $25,000, the first one he $5000 of the sub award is a really important component in calculating your modified total direct costs. For that one contract, once you go over $25,000, anything over $25,000 is not part of the MTC.

The last bullet talks about MTDC exclusions which include equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships, fellowships, participant support costs and the portion of each sub award in excess of $25,000.

Before you even start using that 10%, you need to know what are my direct costs, and how do I calculate my modified total direct costs based?

When we get to our discussion of SF-425 or federal financial report reporting in box 11, we will go over where you insert that MTDC amount. Next slide, please.

We like to really emphasize some of these requirements and this bullet hits again which is that grantees must apply the 10% de minimis cost rate to the MTDC. We have seen this mistake that federal grantees are co-collating their 10% based on the grant award amount and not actually the modified total direct costs.

It is not just a simple mistake, this is a mistake for other grantee communities that we have. Next slide. To take this common mistake and put it into real numbers, in the incorrect application, a federal grant overlord was received of $330,000. The grantee calculated indirect costs as $33,000. They did this by multiplying the federal grant award, $330,000 times 10%. This is the incorrect method, because the federal grant award, $330,000, is not the MTD C. So, in this instant case, the grantee has calculated an indirect cost amount that exceeds what is permissible under the regulation.

To do this calculation properly, the correct application, we used the same federal grant amount award of 330,000, we will calculate the maximum M TDC which is $300,000. We do this by taking the federal grant award amount, $330,000 and dividing it by 1.10. 1.10 is taking the digit one and adding .1028. .10 equals 10%.

The indirect cost would be $30,000 because we took the modified total direct cost amount of $300,000 and multiplied it by 10%. So, when we look at the incorrect example and the correct example, it is a difference of $3000 in indirect costs. If you apply the 10% against the award amount, you would be taking $3000 more than is permitted under the regulation and that would be considered an improper payment or noncompliance issue. Next slide, please.

Now that we have learned about negotiated indirect cost rate agreements, and the second method, 10% to minimus indirect costs, how do you determine what to do? How do you determine where to start? The first thing you need to do is look internal. Look in your house. You need to determine whether you have the accounting expertise, the system capability, and adequate internal controls to identify direct and indirect costs. And to appropriately charge or appropriately apply an indirect cost rate. If you need to improve your capacity, your systems or your controls, you should work with an accounting professional with federal indirect cost rate experience. If you are having an annual financial audit done, this is a discussion you can have with your auditor. If you have a single audit done, this should be part of your discussion as well. Next slide, please?

Once you have the bones in place, you have the systems, you have the processes, you have the policies, you have the staff, then you can apply for a negotiated indirect cost rate. Or, you can set up your accounting system and go ahead and implement the internal controls to start utilizing the 10% indirect cost rate.

If you are applying for a negotiated indirect cost rate, you need to work with the applicable office at your cognizant agency. For many of you this is the program support Center, PSC at HHS, and you will submit your application to them, you will wait for feedback. Sometimes this can be a lengthy process.

You will address any questions that they have. Hopefully you will get that shiny, bright, exciting approval letter by email or mail. Once you have the approval letter for the negotiated indirect cost rate agreement, or once you have the accounting set up ready to do that de minimis, number three, last step, you can start charging indirect costs. Next slide please.

When working with PSC or the program support center on your negotiated indirect cost rate, remember they are going to be the entity that you reach out to submit your plan. To obtain any extension, or to submit for renewal of an existing plan. On the slide, we have links to their key websites. The materials will be shared. I will tell you, there are two PSC websites. The first one is a landing page that gives you information on indirect costs. The landing page has a link which we have also provided, the direct link to, that goes to all of the contacts regionally for PSC relative to indirect cost rate. They recently updated this website in the last three months to get more information and direct contacts. Originally, they only had two individuals and their emails on the website. I imagine those individuals were overwhelmed with correspondence (Laughs)

PAULA McElwee:
We have a couple of questions in the question and answer that I think might be useful before we go past the topic. The first one was about the MTD see and how it is calculated. I would like to direct everybody back to slide 24 for that. If that would be OK to go back real quickly?

