

The Indirect Rate Toolkit for Nonprofits with Federal Grants

*Webinar Series Part II – Subpart E: Cost Principals
Under Uniform Guidance*



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- Technical questions about the survey can be addressed to Nathan McElveen at nmcelveen@grfcpa.com.

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Additional Information

Learning Objective To provide an overview of the impact of UG on indirect rates and allocations for preparing a nonprofit indirect cost rate proposal.	Instructional Delivery Methods Group Internet-based
Recommended CPE 1.0 CPE Credit	Recommended Fields of Study Auditing – Technical
Prerequisites None required	Advance Preparation None
Program Level Basic	Course Registration Requirements None
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Today's Presenters



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2 Most Important Cost Principles



Compensation & Fringe Benefits

200.430 & 200.431

Compensation

200.430

- Compensation includes all remuneration paid currently (deleted retroactive pay) or accrued for services performed during the performance period of Federal award
- Reasonable for work performed (salary survey. Statutory)
- Conforms to a written policy
- Consistently applied to both Federal and non-Federal activities
- Follows an appointment per the NFE's by-laws
- Supported by the Standards of Documentation of Personnel Expenses (time reporting 200.430-i)

Reasonableness Criteria

200.430

- Compensation for employees working on Federal awards is reasonable if consistent with that paid for similar work in “other (non-Federal) activities” within the NFE
- If the type of work on Federal awards are not found with NFE, compensation is reasonable if it is comparable to similar work paid in the labor market in which the NFE competes for the same kinds of employees



Outside Professional Activities

200.430



- Professional activities outside the NFE under-taken by employees for extra outside pay, written policies
- If the NFE has no written policy or does not adequately define the permissible extent of extra outside work and pay
- Gov't may require staff working on Federal awards to be allocated between NFE activities and Non-Organizational Activities.
- B/c Gov't considers NOA excessive or inconsistent with the conflict-of-interest terms in award to be negotiated on a case by case situation

Unallowable Compensation

200.430

- Costs made unallowable under other cost principles or sections are unallowable compensation under this cost principle
- Compensation subject to a statutory ceiling such as NIH & ACF on grants or OFPP Executive Compensation Cap on cost reimbursable contract
- Special consideration in determining the allowability of compensation due to a substantial change / increase in employees' level of compensation concurrent with an increase in ratio of Federal awards

Polling Question #1

Can incentive compensation be allowable if pursuant to an established plan followed by the non-Federal entity so consistently as to imply, in effect, an agreement to make such payment.

- A. YES
- B. NO
- C. UNSURE

Incentive Compensation

200.430

- Based on cost reduction, efficient performance, suggestion or safety awards
- Written formal plan between
- Employer-employee or consistently
- Followed to imply practice to ensure
- Allowability



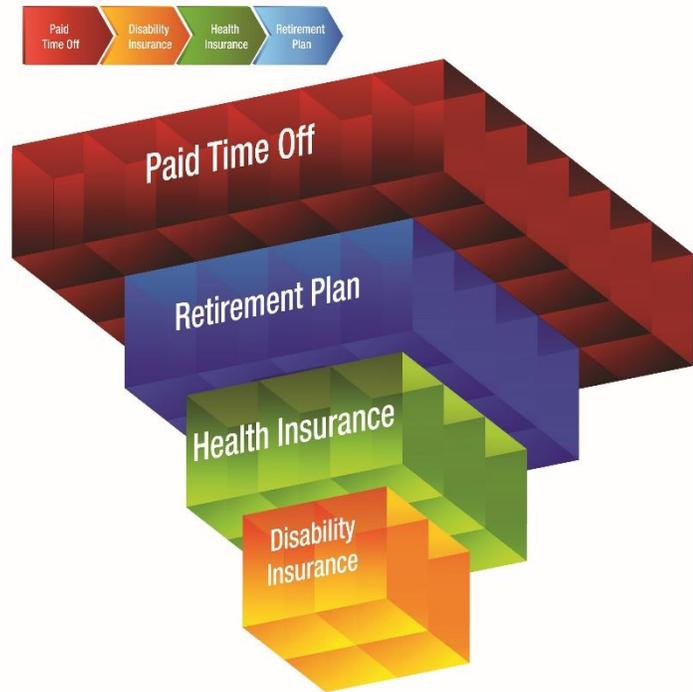
Fringe Benefits

200.431

- Form of employer contributions for social security, employee life, health, unemployment, worker's compensation, pension plan costs and other similar benefits
- Allowable provided they are granted under established policies.

