



MEMORANDUM

Date: May 23, 2023
To: All Pierce County Human Services
From: Lucky Lucia Bradley, Grant Compliance Analyst
Subject: Important Indirect Cost Issues

We have confirmed with federal granting and state audit authorities that current Pierce County Human Services treatment of indirect costs has been significantly and materially incorrect and will need to be changed.

FEDERALLY FUNDED INDIRECT COSTS

We have confirmed through federal awarding agencies that Pierce County has been reimbursing federal indirect costs reimbursements incorrectly. Please refer to Per 2 CFR 200.414, and 2 CFR 200.1 for applicable guidance.

Whether an agency has a federal Negotiated Indirect Cost Rate Agreement, or is using the federal de minimis of 10%, these are the following requirements:

1. The agency cannot claim their NICRA/de minimis on more than the first \$25,000 in allowable expenditures for the entire length of the contract.
2. Not all program costs are included as part of the indirect cost (please see the detailed breakout of what this is comprised of at the end of this documentation).
3. An agency claiming de minimis of 10% is maxed out at **\$2,500 IN TOTAL** for reimbursement of federal indirect costs for each contract federal funding source, no matter how many amendments or adjustments to the budget.
4. This has been confirmed directly with HUD and I have training material from both HUD and the Department of Justice showing this.
5. All other administration costs are reimbursable if they can provide reasonable, allocable, and allowable support and it does not exceed any admin cap on the contract or go against any other federal, state, local or contract requirement.

NON-FEDERALLY FUNDED INDIRECT COSTS

One reminder: there are **NO non-federal** funds that will pay an "indirect" cost the way the federal funds outline it. All non-federally funded expenses must be supported costs that



the agency has supporting documents such as invoices, timesheets, bank statements and receipts.

1. Per RCW 43.09.205 – Local Government Accounting – Uniform System of Accounting:

“The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction”

This means that all costs reimbursed by non-federal funds must be supported by receipts, invoices, bank statements, etc.

2. Per BARS Manual 3.1.4.10 Original Supporting Documentation (we are required to follow the BARS manual by the above RCW).

“Local governments are responsible for obtaining and ensuring the integrity and retention of the original vouchers, receipts, and other documents – regardless of physical form – necessary to isolate and prove the validity of every transaction relating to the receipt, use and disposition of public funds or property (RCW 43.09.200). This requirement extends to all accounting entries, including interfund transactions or allocations of overhead costs.”

3. Any funds reimbursed to agencies without direct costs support may be considered as gifting of public funds to those agencies. This includes for overhead cost allocations. While this allows the agency to be reimbursed for administrative costs not associated with the grant for things that used shared resources, the agency must retain the documentation supporting that rate and may not charge more than what they have supported. Meaning if the costs for a month are less than the overhead allocation rate, they can only charge up to what they can support with documentation.

ADDENDUM FOR FEDERAL INDIRECT COSTS AND HOW TO CALCULATE THEM

A reminder that at no point in time is federal type indirect calculation allowable with state, local or any other non-federal funds that the County receives. This is only for federal indirect that is calculated only against federal direct costs (they cannot use federal indirect against non-federally reimbursed direct costs, even for the same program/project).



The calculation of the reimbursement for federal indirect costs uses the Modified Total Direct Cost Base referenced in 2 CFR 200.414 and defined in 2 CFR 200.1 (MTDC).

The calculation allows the cost pools to include the following:

- Direct salaries, wages, and applicable fringe benefits – this does **not** include administrative or non-direct program positions.
- Materials and supplies directly related to the award program – these types of supplies **do not** include normal office supplies such as papers, pens, etc., those should be considered admin costs and reimbursable as part of the cost allocation or admin costs.
- Services needed directly for the program – **Not** services provided by the program such as rental assistance or transportation.
- Any direct costs associated with travel for the program. – Travel still must comply with [2 CFR 200.475 Travel Costs](#), BARS manual, State RCW, County policies, plus any additional funder specific requirements.

Items that are expressly excluded from the calculation base (meaning you can't add these costs to the total that the indirect rate is multiplied against):

- Equipment – Ex: computers or other assets.
- Capital Expenditures –includes depreciation, upgrades, etc.
- Charges for Patient Care –includes fee for service for patient care which should already be reimbursed as the labor expenses of employees.
- Rental Costs
- Tuition, Scholarships and Fellowships
- Participant Support Costs - includes rental assistance payments, payments on the behalf of any client such as deposits, utility costs, transportation, etc.
- Any costs in excess of \$25,000. –De minimis indirect costs are capped. The indirect can only be calculated on the first \$25,000 of expenses by the subaward. Meaning 10% de minimis the agency only receives \$2,500 in indirect costs and after that cannot ask for more .

ACRONYMS AND DEFINITIONS: These definitions are copied verbatim from the 2 CFR source. These are not interpreted definitions.

- Indirect (facilities & administrative (F&A)) costs: - Means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be



distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived

- [Modified Total Direct Cost \(MTDC\)](#) - Means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and 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. 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.
- [Subaward](#) - Means an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a Federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

CITATIONS

- [2 CFR 200.0 Acronyms](#) – Breakout of Acronyms for above information
- [2 CFR 200.1 Definitions](#) – Where the above definitions, terms and calculations are detailed.
- [2 CFR 200.414 Indirect \(F&A\) costs.](#)
- [2 CFR 200.414\(e\)\(2\)](#) Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations
- [Appendix IV to Part 200—Indirect](#) (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations
 - Most agencies in non-CARES environment would meet Section B(2) under this appendix for use of a Simplified Allocation Method. There are very few that might meet the \$10,000,000 annual federal awards received that would require the far more in depth requirement of [paragraph \(a\) of § 200.414](#) That requires the agency to break out the indirect cost component into both broad categories of Facilities and Administration.