AARON TAYLOR:
I appreciate it because I'm trying to find the right way of stating it to meet all accessibility needs.

PAULA McElwee:
It's a tough one, because it's different from what people expect to see. So it takes a little bit of thinking about it, but if all of you will take a look at slide 24, when you get back to your offices and are working this through, that is what we will look at along with what is on the website that is here on the slide that you see now.

AARON TAYLOR:
I will tell you that ACL does not have a specific guidance document on this. If you search the internet on how to calculate and PDC, there's a lot of good credible documents. I don't have the ability to recommend one states or another but I reviewed some state ones and they had some really great guidance. And they used the same type of calculation. The key in the calculation, and this is assuming no exclusions, we went through all of those exclusions where you would have to further deduct from your and PDC, no exclusions, you would take one plus your indirect cost rate percentage.

In the example, I used 10% which also equals 0.10, so you do one +.10 which gives you 1.10. Then you take the grant award and divide it by 1.10 and that gives you your maximum MTDC.

PAULA McElwee:
That could be addressed against every funding source, when you're looking at your indirect cost rate, you apply it against each funding source because that is its purpose. To properly allocate the costs of your indirect expenses. I hope that makes sense. As far as going through it again, it is more complex than we have time for. You will have my email in the chat. Please contact me and reach out and we will help with this. It's an important thing to do.

We had a question that just popped up, do you suggest calculating the MTD seawall doing the budget? Absolutely. As long as you've got it If you're doing your 10%, if you are continuing with 10% rather than a negotiated rate, and you started there, because you can't go backwards to 10%, if that is the case, that is where you would do it. And also, in your actual bill paying process. You're going to actually allocate your actual costs as you pay that bill. So, you need to know what they are and how you are applying them. Did I go in the woods too much?

AARON TAYLOR:
I think it's OK. As we go through today's call, we talked about working with an accounting professional, because they will be able to sit down with you. And if you have a financial audit or someone who is doing that already that is a great place to start and you can make this part of your next audit discussion.

I also see the question; can we see a sample of how this works within an accounting system? That goes beyond the scope of today. I will speak to that from the standpoint of when you're doing indirect cost and getting ready to plan out your method for charging them, start on paper. Start had a Highline amount. You can make a simple line on the paper and say, on the left side, these are direct costs and start marking them out. And on the right side, these are indirect costs and marking them out. When I look at a checkbook or general ledger for a grantee and see charges, I will see specific charges or expenses from direct costs and we might see an allegation -- allocation of indirect costs at the end of the quarter and we know that indirect costs go towards whatever the pool of costs or bucket of costs you have defined as indirect costs. The advantage of having a negotiated indirect cost rate agreement is that you have a plan that says what your indirect costs are. Or has Outlined the strategy for how you will define indirect costs.

If you are using the minimus, this is another expectation of you internally to have policies and procedures in place, to have internal controls in place to outline your definition of direct versus indirect costs and how you apply it within your accounting system.

Next slide please.

Alright, so now we are going to shift to financial reporting. For every award â€“ Federal award that you receive, you are required to submit a financial report for awards issued by the Administration for Community Living. You can delete your Federal Financial Report or standard form 425 in the Payment Management System. Within the Federal Financial Report you complete indirect cost reporting in box 11.

Box 11 has six components, A through F, and then estimation line item, summation line called 11 G.

If you have multiple indirect cost rates during a period or Project Period for an award, then there are multiple lines within box 11, and you can provide data for each of the rates. And then give the total inbox 11 G.

I did see a question in the chat that you submit an application to HHS for indirect cost. I would encourage you to go to the Program Support Center website and click on the link for the regional contacts. That was included in today's presentation as well and reaches specifically to your regional office. Those individuals will be able to give you the best response on PSC.

If you continue to have issues, you are welcome to reach out to me and I will try from the federal side to get some assistance as well. But please do use the regional contacts first.

Next slide please.

SPEAKER:
Ridge is going to switch over who is sharing screens. Beautiful.

