Understanding the New OMB Uniform Guidance

The Forbes Funds

Hilda Polanco, CPA, CCSA®, CGMA, Founder & CEO, FMA
John Summers, Director, FMA

June 25, 2015

Agenda

• Introductions & Overview
• Reforms to Cost Principles
  – Personnel and Non-Personnel Costs
  – How We Understand Our Costs Internally
  – Calculating an Indirect Cost Rate
• Reforms to Administrative Requirements
• Reforms to Audit Requirements
• Next Steps & Wrap-up
OVERVIEW

Objectives of grant reform

• Streamline rules governing federal funds
• Reduce administrative burden for recipients of federal awards
• Strengthen accountability for federal dollars by improving policies that protect against waste, fraud, and abuse
• Reorient recipients toward achieving program objectives
• Refocus single audit to make it a more effective tool
Grant reform timeline

President Direction (via Executive Order)  
 Adoption by all federal agencies

2/28/11  
12/26/14

12/26/13  
Issuance of final guidance

12/31/15  
First single audits to begin under new rules

Combines and streamlines eight OMB circulars

- **A-21**, Cost Principles for Educational Institutions
- **A-50**, Audit Follow-Up (related to Single Audit)
- **A-87**, Cost Principles for State, Local, and Indian Tribal Governments
- **A-89**, Federal Domestic Assistance Program Information
- **A-102**, Grants and Cooperative Agreements w/ State & Local Governments
- **A-110**, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
- **A-122**, Cost Principles for Non-Profit Organizations
- **A-133**, Audits of States, Local Governments, and Non-Profit Organizations
Cost Principles & Administrative Requirements

• Nonprofits must implement administrative requirements and cost principles for all new awards and additional funding increments of existing awards made after December 26, 2014
  
  – Could have contracts under old circulars and new guidance within the same fiscal year
  
  – Organizations that choose to implement entity-wide system changes to comply with the new guidance in this transition year will not be penalized*
  
• Grace period of one year allowed for new procurement rules


The Final Guidance: 2 CFR 200

<table>
<thead>
<tr>
<th>Part</th>
<th>Contents</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subpart A</td>
<td>Acronyms &amp; Definitions</td>
<td>200.0 – 200.99</td>
</tr>
<tr>
<td>Subpart B</td>
<td>General Provisions</td>
<td>200.100 – 200.113</td>
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<td>Subpart C</td>
<td>Pre-award Federal Requirements</td>
<td>200.200 – 200.211</td>
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<td>Subpart D</td>
<td>Post-Federal Award Requirements</td>
<td>200.300 – 200.345</td>
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<tr>
<td>Subpart E</td>
<td>Cost Principles</td>
<td>200.400 – 200.475</td>
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<td>Subpart F</td>
<td>Audit Requirements</td>
<td>200.500 – 200.521</td>
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Key areas of change

- **Subpart E**: Reforms to Cost Principles
- **Subparts A-D**: Reforms to Administrative Requirements
- **Subpart F**: Reforms to Audit Requirements

**PERSONNEL COSTS**

Reforms to Cost Principles
Time and effort reporting

• Purpose of changes is to **reduce administrative burden** of documenting time and effort

• Greater focus on having **internal controls** in place to ensure salaries and wages are based on records that accurately reflect work performed

Section 200.430

Time and effort reporting

• Personnel activity reports (i.e. timesheets) not specifically required; more flexibility in process used to meet standards

• Time and effort reporting cannot be based on budget estimates alone

Section 200.430
Personnel Costs

<table>
<thead>
<tr>
<th>Summary of Changes</th>
<th>Uniform Guidance</th>
<th>A-122</th>
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<tbody>
<tr>
<td>Documented payroll supported by personnel activity reports</td>
<td>X</td>
<td>✓</td>
</tr>
<tr>
<td>Signed by employee or responsible official with firsthand knowledge of employee’s activity</td>
<td>X</td>
<td>✓</td>
</tr>
<tr>
<td>After the fact determination (budgets alone are not allowed)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Prepared at least monthly and coincide with one or more pay periods</td>
<td>X</td>
<td>✓</td>
</tr>
<tr>
<td>Be incorporated into official records</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Must track 100% of activity (federal and non-federal)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Supported by system of internal control</td>
<td>✓</td>
<td>Not specified but presumed</td>
</tr>
<tr>
<td>Comply with accounting policies of entity</td>
<td>✓</td>
<td>Not specified but presumed</td>
</tr>
</tbody>
</table>

