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# Indirect Cost Toolkit for Continuum of Care (CoC) and Emergency Solutions Grants (ESG) Programs

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*This toolkit is current as of November 2019 and does not include recent changes to the final Uniform Administrative Requirements*

U.S. Department of Housing and Urban Development (HUD)

*This resource is prepared by technical assistance providers and intended only to provide guidance. The contents of this document, except when based on statutory or regulatory authority or law, do not have the force and effect of law and are not meant to bind the public in any way. This document is intended only to provide clarity to the public regarding existing requirements under the law or agency policies.*

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# 1. Introduction

## 1.1 About This Toolkit

This Toolkit has been developed to assist recipients and subrecipients under the Continuum of Care (CoC) and Emergency Solutions Grants (ESG) programs to better understand indirect costs—such as facility or administrative costs—and how they can be calculated and charged under these programs. Recipients can use this Toolkit to make an informed decision concerning the best method for computing and seeking reimbursement for indirect costs under ESG and CoC program grants. Please note that CoC program grants include all awards made under the Youth Homelessness Demonstration Program (YHDP) and can be used relative to those awards.

In 2014, the United States Office of Management and Budget (OMB) released final regulations on indirect costs under the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ([2 Code of Federal Regulations \[CFR\] Part 200](#)), also referred to as the Uniform Administrative Guidance. These regulations explain that a recipient or subrecipient's indirect costs are legitimate expenses that may need to be reimbursed for the organization to be sustainable and effective.

Non-federal entities administering federal funds are not required to seek recovery and reimbursement for indirect costs related to their federal awards. However, when non-federal entities decide to seek reimbursement for indirect costs, the Uniform Administrative Guidance requires pass-through entities (that is, the direct recipients of federal funds, or “grantees”—typically states and local governments) and all federal agencies to reimburse a recipient's or subrecipient's indirect costs.

All federal pass-through entities (recipients or grantees) are also required to ensure that all subrecipients of federal funds document and use one of the methods allowed under 2 CFR §200 for determining indirect cost rates (2 CFR §200.331(a)(1)(xiii)) as part of the sub-awarding of federal funds.

There are several methods for determining, allocating, and charging indirect costs. These methods are the subject of this Toolkit. In particular, this

Toolkit helps ESG and CoC recipients and subrecipients understand the requirements for the different ways they can charge the grant for indirect costs for each of their programs.

This Toolkit does not replace the regulations contained in 2 CFR Part §200, 24 CFR §576 (ESG), 24 CFR §578 (CoC), and subsequent amendments, notices, and any other applicable federal, state, and local laws and ordinances; it simply details requirements for indirect cost reimbursement under ESG and CoC programs. It also does not replace guidance and regulations that govern federal awards and allocations issued prior to the effective date of 2 CFR §200 (as found in 24 CFR §84 and §85). Recipients and subrecipients should always refer to applicable regulations and their grant agreements, and work with their local HUD Field Office to determine what is allowable under their program and how indirect costs can be reimbursed.

**Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Administrative Guidance”):**

- ▶ OMB issued final guidance on December 26, 2013 which became effective December 26, 2014. Generally, this means that:
  - 2014 Grant Year and subsequent grant year ESG Awards and on are covered by 2 CFR §200.
  - 2015 Grant Year and subsequent grant year CoC Awards and on are covered by 2 CFR §200. (Note: this later effective date for CoC Awards was a result of the procurement cycle of CoC Awards and their underlying appropriation dates.)
- ▶ Regulations are found at [2 CFR §200](#), and resources on the Uniform Administrative Guidance are found on the [Council on Financial Assistance Reform](#) website.
- ▶ For more information about effective dates and HUD’s Transition Rules, review [Notice SD-2015-01: Transition to 2 CFR §200](#), specifically “General Transition Rules” on page 15, and [Notice CPD 16-04: Additional Transition and Implementation Guidance](#).

## 1.2 How to Use This Toolkit

This Toolkit is organized into the following sections:

- 1) Introduction
- 2) What are direct and indirect costs?
- 3) What are the options for the reimbursement of indirect costs?
- 4) Which option is best for my organization?
- 5) How are indirect cost reimbursement options calculated?
- 6) Frequently Asked Questions
- 7) Definitions

This document contains general information regarding the treatment of direct and indirect costs. The determination and allocation of direct and indirect costs at the program and agency levels is dependent on multiple factors, such as the size of the organization, the nature of its programs, the complexity of its structure, and the organization's overall approach to financial management. Given this, the Toolkit cannot and does not address every possible situation or question that the reader might have. In fact, the document purposely does not include details of how to implement direct and indirect cost allocation methods in a program or organization. In all cases, HUD encourages recipients and subrecipients to develop cost allocation methods, policies, and procedures in consultation with an accountancy professional familiar with federal cost principles.

## 2. What are direct and indirect costs?

Before exploring the methods available through the Uniform Administrative Guidance for recovering indirect costs, let's first take a quick look at what we mean by *direct* and *indirect* costs.

The Uniform Administrative Guidance (2 CFR §200.413) defines *direct* costs as “those costs that can be identified specifically with a particular final cost objective.” For ESG and CoC programs, most expenses are direct costs and are exclusively used for that program (e.g., case manager salary, rental assistance for clients, purchase of food for shelter meals).



**Cost objective** means a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which a provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc.

In contrast, *indirect* costs (2 CFR §200.56) are costs “incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted.” These costs are shared by more than one program.

Understanding the distinction between direct and indirect costs is essential to this entire resource. In general, most, if not all, costs incurred by an organization performing activities under the CoC or ESG programs will be direct program costs. That is, in most or all cases, a dollar spent can *directly* be identified as being spent on a program objective or activity. A dollar spent would only be indirect if it cannot be easily associated with a particular CoC or ESG activity. For example, if an organization had only one source of funding, a single ESG grant, then 100 percent of its expenses would be direct, because all costs are solely and clearly tied to an ESG award and related activities. On the other hand, if an organization had more than one funding source and had multiple programs in its portfolio, then some costs—such as administrative costs and overhead costs like facility rental and utilities—will be hard to tie to a single funding source and activity, and are thus shared or indirect costs.

When costs are shared and thus likely indirect, the Uniform Administrative Guidance (2 CFR §200.414) further classifies indirect costs as being limited to *administrative* and *facilities* costs (A&F). The Guidance defines *facilities* as “depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.” It defines *administrative* as “general administration and general expenses such as the director’s office, accounting, and personnel.” Indirect costs will fall into one of these two buckets: administrative or facilities. Under the Uniform Administrative Guidance, all indirect costs are either facilities costs or administrative costs.

It is important to pause here and add some important qualifications to the broad discussion in this document, especially around the use of the terms *direct* and *indirect* costs and *facilities* and *administrative* costs. There is no one-size-fits-all use of any of these terms. In fact, a key takeaway from the Uniform Administrative Guidance in 2 CFR §200 regarding these terms is that the federal government recognizes a wide diversity of organization types and structures, ranging from the smallest nonprofit to large nonprofit conglomerates (such as hospital groups or multi-state organizations like the American Red Cross) and local and state governments. The federal government allows for a diversity of cost accounting methods in response to the diversity of organizational types and structures.

Given this, care should be taken with the terminology in this document. For example, it is the case that a program cost that is charged as a direct program cost by one organization may be—with complete legitimacy—charged as an indirect program cost by another organization, based on the organizations using different, but sanctioned, methods for allocating and charging costs and depending on how their program funding is structured. It is also the case that, though 2 CFR §200 discusses cost types such as facilities and administrative as general categories, particular federal programs such as the CoC or ESG programs will have their own definitions of what costs are allowable within these particular cost categories.

Therefore, this Toolkit aims to provide broad information about these indirect and direct costs, focusing on the various cost accounting methods available to determine how such costs will be categorized and treated. Our objective is to broadly present the various methods available for direct and

indirect cost allocation that allow non-federal entities to recover indirect costs through their grant awards, with particular attention on the de minimis method that was new with the issuance of 2 CFR §200.

## 2.1 Examples of Costs

*Administrative* costs are typically recovered by non-federal entities as an eligible activity on their grant. Both the CoC (CoC, 24 CFR §578.59) and the ESG (ESG, 24 CFR §576.108) programs allow “project administrative costs” as an eligible activity. Program regulations include specifics for each program regarding eligible program administrative costs. Any CoC or ESG program administration costs charged to an award will need to be eligible under the particular program’s regulations. The CoC program caps project administrative costs at 10 percent of awarded funds, and the ESG program caps project administrative costs at 7.5 percent. As long as CoC and ESG recipients are charging administrative costs under this eligible activity (as defined by each program), CoC and ESG providers are already recuperating at least some of their potentially recoverable indirect costs.

Though CoC and ESG regulations define eligible administrative activities and set caps under each program, it can be challenging sometimes to determine the line between when a cost is administrative and when it should be directly charged to a particular activity. For example, a program director’s time and office overhead (space, supplies, equipment, etc.) may fit in either category. If a program director spends time compiling annual reports, working on program budgets, and engaging in similar administrative activities, that time (and the associated share of overhead facilities costs) would be administrative and, if the position was responsible for multiple programs, then such costs would be shared (and, thus, likely treated as *indirect*). But, if that same program director also spent time (say, in their office) providing direct supervision and oversight to program staff or working on program policies, procedures, and programmatic documentation, then that would not be an administrative cost but a *direct* program activity cost.