AARON TAYLOR:
Great.

On the slides we're going to walk through each of those boxes within the Federal Financial Report. Going to give a definition first, then we have a visual example that I'm going to walk everyone through.

So, we start inbox 11. Inbox 11 A, this is where you input your type of rate. There are four selections. Provisional, predetermined, final or fixed. Provisional and final apply to a negotiated indirect cost rate depending on the letter you received from PSC or the other applicable office, if HHS is not a cognizant agency. You will have a determination of provisional rate, or a final rate based on that letter. He would select provisional or final in the box.

If you are using that a minute, I recommend doing a fixed rate selection for box 11 a.

I don't know what predetermined would be, I don't think it applies to the CIL community.

Box 11 B is the actual rate. This is where you put in the numeric digit. If you are doing that the minimum you would put in 10.0, or 10.0, if you have a rate that's different than 10 minimus you would put in the numeric rate into this box.

11 C is the (Indiscernible) for negotiated indirect cost rate agreement. This would be the start date and the end date. Box 11 C is not applicable if you are using the de minimis rate because you don't have to have an agreement to use the minimum rate. -- The de minimis rate.

Next slide please. So, Audrey, that's a good question we see in the Q&A. If you're CIL as a negotiated rate and you put in the IDC or indirect cost part of box 11 in the FFR and you, had it sent back telling you to take it out. Not sure why that happened, what you are welcome to reach out to me directly. I can put my email into the chat to share. I would have to take a look at that individually and see what the circumstance is. I have three individuals on my staff that have different regions in support of doing the financial report work for the CILs, and I work directly with region five which includes Ohio, Wisconsin, Indiana, Illinois and Minnesota.

One moment and I will put my email on the chat, and you're welcome to, you know, follow-up. But I put it in the large group chat. I don't see my email as proprietary information, I work in public service. So, it is available to the group.

Alright, continuing back on the discussion of financial reports, we had pasta before Xbox 11 C. That was where you put in your timeframe.

In box 11 D this is where you put in your direct cost base, which is also a modified total direct cost, MTDC total. This is the total based on expenditures to date on the award, so it wouldn't be a projected amount for the whole ward, it would be based on how much you've expended so far. And your expenditures are included in box 10.

11 E, box 11 E is the cumulative amount of indirect costs charged against the award. So this would be a product of multiplying box 11 B times 11 D. And it basically says based on your rate and your direct cost base, this is the maximum indirect cost you can charge the award.

Box 11 F is the actual indirect cost amount you were charging to this federal award. A lot of times box 11 E and 11 F will be the same, 11 F could be smaller than 11 E.

You will never have a circumstance in which the amount you enter into box 11 F is greater than 11 E because 11 E is the maximum indirect cost rate -- indirect cost amount you can charge on the award.

I see there is a Q&A question, I'm going to go ahead and do the visual example on the FFR or SF-425 before we go to that question. Next slide please.

So on the screen is a visual example of SF-425 or Federal Financial Report form. It has been cropped so you only see box 11. I am going to walk you through the visual example.

The first box you see is 11 A, again this is where you choose your type of rate. We have four types you can choose from. Provisional, predetermined, fixed and final. In this example be inputted provisional rate. So, this sample organization has negotiated indirect cost rate agreement.

Box 11 B is where you input the numeric rate. The numeric rate here is 25%. Box 11 C is the period in which the rate is effective. There are two boxes to complete to complete 11 C, you complete the from date. In this case that's October 1, 2022. Add that to date is September 30, 2024. It is a two-year period.

In box 11 D, this is the MTDC, direct cost base, recorded on the award so far as a result of expenditures. The MTDC or direct cost base for this award example based on the expenditures is $80,000.

Box 11 E is the amount charged. So, this is the amount of indirect cost, the maximum amount of indirect cost you can charge to the award based on expenditures. And you calculate that by multiplying the rate, box 11 B, by the base, box 11 D. In this case that's 25% or .25 times $80,000. That gives us a maximum indirect cost charge amount of $20,000. So, box 11 E would be $20,000.