Some ambiguity

- Who needs to sign effort report?
- What type of effort report needs to be prepared?
- How often does effort report need to be prepared?

What approach should you take?

- If current system works, you don’t need to change it
- If you are thinking of making changes, get approval from funders and discuss with your auditor

NON-PERSONNEL COSTS

Reforms to Cost Principles

Cost Principles: Non-Personnel

Equipment and other capital expenditures

• Computers are now defined as supplies, not equipment, if cost is less than organization capitalization threshold or $5,000

• Includes:
  – Tablets
  – Laptops
  – Smartphones

• Consider revisiting your policy if threshold is below $5,000

Section 200.439
Proposal costs

• Now allowable as indirect costs:
  – Costs of preparing bids, proposals, or applications on potential Federal and non-Federal awards or projects (if considered an M&G cost)
  – Includes both successful and unsuccessful bids and proposals

Cost principles with significant changes

• Bad Debt – 200.426
• Conferences – 200.432
• Contingencies – 200.433
• Contributions – 200.434
• Depreciation – 200.436
• Entertainment – 200.438
• Intellectual Property – 200.448
• Training – 200.472
• Travel – 200.474
Cost principles with little or no changes

- Advertising and public relations
- Alcoholic beverages
- Alumni(ae) activities
- Audit services
- Commencement and convocation costs
- Goods and services for personal use
- Lobbying
- Organization costs
- Plant and homeland security costs

Questions 1 & 2
HOW WE UNDERSTAND OUR COSTS INTERNALLY

Reforms to Cost Principles

Natural and functional expenses

Natural Expenses
• Expenses classified by the nature of the expense such as salaries, rent, utilities, supplies, etc.

Functional Expenses
• Expenses classified by the type of activity for which the expense was incurred: programmatic, management and general, or fundraising
Two categories: specific and shared

Specific expenses: Expenses that can be specifically *assigned* to one or more program(s) or function(s), based on time or money spent directly in each program or function
- Salaries for program personnel
- Salaries for fiscal staff
- Fundraising expenses

Shared expenses: Expenses that are shared among some or all programs and functions. These expenses must be *allocated* among functional areas on the basis of an appropriate methodology
- Rent and utilities in a common space
- Office supplies
- Depreciation
We see our own expenses in three categories:

- **TIER 1**: Specific Program Expenses
- **TIER 2**: Shared Program Expenses
- **TIER 3**: Management/General and Fundraising Expenses ("Overhead")

**Allocation Methodology**

**Allocation methodology**

**Definition**
A method by which costs associated with more than one program or support area (administrative or fundraising) are distributed across functions.

**Purpose**
To allocate expenses in order to determine the true costs of programs and cost per unit of services.
Allocation Methodology

Allocation of personnel expenses

- Personnel expenses (for full time and part time staff) are allocated based on **Staff Level of Effort**, can be substantiated by:
  - Timesheets
  - Time studies
  - Employee Attestation Statement

*Method of substantiation is often dictated by funder*

Allocation of non-personnel costs

<table>
<thead>
<tr>
<th>Types of Non-personnel</th>
<th>Can be allocated based on</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy</td>
<td>% of salary dollars</td>
</tr>
<tr>
<td>- Rent</td>
<td>Headcount (F.T.E)</td>
</tr>
<tr>
<td>- Utilities</td>
<td>Facilities use studies (%)</td>
</tr>
<tr>
<td>- Cleaning</td>
<td>Square footage</td>
</tr>
<tr>
<td>- Maintenance</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>Asset use (for debt to acquire property)</td>
</tr>
<tr>
<td>Insurance</td>
<td>Loan use (for working capital loans)</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
</tr>
</tbody>
</table>

