Understanding Changes Related to Indirect Costs
SFY 2016 Local Contract for Participation in Part C Early Intervention

June 19, 2015

DBHDS Vision: A life of possibilities for all Virginians
What's Going On?

- New Uniform Guidance (2 CFR Section 200.331) that combines all requirements related to fiscal oversight of federal grants
- Local lead agencies are sub-recipients
- Cannot limit the indirect cost rate
- Indirect costs must be distributed equitably across available funding streams.

The United States Office of Management and Budget (OMB) recently published a circular which combines all requirements related to fiscal oversight of federal grants. It is titled: Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) and is found in 2 CFR Section 200.331. State lead agencies must determine if grantees are sub-recipients or contractors. We have determined that local lead agencies are sub-recipients.
What Does It Mean for Us?

- New definition of Administrative Expenses
- Administrative Expenses no longer limited to 5%
- Three (3) options for determining administrative expenses
- Must allocate administrative expenses across available funding sources
- Corresponding changes to fiscal reporting forms

We’ll look at each of these in detail.
Administrative Expenses

- Expenses incurred by sub-recipients for administrative functions that are **indirect** and **not readily identifiable with Part C activities or cost objectives**
- Narrows previous definition of administrative expenses
- Administrative costs may include:
  - Overhead (HR, Contracts Office, building, etc)
  - Expenses that are shared across programs
  - Does not include salaries or portion of salary specifically charged to Part C because employee specifically works on Part C activities and projects

A good way to think about what expenses are considered administrative/indirect under this new definition is as overhead. These are expenses that are shared across programs in the agency as opposed to being assigned specifically to Part C.

For instance, if you have a person in the fiscal office who specifically works with the Part C program for 10% of their time and you pay 10% of their salary, that is not an administrative/indirect cost. But if you have a Human Resources Office with staff that basically does the same kind and amount of work for all programs within the agency with no one person assigned to specifically work for Part C for a specific amount of time and on specific Part C tasks, then that (Human Resources) is a cost that is shared and indirect.

Your fiscal office will be able to help you figure out what costs fall into this category of overhead/indirect costs. They are probably already doing this and already aware of the new uniform guidance for federal funds. They are your best resource!
Let's look at the fiscal form to see the related changes.

This is Section A of the form on the screen. If you look in the Systems Operations section, you'll see in red font that the Administration line now has the word "Indirect" added as a reminder that these are indirect costs only.

If you have expenses that previously fell into the administration line but are not indirect (they are directly associated with and charged to Part C), then those now will be listed in the "Other System Cost" line, unless they fall into one of the other Systems Ops categories.
Determining Administrative/Indirect Costs

- Local Contract (2.1.1.d) gives three options:
  - Administrative expenses may be applied by an approved federally recognized indirect cost rate negotiated between the sub-recipient (local lead agency) and the Federal Government.
  - A de minimis indirect cost rate of 10% as defined in 2 CFR 200.414
  - Administrative expenses are identified and allocated across all available revenue sources of the Local Part C System on a basis that is auditable and satisfies generally accepted accounting principles. Administrative expenses shall be reasonable and subject to review by DBHDS.

Now that you know what indirect costs are and where to list them on the fiscal form, let’s talk about how to determine those indirect costs. The Uniform Guidance (and, therefore, the local contract) gives you three options:

* If you have one, you can use the indirect cost rate that your agency has already negotiated with the federal government. Your fiscal office will know if the agency has a negotiated indirect cost rate.
* There are a number of conditions that must be met in order for the de minimis rate to be an available option for your local lead agency. Those conditions are specified in 2 CFR 200.414.
* Finally, you can decide on the amount of administrative expenses using any other means that is auditable and reasonable within accepted accounting principles. In other words, you’ll need to be able to justify and defend it as reasonable and accurate.