Employee Benefits Package

Benefits package for full-time employees



Fringe Benefits

200.431

- Allocated to Federal awards and other activities in a manner consistent with the pattern of benefits attributable to the individuals or groups of employees as direct or indirect charges



Polling Question #2

The preferred method of allocating fringe benefit costs is by identifying specific benefits to specific individual employees.

- A. *Yes*
- B. *No*
- C. *Unsure*

Allocation of Fringe Benefits

200.431

- Cost of fringe benefits may be assigned to cost objectives either:
- By identifying specific benefits to specific individual employees or
- By allocating on an entity-wide basis using salaries of employees receiving the benefits
- Use separate allocations to selective groupings of employees (full-time, part-time) or
- NFE can demonstrate that the costs in relationship to salaries do not differ significantly for different groups of employees

Fringe Benefits - Leave

200.431

- If NFE uses cash basis accounting, cost of leave is recognized in period that leave is taken or paid. Payments for unused leave when employee terminates or retires are allowable as indirect costs in the year of payment.



Fringe Benefits - Leave

200.431



- Accrual basis can only be used for those types of leave for which a liability as defined by GAAP exists when the leave is earned. For accrual based leave, allowable leave is the lessor of the amount accrued or funded.

Keyman & Insurance

200.431

- Cost of insuring the lives of officers or employees where the NFE is name as beneficiary is unallowable – “keyman” insurance
- Personal use of autos is unallowable as fringe or indirect (F&A) also transportation to and from work
- Actual payments for claims by employees or former employees for worker’s compensation, unemployment compensation, severance pay, post-retirement and similar benefits
 - Assignment: Allowable in the year of payment
 - Measurement: Follows a consistent costing policy
 - Allocation/Distribution: Allocated as indirect costs

Post Retirement Benefits

200.431

- For pay-as-you-go method, allowable costs are limited to the actual payments in a particular year
- For an actuarial method recognized by GAAP, it is allowable if such accruals are funded within 6 months after year-end or are allowable after 6 month period in the year funded



Severance Pay

200.431

- Normal severance is reasonable payments are allowable
- Mass termination is abnormal and exceeds normal severance
- Abnormal would be “golden parachutes”
- A reserve for normal severance is allowable if payments are reasonable as compared to historical periods
- Must be allocated to all activities of the NFE
- Accruals for mass severance is unallowable, however, the gov’t will participate in the mass severance but it requires “prior written approval” (200.407) from cognizant agency for approving your indirect cost rates

Severance

200.431

- Abnormal severance / golden parachutes are unallowable in they are in excess of normal severance for termination of employee, change of management control over or ownership of the NFE's assets
- Severance pay to foreign nationals employed by the NFE outside the US
 - If the payments exceed the prevailing practice of the NFE are unallowable
 - If the payments are made due to ramping down or closing out the activities / paying employees to stay with NFE until end of the Federal award are unallowable
- The exception to 1 and 2 above is that the severance is necessary to the program's performance or approved by the awarding agency



GOLDEN PARACHUTE

Every-Day Cost Principles



Advisory Councils

200.422

- Cost incurred by advisory councils or committees (board of directors) are unallowable as direct
- Allocable as indirect cost



Alcoholic Beverages

200.423

- Cost of alcoholic beverages must be segregated as an unallowable cost.