27

28
### Staff level of effort: FTE calculations

<table>
<thead>
<tr>
<th>Personnel</th>
<th>Program A</th>
<th>Program B</th>
<th>M&amp;G</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>35%</td>
<td>22%</td>
<td>25%</td>
<td>18%</td>
<td>100%</td>
</tr>
<tr>
<td>Program Director</td>
<td>50%</td>
<td>50%</td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Teacher A</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Teacher B</td>
<td></td>
<td></td>
<td>100%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Bookkeeper</td>
<td></td>
<td></td>
<td>30%</td>
<td></td>
<td>30%</td>
</tr>
<tr>
<td>Grantwriter</td>
<td></td>
<td></td>
<td></td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>185%</strong></td>
<td><strong>172%</strong></td>
<td><strong>55%</strong></td>
<td><strong>43%</strong></td>
<td><strong>455%</strong></td>
</tr>
</tbody>
</table>

#### Rounded # of FTEs
- Program A: 1.9
- Program B: 1.7
- M&G: 0.6
- Fundraising: 0.4
- **Total:** 4.6

#### Allocation based on FTEs
- Program A: 41%
- Program B: 38%
- M&G: 12%
- Fundraising: 9%
- **Total:** 100%

### Personnel: salaries

<table>
<thead>
<tr>
<th>Personnel</th>
<th>Program A</th>
<th>Program B</th>
<th>M&amp;G</th>
<th>Fundraising</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>25,900</td>
<td>16,280</td>
<td></td>
<td>18,500</td>
<td>74,000</td>
</tr>
<tr>
<td>Program Director</td>
<td>34,000</td>
<td>34,000</td>
<td></td>
<td></td>
<td>68,000</td>
</tr>
<tr>
<td>Teacher A</td>
<td>55,000</td>
<td></td>
<td></td>
<td></td>
<td>55,000</td>
</tr>
<tr>
<td>Teacher B</td>
<td></td>
<td>50,000</td>
<td></td>
<td></td>
<td>60,000</td>
</tr>
<tr>
<td>Bookkeeper</td>
<td></td>
<td></td>
<td>25,000</td>
<td></td>
<td>25,000</td>
</tr>
<tr>
<td>Grantwriter</td>
<td></td>
<td></td>
<td></td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total Salaries</strong></td>
<td><strong>114,900</strong></td>
<td><strong>100,280</strong></td>
<td><strong>43,500</strong></td>
<td><strong>33,320</strong></td>
<td><strong>292,000</strong></td>
</tr>
</tbody>
</table>

**Tier 1:** Specific Program Expenses  
**Tier 3:** Specific M&G and Fundraising expenses
## How We Understand Our Costs Internally

### Personnel: salaries + fringe

<table>
<thead>
<tr>
<th>Personnel</th>
<th>Program A</th>
<th>Program B</th>
<th>M&amp;G</th>
<th>Fundraising</th>
<th>Total</th>
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</tr>
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<td>34,000</td>
<td></td>
<td></td>
<td>68,000</td>
</tr>
<tr>
<td>Teacher A</td>
<td>55,000</td>
<td></td>
<td>55,000</td>
<td></td>
<td>55,000</td>
</tr>
<tr>
<td>Teacher B</td>
<td></td>
<td>50,000</td>
<td></td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Bookkeeper</td>
<td></td>
<td>25,000</td>
<td></td>
<td></td>
<td>25,000</td>
</tr>
<tr>
<td>Grantwriter</td>
<td></td>
<td>20,000</td>
<td>20,000</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total Salaries</strong></td>
<td><strong>114,900</strong></td>
<td><strong>100,280</strong></td>
<td><strong>43,500</strong></td>
<td><strong>33,320</strong></td>
<td><strong>292,000</strong></td>
</tr>
</tbody>
</table>