The final boxes box 11 F. Sorry, I just took a moment to look at the question. I will answer that in just a moment. The final box is box 11 F. And that is $20,000 as well. So in this case, the grantee in the example has determined that their maximum indirect cost rate charge amount is $20,000 and 11 E, and that is the amount they are going to apply to words the award and take as indirect cost. In 11 F they've entered $20,000.

So, in the question answer, we had a question of does 11 D, the direct cost base equal 10 E? So 10 E, we don't have a visual app for that. 10 a is who are federal expenditures to date. This is the grantee self-reporting. This is how many grant funds I have expended. In the queue and Ed asks his 11 D your direct cost base equal to 10 E, the amount of expenditures.

The answer to that is actually 10 E, your expenditures to date would be the sum of 11 D and 11 F. Your expenditures would include all direct costs and all indirect costs. So again, the sum of adding 11 D and 11 F should equal 10 E.

I'm not sure if the person who submitted the Q&A can confirm they understand that logic. That's the one hard about a one-way webinar (Laughs).

Going to go ahead and move on to, it will be two slides because we did go through the image description.

So now we are going to move to the part of the discussion that is, what do I need to do long-term to continue charging indirect costs? We talked about this a lot today, and that is having systems, policies and controls in place that permit you to charge indirect costs.

We talked about the importance of sitting down and identifying direct costs versus indirect costs. And the reason you do that is so you can consistently charge the indirect cost rate on all of your federal awards, because you will know 100% of the time that you were using that rate in a consistent and planned manner.

Also ensure you have adequate capacity in that you have staff that is trained in the application of indirect cost. I have worked with several CILs where there's been turnover, and they lost key accounting staff for financial staff. If that was the only person within your organization that knew how to do indirect cost or manage indirect cost, then please take some time to reach out to another professional or obtain additional capacity to fill that gap, because you were at risk of not applying the right standards or methods to do indirect cost rate charging if you lack individuals who are knowledgeable on the topic.

Next slide please.

I'm going to pause one minute. I see a chat comment from Michael, and it says, "We received state federal funding under title VII, the state portion we have we have not been able to claim."

So, this is a federal indirect cost rate agreement, right? So, it applies to federal funding. If you receive money from the state, you could use a federal indirect cost rate de minimis or negotiated indirect cost rate if the state funding derives from a federal grant. A lot of time state will serve as a (Indiscernible) answer federal funds down, this is common in part be for independent living. If it is truly state funds, then you would not be able to use of federal indirect cost rate almost overstayed rules and laws in relation supporting it.

PAULA McElwee:
The states are required, right, Aaron? To use the rate for the state funds.

AARON TAYLOR:
They should allow you to use the negotiated rate or the minimums. I've looked at a variety of contracts and have seen that. Some of the language I worry about is that they will say you can take 10% indirect costs and don't make a reference to the regulation. So, someone might think, I am taking 10% indirect costs or an admin incentive taking 10% in line with the regulation and modifying total direct costs.

PAULA McElwee:
There's a question in the Q and a that reflects part of that, are you saying the base always equals direct cost related to the FFR, can't the base be different than the total direct costs, for example, the base, salaries and benefits, which is not the total direct cost, in this case the total charged would not be Basic Plus direct. -- Basic Plus direct.

AARON TAYLOR:
That's a nuanced question and that is fair. When we went over the early part of the presentation, he gave examples of common cost items that are part of the calculation. For some organizations, which is a very basic definition. It could just be salary cost or salary plus fringe and they don't incorporate a bunch of the other costs associated with operating a business.

If that is how you set up your system and you are applying it consistently, that sounds reasonable. Again, this is an instance of if you have a negotiated indirect cost rate, PSC is the accounting professionals who can help you. To affirm that you have a correct plan and controls in place to do the charging. If you want someone to sit down and dig into your accounts, and accounting professional would be the best one to work with one-on-one and talk about your specific environment. But that's totally fair. There are a lot of nuances in how you go about that calculation.