DBHDS staff (neither the Fiscal Office nor the Part C Office) cannot tell you which option to use or specifically how to do it. You will need to seek the guidance of your agency fiscal office in making this determination and calculation. They should already be aware of the uniform guidance requirements and how they apply in your agency. They will also understand words like “auditable” and “generally accepted accounting principles!”
Allocating Across Funding Sources

- Federal Part C funds
- State Part C funds – services only
- Other Funds
  - Medicaid
  - Private insurance
  - Family fees
  - Other state funds
  - Local funds
  - Etc

One of the primary points of emphasis in the new uniform guidance is the requirement to allocate administration/indirect costs equitably across all funding sources. It is not acceptable to charge all indirect costs to federal funds if there are other sources of funding also supporting the project/activity.

In Virginia's Part C system, we identify three sources of funding: Federal Part C Funds, State Part C Funds, and Other funds (which includes all other funding sources, like Medicaid, private insurance, family fees, other state funds, local funds, etc.). Since state Part C funds have been designated to support direct services only, administration/indirect expenses cannot be allocated to/charged to State Part C funds. Therefore, we will look to see that administration/indirect expenses are equitably distributed between the federal Part C funds and the other funds categories.
Here’s how we’ll look at that distribution of administrative/indirect costs across funding categories. At the bottom of the fiscal form, we’ve added a box that will calculate the ratio of administration/indirect expenses to total expenses in the given funding category.

In this example, you can see that the local lead agency used federal Part C funds for $15,213 of their total admin/indirect expenses. That’s 8.6% of the federal Part C funds they spent on direct services/expenses.

No admin/indirect expenses can be charged to State Part C funds, so that box is blacked out and the ratio line at the bottom, states “For Direct Only.”

In the Other category, we see this local lead agency used $9,286 of these other funds for admin/indirect costs, 1.79% of their total Other funds spent on indirect services and expenses. In this example, the admin/indirect expenses are not equitably allocated across the available funding sources.
Error and Alert Messages

- Numbers in the Indirect Ratio Box do not match numbers in Section A
- Administration/Indirect expenses must be allocated across available revenue sources, although allocation to federal is not required. Indirect may be exclusively federal if other revenue sources not available.
- Administration/indirect disproportionately allocated to federal funds compared to other funds
- Reminder: If Federal Indirect is supported by a Federally Approved Indirect Cost Rate or election to use the 10% de Minimis Cost Rate, please provide supporting documentation

There are some notes, alerts, error messages and reminders that come along with the Indirect Ratio box.
- ERROR: Numbers in the Indirect Ratio Box do not match numbers in Section A
- NOTE: Administration/Indirect expenses must be allocated across available revenue sources, although allocation to federal is not required. Indirect may be exclusively federal if other revenue sources not available.
- ALERT: Administration/indirect disproportionately allocated to federal funds compared to other funds. -- **Unless you have no other revenue sources available, or are using a federally-approved indirect cost rate or the de minimis rate, the budget will not be approved if this alert message is showing.**
- Reminder: If Federal Indirect is supported by a Federally Approved Indirect Cost Rate or election to use the 10% de Minimis Cost Rate, please provide supporting documentation.
Since we will be unable to approve a local budget where administration/indirect costs are not equitably distributed across funding streams, we have separated the budget from the mid-year report. There is now a separate budget tab in the excel spreadsheet.

It is simply the budget columns copied from the report tabs so it’s the same format and information you’re used to (with the addition of the Indirect Ratio box we looked at a minute ago added at the bottom of the form).

Please make sure, prior to submitting your budget, that, unless you have no other funding sources available or are using a federally-approved indirect cost rate or de minimis rate, you are not receiving the message that admin/indirect expenses have been disproportionately allocated to federal funds.

The indirect ratio box must be completed on the budget tab (based on budgeted amounts) and on the mid-year and year-end reports (based on actual expenditures).

The instruction section of the Excel spreadsheet has been updated to reflect all of the changes we discussed today.