**Effective Fringe Rate:** 20%  
Fringe: 22,980  
20,056  
8,700  
6,664  
**Total Fringe:** 58,400  

| Total Personnel | 137,880 | 120,336 | 52,200 | 39,984 | **350,400** |

### Tiers 1 & 3: specific expenses

<table>
<thead>
<tr>
<th>Category</th>
<th>Program A</th>
<th>Program B</th>
<th>M&amp;G</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OTPS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Classroom supplies</td>
<td>12,200</td>
<td>14,600</td>
<td></td>
<td></td>
<td>26,800</td>
</tr>
<tr>
<td>Snacks</td>
<td>2,200</td>
<td>3,000</td>
<td></td>
<td></td>
<td>5,200</td>
</tr>
<tr>
<td>Bus rental</td>
<td>2,000</td>
<td></td>
<td></td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Audit fees</td>
<td></td>
<td></td>
<td></td>
<td>9,500</td>
<td>9,500</td>
</tr>
<tr>
<td>Conference travel</td>
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<td></td>
<td></td>
<td>800</td>
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<tr>
<td>Event space rental</td>
<td></td>
<td></td>
<td></td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Event catering</td>
<td></td>
<td></td>
<td></td>
<td>3,200</td>
<td>3,200</td>
</tr>
</tbody>
</table>

**Total**  
16,400  
17,600  
10,300  
4,200  
**48,500**

**Tier 1:** Specific Program Expenses  
**Tier 3:** Specific M&G and Fundraising Expenses
Tiers 2 & 3: shared expenses

Percentages derived using staff level of effort calculation

<table>
<thead>
<tr>
<th>Allocation Percentage</th>
<th>Program A</th>
<th>Program B</th>
<th>M&amp;G</th>
<th>Fundraising</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Rent</td>
<td>13,011</td>
<td>12,097</td>
<td>3,868</td>
<td>3,024</td>
<td>32,000</td>
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<tr>
<td>Utilities</td>
<td>2,440</td>
<td>2,268</td>
<td>725</td>
<td>567</td>
<td>6,000</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>1,952</td>
<td>1,815</td>
<td>580</td>
<td>454</td>
<td>4,800</td>
</tr>
<tr>
<td>Depreciation</td>
<td>6,262</td>
<td>5,822</td>
<td>1,862</td>
<td>1,455</td>
<td>15,400</td>
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<tr>
<td><strong>Total</strong></td>
<td>23,664</td>
<td>22,001</td>
<td>7,035</td>
<td>5,500</td>
<td>58,200</td>
</tr>
</tbody>
</table>

Tier 2: Shared Costs Allocated to Programs

Tier 3: Shared Costs Allocated to M&G and Fundraising

Tier 1 +2: specific and shared expenses for Program A

<table>
<thead>
<tr>
<th>Specific Program Expense</th>
<th>Program A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td></td>
</tr>
<tr>
<td>Executive Director</td>
<td>25,900</td>
</tr>
<tr>
<td>Program Director</td>
<td>34,000</td>
</tr>
<tr>
<td>Teacher A</td>
<td>55,000</td>
</tr>
<tr>
<td>Fringe</td>
<td>22,980</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OTPS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Classroom supplies</td>
<td>12,200</td>
</tr>
<tr>
<td>Snacks</td>
<td>2,200</td>
</tr>
<tr>
<td>Bus rental</td>
<td>2,000</td>
</tr>
<tr>
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</tr>
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<td>1,952</td>
</tr>
<tr>
<td>Depreciation</td>
<td>6,262</td>
</tr>
</tbody>
</table>

Total: $154,280

Shared Expenses Allocated to Program

Total: $23,664

Total: $177,944
### Tier 3: supporting services (overhead)