The costs that fall under *facilities* can present a similar challenge for non-federal entities. For example, an organization may own or lease a single facility where they engage in both administrative and direct program delivery activities. Furthermore, they may have equipment such as copiers,



internet and phone systems, and furniture that are shared by both administrative and direct program functions. Finally, the facility may have only a single account for services such as electricity, internet and phone service, and security.

Given the complexity of sorting out direct and indirect costs and determining how to categorize personnel and overhead costs into administrative and facilities categories, organizations can easily make common errors of conflating different types of costs. This may unnecessarily limit their opportunities to have legitimate program costs reimbursed as part of a CoC or ESG award. Consider, for example, a program that provides ESG rental assistance in the form of rent payments to property owners. The organization rents a single office building for its administration and direct program staff. There are frontline persons who work with participating households, determine program eligibility and levels of assistance, and approve units for rental assistance. There is also a program director who supervises the staff and manages the budget and reporting, and finance personnel who handle payroll and manage payments to vendors and landlords. There are supplies, utilities, and equipment that are purchased or leased to support the entire operation. Finally, the organization has Housing Opportunities for Persons With AIDS (HOPWA) funding to perform similar activities, and the same staff manage that program.

Which expenses are direct? Which are indirect? The organization buys equipment (e.g., desks, chairs, phones, binders) in bulk and office cleaning services that are shared by all parts of the organization. According to the definition of *facilities* costs above, these would all be facilities costs and thus likely are *indirect* costs. They are all not easily assigned to a single function at the organization (such as administration, HOPWA, or ESG only). Since all indirect costs are either administrative or facilities costs, does that mean that the organization must cover these costs under the 7.5 percent ESG admin cap (or the similar 7 percent HOPWA admin cap)? Similarly, for the program director, do all of his or her costs fall under administration? How about the shared cost of leasing the building?

Unfortunately, many organizations conflate all shared or indirect costs with administrative costs and try to shoehorn costs that may be shared (including personnel, like the program director, or facilities costs, like office rental and

equipment) into the single bucket of administrative costs. As we have seen, the program director performs both *administrative* tasks (reporting, budgeting, and signing invoices and mileage sheets) and *direct* program tasks (supervising employees, reviewing and discussing client files, and reviewing client-related documentation); the latter should not be considered administrative but rather direct program costs. Similarly, a computer purchased for someone in accounting would be an administrative cost, but a computer purchased for use by a caseworker in the rental assistance program would be a direct cost. The same would be true with the renting and maintenance of the organization's office space; *some* portion would be administrative, but some portion should be charged *directly* to the ESG and HOPWA awards, using some proportionate means of determining the allocation of these costs among different areas and departments.

These examples demonstrate how some costs can fall into the gray area where they could be classified either as direct or indirect costs. Every organization will need to determine the method best suited for classifying and recovering these costs, should codify its method for classifying costs in a set of written financial policies and procedures, and should consistently apply this method across all programs. It is crucial that no cost be allocated and charged more than once, so every expense will need to be clearly classified as either direct or indirect and booked and charged accordingly.

This brief journey through direct, indirect, administrative, and facilities costs leads us to the point of this Toolkit and frames the discussions that follow. Let's summarize:

- ▶ Direct costs can easily be assigned to a cost objective and directly charged on an award (assuming eligibility of costs).
- ▶ Indirect costs are not easily assigned to a single cost objective, usually because it is paid for by multiple sources (like the program director above), or it is used to support multiple programs (like the office building above).
- ▶ All indirect costs will either be administrative or facilities costs.
- ▶ However, administrative and facilities costs may not necessarily be indirect (e.g., only the HOPWA caseworker is issued a cellphone and thus this equipment cost is not a shared cost).

- ▶ Not all shared and indirect costs are administrative, and the administrative category should not be forced to carry all shared and indirect costs (like the program director and the ESG-/HOPWA-related equipment).
- ▶ Finally, every organization will need a plan that is tailored to its structure and activities that explains:
  - How it will determine which costs are direct and indirect;
  - How it will allocate shared costs among different departments, including administrative functions and direct programs; and
  - How it will charge (recover) all eligible and allowable direct and indirect costs from the federal government or its awardees and make sure that it does not short-change itself unnecessarily.

This plan mentioned above is a *cost allocation plan*. Cost allocation plans are among the bedrocks for successfully managing an organization, especially one that spends federal funds. This plan will serve as a roadmap for the organization and its funders to understand how it spends and manages revenue. It will be the foundation for the organization to adequately charge its program costs to HUD and the federal government.



If a cost only exists for one award, then it should be treated as a **direct** cost.

The good news is that, as mentioned above, the federal government recognizes the diversity of organization types and structures. 2 CFR §200 and its appendices lay out several options or methods for cost allocation. These methods are the focus of this document. Furthermore, CoC and ESG recipients and subrecipients are likely already using one of the allowed methods of calculating and charging indirect costs, as described in Section 3 below, even if not as part of an explicit cost allocation plan or to a full extent. For example, if a provider prorates a phone bill and charges it to a direct CoC or ESG activity, or if they charge a portion of their cost of leasing office space for case managers directly to an activity, then they are already recovering indirect facilities costs using the “Direct Allocation Method” described in 3.4.3 below and treating those shared costs as direct costs.

## 2.2 Allowability of Costs

An additional consideration for both direct and indirect costs is their allowability under 2 CFR 200, Subpart E.

What makes a cost allowable? Generally, for costs to be allowable, they must be:



- ▶ 200.403(a) Reasonable and necessary
- ▶ 200.403(b) Conforming to limitations or exclusions
- ▶ 200.403(c) Consistent with policies and procedures
- ▶ 200.403(d) Accorded consistent treatment
- ▶ 200.403(e) Determined in accordance with GAAP
- ▶ 200.403(f) Not included as match or cost-share
- ▶ 200.403(g) Adequately documented

What makes a cost unallowable? 2 CFR, Part 200 identifies expressly unallowable costs. Common unallowable costs include:



- ▶ 200.421 Advertising and public relations
- ▶ 200.423 Alcoholic beverages
- ▶ 200.426 Bad debts
- ▶ 200.434 Contributions and donations
- ▶ 200.438 Entertainment costs
- ▶ 200.441 Fines, penalties, damages, and other settlements
- ▶ 200.442 Fundraising and investment management costs
- ▶ 200.445 Goods or services for personal use
- ▶ 200.449 Interest
- ▶ 200.450 Lobbying
- ▶ 200.451 Losses on other awards or contracts
- ▶ 200.455 Organization costs
- ▶ 200.467 Selling and marketing costs
- ▶ 200.470 Taxes (including Value Added Tax)

Once a cost has been determined to be allowable, it must be allocable to federal awards consistent with 2 CFR §200.405(a); that is, it must be a cost that is allowed under a particular program's implementing regulations (24 CFR §576 for the ESG program and 24 CFR §578 for the CoC program). Finally, the cost must also be an eligible cost in the grant award and agreement under which a recipient or subrecipient operates. A cost may not be charged to a federal award with the purpose of overcoming shortages or avoiding restrictions imposed by federal statutes, regulations, or terms and conditions of the federal awards (see 2 CFR §200.405(c)).

## 3. What are the options for the reimbursement of indirect costs?

There are three options for requesting reimbursement of indirect costs:

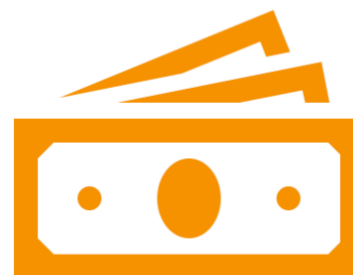
- ▶ **Option 1:** The 10 Percent De Minimis Rate
- ▶ **Option 2:** Negotiated Indirect Cost Rate Agreement
- ▶ **Option 3:** Cost Allocation Plan

Option 1 is a new option under the Uniform Administrative Guidance (authorized in 2 CFR §200.414(f)). Options 2 and 3 have existed for federal awards for numerous years. Although we will discuss Options 2 and 3, this Toolkit will primarily focus on providing organizations with information on the use of, potential benefits of, and requirements of Option 1: the 10 percent de minimis rate. For the CoC program, FY2015 grants and beyond are eligible for the 10 percent de minimis rate and held to the Uniform Administrative Guidance outlined under 2 CFR §200; for the ESG program, FY2014 grants and beyond are eligible and held to this Guidance.

### 3.1 The 10 Percent De Minimis Rate

The 10 percent de minimis rate is an indirect cost instrument implemented under the revised 2 CFR §200. This rate was implemented in part to allow organizations—primarily smaller organizations—to recover some of their indirect costs on federal awards without having to go through the rigorous and time-consuming process of negotiating an indirect cost rate with a federal cognizant agency.

Many small recipients and subrecipients do not have the financial resources to engage the necessary accounting and finance personnel to assist them with preparing an indirect cost rate proposal for negotiations. They also often do not have the resources to maintain their financial management system to track costs consistent with their proposed indirect rate cost structure, once in place.



Under the Uniform Administrative Guidance, eligible organizations can claim up to 10 percent of their Modified Total Direct Costs (MTDC) as indirect costs without having to negotiate an indirect cost rate agreement.

For many recipients, this is the first time they will be able to charge any portion of their indirect costs to federal awards.

Direct award recipients with subrecipients must allow the subrecipient to elect the 10 percent de minimis rate. These requirements are included in the subrecipient monitoring and management section of the Uniform Guidance, section 2 CFR §200.331(a)(4).

