Subrecipients Indirect Rate

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- Requirements for pass-thru entities
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Washington State Department of Health

2 CFR 200

- Appendix IV to Part 200 Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations)
- Appendix V to Part 200

State/Local Governmentwide Central Service Cost Allocation Plans

- Appendix VII to Part 200

States and Local Government and Indian Tribe Indirect Cost Proposals

- Subpart E

Cost Principles - Allowable/Unallowable Costs

Unallowable Costs
200 CFR Subpart E- Cost Principles

- 200.421 Advertising and Public Relations
- 200.425 Audit Services
- 200.426 Bad Debts
- 200.449 Interest
- 200.434 Contributions and Donations
- 200.438 Entertainment Costs
- 200.442 Fund Raising
- 200.444 General Costs of Government
- 200.450 Lobbying

Cost Type	Definition	How to bill?	Example
Direct Costs	Incurred specifically for one Federal award cost objective.	Charged directly to the benefiting program.	Cost of staff working on only one cost objective. Supplies for one specific cost objective.
Shared Costs	Benefits multiple cost objectives and can be distributed in proportions using reasonable methods	Split costs- charged directly to more than one program based on appropriate methodology aka cost allocation.	Shared facilities charges; program manager salaries and benefits (overseeing multiple programs or cost objectives).
Indirect Costs	Incurred for common or joint purposes benefiting more than one cost objective, but which are not readily identified or assigned to the benefiting cost objective. These costs are necessary to the overall operation of the non-Federal entity.	Indirect charges using your approved indirect cost rate.	Accounting, Human Resources, operations and maintenance expenses, etc.

Cognizant agency for indirect costs?

- The federal agency providing the most direct funding.
- *R*esponsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this part on behalf of all Federal agencies.
- The cognizant agency for indirect cost is not necessarily the same as the cognizant agency for audit.
- For Institutions of Higher Education (IHEs): Department of Education
- For Indian tribes: Department of Interior
- Hospitals: HHS
- State and cities: HHS
- Remain cognizant for at least 5 years to ensure continuity and ease of administration.

How to determine who is cognizant agency?

- Schedule of Expenditures of Federal Awards (SEFA) to see who is providing the entity with funding.
- Can be found on SAO website for that entity.
- For non-profit organization, check for the information on Federal audit Clearing house (https://facdissem.census.gov/SearchA133.aspx).

200.332 (4)- Requirements for pass-through entities

- Verify that there is an approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government.
- If no approved rate exists, the pass-through entity must determine the appropriate rate in collaboration with the subrecipient, which is either:
  - **(A)** The negotiated indirect cost rate between the pass-through entity and the subrecipient; which can be based on a prior negotiated rate between a different PTE and the same subrecipient. If basing the rate on a previously negotiated rate, the pass-through entity is not required to collect information justifying this rate, but may elect to do so.
  - **(B)** The de minimis indirect cost rate

- The pass-through entity must not require use of a de minimis indirect cost rate if the subrecipient has a Federally approved rate. Subrecipients can elect to use the cost allocation method to account for indirect costs in accordance with § 200.405(d).
- The subrecipient must permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this part.

Subrecipients - Indirect Rate

- 2 CFR Appendix VII: *"A governmental department or agency unit that receives **more than $35 million in direct Federal funding** must submit its indirect cost rate proposal to its cognizant agency for indirect costs."*

- If the nonfederal entity does not receive any funding from any Federal agency, the pass-through entity is responsible for the negotiation of the indirect cost rates in accordance with 200.332(a)(4).

Options for recovering indirect expenditures:

- Approval letter from a federal cognizant agency.
- Approval letter from another pass-thru entity
- Indirect Cost Rate Proposal (to be *Reviewed/Approved by your agency)*
- Cost Allocation Plan (CAP)
- De-minimis Rate Certification

Subrecipient Rate Proposal Review Process

DOH Cognizant Agency
- Proposal Submitted by Entity
- Negotiated Directly with DOH
- Approval Letter Sent by OAG
- Usually good for one year.