Polling Question #3

Costs of audits required by Single Audit Act are allowable, but unallowable if:

- A. *Single Audit was not conducted in accordance with Subpart F.*
- B. *Single Audit was performed under threshold of \$750,000*
- C. *All the above.*
- D. *None of the above.*

Audit Costs

200.425

Costs of audits required by Single Audit Act are allowable, but unallowable if:

Single Audit was not conducted in accordance with Subpart F

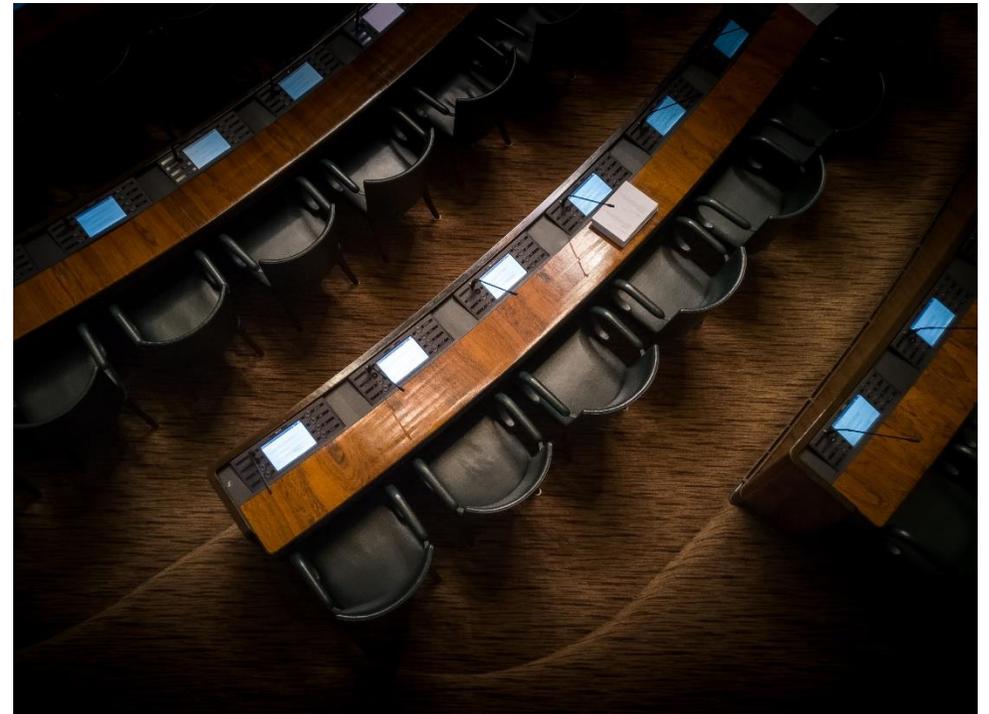
Single Audit was performed under threshold of \$750,000



Audit Costs

200.425

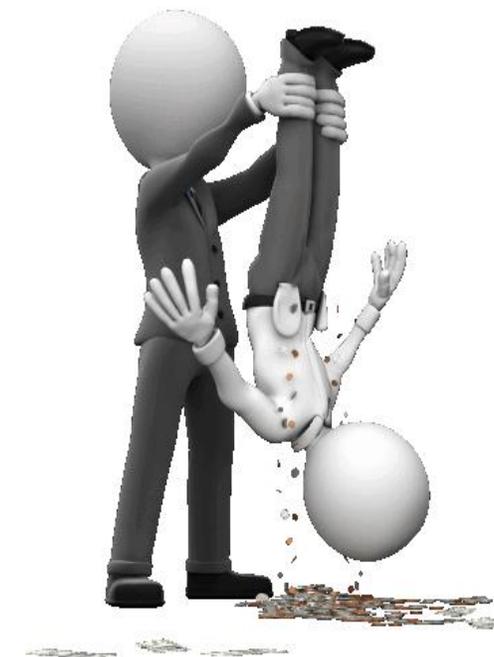
- Costs of F/S audit that has no Federal awards can be allocated via indirect pool
- Agreed-upon procedure engagements to monitor sub-recipients can be charged directly to Federal awards if:
 - Conducted in accordance with GAGAS
 - Paid and arranged through PTE
 - Limited scope to one or more compliance areas:
 - Activities allowed or disallowed
 - Allowable costs / cost principles
 - Eligibility
 - Reporting



Collection of Improper Payment

200.428 New Principle

- Costs incurred by NFE to recover improper payments is allowable as a direct or indirect expense
- Defined in 200.53
 - Payments made in the wrong amount, should not have been paid, over-payment
 - Payment to ineligible party
 - Payment for ineligible goods or services
 - Duplicate payment, did not take discount
 - Lacking proper documentation that reviewer cannot discern if payment is proper



