

# UNRAVELING THE MYSTERY OF INDIRECT COSTS

- PRESENTED BY:  
ERIC J. RUSSELL, CIA, CGAP, CGMS, MPA  
DIRECTOR – ENJ PLLC  
[ERUSSELL@ENJPLLC.COM](mailto:ERUSSELL@ENJPLLC.COM)
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# MEET YOUR PRESENTER!

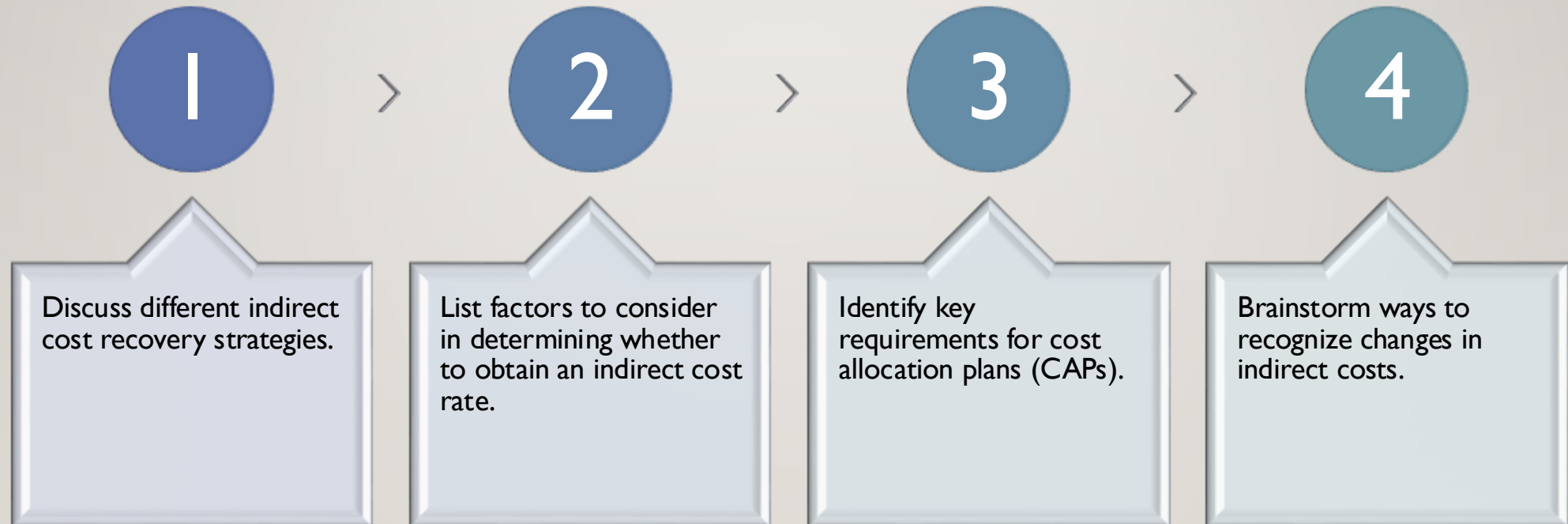
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- Originally from Nashville, Tennessee;
- Favorite places include the Parthenon in Nashville, Istanbul, and Dubai;
- More than 15 years of experience in municipal budgeting, public financial management, governmental audit, and management consulting;
- Currently serving as a Director with Emy Neuman-Javornik PLLC (ENJ PLLC) responsible for public sector consulting client delivery and business development within his areas of specialization (grants management, municipal financial and program management, and internal control design, documentation, and testing/monitoring);
- Previously served as Deputy Finance Director for the City of Columbus, Ohio, responsible for Asset Management and Grants Management;
- Proud member of the Crowe LLP Public Sector Consulting and Government Audit groups for 13 years ultimately rising to the level of Senior Manager before departing to become Deputy Finance Director in Columbus;
- Immediate Past President of the National Grants Management Association (NGMA) and current member of the Thompson Grants Advisory Board.