### **3.1.1 Eligibility Criteria for the 10 Percent De Minimis Rate**

2 CFR §200.414(f) allows grant recipients and subrecipients to elect a 10 percent de minimis rate based on the MTDC if they meet the following criteria:



You must meet **ALL** of the criteria listed here, in order to be eligible to use the 10 percent de minimis rate.

1. The recipient or subrecipient does not currently have and has never received a negotiated indirect cost rate;
2. The recipient or subrecipient is not a state, local government, or Indian tribe receiving more than \$35M in direct federal funding (these entities are not eligible for de minimis because of 2 CFR §200 Appendix VII D(1)b1));
3. The recipient or subrecipient will be using the rate indefinitely and consistently for all federal awards until such time the entity chooses to negotiate a rate; and
4. The de minimis will be based on the MTDC and comply with 2 CFR §200.403 factors affecting allowability of cost.

A more detailed discussion on the calculation of the 10 percent de minimis rate can be found in Section 5.

### **3.1.2 Modified Total Direct Cost (MTDC) for the 10 Percent De Minimis Rate**

Recipients and subrecipients electing the 10 percent de minimis rate must use the MTDC as the base for this rate. According to 2 CFR §200.68, the MTDC is composed of “[a]ll direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, sub-awards and sub-contracts up to the first \$25,000 of each sub-award or sub-contract (regardless of the period of performances under the award).”

All costs used to comprise an MTDC base (used for calculating de minimis) must be identified specifically to a funded program or be directly assigned to such activities easily and accurately. Costs must also be allowable under program regulations, necessary and reasonable for the performance of the federal award, and consistent with policies and procedures that apply uniformly to both federal and non-federal activities of the grantee (2 CFR §200.403). Once the MTDC base has been determined, the de minimis rate of 10 percent is applied to that base, deriving total de minimis indirect costs. The calculation of the de minimis rate is described in more detail below.

The following pages reflect how costs can generally be included or excluded from the computation of the MTDC base for the 10 percent de minimis rate. Keep in mind that the actual calculation of the MTDC may vary based on the unique features of each activity or program.

To aid understanding, the following tables are included in this document:

- ▶ Summary List of MTDC Inclusions and Exclusions (page 15)
- ▶ Sample Breakout of ESG Expenses for MTDC Inclusions and Exclusions (page 16)
- ▶ Sample Breakout of CoC Expenses for MTDC Inclusions and Exclusions (page 19)

Recipients and subrecipients are encouraged to reach out to their local HUD Field Office or use the [Ask A Question \(AAQ\)](#) form on the HUD Exchange with questions about their specific grant or for more information.



**Table 1: Basis of Modified Total Direct Costs for 10 Percent De Minimis Rate (2 CFR §200.68)**

<p><b>Included</b></p>	<ul style="list-style-type: none"> <li>▶ All direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards</li> <li>▶ Subawards and subcontracts up to the first \$25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts under the award)</li> </ul>
<p><b>Excluded</b></p>	<ul style="list-style-type: none"> <li>▶ Equipment</li> <li>▶ Capital expenditures</li> <li>▶ Charges for patient care</li> <li>▶ Rental costs</li> <li>▶ Tuition remission</li> <li>▶ Scholarships and fellowships</li> <li>▶ Participant support costs</li> <li>▶ Portion of each subaward and subcontract in excess of \$25,000</li> <li>▶ 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</li> </ul>

**Table 2: Sample Breakout of Emergency Solutions Grants (ESG) Components for Modified Total Direct Costs for 10 Percent De Minimis Rate**

*Note: The sample costs listed below for the MTDC base are presented for example purposes only. The list is not comprehensive and is not related to eligibility or direct cost reimbursement. Calculation of the MTDC base will vary greatly by situation. Review 2 CFR §200 and HUD Transition Notices/Regulations to calculate your MTDC base and consult with your local HUD Field Office.*

Included in MTDC Base	Excluded from MTDC Base
<p><b>Overview</b></p> <p>Included are all direct salaries and wages, applicable fringe benefits, materials and supplies, services, and travel associated with eligible activities under the ESG program, except where excluded, and the first \$25,000 of each subawards and subcontracts (regardless of the period of performance of the subawards and subcontracts under the award).</p>	<p><b>Overview</b></p> <p>Excluded are all equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs, and the portion of each subaward in excess of \$25,000.</p> <p>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.</p>
<p><b>Emergency Shelter Essential Services</b></p> <ul style="list-style-type: none"> <li>▶ Case management</li> <li>▶ Childcare</li> <li>▶ Education services</li> <li>▶ Employment assistance and job training</li> <li>▶ Legal services</li> <li>▶ Life skills training</li> <li>▶ Transportation</li> </ul>	<p><b>Emergency Shelter Essential Services</b></p> <ul style="list-style-type: none"> <li>▶ Education, employment assistance, job training, tuition, scholarships, and fellowships</li> <li>▶ Outpatient health services</li> <li>▶ Mental health services</li> <li>▶ Substance abuse treatment services</li> <li>▶ Motor vehicle transportation</li> </ul>
<p><b>Emergency Shelter Operations</b></p> <ul style="list-style-type: none"> <li>▶ Maintenance</li> <li>▶ Security</li> <li>▶ Food</li> </ul>	<p><b>Emergency Shelter Operations</b></p> <ul style="list-style-type: none"> <li>▶ Rent</li> <li>▶ Insurance</li> <li>▶ Utilities</li> <li>▶ Fuel</li> <li>▶ Equipment</li> <li>▶ Furnishings</li> <li>▶ Hotel/motel vouchers</li> </ul>

Included in MTDC Base	Excluded from MTDC Base
<p><b>Emergency Shelter Renovation</b></p> <ul style="list-style-type: none"> <li>▶ No costs included</li> </ul>	<p><b>Emergency Shelter Renovation</b></p> <ul style="list-style-type: none"> <li>▶ All costs excluded for renovation or conversion of a building</li> </ul>
<p><b>Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA)</b></p> <ul style="list-style-type: none"> <li>▶ No costs included</li> </ul>	<p><b>Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA)</b></p> <ul style="list-style-type: none"> <li>▶ All costs excluded (e.g., financial and rental assistance associated with relocation assistance through the URA)</li> </ul>
<p><b>Street Outreach Essential Services</b></p> <ul style="list-style-type: none"> <li>▶ Engagement</li> <li>▶ Case management</li> <li>▶ Transportation</li> </ul>	<p><b>Street Outreach Essential Services</b></p> <ul style="list-style-type: none"> <li>▶ Emergency health services</li> <li>▶ Emergency mental health services</li> <li>▶ Motor vehicle transportation</li> </ul>
<p><b>Rapid Rehousing &amp; Homelessness Prevention Financial Assistance Costs</b></p> <ul style="list-style-type: none"> <li>▶ Service delivery (e.g., processing payments)</li> </ul>	<p><b>Rapid Rehousing &amp; Homelessness Prevention Financial Assistance Costs</b></p> <ul style="list-style-type: none"> <li>▶ Rental application fees</li> <li>▶ Security deposits</li> <li>▶ Last month's rent</li> <li>▶ Utility deposits</li> <li>▶ Utility payments</li> <li>▶ Moving costs</li> </ul>
<p><b>Rapid Rehousing &amp; Homelessness Prevention Services Costs</b></p> <ul style="list-style-type: none"> <li>▶ Housing search and placement</li> <li>▶ Housing stability case management</li> <li>▶ Legal services</li> <li>▶ Mediation</li> <li>▶ Credit repair (e.g., credit counseling)</li> </ul>	<p><b>Rapid Rehousing &amp; Homelessness Prevention Services Costs</b></p> <ul style="list-style-type: none"> <li>▶ Rent, utilities, and equipment</li> </ul>
<p><b>Rapid Rehousing &amp; Homelessness Prevention Rental Assistance</b></p> <ul style="list-style-type: none"> <li>▶ Service delivery (e.g., processing payments)</li> </ul>	<p><b>Rapid Rehousing &amp; Homelessness Prevention Rental Assistance</b></p> <ul style="list-style-type: none"> <li>▶ Short-term rental assistance</li> <li>▶ Medium-term rental assistance</li> <li>▶ Rental arrears</li> </ul>

Included in MTDC Base	Excluded from MTDC Base
<p><b>Homeless Management Information System (HMIS) or comparable database if subrecipient is a victim service provider</b></p> <ul style="list-style-type: none"> <li>▶ HMIS data collection and contribution activities (e.g., staff operations, training, conducting intake)</li> <li>▶ HMIS Lead agency activities</li> <li>▶ Victim service provider or legal service provider activities</li> </ul>	<p><b>Homeless Management Information System (HMIS) or comparable database if subrecipient is a victim service provider</b></p> <ul style="list-style-type: none"> <li>▶ All HMIS equipment (e.g., hardware, software licenses, office equipment, office space)</li> <li>▶ Participant fees</li> </ul>
<p><b>Administration</b></p> <ul style="list-style-type: none"> <li>▶ General management, oversight, and coordination</li> <li>▶ Training</li> <li>▶ Preparing and amending ESG and homelessness-related sections of the Consolidated Plan</li> <li>▶ Environmental review</li> </ul>	<p><b>Administration</b></p> <ul style="list-style-type: none"> <li>▶ Rent, utilities, and equipment</li> </ul>

**Table 3: Sample Breakout of Continuum of Care (CoC) Components for Modified Total Direct Costs for 10 Percent De Minimis Rate**