I see some other questions in the Q and A. I think we are at a point where we can do some of those and then come back to the presentation. There is one that says, how do we handle the date range on the rate when the approving agency is a year behind updating the indirect cost rate justification proposals?

That's a really good question. To be 100% in line with the regulation, you want approval on an indirect cost rate that gives you a time period. And that you apply the rate for that specific time period. If your renewals are behind, I would do your best to get a confirmation from PSC that are program support center or the other office that the review is in progress. And if possible, put a specific question to them that says, why my review is being conducted, can I continue to use the most recently approved -- while my review is being conducted can I use the most recently approved rate?

In most instances where the grantee has been able to demonstrate that they took timely action, and demonstrated clear due diligence to obtain a rate renewal, federal agencies have been open to allowing them to continue to use a previously approved rate. This is usually within the first year after the rate would expire.

These are some common standards I have taken from other agencies. This really comes down to, again, showing that you are doing timely action and demonstrating proper due diligence.

There's another question that says thank you. We are working on a new proposal and are indirect costs have increased in the last year. I'm estimating the new negotiated rate will increase over the expired rate. I'm glad that you took the time to go ahead and review your indirect costs. That's a great best practice to say, hey, we have not done this in three years, our organization has changed, we need to take a look at this again and make sure the rate still works for us. Until that rate is approved, at least provisionally, you can't use it in effect yet. If you are able to get something in writing from program support center that says otherwise, I would be happy to be contradicted. But I would encourage you to wait for the approval before applying the new rate.

PAULA McElwee:
There might be an exemption to that. If the new rate is substantially less, you are allowed to charge less than your approved rate and you might be wise to do that if you realize that what you are drawing down for your indirect cost was greater and now it is less. You can certainly charge less than the approved rate.

AARON TAYLOR:
Correct. The rate is the, so you can always take less than that amount. In the specific question, they were referencing an increase. I'm glad that you brought in the alternative, what if the rate actually decreases because we've become more efficient or maybe we moved to a new location and we have less operational expenses. Thank you for bringing in the other side of that. And I will acknowledge the question that there is a state that has trouble understanding provisional versus approved indirect cost rate. If that's something we need to work on from a designated state entity standpoint, I'm your Grants Management Specialist rep for part B, all states across the country. So I'm happy to obtain a question that would always encourage you to send some of these obstacles or challenges to your program officer in the office of independent living programs.

I will turn back to the presentation. We have a little bit more to try to get through to the questions. And then we can come back to in the Q and A. Next slide please.

I will go ahead and set this up. One of the common feedback or maybe misunderstandings that we get within the community's administrative cost versus indirect costs. Today, we have spent our time talking about indirect costs. It's important to be able to define your cost and bucket them as direct or indirect. In our discussion of the definition of indirect costs, one of the examples given for nonprofits was administrative costs, such as costs for ministry of individuals, like an administrative assistant, a bookkeeper or maybe am executive. These into vigils could spend part of their time on direct delivery but might spend most of their time on activities that are not directly assignable to an award.

So when you're looking at your own system in your own SRIL, -- and your own CIL be mindful of administered costs and what they really are and start urinalysis first with is this a direct cost, is it directly assignable to the award, is it directly implementing award delivery or activity delivery, or is it an indirect cost? Then you can step into administered of costs and I will gladly trade off to Paula for a little bit.

PAULA McElwee:
Because salaries are your greatest cost, the place where you most often are measuring this has to do with your salaries of your administrative or partially administrative staff. Centers do this differently from one organization to the next. Some just say the executive director is 100% indirect. Others say, no, the executive director is keeping a timesheet that says he or she is working on title VII, part C during this time and part B during this time in the state funding during this time and that leaves only a percentage left over that is actually indirect. Because some of that time can be charged directly. This is also often true with program managers. Program managers often work with more than one funding source and therefore their time needs to be tracked so it can be charged to the correct funding source and some of their time may not be indirect. It may be direct.