Other Cognizant Agency
- Approval Letter Sent to DOH
- No Review by DOH Needed
- DOH records updated.

De-minimis
- Less than $35M in Federal Awards
- Flat Rate of 15% of Modified Total Direct Costs (MTDC)
- Used Indefinitely
- No Review Needed, Certification Only

CAP
- Could have both, a Rate and CAP
- Reviewed by DOH to determine if reasonable
- Might be reviewed during site visit to ensure methodology is being followed.
- No Official DOH Approval

De-minimis Rate

- 10% of Modified Total Direct Costs (MTDC) (this is changing to up to 15%)
- Must comply with 2 CFR §200 factors affecting allowability of cost.
- The subrecipient does not currently have a negotiated indirect cost rate.
- Not subject to review/approval.
- No rate calculation required.
- No supporting documentation required. Just certification
- Effective date= date certification signed
- End date= indefinitely
- The s<u>ubrecipient is not a state, local government, or Indian tribe receiving more than $35M in direct federal funding</u> (these entities are not eligible for de minimis).

- Sample of de-minimis certification

De-minimis Certification

Per 2 CFR Part 200.414(f) any non-Federal entity, except for those non-Federal entities described in Appendix VII (D.1.b.) to Part 200, may elect to charge a De Minimis rate which may be used indefinitely. This de-minimis rate applies to all new federal awards issued on or after October 1, 2024. To use this rate on Department of Health sub-awards the award recipient must meet the below criteria and submit this certification to ***subrecipientindirect@doh.wa.gov****.*

By signing this form, ______________________________ (Subrecipient entity name) certify that the following eligibility criteria has been met:

- We are not a state or local government or Indian tribe who receives more than $35 million in direct federal funding annually, and
- We do not direct charge 100% of our agency costs, and
- We do not currently have an approved Federal indirect rate.

The following de-minimis rate is applied to Modified Total Direct Costs:

From	To	De-minimis rate up to 15%	MTDC base
____/___/____	Indefinite	____%	All direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $50,000 of each sub award.

MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each sub award in excess of $50,000 (regardless of the period of performance of the sub awards under the award). Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs

Furthermore, the entity agrees to:

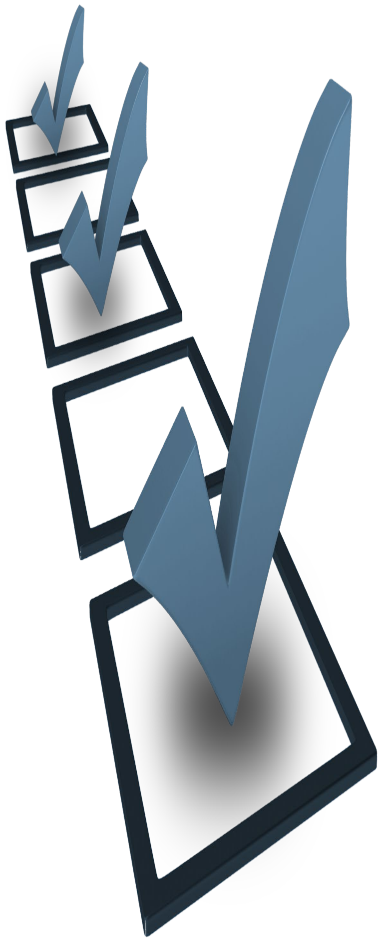
- Consistently charge all costs as either indirect or direct across all grants.
- Keep supporting documentation to ensure expenses are not being double charged as both indirect and direct and have the documentation readily available for review as part of monitoring and/or audits.