<table>
<thead>
<tr>
<th>Personnel</th>
<th>M&amp;G</th>
<th>Fundraising</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>18,500</td>
<td>13,320</td>
</tr>
<tr>
<td>Bookkeeper</td>
<td>25,000</td>
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</tr>
<tr>
<td>Grantwriter</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Fringe</td>
<td>8,700</td>
<td>6,664</td>
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<td>Audit fees</td>
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<td>Conference travel</td>
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</tr>
<tr>
<td>Event space rental</td>
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<tr>
<td>Event Catering</td>
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<tr>
<td>Rent</td>
<td>3,868</td>
<td>3,024</td>
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<td>580</td>
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<tr>
<td>Depreciation</td>
<td>1,862</td>
<td>1,455</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>69,535</td>
<td>49,684</td>
</tr>
</tbody>
</table>

### Bringing Together Tiers 1, 2, and 3

<table>
<thead>
<tr>
<th>Tier 1: Specific Program Expense</th>
<th>Tier 3: &quot;Overhead&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program A</strong></td>
<td><strong>Program B</strong></td>
</tr>
<tr>
<td>Executive Director</td>
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</tr>
<tr>
<td>Teacher A</td>
<td>55,000</td>
</tr>
<tr>
<td>Teacher B</td>
<td>-</td>
</tr>
<tr>
<td>Bookkeeper</td>
<td>-</td>
</tr>
<tr>
<td>Grantwriter</td>
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</tr>
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<td>1,952</td>
</tr>
<tr>
<td>Depreciation</td>
<td>6,262</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>177,944</td>
</tr>
</tbody>
</table>
Strategy for Funding Tier 3 Costs

Examples

1. Raise unrestricted dollars

2. Indirect cost recovery

3. Develop an earned revenue stream that covers the full cost of the associated program or more

4. Build an overhead rate into requests for restricted program funding from foundation/corporate funders

Reflection Tool

Question 3

Understanding the OMB Uniform Guidance: Reflection Tool

1. Reference Cost Principles: Personnel

   a. Did you correctly use line item costs in your organization?

   b. Refund/record what those according to the program/project they are working on?

   c. Based on what you’ve learned today, what additional steps would you take in the area of personnel in your organization?

2. Reference Cost Principles: Non-Personnel

   a. Based on what you’ve learned today, what additional steps might you take in the area of non-personnel costs?

   b. Are any of the other following areas of change?

   - Equipment & Other Costs/Expenses

   - Prepared Costs

   - Entertainment
DIRECT / INDIRECT COSTS

Reforms to Cost Principles

OMB’s definition of direct and indirect

- **Direct Costs**: Costs that can be identified specifically with a particular cost objective (i.e. program or grant) or that can be directly assigned to such activities relatively easily with a high degree of accuracy.

- **Indirect Costs**: Costs incurred for a common or joint purpose benefitting more than one cost objective and not readily assignable to such cost objective.

> Costs incurred for the same purposes in like circumstances must be treated consistently as either direct or indirect

Sections 200.413 – 414
**Cost Principles**

**Moved from indirect to direct!!!**

- **Program administration costs** (e.g., secretarial staff dedicated to a specific program) can now be counted as direct costs if all the following circumstances apply:
  - Such services are integral to the activity
  - The individual can be specifically identified with the activity
  - Costs are included in budget or have prior written approval
  - Costs not also recovered as indirect

*Section 200.413*

**New rules on coverage of indirect costs**

- If a nonprofit does not have a negotiated indirect cost rate, it can elect to charge a de minimis **10%** of modified total direct costs
  - Can be used indefinitely
  - Once elected, must be applied to all federal contracts or pass-through funds (until the organization decides to negotiate a rate)
  - Cannot be used in cases where a federal statute expressly caps the rate at which indirect costs can be reimbursed

- If an organization currently has a negotiated rate, it can apply for a one time extension of that rate for a period of 4 years
New rules on coverage of indirect costs

Pass-through entities (i.e. state and local governments) must now allow the subrecipient to:

- Use the same indirect cost rate they have negotiated with the federal agencies, or
- Negotiate a rate between the sub-recipient and pass-through entity, or
- If a rate does not exist, use the de minimis 10% rate