That is less true with financial staff. Typically, your bookkeeper or other financial staff are 100% indirect, because they can't separate out there time based on funding source because they are often working with the whole process. So often, they would tend to be 100% indirect.

What are administrative costs, often you will have indirect costs that would not be considered administrative because they are shared costs.
They are shared costs, meaning that all of the stuff that we used to keep track of with codes and things, you can still do that if you want to, so your copying machine and your office supplies and other costs that are shared costs, if you have people checking out that they took two legal pads out of the supply closet, maybe you really do want to keep track of this and charge them directly. But if that is more work than it is worth, make them indirect costs. Indirect means shared. Am I on track?

AARON TAYLOR:
I will add on the indirect means not directly assignable. Shared is a good example. Or the burden of assigning them is so great that it wipes you out and it's easier to pool them and put them together.

PAULA McElwee:
How you pull the cost is up to the center. That is what is in your plan.

AARON TAYLOR:
Correct. You should feel empowered in that way, that it gives you flexibility or autonomy and how you set up your plan and define indirect costs. There are some regulatory parameters that we went over today that help frame examples, but even within those there is significant flexibility.

I know we are starting to watch time. Cynthia, I see your question in the Q and a and we will come back to it at the end. Next slide, please?

We have a couple of questions and I will jump first and Paula is welcome to jump in. The first question is, if a SIL federal grantee only receives part C funds and they direct charge all costs to their grant award, is it appropriate to use indirect cost rate?

If your grant is solely funded, sorry, if your organization is solely funded by your part C award, and you have little or no other funding coming in, you have no basis to do indirect costs. Because everything that you expend, all of your expenses are for the operation of the SIL. So in that instance it's unlikely that you would be charging indirect costs.

PAULA McElwee:
If you have one funding source and only one, that is problematic on the program side because you required to do resource development, so you ought to have more than one funding source. But we’re not talking about that right now. We’re talking about if you only have one funding source, and all of your costs are direct to that funding source, that is how you would charge them, is directly rather than an indirect rate.

AARON TAYLOR:
Yes. I saw another question come in on the Q and A and we will answer that one as well. There's a lot of good, nuanced questions coming in today. I'm hoping our discussion is prompting you to think about this.

I think I've been doing it this way, maybe I want to tweak it and try a different way, or I have been hesitant to jump into indirect costs, if I take some of the steps we talked about today, maybe I will feel more comfortable and start being able to do that.

In most cases, when you start doing indirect costs and feel confident about your understanding or definition of costs within your organization, it should help with managing your overall operational expenses back of house. Because you will have a clear understanding of all of your overhead and what money you will be able to take from the federal award as a fixed percentage to help offset that overhead cost.

The second question we have is can a federal grant the church indirect cost of the user cost financial plan to directly charge shared cost? When I initially wrote this, and shared cost on the screen, give examples, rent, utilities, IT costs and etc. A lot of other shared cost.

Again, for indirect cost, the first way we look at it is it is not directly assignable to a grant award. A lot of times indirect cost represents a cost that's shared, either across organization or across several offices within the organization. When I wrote this question I was thinking about cost allocation plans from the standpoint of the state, a lot of times the state will have cost allocation plans in lieu of an indirect cost rate agreement to help allocate cost towards shared services like accounting offices or marketing offices, or HR offices that make the statement but are not part of the direct service of the award.

I would encourage every single CIL to have a cost allocation plan at an organizational level, and this cost allocation plan would say, "For this cost we either distributed across all awards, because it's associated with activity delivery, or redistribute this amount directly to awards in this amount is considered indirect cost."

We had an example in the Q&A about rent being a shared cost, and rent is often a shared cost depending on your CIL and how much revenue you receive, you might direct charge rent, and this would be directly charging the rent most likely for an individual who is doing work on the award. You could do this from a square footage standpoint, or maybe from a time and effort standpoint. In those cases you could charge a portion of the rent to the award based on how much of your staff or how much of your facility is devoted to that award.

PAULA McElwee:
I think this person was also asking about this in relation to the de minimis where rent can't be included.