*Note: The sample costs listed below for the MTDC base are presented for example purposes only. The list is not comprehensive and is not related to eligibility or direct cost reimbursement. Calculation of the MTDC base will vary greatly by situation. Review 2 CFR §200 and HUD Transition Notices/Regulations to calculate your MTDC base and consult with your local HUD Field Office.*


Included in MTDC Base	Excluded from MTDC Base
<p><b>Overview</b></p> <p>Included are all direct salaries and wages, applicable fringe benefits, materials and supplies, services, and travel associated with eligible activities under the CoC program, except where excluded, and the first \$25,000 of each subaward and subcontract (regardless of the period of performance of the subawards and subcontracts under the award).</p>	<p><b>Overview</b></p> <p>Excluded are all equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs, and the portion of each subaward in excess of \$25,000.</p> <p>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.</p>
<p><b>Acquisition, Rehabilitation, New Construction</b></p> <ul style="list-style-type: none"> <li>▶ No costs included</li> </ul>	<p><b>Acquisition, Rehabilitation, New Construction</b></p> <ul style="list-style-type: none"> <li>▶ All costs excluded (e.g., capital expenditures, building, land, equipment)</li> </ul>
<p><b>Leasing</b></p> <ul style="list-style-type: none"> <li>▶ Service delivery (e.g., processing payments)</li> <li>▶ Inspections for rental assistance and leasing (HQS, lead, etc.)</li> </ul>	<p><b>Leasing</b></p> <ul style="list-style-type: none"> <li>▶ Rent</li> <li>▶ Utilities</li> <li>▶ Security deposits</li> <li>▶ Property damage</li> </ul>

Included in MTDC Base	Excluded from MTDC Base
<p><b>Rental Assistance</b></p> <ul style="list-style-type: none"> <li>▶ Service delivery (e.g., processing payments)</li> <li>▶ Inspections for rental assistance and leasing (HQS, lead, etc.)</li> </ul>	<p><b>Rental Assistance</b></p> <ul style="list-style-type: none"> <li>▶ Short-term rental assistance</li> <li>▶ Medium-term rental assistance</li> <li>▶ Long-term rental assistance</li> <li>▶ Security deposits</li> <li>▶ Property damage</li> <li>▶ Other rental costs associated with tenant-, sponsor-, and project-based rental assistance such as rental application fees, late charges, and releasing fees</li> </ul>
<p><b>Supportive Services</b></p> <ul style="list-style-type: none"> <li>▶ Annual assessment of service needs</li> <li>▶ Case management</li> <li>▶ Education services</li> <li>▶ Employment assistance and job training</li> <li>▶ Housing search and counseling services</li> <li>▶ Legal services</li> <li>▶ Life skills training</li> <li>▶ Outreach services</li> <li>▶ Transportation</li> <li>▶ Other costs associated with the direct provision of services</li> </ul>	<p><b>Supportive Services</b></p> <ul style="list-style-type: none"> <li>▶ Childcare</li> <li>▶ Moving costs</li> <li>▶ Education, employment assistance, job training, tuition, scholarships, and fellowships</li> <li>▶ Food</li> <li>▶ Mental health services</li> <li>▶ Outpatient health services</li> <li>▶ Substance abuse treatment services</li> <li>▶ Motor vehicle transportation</li> <li>▶ Utility deposits</li> </ul>
<p><b>Operating</b></p> <ul style="list-style-type: none"> <li>▶ Maintenance and repair of housing</li> <li>▶ Building security personnel</li> </ul>	<p><b>Operating</b></p> <ul style="list-style-type: none"> <li>▶ Property tax and insurance</li> <li>▶ Replacement reserve account</li> <li>▶ Utilities</li> <li>▶ Furniture</li> <li>▶ Equipment</li> <li>▶ Property damage</li> </ul>

Included in MTDC Base	Excluded from MTDC Base
<p><b>Homeless Management Information System (HMIS) or comparable database if subrecipient is a victim service provider</b></p> <ul style="list-style-type: none"> <li>▶ HMIS data collection and contribution activities (e.g., staff operations, training, conducting intake)</li> <li>▶ HMIS Lead agency activities</li> <li>▶ Victim service provider or legal service provider activities</li> </ul>	<p><b>Homeless Management Information System (HMIS) or comparable database if subrecipient is a victim service provider</b></p> <ul style="list-style-type: none"> <li>▶ All HMIS equipment (e.g., hardware, software licenses, office equipment, office space, utilities)</li> <li>▶ Participant fees</li> </ul>
<p><b>Administrative Costs</b></p> <ul style="list-style-type: none"> <li>▶ General management, oversight, and coordination</li> <li>▶ Trainings</li> <li>▶ Environmental reviews</li> </ul>	<p><b>Administrative Costs</b></p> <ul style="list-style-type: none"> <li>▶ Rent, utilities, and equipment</li> </ul>
<p><b>Relocation: Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA)</b></p> <ul style="list-style-type: none"> <li>▶ No costs included</li> </ul>	<p><b>Relocation: Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA)</b></p> <ul style="list-style-type: none"> <li>▶ All costs excluded (e.g., financial and rental assistance associated with relocation assistance through the URA)</li> </ul>

In order to include eligible direct activity costs in the MTDC base, recipients and subrecipients must maintain detailed accounting records clearly separating salaries, wages, fringe benefits, and service and consultant costs.

Furthermore, recipients and subrecipients must track costs by element for *each* eligible component activity. For example, organizations must maintain detailed accounting records clearly separating salaries, wages, fringe benefits, and service and consultant costs for each eligible activity (e.g., supportive services,



Document individual costs such as staff salaries, wages, fringe benefits, service costs, etc. for **each** eligible activity to include them in the MTDC base.

operating costs, project administrative costs). If costs are grouped (totaled) under eligible activities, they cannot be included in the MTDC base. When costs are grouped as total costs for eligible activities, there is not adequate information to identify the allowable and excludable costs for the purpose of determining the MTDC base and calculating the de minimis rate.

Recipients and subrecipients must maintain adequate documentation to support the costs included in the MTDC base consistent with the 2 CFR §200.333 retention requirements, which state:

Financial records, supporting documents, statistical records, and all other non-federal entity records pertinent to a federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the federal awarding agency or pass-through entity in the case of a subrecipient. (2 CFR §200.333).

### **3.2 Indirect Cost Rate Agreement**

Recipients and subrecipients that expend federal funds and allocate and claim indirect costs may negotiate their own unique indirect cost rate with their cognizant federal agency (2 CFR §200.19). In this Toolkit, a basic overview of this approach is provided. However, negotiated indirect cost rates are unique to each agency; organizations are encouraged to work with an accounting professional knowledgeable about federal cost principles to develop an indirect cost rate proposal.



A negotiated indirect cost rate is a ratio, expressed as a percentage, used for allocating a fair share of the general, administration, and facility expenses that are shared between programs (i.e., not charged as direct expenses to any given program) to each individual program. Specifically, this negotiated rate will be the ratio of the indirect costs to a direct cost base (MTDC).



The cognizant agency is generally defined as the federal agency that provides the largest amount of direct federal funds to the organization. When the cognizant agency approves an indirect cost rate, the rate becomes applicable to other federal funds to determine the amount of indirect costs that apply to other grants and contracts awarded to the recipient. Nonprofit recipients and subrecipients are required to follow the regulations contained in 2 CFR §200, Appendix IV-Indirect (F&A), Cost Identification and Assignment and Rate Determination for Nonprofit Organizations (in particular, Section B.5 and Section C).

It is the recipient or subrecipient's responsibility to make sure it has a valid final negotiated rate for each year that indirect costs are claimed, and that it renews its negotiated rate every three years as required.

Recipients or subrecipients would submit an indirect cost rate proposal in order to:

1. Establish a provisional rate to charge estimated indirect costs to an award; and
2. Establish a final indirect cost rate based on a prior fiscal year.

An indirect cost rate negotiation agreement is a document that formalizes the indirect cost rate negotiation process. This document typically contains:

- ▶ The type of rate negotiated;
- ▶ The effective period(s) of the rate;
- ▶ The location to which the rate is applicable; and
- ▶ The program(s) to which the rate(s) are applicable.

An indirect cost rate negotiation agreement also provides information on the base used to distribute indirect costs and the treatment of fringe benefits and paid absences. The negotiation agreement must be signed by both the organization's authorized representative and the agency's indirect cost coordinator or authorized representative.

### 3.3 Cost Allocation Plan

Cost allocation plans (2 CFR §200.27) are used by non-federal entities to determine the method by which the entity or organization will allocate direct and indirect costs, and when program activities are sponsored by federal funds either directly from a cognizant agency or a pass-through entity.

Cost allocation plans:

- ▶ Are often the only way to determine the total cost of operating programs;
- ▶ Allow an organization to ensure that it is recovering all allowable costs incurred by the organization; and
- ▶ Can provide valuable management data to an organization regarding funding levels and time spent on activities (when time and effort reporting is also employed).



The purpose of a cost allocation plan is to summarize, in writing, the methods and procedures that an organization will use to allocate costs to various programs, grants, contracts, and agreements.

In a cost allocation plan, direct and indirect costs are allocated to each cost objective.

There are three acceptable methods to calculate the indirect cost rate in a cost allocation plan:

- ▶ Simplified allocation method
- ▶ Multiple rate allocation method
- ▶ Direct allocation method

See section 3.4 for more information on the implementation of these methods. See also 2 CFR §200 Appendix V (state and local governments) and Appendix IV, B.2-4 (nonprofits) for guidance regarding cost allocation plans.