### 3 LEARNING OBJECTIVES

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## 4 OUR PATH TO SUCCESS

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- Indirect Cost Fundamentals
- ICRPs, CAPs, and Claims...Oh My!
- Questions
- Wrap-Up



A high-angle photograph of a business meeting. Several people's hands and arms are visible, interacting with a tablet and various financial documents on a table. One person is pointing at the tablet screen, which displays a pie chart. Another person is holding a pen over a document. The documents include a 'FINANCIAL ACTUAL SUMMARY' with a pie chart showing 85.5%, 7%, and 17%, and a 'SAVINGS CALCULATOR' form. A pair of glasses is visible in the bottom right corner. A semi-transparent dark grey box with white text is overlaid in the center, and a yellow number '5' is in the top right corner.

# INDIRECT COST FUNDAMENTALS

WHAT ARE WE TALKING ABOUT ANYWAYS?!?!  

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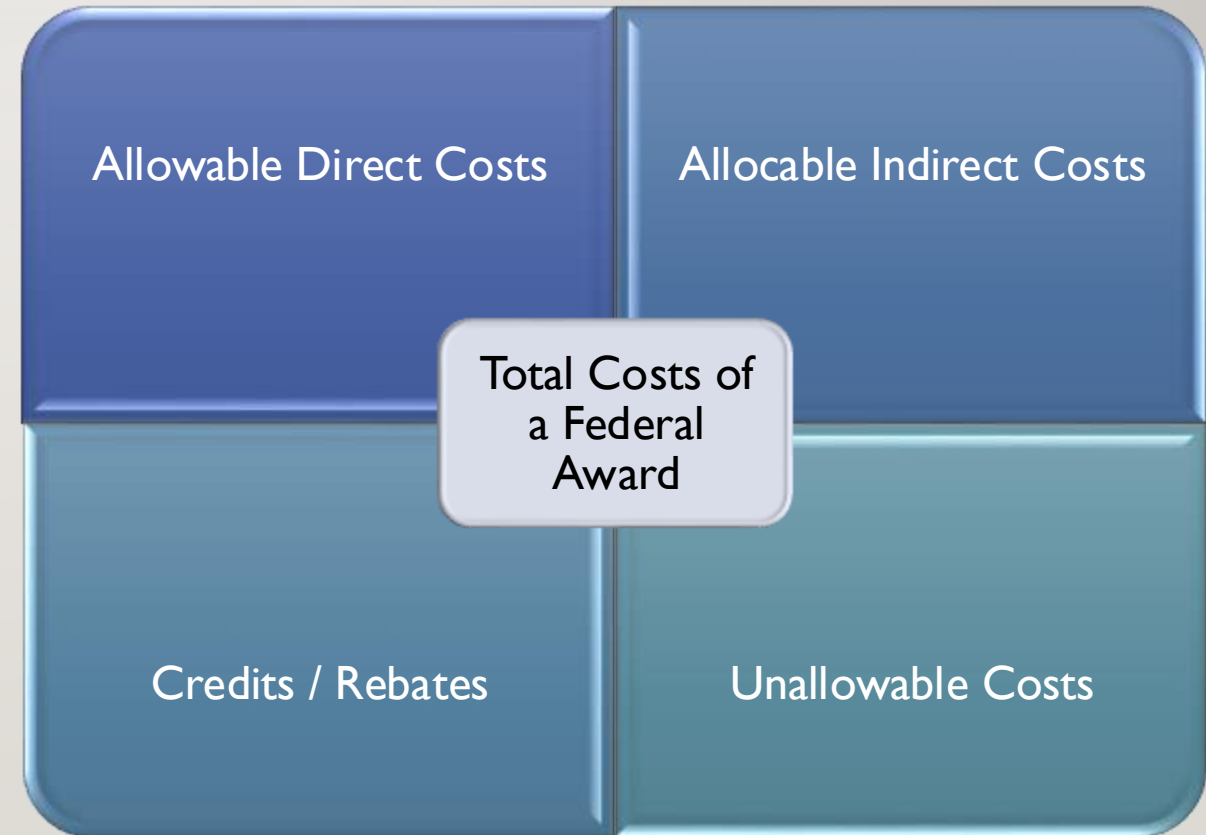
## 6 INDIRECT COST FUNDAMENTALS

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- During times of challenge and change, there remains one constant: indirect costs are as clear as mud for many people – financially-focused or not.
- Why is that? Do any of the following help explain?
  - Inadequate training?
  - Professional team members assigned to an area outside of their expertise?
  - The rules just don't make sense?
  - Inconsistent exposure?
  - One person handles them for 15 years, then they retire?
- Perhaps it is a bit of each.