AARON TAYLOR:
OK, yes, so that's I guess one of these...

PAULA McElwee:
Nuanced.

AARON TAYLOR:
Nuanced exclusion. I would say for most of the CILs we see direct charging of the rent either based on square footage, how much of your facility is devoted to a program, or how much of your staff time is promoted -- devoted to program delivery. That is a good question. So, thank you for pointing out the juxtaposition. I appreciate the feedback because it is hard to keep track of everything.

PAULA McElwee:
Often when they are using the 10% diminish, if they are using it properly, they would find a negotiated rate would be better partly because of those rent costs. And there are some salary costs that are limited too.

As you said in the beginning Aaron, often a negotiated rate is going to be more beneficial to the center than the 10% de minimis, and the exclusion of rent in the 10% de minimis in the calculation is one of the reasons.

AARON TAYLOR:
I apologize Tracy, see you have a question cost objectives can have their own shared cost or pooled allocation. What I would encourage you to take from this question on the screen about cost allocation plan is that your organization, like we said about direct versus indirect, should have a general cost allocation plan. And that plan within it should establish is a cost direct or is it indirect?

In the best example we have given of a cost that can be direct versus indirect is a salary, because you have salaries at all different tiers within your organization and you have individuals that are salaried they do work that is inherently direct, because they are IL specialists in providing direct services, then you have individuals that are salaried to that are focused on the management of the organization and non-direct delivery activities. So, in that case you have a cost item salary that falls into different buckets east on what the individual is doing. Or what the position is doing.

The cost allocation plan is your overarching, you know, this is how we organize our cost. So, I apologize.

PAULA McElwee:
How they are actually doing their time though is an important record-keeping piece for justifying how you are splitting that time. You have to have a document after the fact that says their time was actually used in a certain way in order for them to allocate that cost in that way.

AARON TAYLOR:
Correct, and that is another way of looking at cost allocation. And I'm saying that might be a future discussion topic, and really diving into timesheets, and worked on, and equating work done with charges to an award.

To quickly sum this up, when you track time you should be tracking time by the individual in their day, and specifically their hours worked on a project or award. So by associating the hours with a funding source, you are meeting the minimum criteria, and you should have a companion document, this might all be in one system that says the work the individual did that day. That is where supporting documentation that they were working the award and actually doing service that is directly chargeable to the funding source.

I am going to keep this going on the presentation, we will get through the best practices. Next slide please.

We did want to hit some best practices
at the end around cost allowability reminders.

We want you to ensure that your financial manager policies and procedures are up-to-date and refer to the correct acts, statutes, regulations, and other award terms and conditions. In reviewing CILs, I will see two CFR 200 instead of 45 CFR 75.

This might be OK if you have a variety of funding sources that include those that are under 2 CFR 200. But if ACL or HHS is your primary funder, then your uniform guidance references within your policies should be based in 45 CFR 75.

Also, you should mention in your policies and procedures that you need to adhere to the Rehab Act of 1973, because the Rehab Act establishes standards and assurances for CIL, that's an important basis for how you use and manage funds under part C.

PAULA McElwee:
Those religions also found in 45 CFR 1329 if that is helpful to people.

AARON TAYLOR:
Thank you Paula.

(Laughter)

That's great, the codified version is very helpful.

Also, when you are managing your award, to know the assigned Project Period. I know this was a topic that came up in August is a big talking point. This Project Period can be synonymous with the definition in 45 CFR 75.2 the period of performance. The most critical thing is that the Project Period is stated in your notice of award, it outlines the start date for funding in the last date to use funding.

That last day is your last day to allocate, to expand the funds, and implement the work. You can't do any more work on the award after that last day. For part C awards your last day is always September 29.

And this is an important definition, and I would remind everyone, pause, this is a serious moment right of federal funding.

Whenever you draw money from payment management system, draw money on your new award, you are agreeing to the terms of that award. So, this is a statement within your Notice of Award, the first one you receive, this is the award will be executed including all terms and conditions when you draw funds of Payment Management System.