Section 200.414

CALCULATING AN INDIRECT COST RATE

Reforms to Cost Principles
Indirect cost rate: definition

The ratio, expressed as a percentage, of an indirect cost pool and a direct cost base

\[
\text{Indirect Cost Pool} \quad \frac{\$180}{\$1,000} = 18\% 
\]

Direct Cost Base

Indirect Cost Rate

Three methods for calculating indirect cost rates

• Simplified Method
  – Used whenever the major functions of an organization benefit from its indirect costs to approximately the same degree

• Direct Allocation Method
  – Used by organizations that elect to charge their programs directly for all costs except those identified as “support services” (i.e. M&G and fundraising) costs

• Multiple Rate Method
  – Used when a nonprofit organization has several major functions which benefit from its indirect costs in varying degrees

The “Direct Allocation” method

Joint costs, such as depreciation, rent, and telephone expense, are prorated individually as direct costs to each category using an appropriate base (i.e. square footage)


Three steps

1. Determine the direct cost base to be used:
   - Modified Total Direct Cost (MTDC)
   - Direct Salaries and Wages
   - Direct Salaries and Wages plus Fringe Benefits

2. Categorize expenses as either indirect, direct, or unallowable / excluded

3. Divide total allowable indirect costs by the chosen direct cost base to calculate the indirect cost rate
Some important caveats!

- Some costs may be allowable to be reimbursed as direct costs as you deliver the program, but are excluded from indirect cost rate calculations:
  - Capital expenditures
  - Participant support
  - Subcontracts in excess of $25,000

- Some costs are unallowable for reimbursement, but are included as direct costs for purposes of calculating an indirect cost rate:
  - Advertising & public relations
  - Fundraising
  - Lobbying

**How OMB sees our costs**

---

**Translating Direct and Indirect**

**How we see our costs**

- Tier 1: Specific Program Expenses
- Tier 2: Shared Program Expenses
- Tier 3: “Overhead”

**How OMB sees our costs**

- Modified Direct
- Indirect

*For purposes of calculating an indirect cost rate*
Modified Total Direct Costs (MTDC)

• Amounts included in MTDC pool:
  – Direct salaries, wages, and fringe benefits
  – Materials and supplies, services and travel
  – Sub-grants / subcontracts up to the first $25,000
  – Advertising, public relations, fundraising, and lobbying costs

• Amounts excluded from MTDC pool:
  – Sub-grants / subcontracts in excess of $25,000
  – Equipment and capital expenditures
  – Participant support costs
  – Unallowable costs (except as noted above)

Indirect cost pool

• Amounts included in indirect cost pool:
  – Costs that benefit all activities of the organization and cannot be readily identified to a particular final cost objective

• Amounts excluded from indirect cost pool:
  – Equipment and capital expenditures
  – Unallowable costs

→ In this calculation, depreciation and occupancy costs (e.g. rent, utilities, telephone, insurance, and maintenance expenses) are allowable as either direct or indirect costs.
Calculating an Indirect Cost Rate

Some examples of unallowable costs

- Entertainment / alcoholic beverages
- Defense claims by or against the Federal Government
- Bad debts
- Lobbying and fundraising*
- Fines and penalties
- Contributions / donations
- Interest
- Advertising*

* For purposes of calculating an indirect cost rate, these are counted as direct costs if such activities include salaries, occupy space, and benefit from the organization’s indirect costs

Cost Pools: Example

<table>
<thead>
<tr>
<th>Modified Total Direct Costs</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Program Costs</td>
<td>Direct M&amp;G Costs</td>
</tr>
<tr>
<td>• Program Director salary</td>
<td>• Bookkeeper salary</td>
</tr>
<tr>
<td>• Salaries of clerical</td>
<td>• Audit fees</td>
</tr>
<tr>
<td>program staff</td>
<td>Shared M&amp;G Costs</td>
</tr>
<tr>
<td>• Program supplies</td>
<td>• Rent (M&amp;G portion)</td>
</tr>
<tr>
<td>• Travel</td>
<td>• Utilities (M&amp;G portion)</td>
</tr>
<tr>
<td>Shared Program Costs</td>
<td>• Depreciation (M&amp;G portion)</td>
</tr>
<tr>
<td>• Rent (program portion)</td>
<td>Not chargeable to</td>
</tr>
<tr>
<td>• Utilities (program portion)</td>
<td>federal awards</td>
</tr>
</tbody>
</table>