Conferences

200.432

- Meetings and conferences for the primary purpose of dissemination of technical information are allowable
- Defined as meeting, retreat, seminar, symposium, workshop or event



Conferences

200.432

- Cost of meals* and refreshments*, local transportation, rental of facilities, speakers' fees, cost of identifying not providing dependent-care resources. *Not permitted by certain agencies.
- NSF allows dependent care cost due to participating in a conference as specified under travel cost principle



Contributions & Donations

200.434

- Contributions or donations of cash, property, space and services from the NFE to other entities is unallowable
- Value of services and donated property
- **Is not reimbursable as either direct or indirect cost**
 - Value of services may be used as cost share or match **per 200.306**
 - When donations are treated as indirect cost, indirect cost rates will segregate the donated amount to avoid reimbursement



Depreciation

200.436

- Depreciation for buildings, capital improvements or equipment using one method for each class of fixed assets
- Depreciation based on acquisition cost or FMV of donated asset
- Use allowance section deleted, only referenced
- Assume to use straight-line method, once selected cannot change
- Same method for depreciating for F&A as in F/S
- Depreciation is allocated indirect

Employee Health & Welfare

200.437

- Allowable costs to improve work conditions, employer-employee relations, employee health and performance in accordance w/org's established practices
- Description deleted: House publications, health clinics, wellness-fitness centers, employee counseling, food and dormitory services



Entertainment

200.438

- All types of entertainment are unallowable
- Amusements, diversions, social activities
 - Removed: tickets to shows or sporting events, meals, lodging, rentals, transportation or gratuities.
- Entertainment for programmatic purpose is allowable per grant budget (e.g. used as a reward for student achievement)



Equipment & Other Capital

200.439

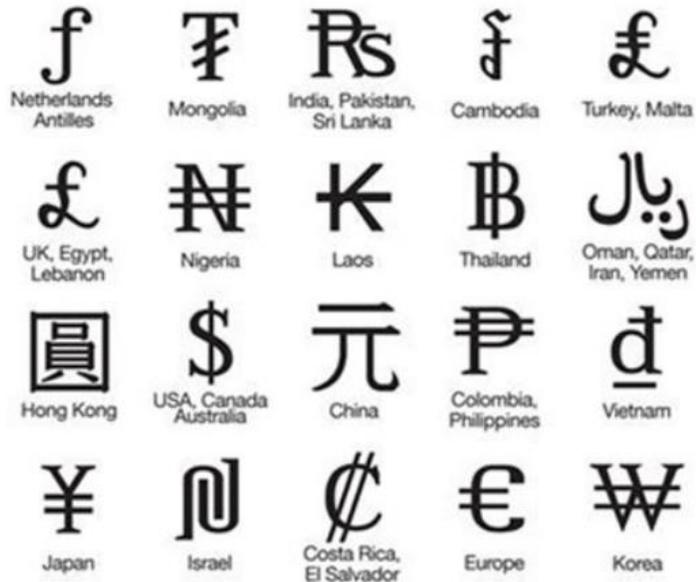
- (Capital) assets (definition 200.12) equipment= non-expendable, tangible .
 - Personal property
 - Useful life \geq 1 year
 - Acquisition cost is the lesser of following:
 - Capitalization policy for org's financial statements or \$5,000 (definition of equipment 200.33)
 - Special purpose equipment (200.89)
 - Research, medical, scientific are allowable direct per approved budget



Exchange Rates

200.440 New Principle

CURRENCY SYMBOLS of the WORLD



- Cost increases for fluctuations in exchange rates are allowable costs subject to the availability of funding.
- Prior approval of exchange rate fluctuations is required only when the change results in the need for additional Federal funding,
 - Or the increased costs result in the need to significantly reduce the scope of the project. [Technical fix per the Joint Interim Rule dtd 12/19/14.]