PAULA McElwee:
And all of this is part of the answer to Cynthia's question, which has been in the Q&A here.

We have somebody who receives more funding from another source rather than ACL, we need to identify that and what the timelines are, how all of that works, and need to determine. But usually if it's another pass through federal funding source they will allow for approved indirect cost rate. But that is something you have to sort through individually Cynthia. Unfortunately we can't really say it has to be done a certain way. I would double check with that funding source.

But if it is larger Aaron, can they use the regulations from that agency rather than ACL?

AARON TAYLOR:
Yes... So, we are close to wrap up so we will go and hit Cynthia's question.

So, she has HHS C in Texas, which is the state version of health and human services within the Texas state government. And she is saying that is their largest funder.

So, these indirect cost rates we have been talking about today you can only use on federal funds. If HHSC, so the state of Texas Health and Human Services is giving you funding, and its federally based grant funding that is managed under 2 CFR 200 or 45 CFR 75, then you can use an indirect cost rate. If it's truly state funding, state assembly, which is later or general funds, then you don't have to permit the use of it. There would have to be a state law or regulation permitting use of a federal rate.

In this case, the HHSC is your largest funder, they are not a federal entity, it will be your largest federal funder.

PAULA McElwee:
May be passing through federal funds though, so it's (Indiscernible).

(Multiple speakers)

AARON TAYLOR:
You have to know the source of federal funds, if your sub award agreement from the state is not identifying the source of federal funds, it should. So, ask them. You should always say in your sub award agreement what grant number or what source contract number those federal funds are being provided through.

I do realize, let's keep going the slides. Next slide please.

We realize this would be a robust discussion, presentation, so I apologize for stepping off the slides on occasion. There have been some really good patients and have wanted to try to engage those.

So, finishing up on best practices. We talked about strong policies and procedures and keeping them up to date. We talked about knowing your Project Period for your federal ward, we talked about having strong internal controls and updated accounting systems. Now we are going to finish it off with reminding all supporting documentation for your award expenses. This includes procurement actions and contracting, your purchase receipts in your invoices, your payment approvals, and your expense approvals.

Documentation to support federal expenditures should be maintained for at least three years from the date you submit your final financial report. So this would be the day to submit your final FFR, at three years onto that and that is the minimum requirement through the uniform guidance.

These are going to be really important to helping you justify expenses and making sure they are not only programmatically eligible, so permissible under the Rehab Act, but they align with the cost tables and 45 CFR 75.

Last thing as a best practice, make sure you have an active board. Boards are super important to CILs. They give a necessary and critical check and balance to the organization, help you stay on vision and on mission, and they give good accountability full circle to make for a stronger CIL.

Next slide please. I know Mary-Kate, you were coming on because we are so close to finish.

PAULA McElwee:
One last question or we refer you to the evaluation link?

MARY-KATE WELLS:
I know this was a robust, like you said Aaron, conversation. And I think there will be more questions.

So, the way we are going to end it is we would love your feedback on this webinar. The recording and all the material will be posted within a few days.

And then Paula, I also wanted to pluck the financial manager TA call which I'm going to put in the chat. And that is an opportunity where you can have some smaller time with Paula.

PAULA McElwee:
It's a monthly call, so it's a good call for this discussion.

AARON TAYLOR:
And Mary-Kate, there was a yes or no question. Can I answer that quick?

Charles had a question in the comments. If you originally had a cost allocation plan and this would be basically just a cost allocation strategy for everything on Part C, this is how I'm going to allocated. Breakouts. The new switch to an ICR, indirect cost rate. Yes, your indirect cost rate agreement wow you do Dominium's would generally replace your cost allocation. Because within the plan without agreement you are saying, "These are my direct cost and how I am doing them in the summer indirect cost."

How you asked your question Charles in the comment, the answer is yes.

MARY-KATE WELLS:
Awesome.

Well thank you Aaron and Paul and everyone joining today. Please give us some feedback on how today, the webinar went. We will still be here, not right now, but be around to provide more training and technical assistance.

I hope everyone has a great day. Thank you.

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