**Table 4: What is the Difference Between Cost Allocation and Cost Reimbursement?**

Cost Allocation	Cost Reimbursement
<p>Cost allocation is the measurement of allowable costs that are then allocated based on benefits received by each program or agency.</p> <p>The cost principles provide the methods for determining a federal program’s share of both direct and indirect costs. They have no authority over the actual payment of the costs. The payment is governed by the terms of the grant document or the legislation authorizing the program.</p>	<p>Cost reimbursement is the process where federal dollars are used to reimburse grantee organizations for allowable costs.</p> <p>Use grant language, cost limitations, and legislative constraints as guidelines in the payment process.</p>

### 3.4 Allowable Cost Allocation Methods

Organizations that choose to develop either an indirect cost rate agreement or a cost allocation plan have several allowable methods for allocating costs. Because organizations vary in structure, purpose, and complexity, particular methods may be more appropriate for particular entities or organizations. There are three acceptable methods to calculate the indirect cost rate:

- ▶ Simplified Allocation Method
- ▶ Multiple Rate Allocation Method
- ▶ Direct Allocation Method

**Table 5: Overview of Allowable Cost Allocation Methods**

Simplified Allocation Method	Multiple Rate Allocation Method	Direct Allocation Method
<p>The organization has only a single function. All programs benefit about equally from shared costs. The payment is governed by the terms of the grant document or the legislation authorizing the program. Federal awards are not material.</p>	<p>All programs do not benefit equally from shared costs. Preferred method for state and local government agencies. Indirect costs are pooled and allocated to direct cost objectives based on various distribution bases.</p>	<p>All costs are charged directly to programs, except for general administration. Preferred method used by most nonprofit organizations. Various bases are selected to “directly allocate” costs to programs (for example, space allocated based on square footage occupied).</p>

The following sections provide a more detailed analysis of each method.

### **3.4.1 Simplified Allocation Method**

For small recipients or subrecipients (including some nonprofits) where indirect costs are related to one primary activity such as administration, it may be necessary to have only one indirect cost rate. In this case, the simplified allocation method is used.

As indicated in 2 CFR §200 Appendix IV, B.2, the simplified method is applied when an organization’s major functions all benefit from its indirect costs to approximately the same degree. In this method, all indirect costs are grouped together in one pool and then allocated to each grant or program by applying the derived rate to all direct program costs. Capital expenditures and other distorting costs, such as subawards for \$25,000 or more, are excluded from both the indirect and direct cost pools.

The simplified allocation method may be accomplished by:

- ▶ Separating the organization’s total costs for the base period as either direct or indirect (less excluded costs); and

- ▶ Dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base.

**Figure 1: Simplified Allocation Method**



When separating the organization’s total costs into direct cost and indirect cost categories, the organization must exclude capital expenditures and unallowable costs (as defined in the Uniform Administrative Guidance). Organizations may incur costs that are unallowable and pay for those costs through non-federal funds.

The CoC program interim rule identifies eligible costs that may be reimbursed as direct costs to the program; even though they are eligible under the CoC program, 2 CFR §200 identifies some costs that are referred to as direct costs in 24 CFR §200.413(e) that are nonetheless unallowable as CoC costs.

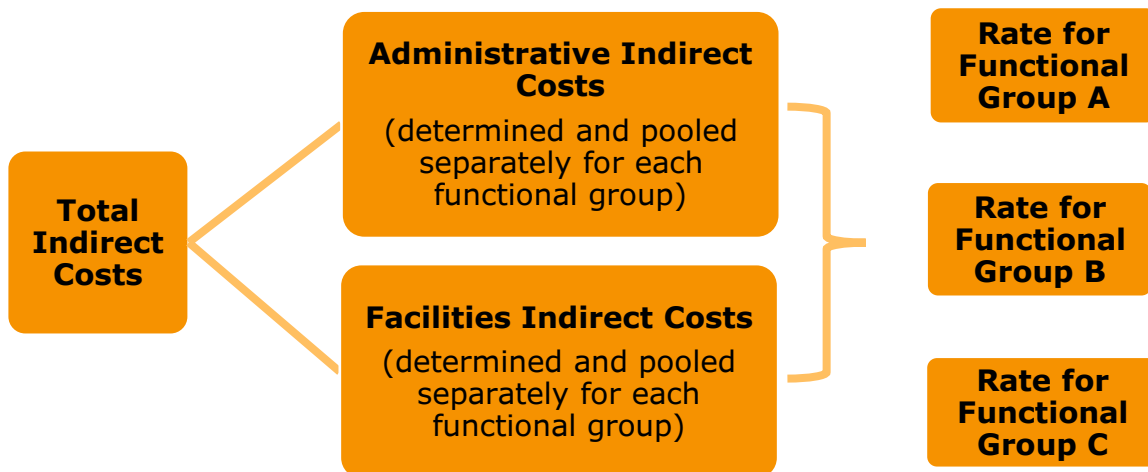
### 3.4.2 Multiple Rate Allocation Method

When a recipient or subrecipient’s indirect costs benefit different functions to different degrees, then indirect costs are grouped into pools based on functional groups (e.g., “Housing Services” and “Health Care Services”) that best reflect the differing relative benefit of each group from shared costs. This method essentially calculates different indirect rates for significantly different functional centers within an organization. It is most suitable for very large organizations with separate divisions that perform substantially different functions.

This allocation methodology must consider:

- ▶ A base best suited for assigning the pool of costs to programs in accordance with benefits derived;
- ▶ If a traceable cause-and-effect relationship exists between the cost pool being allocated and the programs to which it is applied; and
- ▶ If the allocation is logical and reasonable.

**Figure 2: Multiple Rate Allocation Method**



As illustrated in Figure 2: Multiple Rate Allocation Method, total indirect costs are grouped into separate pools for facilities and administrative (F&A) costs. Then, based on the separate benefits of these costs to the functional groups, indirect cost rates are derived for each functional group, dividing the F&A costs for each functional area by that area’s MTDC base.

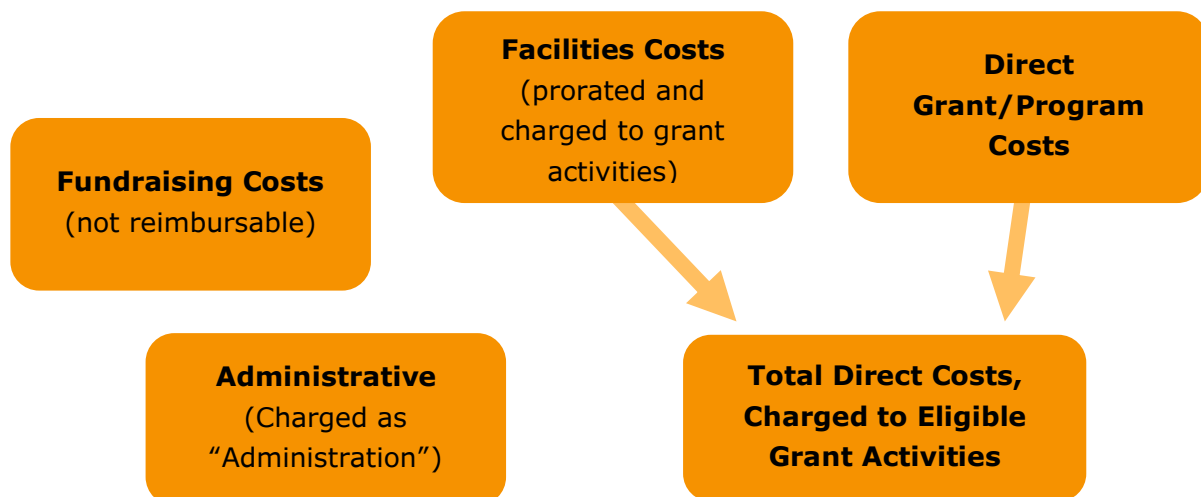
Per 2 CFR §200 B.3.b of Appendix IV, each functional cost group must constitute a pool of expenses that are of like character in terms of functions, and in terms of the allocation base which best measures the relative benefits provided to each function. The costs in the common pool are distributed to individual programs included in that function by use of a single indirect cost rate. Indirect costs must be distributed to applicable federal awards and other benefiting activities within each major function using the MTDC base allocation method. A separate indirect cost rate is determined for each separate functional area.

### 3.4.3 Direct Allocation Method

2 CFR §200 Appendix IV, B.4 describes the Direct Allocation Method. In this method, all costs are treated as direct costs, except for general administrative and other general costs.

Organizations applying this method generally separate their costs into three basic categories: (i) general administration, (ii) fundraising, and (iii) other direct functions (including projects performed under federal awards). Joint costs—such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like—are prorated individually as direct costs to each category and to each federal award or other activity using a base most appropriate to the cost being prorated.

**Figure 3: Illustration of Direct Allocation Method**



The Direct Allocation Method is acceptable, provided that each shared facilities cost is prorated using a base that accurately measures the benefits provided to each federal award or other activity. The bases must be established in accordance with reasonable criteria, supported by current data, and approved by the cognizant agency.

Administrative costs are charged as “Administration” costs, as allowed and defined under the particular federal program. Facilities costs (including equipment and supplies) are prorated using a rational basis (such as percent of organizational budget or percent of square footage used by the program), and then are applied to the relevant eligible grant activity.