Costs Not Included in Rate Calculation

- Participant support (i.e. metrocards, client stipends)
- Subcontracts in excess of $25K
- Capital expenditures

Unallowable Costs

- Interest & bank fees
- Bad debt
- Entertainment
Question 4

Understanding the OMB Uniform Guidance: Reflection Tool

1. Reference Cost Principles: Personnel
   a. How are current personnel time sheets used in your organization?
   b. Are all resources time according to the programs/projects they are working on?
   c. Based on what you’ve learned today, what are the key steps needed in the area of personnel timekeeping? If not?

2. Reference Cost Principles: Non-Personnel
   a. Based on what you’ve learned today, what are the next steps you may need to take in the area of non-personnel costs?
   b. Are any of the other following areas of change needed? (Equipment, Other Costs, or Financial Services)
   c. Entertainment
   d. Real Estate

PROCUREMENT

Reforms to Administrative Requirements
Updated procurement guidelines

- Applies to goods and services that are **directly** charged to federal awards
- Replaces guidance in OMB Circular A-110
- Requires use of one of five methods of procurement:
  1. Micropurchases
  2. Small Purchases
  3. Sealed Bids
  4. Competitive Proposals
  5. Sole Source

Sections 200.317 – 325

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Updated procurement guidelines

1. **Micropurchases: less than $3K**
   - No competitive quotes required if price is deemed reasonable
   - Efforts must be made (to the extent practical) to equitably distribute among qualified vendors

2. **Small Purchases: up to $150K**
   - Rate quotes must be obtained from an adequate number of qualified sources (adequate is not defined, but must be more than one quote)
   - Quotes can be written, oral, from an online search or website price list.

Sections 200.317 – 325
Updated procurement guidelines

3. Sealed Bids: $150K or more (for construction projects)
   - Preferable method of procuring construction contracts
   - Invitations for bids must be publically advertised
   - Lowest price is the primary factor for selection

4. Competitive Proposals: $150K or more
   - Used when a sealed bid is not practical. Adequate number of sources (more than 1) submits a bid.
   - Public RFP that identifies all evaluation factors and their relative importance
   - Must have a written method for conducting evaluations
   - Price and other factors can be considered

Sections 200.317 – 325

5. Sole Source: can only be used if one or more of the following apply:
   - Item is available from only a single source
   - Public emergency does not make it possible
   - Federal awarding agency authorizes noncompetitive proposal process
   - After solicitation of a number of sources, competition is determined to be inadequate

Sections 200.317 – 325
**Procurement “Claw”**

1. **Micro Purchases**
   - ≤ $3K
   - No quotations
   - Equitable distributions

2. **Small Purchases**
   - Up to $150K
   - Rate quotations
   - No cost or price analysis

3. **Sealed Bids**
   - > $150K
   - Construction projects
   - Price is a major factor

4. **Competitive Proposals**
   - > $150K
   - Fixed price or cost reimbursement
   - RFP with evaluation methods

5. **Sole Source**
   - Unique
   - Public emergency
   - Authorized by agency (or PTE)
   - No competition

---

**5 Standards to comply with regardless of procurement method**

1. Must comply with your organization’s documented procedures
2. Be necessary & reasonable
3. Subject to open competition (to extent required by each method)
4. Must adhere to conflict of interest policies/codes of conduct
5. Contain proper documentation
   - Support for the method of procurement
   - Contractor selected, basis of award and price