Exchange Rates

200.440 New Principle

- Agency must ensure there is sufficient funds to cover currency fluctuations to avoid non-compliance with the Anti-Deficiency Act
- NFE must analyze local currency gains to determine need for additional funds before the expiration of Federal award
- NFE must provide adequate source documentation from recognized source:



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Currency Converter

Fines, Penalties, Damages & Other Settlements

200.441

- The cost relating to violations or alleged violations or failure to comply with Federal, state, tribal, local or foreign laws and regulations is unallowable, unless permitted by compliance with a provision of a Federal award.



Fundraising & Investment Management Cost

200.442

- Unallowable:
- Costs of organized fundraising, not proposal cost; except for IRS 990, but N/A for OMB.
- Costs of investment counsel, staff and similar expenses solely to enhance income from investments.
 - Both (a) & (b) a part of allocation base as unallowable cost per 200.413(e).
 - Costs related to physical custody and control of monies and securities are allowable.

Gains & Losses on Disposition of Depreciable Property Or Other Capital Assets

200.443



- Gains/loss on depreciable property include in year when occur to the original cost groupings as a credit or charge
- Gain/loss = difference between amount realized on property and un-depreciated basis of property

Goods / Services for Personal Use

200.445

- Cost of goods or services for personal use by the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employee
 - Cost of housing (depreciation, maintenance, utilities, furnishings, rent) or housing allowances and personal living expenses are only allowable as direct costs regardless of whether reported as taxable income to employees **(taken from Housing and Personal Living – deleted)**



Insurance & Indemnification Cost

200.447

- Allowable for:
 - Required for the support of an award
 - General conduct of org's operations
 - Types and extent of coverage per sound business practice
 - Rates and premiums are reasonable under circumstances
- Insurance is unallowable on lives of trustees, officers or employees if org is beneficiary or allowable if represents income to family of employee.



Insurance & Indemnification Cost

200.447



- Reserves for self-insurance including workers compensation and unemployment compensation are allowable to extent it would be the same cost if a premium was purchased to cover same loss plus additional restrictions
- Business interruption coverage is allowable except it must exclude coverage of management fees
- Insurance to protect itself against defects in workmanship or materials is unallowable

Lobbying Costs

200.450

- Unallowable

- influence outcome of any Federal, State, local elections or legislation, Executive or Legislative
- Supporting a political party, campaign or PAC
- Influence the introduction of legislation or person having authority to veto or sign such laws
- Use publicity or propaganda to influence the public by fund raising, letter writing, rally, telephone campaign (promoting a cause)
- Legislation liaison at sessions or committee hearings



Lobbying Costs

200.450

- Exceptions
 - Providing a technical or factual presentation on topic directly related to grant performance through hearing, testimony or letters to legislature
 - Travel, lodging meals unallowable unless written request of Congressional committee
 - Unless to lobby state legislature to mitigate award costs
 - Activity authorized by statute, grant or award, consider lobbying a foreign gov't



Lobbying Costs

200.450

- Allowable Lobbying Activities Exempted per IRS Code:
 - Nonpartisan analysis, study or research
 - Examinations and discussions on broad social, economic and similar problems
 - Information provided upon request of a legislator for technical advice or assistance as defined by the IRS code
 - Time logs are required if employee engages in more than 25% of their lobbying effort in a calendar month

Maintenance & Repair Cost

200.452

- Cost incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair and upkeep of buildings and equipment.
 - To keep it in an efficient operating condition is allowable.
- Allowable, except:
 - Cannot prolong the useful life of asset
 - Cannot add permanent value to asset
 - Costs incurred for improvements which add permanent value, prolong life are capital assets



Material & Supplies Costs including Computing Devices

200.453

- Cost of materials, supplies, fabricated parts necessary to perform on an award are allowable
- Allowable if charged at actual prices net of credits for trade discounts, rebates
- Only items actually used for performance can be charged as direct cost
- Federally donated materials at no charge



Memberships, Subscriptions & Professional Activity Costs

200.454

- Cost of org's membership in business, technical and professional org's is allowable.
- Cost subscriptions to business, technical and professional periodicals are allowable.
- With prior approval from awarding agency, membership in civic or community org's is allowable.
- Cost of membership in country club or social or dining club or organizations whose primary purpose is lobbying are unallowable.