## 7 INDIRECT COST FUNDAMENTALS

- In practice, indirect cost-related matters tend to be handled by dedicated groups or dedicated **individuals**.
- This limits knowledge sharing despite indirect costs being eligible for reimbursement on most federal awards.
- Our direct costs are those that can be readily associated with a final cost objective(s) with a high degree of accuracy.
  - Example 1: Personnel compensation charged to awards based on time records.
  - Example 2: A motor vehicle procured exclusively for and only used for community engagement and outreach on one federal program (prior approval was obtained, of course).





## 8 INDIRECT COST FUNDAMENTALS

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- Recall: For a cost to be allowable and eligible for reimbursement, it must be:
  - Allowable (compliant with the applicable cost principles and the terms and conditions of the federal award, not be used to meet cost share/match requirements in a current or prior period, and be adequately documented)
  - Allocable (assigned to the federal award based on relative benefit)
  - Reasonable (necessary for the federal program, of an amount that does not exceed what a prudent person would pay, and is consistent with the recipient or subrecipient's internal policies and procedures)
- For direct costs authorized in the award budget and incurred during the applicable budget period, we satisfy these requirements, generally, through:
  - Use of compensation studies to set salaries, time records for allocation of salaries by award/program, and payroll disbursement documentation;
  - Competitive processes to procure goods and services, unless a micro-purchase or compliant noncompetitive procedure is present, with evidence of receipt and paid invoices as support; and
  - Proper travel and transportation policies and procedures that support authorized travel costs.