## 4. Which option is best for my organization?

To review, we have discussed three primary methods for computing and charging indirect costs:

- ▶ 10 Percent De Minimis Rate
- ▶ Indirect Cost Rate Agreement
- ▶ Cost Allocation Plan

Both the indirect cost rate agreement and cost allocation plan approaches use one of three different methods to determine and allocate indirect costs:

- ▶ Simplified Allocation Method
- ▶ Multiple Allocation Base Method
- ▶ Direct Allocation Method

These options are established in order to offer organizations flexibility in identifying and implementing the method that best suits their organization's structure and activities.

### 4.1 Considerations for Selecting an Indirect Cost Rate Option

Indirect cost allocation methods can be complicated to understand and implement but can ultimately provide an organization with a more effective and efficient cost allocation approach.

Consider the following organizational factors in selecting a rate methodology:

- ▶ Amount of federal funding
- ▶ Variety of federal funding sources
- ▶ Size of the organization and diversity of its major functions
- ▶ Types of shared (indirect) costs
- ▶ Types and variety of programs
- ▶ Degree of programmatic and functional variation
- ▶ Availability of allocation statistics in organization's accounting system
- ▶ Capacity of organization's accounting system to track degree of detail

No matter which approach is selected, it is important to remember these key considerations:

- ▶ Always clearly and thoroughly document your process and justifications for decisions made.
- ▶ Ensure that you store all records received from HUD and your cognizant federal agency for the appropriate number of years required under the applicable recordkeeping requirements.
- ▶ Review organizational policy and procedure documents to confirm that your organization's indirect cost and cost allocation policies are spelled out and accurate.
- ▶ Ensure that whatever approach is taken, it is applied uniformly across all grants and programs and with all funders.

A local certified public accountant (CPA) can help organizations determine which rate methodology is best suited for their organization and can support the organization through the whole process of rate determination. Organizations typically cannot select and implement a negotiated indirect cost rate without the assistance of a CPA or accountant, particularly one who is familiar with federal cost principles and the Uniform Administrative Guidance. Recipients and subrecipients are ultimately responsible for ensuring compliance with applicable regulations and policies.

## **4.2 Pros and Cons of Different Indirect Cost Rate Methods**

Table 6 reflects the potential pros and cons for each of the options for consideration.

**Table 6: Pros and Cons of Different Indirect Cost Rate Methods**

Option	Pros	Cons
<p><b>Option 1: 10 Percent De Minimis Rate</b></p>	<ul style="list-style-type: none"> <li>▶ Allows eligible recipients and subrecipients that historically could not charge any indirect costs to now recover some indirect costs.</li> <li>▶ Does not require submission of a detailed indirect cost proposal.</li> <li>▶ Immediately eligible, no time delays.</li> <li>▶ No pre-negotiation.</li> <li>▶ Easy computation using the MTDC.</li> <li>▶ Does not require an in-depth knowledge of cost accounting.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Must meet the eligibility requirements (see section 3.1.1).</li> <li>▶ Indirect costs are limited to 10 percent.</li> <li>▶ Certain eligible activity component costs are unallowable for computation of the MTDC (see Table 1).</li> <li>▶ Must track salaries, wages, fringe benefits, service contracts, and consultants separately and not as an aggregated program activity cost.</li> </ul>
<p><b>Option 2: Indirect Cost Rate Agreement</b></p>	<ul style="list-style-type: none"> <li>▶ Allows recipients and subrecipients to charge for more indirect costs based on the actual indirect cost rate.</li> <li>▶ All federal agencies must accept the negotiated rates if indirect costs can be charged to grant.</li> <li>▶ Recipients can request an increase in the rate based on submission and approval of an updated incurred cost approval.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Must prepare and submit an indirect cost plan.</li> <li>▶ Appropriate federal cognizant agency must be identified.</li> <li>▶ Review and negotiation of the indirect rate agreement usually takes an extended amount of time.</li> <li>▶ Requires experienced and knowledgeable staff to prepare proposal.</li> <li>▶ Must maintain an accounting system to properly accumulate cost by pool.</li> <li>▶ Rates must be renegotiated every three years.</li> </ul>

Option	Pros	Cons
<b>Option 3: Cost Allocation Plan</b>	<ul style="list-style-type: none"> <li>▶ Ensures that all costs are charged and paid for all grants and agencies.</li> <li>▶ Recognizes the actual costs for each program or grant.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Must prepare and submit a cost allocation plan and cost policy.</li> <li>▶ Can be complex.</li> <li>▶ Requires experienced and knowledgeable staff to prepare cost plan and policy statement.</li> <li>▶ Must maintain an accounting system to properly accumulate all costs and the corresponding cost allocation methodology.</li> <li>▶ Time-consuming for review and approval by the federal cognizant agency or pass-through entity.</li> </ul>

## 4.3 Steps for Choosing an Indirect Rate Methodology

To determine the best method for computing and charging indirect costs, a recipient entity should consider using the following steps:

### Conduct an Organizational Review

- Prepare a formal organizational chart providing relevant information explaining the various parts of the organization.
- Highlight where there are direct, indirect (administrative and facilities), and unallowable federal costs.

### Review Federal and Non-Federal Funding

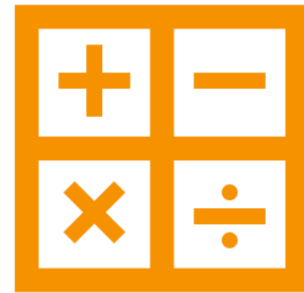
- Prepare a list of all funded programs in detail and identify the specific direct costs by program.
- Clearly delineate between federal and non-federal funding sources.

### Review the Accounting Structure

- Review agency administrative and fiscal policies, including internal controls.
- Review the materials collected in the previous steps and determine if costs are charged as direct or indirect. Are they charged by funding source (program or grant) and are they consistent with the approved program budgets?
- If necessary, determine changes to ensure the accounting structure is consistent with the selected indirect cost method.

## 5. How are indirect cost reimbursement options calculated?

Having laid out the various acceptable methods for determining indirect costs, let's conclude with a brief primer on how these methods may be applied in practice. All federal award recipients claiming indirect costs under federal awards should prepare an indirect cost rate proposal and related documentation to support those costs, regardless of the method used.



For all methods, recipients and subrecipients must maintain and operate financial management systems that meet or exceed the federal requirements for funds control and accountability, as established by the applicable regulations in 2 CFR 200, Subpart D.

### 5.1 Calculate and Use the 10 Percent De Minimis Rate

First, determine the MTDC base by taking the total direct costs and subtracting out any excluded items (see [Section 3.1.2 Modified Total Direct Cost](#)).

$$\begin{array}{r} 200,000 \text{ (Total Direct Costs)} \\ - 20,000 \text{ (Equipment)} \\ - 10,000 \text{ (Subaward in Excess of \$25,000)} \\ \hline = 170,000 \text{ Modified Total Direct Cost (MTDC)} \end{array}$$

Then, we can calculate the indirect rate, as described below.

$$\begin{array}{r} 170,000 \text{ Modified Total Direct Cost (MTDC)} \\ \times 10 \text{ Percent De Minimis Rate} \\ \hline = 17,000 \text{ Indirect Cost Rate} \end{array}$$

For additional examples of indirect cost calculations using the 10 percent de minimis rate under the ESG and CoC programs, please review the following pages.

### 5.1.1 ESG De Minimis Rate Indirect Cost Calculation Example

Proposed Grant Amounts		Calculations for Indirect Cost			Adjusted Budget Details		
<i>Item</i>	Total Expense	Of these expenses, what is excluded in MTDC?	Of these expenses, what is included in MTDC?	Rate (de minimis)	Indirect Cost by Budget Line	Adjusted Direct Cost by Budget Line	Total Expense
<i>Shelter Staff Salaries and Fringe</i>	\$100,000	\$0	\$100,000	x 10% =	\$10,000	\$90,000	\$100,000
<i>Shelter Renovation Costs</i>	\$35,000	\$35,000	\$0		\$0	\$35,000	\$35,000
<i>Street Outreach Salaries and Fringe</i>	\$25,000	\$0	\$25,000		\$2,500	\$22,500	\$25,000
<i>Purchase of Outreach Van</i>	\$15,000	\$15,000	\$0		\$0	\$15,000	\$15,000
<i>Total:</i>	<i>\$175,000</i>	<i>\$50,000</i>	<i>\$125,000</i>		<i>Total:</i>	<i>\$12,500</i>	<i>\$162,500</i>

## 5.1.2 CoC De Minimis Rate Indirect Cost Calculation Examples

### Example 1

Proposed Grant Amounts		Calculations for Indirect Cost			Adjusted Budget Details		
<i>Item</i>	<b>Total Expense</b>	<b>Of these expenses, what is excluded in MTDC?</b>	<b>Of these expenses, what is included in MTDC?</b>	<b>Rate (de minimis)</b>	<b>Indirect Cost by Budget Line</b>	<b>Adjusted Direct Cost by Budget Line</b>	<b>Total Expense</b>
<i>Rapid Rehousing Supportive Service Staff Salaries and Fringe</i>	\$50,000	\$0	\$50,000	x 10% =	\$5,000	\$45,000	\$50,000
<i>Rapid Rehousing Rental Assistance</i>	\$85,000	\$85,000	\$0		\$0	\$85,000	\$85,000
<i>Subaward for Legal Services</i>	\$50,000	\$25,000	\$25,000		\$2,500	\$47,500	\$50,000
<i>Administration Staff Salaries (e.g. fiscal and HR personnel)</i>	\$15,000	\$0	\$15,000		\$1,500	\$13,500	\$15,000
<b>Total:</b>	<b>\$200,000</b>	<b>\$110,000</b>	<b>\$90,000</b>		<b>Total:</b>	<b>\$9,000</b>	<b>\$191,000</b>