Organization Cost

200.455

- Unallowable cost with establishment or re-organization of an organization
 - Incorporation fees,
 - Management consultants,
 - Legal,
 - Accountants, whether or not employees of organization



Participant Support Cost

200.456



- Direct cost for stipends or subsistence allowances, travel allowances and registration fees for participants or trainees (not employees) in connections with conferences or training projects. **(Defined in 200.75)**
- Allowable with prior approval of the awarding agency.
- Must be excluded from the MTDC base.

Plant & Security Cost

200.457

- Necessary and reasonable expenses for routine and security to protect facilities, personnel and work products are allowable.
- Plant protection or security costs for equipment, uniforms, wages, barriers, contractual security services, and consultants are allowable.



Professional Service Cost

200.459

- Professional or consultant services performed by members of a particular profession or possess a special skill, not officers or employees of NFE
- Allowability is not dependent on no single factor:
 - Nature and scope of service rendered as compared to service required
 - The necessity of contracting when considering NFE's capability in that area



Professional Service Cost

200.459

- Past pattern of costs especially before the NFE had Federal awards
- Impact of Federal awards on NFE, what special requirements or problems due to the awards
- Whether work can be performed more economically through direct employment vs. contracting
- Qualifications of individual or firm performing services and customary fees under non-Federal activities

Professional Service Cost

200.459

- Adequacy of the contractual agreement for the service:



Proposal Cost

200.460 New Principle

- Cost of preparing bids, proposals, or applications on potential Federal and non-Federal awards or projects are allowable
- Including development of data necessary to the NFE's bid or proposal
- Proposal cost for the current accounting period of both successful and non-successful proposals
- Treated as indirect (F&A) cost allocated to all activities of the NFE
- Proposal cost is not fund raising



Recruitment & Relocation Cost

200.463 & 200.464

- Recruitment:

- Employee relocation is unallowable if:
 - Employee resigns under his/her control
 - Within the first 12 months of the relocation
 - Funded in part or whole by Federal award, e.g. through an indirect rate

- Relocation

- Cost for relocating new hire or re-assigning existing personnel to a permanent change of duty assignment for a period > 12 mos.
- Allowable relocations costs include:
 - The move is for the benefit of the employer
 - Reimbursement to employee is in accordance to the employer's policy
 - Reimbursement does not exceed actual expenses of the employee



Rental Costs of Real Property & Equipment

200.465

- Reasonable at the time of the lease after the following considerations:
- Rental costs of comparable property
- Market conditions in the area
- Type, life expectancy, condition and value of property leased
- Alternatives available
- Review of rental arrangements periodically to determine if circumstances have changed and other options are available for consideration

Rental Costs of Real Property & Equipment

200.465

- Rental costs under leases treated as capital leases under GAAP ASC 840:
 - Interest cost related to a capital lease is allowable if they meet criteria under the Interest cost principle 200.449
 - ASC 842 & IFRS 16, almost all leases become (capital) finance leases on the balance sheet
 - Unallowable costs include amounts paid for profit, management fees and taxes that the NFE would not have paid if they purchased it
- Rental of any property for purposes of using it as a home office workspace is unallowable.

Tax & VAT

200.470

- Allowable:
 - Required to pay to local governments
 - Paid and accrued per GAAP
 - Foreign Value-Added Tax (VAT) for goods and services is allowable
- Unallowable:
 - Available exemption certificates provided by awarding agency
 - Special assessments on land which represent capital improvements



Tax & VAT

200.470

- Unallowable:
 - Federal income taxes, UBIT
 - Any refunds paid with respect to allowable tax payments & foreign VAT on the award, should be credited back to the award
- Separate section for State & Local government



Travel Cost

200.474

- Travel includes transportation, lodging, subsistence in support of official business
- Costs charged actual basis, per diem or combination in lieu of actual, is allowable so long as consistent and normally allowed in policies and procedures with non-Federal activities
- Grants may require adherence to GSA travel regulation re. per diems for lodging and meals
- Travel is necessary to the award approved budget
- In the absence of establishing, acceptable written policies for travel, use the rates and amounts “Travel and Subsistence Expenses; Mileage Allowances”



Questions?

Contact Us



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