## 9 INDIRECT COST FUNDAMENTALS

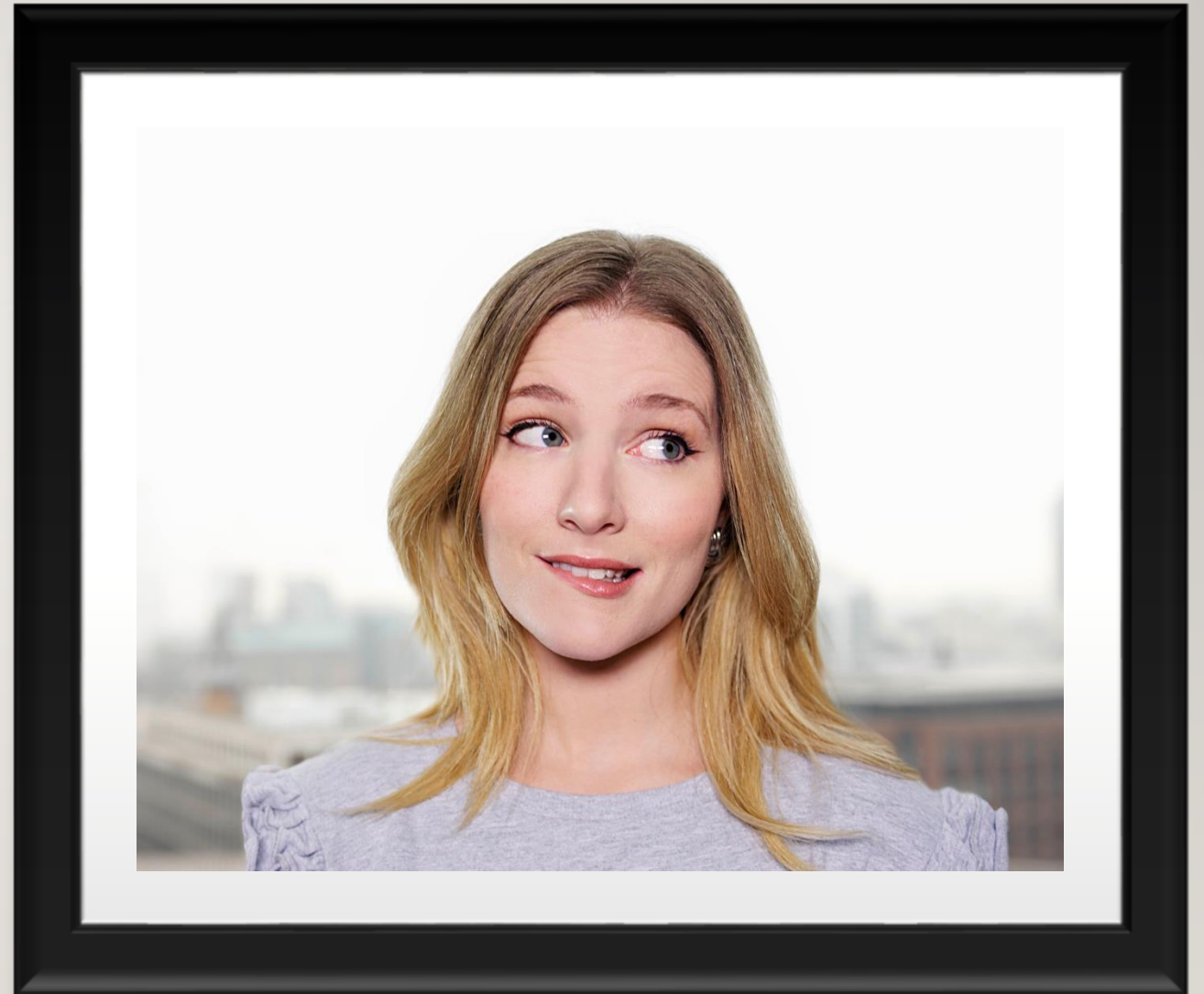
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- So, what are indirect costs?
  - Costs incurred by an organization that benefit the organization as a whole and cannot be readily or efficiently assigned to a specific cost objective (e.g., project, award, program) with a high degree of accuracy.
  - Examples include general administration costs such as accounting, human resources, and budget as well as capital improvements and operations and maintenance costs.
- How do we satisfy the allowable, allocable, and reasonable requirements for these costs?
  - Generally, we use an indirect cost rate built from total organization expenditures in a fiscal year.
  - One may also “directly allocate” indirect costs.

## 10 POLLING QUESTION 1

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- Have you been involved in calculating indirect cost rates for your organization?
- A. Yes
- B. No
- C. I run when the subject is brought up.
- D. May I plead the 5<sup>th</sup>?



# II INDIRECT COST FUNDAMENTALS


$$\text{Indirect Cost Rate (ICR)} = \frac{\text{Allowable Indirect Costs}}{\text{Direct Cost Base}}$$

- Generally, the process includes:
  - Identifying total costs for an organization's most recently concluded fiscal year;
  - Classifying cost elements as direct or indirect, allowable or unallowable, and excluded or not excluded;
  - Removing unallowable costs from the indirect cost numerator and removing all excluded costs from the formula; and
  - Dividing the allowable indirect costs by a base (e.g., modified total direct costs or direct salaries).
- This does not apply to the *de minimis* indirect cost rate, which is set at 15 percent by regulation (as of 10/1/2024).



## 12 POLLING QUESTION 2

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- Where in the Uniform Guidance are the cost principles located?
- A. Appendices
  - B. Subpart D
  - C. Subpart E
  - D. Over the hill and under the wood
  - E. Coffee break!