## Example 2

Proposed Grant Amounts		Calculations for Indirect Cost			Adjusted Budget Details		
<i>Item</i>	<b>Total Expense</b>	<b>Of these expenses, what is excluded in MTDC?</b>	<b>Of these expenses, what is included in MTDC?</b>	<b>Rate (de minimis)</b>	<b>Indirect Cost by Budget Line</b>	<b>Adjusted Direct Cost by Budget Line</b>	<b>Total Expense</b>
Case Management Salaries and Fringe	\$25,000	\$0	\$100,000	x 10% =	\$10,000	\$15,000	\$25,000
Leasing Costs (Building Rent and Utilities)	\$50,000	\$50,000	\$0		\$0	\$50,000	\$50,000
<i>Total:</i>	\$75,000	\$50,000	\$100,000	<i>Total:</i>	\$10,000	\$65,000	\$75,000

## 5.2 Negotiate and Use an Indirect Cost Rate

Both governmental and nonprofit entities that are recipients of federal awards can negotiate indirect cost rates with their cognizant agency for use across all federal awards and agencies. The “cognizant agency” is the federal agency that provides the highest dollar value annually in awards to an organization. It is important to note, however, that there is separate guidance for state and local (non-federal) governmental entities and for nonprofits regarding negotiated indirect cost rates. For non-federal government entities, relevant guidance is found in 2 CFR §200 Appendix VII.D. For nonprofits, it is found in 2 CFR §200 Appendix IV.C.

A key difference is that, for non-federal governmental entities with annual federal income over \$35 million, a negotiated indirect cost rate is *required*. For nonprofit entities, there is no threshold requirement for negotiated rates.

The following applies to federal recipients negotiating an indirect cost rate proposal:

- ▶ Non-federal governmental recipients receiving less than \$35 million in direct federal funding are not required to negotiate an indirect cost rate with their cognizant federal agency, though they can do so. They must, nonetheless, develop and maintain an indirect cost proposal and related documentation for audit requirements using one of the allowable allocation methodologies specified in 2 CFR §200. The proposal and documentation should be provided to the cognizant agency when specifically requested.
- ▶ Non-federal governmental recipients receiving more than \$35 million in direct federal funding must submit an indirect cost proposal to their cognizant agency for their indirect cost rate.
- ▶ Nonprofit entities, regardless of the size of federal awards, may (but are not required to) apply for a negotiated indirect cost rate with their cognizant agency.



Unless different arrangements are made by the agencies concerned, the federal agency with the largest dollar value of awards will be designated as the cognizant agency for the negotiation and approval of indirect cost rates. Recipients electing to negotiate and use an indirect cost rate can charge indirect costs to a grant or contract based only on a Negotiated Indirect Cost Rate Agreement (NICRA) approved by the cognizant federal agency. However, the approval of indirect costs by the cognizant agency is not intended to identify the circumstances or dictate the extent of federal participation in the financing of grants or contracts. Please note, the Department of Health and Human Services (HHS) reviews and approves negotiated indirect cost rate proposals on behalf of HUD. To request a new rate or to have an existing rate extended, contact [HUDCPDIndirectCostRates@hud.gov](mailto:HUDCPDIndirectCostRates@hud.gov).

### **5.2.1 Submission of Proposal**

Each organization seeking to negotiate an indirect cost rate must submit an indirect cost rate proposal with the following required information:

- ▶ Organization profile: The purpose is to gain an understanding of the basic structure of the organization.
- ▶ Cost policy statement: The purpose is to establish a clear understanding between the recipient organization and the federal government as to what costs will be charged directly and what costs will be charged indirectly. The cost policy statement includes the following:
  - Statement on general accounting policies
  - Statements on each general ledger expense account (or cost element) indicating which account is used to record direct or indirect expenses
  - Statement regarding which general ledger accounts include costs allocated for more than one activity. As part of this statement, describe the method used to allocate the cost (actual usage, square feet, cost of space, volume, etc.)
  - Statement on unallowable costs:
    - Accounting treatment of unallowable costs

- Methods and controls in place to segregate unallowable costs
  - Expense accounts the unallowable costs are charged to
- ▶ Indirect cost proposal preparation policies and procedures: Written policies and procedures describing how the agency prepares the annual indirect cost rate proposal.
- ▶ Financial reports for the year under review, including:
  - A complete copy of audited financial statements
  - Single audit report
- ▶ Indirect cost rate proposal, including:
  - Indirect expenses by function and cost category
  - Fund distribution of the direct cost base by function and cost category
  - Reconciliation between the proposal and financial reports for the applicable years, with any differences explained
- ▶ Allocation of salaries and wages: Schedule of positions, functions, and annual salaries of personnel charging time to an indirect function (employees who charge 100 percent of their time to an indirect task and who split time between direct and indirect tasks).
- ▶ Statement on employee benefits: Schedule showing the actual cost of applicable fringe benefits.
- ▶ Identification and description of unusual factors that may affect the proposed rates, or any memoranda of understanding or notice agreements that may affect the proposed rates.
- ▶ Listing of federal awards that were active during the fiscal year.
- ▶ Completed lobbying certificate that verifies that the organization does not include lobbying costs in indirect costs.
- ▶ A completed certificate of indirect cost: Negotiated agreement and certifications signed by an organization representative who has the ability to contractually bind the organization.

### **5.2.2 Approval of Proposal**

The approval will be formalized by a rate agreement (NICRA) that includes the following:

- ▶ The approved rate(s) and information directly related to the use of the rates (e.g., type of rate, effective period, and distribution base).
- ▶ The treatment of fringe benefits as either direct or indirect costs, or an approved fringe benefit rate.
- ▶ General terms and conditions.
- ▶ Special remarks (e.g., the composition of the indirect cost pool).



### **5.2.3 Disputes**

When HHS (acting on behalf of HUD for purposes of approving a rate) and a recipient or subrecipient cannot reach an agreement on an acceptable indirect cost rate, HUD will make a unilateral determination of the rate(s) and will notify the organization. HHS or the grant/contract officer will advise the organization of its right to appeal the determination and will provide, upon request, information about the appeal procedures.

## **5.3 Prepare and Use a Cost Allocation Plan**

The cost allocation plan is an accounting report that calculates and allocates agency-wide indirect costs to the applicable base. The plan summarizes, in writing, the methods and procedures that the non-federal recipient will use to allocate costs to various programs, grants, and agreements.

The cost allocation plan should be tailored to fit the specific policy of the agency. The allocation should be based on a methodology approved by the cognizant or awarding federal agency, and only costs that are allowable in accordance with the cost principles should be allocated to the benefiting programs. There are different methodologies available for allocating costs; the methodology used should result in the equitable distribution of costs to programs. See section 3.4 for information on the different allocation methods.

Most documentation requirements for submitting and negotiating indirect cost rate proposals are also applicable to the cost allocation plan (see below).

Below are the steps generally taken to prepare a cost allocation plan or an indirect cost rate proposal:

1. Review the Uniform Administrative Guidance.
2. Review the organization.
3. Identify programs.
4. Prepare a cost policy statement.
5. Review and reconcile financial statements.
6. Prepare the cost allocation plan or indirect cost rate proposal.
7. Prepare an indirect cost rate calculation worksheet and determine the type of rates.
8. Obtain cognizant agency approval.

## 6. Frequently Asked Questions

**1. Is my organization required to charge indirect costs to cost-reimbursable grants?**

No. An organization is not required to charge and recover indirect costs.

**2. If I have subrecipients or subawards, can I prevent them from using an indirect cost rate?**

No. You cannot prevent subrecipients or subawardees from using an indirect cost rate that they are otherwise eligible to use. Furthermore, the recipient is responsible for ensuring that any subrecipient or subawardee charging indirect costs has documented that they are using one of the allowed methods for allocating indirect and direct costs, as laid out in 2 CFR §200.

**3. I am a recipient with several subrecipients. If one of my subrecipients uses an indirect rate, do all of my other subrecipients need to use an indirect cost rate?**

No. Each subrecipient will make its own decision as to whether it would like to use an indirect cost rate.

**4. Does the use of indirect costs (either the de minimis rate or negotiated rate), bring additional funds to my ESG or CoC program?**

No. Indirect costs are calculated within existing awards and are merely an option for reimbursement.

**5. Is there a cap for indirect cost rates?**

Under the ESG and CoC interim rules, there is no established cap on indirect rates and the recipient cannot cap indirect rates for a

subrecipient. There are, of course, statutory caps on administrative costs (as a type of indirect cost) for both the ESG and CoC programs.

**6. If we choose to use the de minimis rate to receive reimbursement for indirect costs associated with our ESG or CoC grant, do we need to use the de minimis rate for all other federal awards that pass through our agency?**

Yes. Once elected, the 10 percent de minimis rate must be used consistently for all federal awards. The de minimis rate may be used indefinitely. At any time, a recipient may choose to apply for a negotiated indirect cost rate.