Due Dates for Proposals

Operating FY	Applicable Period	Proposal Due Date	Data Used	Example
Calendar Year	January-December	End of June	January-December from prior calendar year that closed in December.	Proposal for the indirect rate effective 01/01/2024-12/31/2024: **Due date:** 06/30/2023 **Data used:** Expenditures from calendar year 2022 (January 1 - December 31, 2022).
State Fiscal Year	July-June	End of December	July-June from prior fiscal year that closed in June.	Proposal for the indirect rate effective 07/01/2024-06/30/2025: **Due date:** 12/31/2023 **Data used:** Expenditures from state fiscal year 2023. (July 1, 2022 - June 30, 2023).

What to submit with proposal?

- **"Cover Page"**
  - Include rate percentage asked for.
  - Include base type you are requesting (Total Direct, MTDC, etc.)
  - Include rate type you are requesting (Provisional, Final, etc.)
- **Indirect Cost Policy Statement** (Description of what's in the indirect cost pool.)
- **Personnel Cost Worksheet and Allocation** (which employees are charged to indirect and how much of their charges are allocated to indirect, i.e., bookkeeper - 40% indirect).
- **Certificate of indirect Costs**
- **Org Chart**
- **Statement of Employee Benefits**
- **Financial Reports** (Financial Statements, Budget, etc.)
- **Reconciliation of Proposal to Financial Reports**
- **Rate Calculation Steps**
- **Additional Supporting Documentation**



Indirect Rate Type

RATE TYPED	DEFINITION	NOTES
Provisional	An interim rate applicable to a specified period time pending the establishment of a final rate for that period.	Must be reconciled later and submitted for final rate.
Final	A permanent rate determined after an organization's actual costs for a current year are known. A final rate is used to adjust indirect costs claimed based on a provisional rate.	Not subject to adjustments.
Predetermined	A permanent rate, applicable to a specified current or future period based on a review of actual costs incurred during a prior period. A predetermined rate is typically not subject to adjustment.	Not able to use budget for establishing rate. It must be based on actual expenditures from prior year(s).
Fixed with Carry-Forward	A rate with the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as a rate adjustment in future years.	Should submit a worksheet with calculations/reconciliation.

Cost base- *the direct cost pool (types of costs and cost caps) to which the indirect cost rate is applied.*

Base type	What is included?	What is excluded?
Direct salaries and wages	Salaries, vacation, holiday pay and other paid absences.	Fringe benefits.
Direct salaries and benefits	Salaries and fringe benefits (payroll taxes, vacation, sick, retirement, health care, bonus, deferred compensation, insurance).	Indirect salaries and other direct costs.
Modified Total Direct Costs	All salaries and wages, fringe benefits, materials, supplies, services, travel and subgrants/subcontracts up to $25,000 of each subgrant.	Equipment, capital expenditures, charges for patient care and tuition remission, rental costs, scholarships, and fellowships, portion of each subgrant/subcontract in excess of $25,000.
Total Direct Costs	Total direct costs, less capital expenditures and passthrough funds.	Capital expenditures and passthrough funds.

Indirect Cost Rate Steps

INDIRECT COST RATE STEPS

1. List all direct and indirect costs.
2. Remove any unallowable costs/financial statement adjustments.
3. Select direct cost base.
4. Add direct cost base and indirect cost pool to determine total.
5. Divide indirect cost pool by direct cost base to determine indirect cost rate.
6. Apply the indirect cost rate to each program's direct costs.

Source: Management Concepts

How to calculate your indirect rate?

	A	B	A+B
Expense category	**Indirect Costs**	**Direct Costs**	**Total Costs**
Salaries and wages	$ 105,030.00	$ 506,445.00	$ 611,475.00
Employee benefits	$ 31,509.00	$ 151,933.50	$ 183,442.50
Travel	$ 1,570.00	$ 1,250.00	$ 2,820.00
Material and Supplies	$ 500.00	$ 1,300.00	$ 1,800.00
Consultants	$ 600.00	$ 1,780.00	$ 2,380.00
Rent	$ 16,000.00	$ -	$ 16,000.00
Depreciation	$ 300.00	$ 500.00	$ 800.00
Advertising	$ 1,000.00	$ 3,500.00	$ 4,500.00
Telephone/internet	$ 900.00	$ 3,500.00	$ 4,400.00
Legal and audit services	$ 2,000.00	$ 1,350.00	$ 3,350.00
Equipment rental and repair	$ 5,506.00	$ 1,130.00	$ 6,636.00
TOTAL	**$ 164,915.00**	**$ 672,688.50**	**$ 837,603.50**