# INDIRECT COST FUNDAMENTALS

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- The integrity of the rate calculation – and resultant audit risk - is dependent upon (not all-inclusive):
  - Consistent treatment of costs as direct or indirect;
  - Accurate and complete accounting;
  - Application of the appropriate, applicable requirements, including those in the Uniform Guidance, those promulgated by the cognizant agency for indirect costs as per their indirect cost regulations or guidelines, and restrictions applicable to anticipated programs; and
  - Timeliness / currency of data as organizational structure or profile changes may render prior classifications and models improper.

## I 4 INDIRECT COST FUNDAMENTALS

The Uniform Guidance presents unallowable costs, such as (not all-inclusive):

- Audits not performed in accordance with GAGAS;
- Bad Debt;
- Alcoholic Beverages;
- Contributions or donations made to other entities;
- Entertainment and prizes;
- Equipment and other capital expenditures as indirect costs;
- General costs of government;
- Losses on other awards or contracts;
- Selling and marketing costs unless necessary to meet the requirements of the Federal award; and
- Telecommunications and video surveillance costs (including IT systems) if produced by Huawei, ZTE, Hytera, Hangzhou, Dahua, or Hikvision Digital Technology.

The U.S. Department of Health & Human Services:

- Requires a salary limit set at the Executive Level II compensation amount (\$225,700 for 2025); and
- Specifies independent research and development and shared responsibility payments are unallowable.



## 15 ACTIVITY TIME!

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- Let's play: ***Your Guess is as Good as Mine – What Am I!?!***
- For the next 10 minutes, you will be assigned to one of three breakout groups. As a group, look at the five examples on the following slide and answer these two questions:
  - Is the cost direct or indirect?
  - Is the cost allowable?
  - Do I need more information to reach a determination regarding either of the above?
- We will debrief as a group.

## 16 YOUR GUESS IS AS GOOD AS MINE – WHAT AM I!!!!

Item No.	Cost Element	Additional Context
1	Salary of the Mayor	Local government is a prime recipient of federal grants
2	SNAP Program Manager	100% dedicated to SNAP
3	Cost of radio spots to recruit new food providers to participate in the program	Costs supported by cost-price analysis and competitive bidding evidence
4	Security cameras for food storage surveillance at warehouse	Warehouse only includes food items for three government-funded programs
5	Cost of two 7-year old sedans made in Arizona donated by a for-profit entity for use on SNAP outreach – reported as in-kind contributions	Budget was modified to incorporate the vehicles as approved cost share sources with a note that the Government does not consider inclusion in the budget to represent concurrence regarding allowability; donation letter indicated both vehicles are valued at \$12,000

# 17 INDIRECT COST FUNDAMENTALS

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- As with any technical matter, there is the potential for error, whether due to human error or fraud (the term that shall not be said aloud).
- Errors may take many forms, such as:
  - Double counting costs:
    - Between periods;
    - As federal and cost share;
    - On multiple projects; and
    - As direct and indirect.
  - Misstatements on financial reports or in financial statements; and
  - Noncompliance with applicable requirements.
- What are some best practices to mitigate these risks?



## 18 INDIRECT COST FUNDAMENTALS

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- Some best practices include:
  - Document a Cost Policy Statement identifying cost element classifications and accounting and reporting policies;
  - Establish specific object accounts, dimensions, or other such segregating mechanism for unallowable costs and cost share transactions;
  - Reconcile the general ledger detail for each federal award to:
    - Cumulative draws/claims and federal and cost share expenditures each time a draw/claim is prepared for submission, or a financial report is due;
    - Periodic physical inventories; and
    - Ensure each dollar is only used once.
  - Activate unique codes in timekeeping systems for each federal and non-federal project;
  - Restrict abilities to direct charge projects to those personnel on identified project or program teams and who are not officially classified as indirect; and
  - Rotate financial reporting and accounting responsibilities periodically.



# ICRPS, CAPS, AND CLAIMS...OH MY!

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THIS IS FOR THE BIRDS!

## 20 ICRPS, CAPS, AND CLAIMS...OH MY!

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- Indirect costs are complex, which presents some risk.
- They also present opportunity for revenue maximization and efficiency gains, in certain circumstances.
- Key questions to ask one-self:
  - Do I want to recover indirect costs?
  - If so, what mechanisms are available?
  - What do I need in order to proceed?
- There is no “one size fits all” answer.