**7. Given the length of time required to have an indirect cost rate approved directly by HUD, is there another option we can pursue at this time?**

Recipients have three options for the reimbursement of indirect costs: de minimis rate, cost allocation plan, and negotiated indirect cost rate. While waiting for a negotiated indirect cost rate agreement to be approved, a recipient must use one of the other allowable methods for cost allocation and determining indirect cost rates. These alternative methods were reviewed in this document.

**8. How do we apply for a negotiated indirect cost rate?**

Organizations that choose to develop an indirect cost rate proposal with HUD as the cognizant agency must submit the proposal to [HUDCPDIndirectCostRates@hud.gov](mailto:HUDCPDIndirectCostRates@hud.gov) for review and approval. The organization must copy the respective CPD field office director and CPD representative in the email. There is not a mandated form or template for the proposal. Guidance regarding the negotiated indirect cost rate process can be found in 2 CFR 200, Appendix IV (for nonprofits) and Appendix VII (for non-federal governmental entities).



**9. What allocation base is acceptable for computing the facilities and administration (F&A) indirect cost rates and indirect costs?**

For recipients with an approved negotiated indirect cost rate agreement (NICRA) with a cognizant agency, the acceptable base is defined in the NICRA. For recipients that do not have an approved NICRA and elect to use the 10 percent de minimis rate, the modified total direct cost (MTDC) must be used.

**10. How long can the 10 percent de minimis rate be used under the Uniform Administrative Guidance?**

Indefinitely, or until the organization enters a NICRA agreement or obtains an approved cost allocation plan.

**11. If my organization already has an indirect cost rate under a different cognizant federal agency, am I required to use that rate for my CoC or ESG programs?**

Yes, the rate of the cognizant federal agency will apply to both ESG and CoC programs, as well as all other federal awards held by an organization. Except under special circumstances for particularly large and complex organizations (and as approved), an organization must use a single allocation method across its operations.

**12. If there are limits on the amount of administrative funds one can spend under ESG (7.5 percent) and CoC (10 percent) programs, does the use of the de minimis rate (10 percent) exceed the administrative cap, or does the use of a negotiated rate over 7.5 percent exceed the administrative cap?**

Eligible project administrative costs, which are capped in each program, are different from indirect costs. Eligible project administrative costs are direct costs identified in the CoC and ESG program interim rules and can be charged directly to the grant.

Indirect costs, according to the ESG and CoC interim rules, may be allocated to each eligible activity, so long as that allocation is

consistent with an indirect cost rate proposal developed in accordance with the regulations set forth in the Uniform Guidance (2 CFR §200).

Indirect costs are calculated within existing awards and the activities to which they are applied. The use of an indirect cost rate will not result in the recipient exceeding an activity's budget, including the administrative budget. Therefore, applying the indirect rate to the project administrative budget line item will not result in the recipient exceeding the administrative spending caps.

**13. Is there a defined list of indirect costs? If so, can HUD provide a list or description?**

There is not a comprehensive list of indirect costs, as they will vary by organization. The United States Office of Management and Budget (OMB) defines indirect cost as “those [costs] that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective...” Such costs are generally categorized as facilities and administrative (F&A) costs. Contact your local HUD Field Office or submit an Ask a Question (AAQ) through HUD Exchange if you have questions about a specific cost for your organization.

**14. Can recipients charge insurance or similar costs as a direct cost?**

There are several factors that must be considered to determine if these types of costs can be treated as a direct expense. Generally, insurance or similar costs are treated as an indirect expense because they benefit more than one cost objective (grant or contract).

However, 24 CFR §200.412 Classification of Costs states:

There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like

circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double charging of federal awards. Guidelines for determining direct and indirect (F&A) costs charged to federal awards are provided in this subpart.

In addition, 24 CFR §200.413 Direct Costs states:

Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.

Accordingly, the recipient or subrecipient would have to demonstrate either through their cost policy, a previously negotiated rate, or cost plan that insurance is always treated as a direct cost and provide the methodology they used to calculate the direct costs of the insurance to each of its cost objectives (grants). In other words, only the amount of insurance directly related to HUD should be included as direct, not the total insurance cost. An organization must be able to provide their methodology for allocating insurance to all of the cost objectives.

## 7. Definitions

### **Project administrative costs (under ESG and CoC program requirements):**

Costs for planning and executing ESG and CoC activities. These costs are considered direct costs to the grant (to which you can apply an indirect cost rate). Refer to 24 CFR §576.108 for ESG and §578.59 for CoC for a listing of eligible project administrative activities and requirements. Note the following caps on project administrative costs:

- ▶ ESG administrative activities cannot exceed 7.5 percent of a recipient's fiscal year grant.
- ▶ CoC project administrative costs cannot exceed 10 percent of a recipient's fiscal year grant.

Project administrative costs do not include staff and costs directly related to carrying out activities eligible under 24 CFR §576.101 through §576.107 in the ESG program, and under §578.43 through §578.57 in the CoC program, because those costs are eligible as program costs of those activities. Additionally, these costs can be eligible as indirect costs, depending on how recipients categorize them in their accounting system; in this case, the indirect cost rates applied to program and operations costs (excluding project administrative costs) *are not* subject to HUD's administrative caps in the ESG and CoC programs.

### **Administration (under the Uniform Administrative Guidance):**

One of the two broad categories for grouping indirect costs as defined in 2 CFR §200.414. Also referred to as facilities and administrative (F&A) or general and administrative (G&A) expenses. These costs include general administration expenses such as the director's office, accounting, personnel, and all other types of expenditures not listed specifically under the other broad category of "facilities" (including cross-allocations from other pools, where applicable). These costs cannot be tied back directly to an eligible cost category in the grant.

**Allocable:**

Per 2 CFR §200.405, a cost is allocable to a federal award or other cost objective if the goods or services involved are chargeable or assignable to that federal award or cost objective in accordance with relative benefits received.

**Allocation bases:**

The methodology or statistical measure by which indirect costs are distributed to other benefiting services and/or cost objectives.

Examples of measures may include: number of active employees, number of transactions processed, square footage occupied, salaries and wages of units supervised, and direct assignment.

**Allowable:**

Per 2 CFR §200.403, except where otherwise authorized by statute, costs must meet the following general criteria to be allowable under federal awards:

- a) Be necessary and reasonable for the performance of the federal award and be allocable to the award under these principles.
- b) Conform to any limitations or exclusions set forth in these principles or in the federal award as to types or amount of cost items.
- c) Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-federal entity.
- d) Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
- e) Be determined in accordance with generally accepted accounting principles (GAAP), except as otherwise provided for in this part (for state and local governments and Indian tribes only).
- f) Not be included as a cost or used to meet cost-sharing or cost-matching requirements of any other federally financed program in either the current or a prior period. See also 2 CFR §200.306 Cost Sharing or Matching, paragraph (b).

g) Be adequately documented. See also 2 CFR §200.300 Statutory and National Policy Requirements through 2 CFR §200.309 Period of Performance of this part.

**Cost allocation:**

The process of identifying, aggregating (direct vs. indirect), and assigning costs to cost objects (programs and grants).

**Cost allocation plan:**

A document that identifies and explains the distribution of allowable direct and indirect costs, and declares the allocation methods used for distribution.

**Cost classification:**

Placing of costs into some category such as administration, program, or another category, as prescribed by statute.

**Cost objective:**

A particular award, contract, grant, project, service, or other activity of an organization for which cost data is desired and for which provision is made to accumulate and measure the costs.

**Cost policy statement:**

Documentation on how a recipient treats costs within its financial system.

**Cost reimbursement:**

The process where federal funds are used to reimburse recipient organizations for allowable costs.

**Facilities:**

One of the two broad categories for grouping indirect costs as defined in 2 CFR §200.414. These costs are defined as depreciation on buildings, equipment, and capital improvement; interest on debt associated with certain buildings, equipment, and capital improvements; and operations and maintenance expenses.

**Indirect costs:**

These costs are not directly associated with a particular grant or program, benefit more than one grant or program, and are incurred for joint or common purposes. Indirect cost may also be what some call “overhead” costs. This guide avoids using the term “overhead” to describe indirect administrative costs.

**Indirect cost rate:**

The ratio between an indirect cost pool and some direct cost base, which is then expressed as a percentage.

**Modified total direct costs:**

Referred to as the MTDC and as defined in 2 CFR §200.68, this is the base to which the indirect cost rate (10 percent de minimis or the federally negotiated rate) is applied. It typically includes all direct salaries and wages, applicable fringe benefits, materials and supplies, services, and travel for the award. If there are subawards, then it includes those costs up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the 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 subaward in excess of \$25,000.

**Non-federal entity:**

A state, local government, Indian tribe, institution of higher education, or nonprofit organization that carries out a federal award as a recipient or subrecipient.

**Pass-through entity:**

Primarily state and local government agencies that receive funds from HUD that they then pass through to a nonprofit or another unit of local government.

**Reasonable Cost:**

A cost that meets the “Prudent Person” standard (2 CFR §200.404 (a)). The “Prudent Person” standard refers to “a reasonable decision made by a person with the best knowledge available.”

**Recipient:**

A non-federal entity that receives a federal award directly from a federal awarding agency to carry out an activity under a federal program. The term recipient does not include subrecipients. See also 2 CFR §200.69 Non-Federal Entity.

**Subrecipient:**

A non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal program; this does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.

**Total costs:**

Composed of the sum of the allowable *direct* costs and allowable, allocable *indirect* costs, less any applicable credits.

**Training and education costs:**

Direct costs for items such as training costs, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences or training projects.