1. Review total costs (using actuals from prior year).
2. Separate costs into direct and indirect costs.
3. Make sure that totals reconcile to the financial data.
4. Determine which costs are allowable/unallowable.
5. Determine base (denominator).
6. Divide total allowable indirect costs by your base.

Rate calculations

Indirect costs- unallowable (A)	$	163,915.00
Total Direct Costs (B)	$	672,688.50
Rate A/B		**24.4%**

Base= total direct costs

Removed $1,000 of advertising costs from indirect costs.

Indirect costs- unallowable (A)	$	163,915.00
Total Direct salaries and wages	$	506,445.00
Rate		**32.4%**

Base= Total salaries and wages

Removed $1,000 of advertising costs from indirect costs

Indirect costs- unallowable (A)	$	163,915.00
Total Direct salaries and benefits	$	658,378.50
Rate		24.9%

Base= Total salaries and benefits

$506,445 (salaries)+ $151,933 (benefits)= $658,378

Removed $1,000 of advertising costs from indirect costs

Indirect costs- unallowable (A)	$	147,915.00
MTDC	$	672,688.50
Rate		**22.0%**

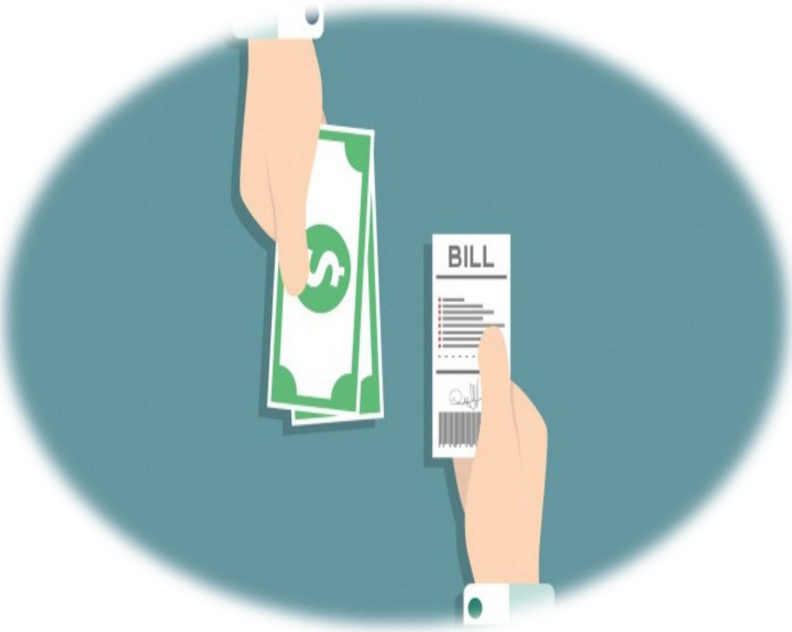
Base= MTDC

$672,688 (total direct costs)- $16,000 (rent)= $672,688

Removed $1,000 of advertising costs from indirect costs

Subrecipient Billing

- Indirect rate on file?
- Indirect rate is being applied accurately to allowable expenditures.
- Include detailed GL (General Ledger).
- Submit backup documentation based on the determined risk level.
- Submit all other documentation as listed in your statement of work.



Questions?

Vesna Agina, Cost Allocation Manager
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Contact: *Vesna.Agina@doh.wa.gov* *or* *SubrecipientIndirect@doh.wa.gov*

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