## 2 | ICRPS, CAPS, AND CLAIMS...OH MY!

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- Indirect costs may be recovered through three primary mechanisms, assuming the costs are eligible for reimbursement based on program authorizing legislation and program rules and regulations:
  - Charging back centrally allocated costs pursuant to a Cost Allocation Plan (“CAP”);
  - Negotiation of an indirect cost rate, which will be used to charge allocable indirect costs to awards; or
  - Direct allocation of indirect costs to each award.
- Direct allocation involves dividing costs between federal and non-federal efforts using an allocation driver. For example:
  - Consulting costs for a firm providing program accounting, compliance, and monitoring services total \$250,000 for the year.
  - The firm provides services for federal and non-federal activities, including general entity accounting and financial reporting activities.
  - There are 45 activities noted in the consultant invoices, of which 35 are programmatic/project matters.
  - Allocation driver = % of activities tied to programs/projects
  - Direct allocation -  $\$250,000 * (35/45) = \$194,444$  in direct charges. Remaining balance of \$55,556 is considered indirect.

## 22 ICRPS, CAPS, AND CLAIMS...OH MY!

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- You may also consider:
  - Establishing an ICR through development of an Indirect Cost Rate Proposal;
  - Utilizing the de minimis indirect cost rate, if eligible; or
  - Developing a CAP to identify central service charges only.
- The de minimis ICR may be used if:
  - Your organization does not have an active negotiated ICR;
  - You are eligible pursuant to 2 CFR Part 200.414 (NOTE: government units that directly receive federal awards as a prime MUST develop an ICRP and cannot use the de minimis); and
  - The de minimis ICR is used consistently across ALL federal awards when indirect costs are claimed.

## 23 ICRPS, CAPS, AND CLAIMS...OH MY!

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- Indirect Cost Rate Proposals (ICRPs)
  - Are specific to a single entity, often a government department or a non-profit organization;
  - Include the entity's indirect costs as well as central service charges from a CAP;
  - Must be developed in accordance with Uniform Guidance requirements in the applicable appendices; and
  - Serve as the basis for negotiation of an ICR that will serve as the maximum rate that may be used to charge indirect costs back over the relevant period.
- Cost Allocation Plans
  - Cover central service units (e.g., budget and purchasing) that support other operating units; and
  - Distribute the costs of central service units through chargebacks to operating units.
  - These costs are part of the costs included in the ICRPs.



## 24 POLLING QUESTION 3

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- Does your organization have a current negotiated indirect cost rate?
  - A. Yes
  - B. No, we use the de minimis rate.
  - C. No, we do not seek to recover indirect costs.
  - D. Can I phone a friend?
  - E. 42

## 25 ICRPS, CAPS, AND CLAIMS...OH MY!

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- Should I or should I not seek out an indirect cost rate?
- There are several considerations in the decision tree.
  - Do you have an option?
  - Is the juice worth the squeeze?
  - Are your financial systems capable of tracking and monitoring costs at the appropriate level?
  - Do you have audited financial statements?
  - Are you eligible for the de minimis icr?
  - Can you expend your award balance through direct costs only?







# ICRPS, CAPS, AND CLAIMS...OH MY!

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- The requirements for ICRPs and CAPs vary by federal cognizant agency and organization type.
- A key consideration is whether you have the minimum required information, such as:
  - Written allowability determination procedures;
  - Cost Policy Statement;
  - Audited financial statements;
  - Schedules of direct and indirect personnel compensation, including fringe benefits;
  - Costs classified into various categories such as facilities and administration; and
  - Evidence of internal control systems having been implemented to help ensure compliance and accurate financial reporting.
- You are also required to certify proposals and CAPs, so comfort and confidence in the accounting records is needed.



QUESTIONS



THANK YOU!!!

**Contact Me**

Eric J. Russell

Director – ENJ PLLC

[erussell@enjpllc.com](mailto:erussell@enjpllc.com)