Sections 200.317– 325
Grace period: opting to delay implementation for one year

For the first full fiscal year that begins on or after December 26, 2014, nonprofits must document whether they are in compliance with the old or new procurement rules, and must meet the documented standard.
Subrecipient vs. Contractor

Subrecipient
- Determines who is eligible to receive services
- Has performance measured in relation to whether objectives of the program are met
- Has responsibility for programmatic decisions
- Responsible for following federal program requirements
- Carries out programs using grant funds as opposed to providing goods and services for the benefit of the pass-through entity

Contractor
- Provides goods and services within normal course of business
- Provides similar goods and services to different purchasers
- Operates in a competitive environment
- Provides goods and services that are not primary to program
- Not subject to compliance requirements of federal program

Nature of relationship trumps what the agreement is called!

Subrecipient Monitoring

Requirements of pass-through entities
- Distinguish between subrecipient and contractor
- Ensure new requirements are contained in sub-agreements
- Evaluate subrecipient risk of non-compliance and determine necessary monitoring activities

Sections 200.330–331
Reforms to Administrative Requirements

- Nonprofits **must** establish and maintain effective internal control over Federal awards
- Internal controls **should** be in compliance with guidance in:
  - “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the US (Green Book)
  - “Internal Control Integrated Framework” issued by COSO

Section 200.303
Conflict of Interest (COI)
• Required to develop COI policies for federal awards, including sub-awards
• Required to disclose in writing any potential COI to federal awarding or pass-through agencies

Section 200.112

Mandatory disclosure
• Requires organizations to disclose “in a timely manner” and in writing “all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award”
• An organization’s failure to make the required disclosures can result in a number of actions, including suspension and/or debarment

Section 200.113
Programmatic Exemptions

- On a case-by-case basis, OMB will waive certain compliance requirements and approve new strategies for innovative program designs that improve cost effectiveness and encourage effective collaboration across programs to achieve outcomes [Section 200.102](#).

- Additional situations where compliance requirements will be minimized in favor of requirements to meet performance milestone [Section 200.201](#).

- Performance measurement provides more robust guidance to federal agencies to measure performance in a way that will help the federal awarding agency improve program outcomes, share lessons learned, and spread the adoption of promising practices [Section 200.301](#).

SINGLE AUDITS

Reforms to Audit Requirements
Reforms to Audit Requirements

New single audit threshold

• Increases from $500,000 to $750,000

• An estimated 5,000 organizations (out of 37,500) will be relieved from the audit requirement as a result
  – 81% of all recipients will still receive a Single Audit
  – Reduces dollars subject to Single Audit by less than 1%

Effective dates

• Audit requirements are effective for fiscal years beginning on or after December 26, 2014. Effectively, for fiscal years ending:
  – December 31, 2015
  – June 30, 2016

• Early implementation of changes to single audit process is prohibited (i.e. can’t apply higher threshold to avoid A-133 audit)
Other changes to note

- Type A minimum program threshold has increased
- Determination of high-risk versus low-risk auditee has changed
- Corrective action plan for findings must be presented on a document separate from the auditor's findings
- Full Single Audit reporting package will be made public
- Minimum threshold for reporting questioned costs has increased to $25,000 from $10,000

Ask your auditor how these changes may impact your organization
NEXT STEPS

**Action Items: Policies & Procedures**

1. Educate yourself on the Uniform Guidance (read it!)
2. Review your organization’s existing policies & procedures
3. Update policies & procedures, as necessary
4. Communicate and implement new procedures
5. Monitor compliance
Determine which of your contracts include federal funding

Assess what makes sense for your organization
10% de minimis rate or negotiated indirect cost rate

Apply for a rate or advocate for your 10% coverage
If you choose not to negotiate and indirect cost rate, ensure you are getting at least the de minimis rate on all applicable contracts

Adjust how you allocate costs to applicable contracts

RESOURCES
Resources


• Resources from the National Council of Nonprofits on the Uniform Guidance: https://www.councilofnonprofits.org/omb-uniform-guidance


QUESTIONS?
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