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Part VI: Uniform Guidance Indirect Costs

AUDIT, HIGHER EDUCATION, NOT-FOR-PROFIT
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One of the most important reforms included in the Office of Management and Budget's (OMB) comprehensive grant reform rules titled the "Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards" (Uniform Guidance) specifies that indirect costs need to be reimbursed in order for an organization to be sustainable and fiscally stable. The new guidance allows organizations that have never been reimbursed for indirect costs to use a standard 10% de minimis rate indefinitely. For organizations that already have a negotiated indirect cost rate, it is now required that federal awarding agencies accept this rate (unless federal statutes or regulations state otherwise). These organizations can apply for a one-time extension to extend that rate for up to four years. Cognizant agencies will review these requests, and if granted, the organization will not need to reapply for a new rate until the end of the extension period. Although a higher indirect cost rate does not allow organizations to necessarily receive additional funds in total, it does impact how the funds can be used. A higher indirect cost rate results in increased reimbursement of administrative costs. These costs would normally need to be subsidized through other unrestricted funding, which could have been used for other mission-oriented purposes instead.

If an organization doesn't already have a negotiated rate, it will need to analyze the impact the de minimis rate will have to determine if it would be more advantageous to negotiate a new approved rate. Cognizant agencies are responsible for negotiating the indirect cost rate. Only agencies that have a direct relationship with the organization can negotiate rates. Organizations that receive pass-through funds will not be able to negotiate rates with the federal agency that provided the funds. Subrecipients are also eligible for indirect cost reimbursement, but they are subject to the pass-through entity's rate (and the pass-through entity cannot force them to accept a rate lower than the 10% de minimis rate). Organizations will need to properly maintain their financial records in order to negotiate an approved rate so they can be reimbursed for the full amount of their indirect costs (rather than just settling for the de minimis rate).

According to CFR 200.414, indirect costs must be classified within two broad categories: "Facilities" and "Administration." "Facilities" is 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. "Administration" is defined as general administration and general expenses such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of "Facilities." Because of the diverse characteristics and accounting practices of nonprofit organizations, it is not possible to specify the types of cost that may be classified as indirect (F&A) cost in all situations.

In order to apply for an approved rate, organizations must prepare and submit an indirect cost proposal to their cognizant agency to substantiate their claim for the reimbursement of indirect costs. The federal agency with the largest dollar value of federal awards with an organization will be designated as the cognizant agency for indirect costs for the negotiation and approval of the new rates. Once a rate is agreed upon with the cognizant agency, it will be accepted by all other federal agencies. Organizations do not need to negotiate rates with each separate agency they receive funding from.

An organization that has not previously established an indirect cost rate with a federal agency must submit its initial indirect cost proposal immediately after the organization is advised that a federal award will be made and no later than three months after the effective date of the federal award. Organizations that have previously established indirect cost rates must submit new indirect cost proposals to the cognizant agency within six months after the close of each fiscal year, or elect the one-time extension to extend that rate for up to four years. For more information related to indirect cost proposals specific to your organization, refer to Appendices III and IV to Part 200 of the CFR.

Over the next few weeks, be on the lookout for more of Our Thoughts On the new Uniform Guidance. If you have any questions, please contact Schneider Downs

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