

Updates to Budgets, Indirect Costs, and Monitoring Frequently Asked Questions

On June 9, 2015, OOD held a meeting with VR Contractors to communicate changes to monitoring procedures and contract budgets that will impact the FFY 2016 contract, especially with regard to indirect costs. OOD held a subsequent question and answer session on June 23, 2015, to provide additional clarification and assistance regarding the steps to be taken by VR Contractors in response to these changes. The questions most frequently asked by VR Contractors ahead of or during the June 9th and 23rd sessions are offered below, along with OOD's responses. Clicking a question will take you to its response in this document.

- Q1. Why are there only 3 options for recovering indirect costs?
- Q2. Can OOD calculate an indirect cost rate on behalf of a contractor or subcontractor?
- Q3. How do contractors that do not incur direct costs recover indirect costs from the contract?
- Q4. Can contractors/subcontractors just use the indirect cost rate approved by OOD for the prior contract?
- Q5. What is the difference between a restricted indirect cost rate and an unrestricted indirect cost rate?
- Q6. Can OOD walk contractors/subcontractors through the steps of creating a restricted indirect cost rate?
- Q7. What information is needed to support the proposed indirect cost rate?
- Q8. If 2014 financial information is not complete, can contractors and subcontractors use 2013?
- Q9. Will a new budget template be distributed?
- Q10. What is the federal cognizant agency for this program?
- Q11. Can contractors or subcontractors use an indirect cost rate approved by CMS (Medicaid rate)?
- Q12. Why is the method of calculating indirect cost rates under EDGAR different than what is stipulated in 2 CFR Part 200?
- Q13. Can contractor or subcontractor staff who might ordinarily be included in the indirect cost pool be included in the direct staffing budget if proper documentation of time and effort on the contract is maintained?
- Q14. Where can contractors and subcontractors find the presentation material from the June 9th training session?
- Q15. Would OOD be able to provide more guidance on subcontractor monitoring requirements? Is documentation required and, if so, what that would that look like? Is this such that contractors review invoices and budget revisions, or take a more in-depth look?
- Q16. Is equipment that has a unit cost less than \$1,000 still expected to be depreciated?
- Q17. Can OOD explain what is changing with regard to monitoring contracts?

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Q1. Why are there only 3 options for recovering indirect costs?

A1. Federal code establishes the guidelines for indirect costs, and OOD can pay indirect costs only when the method used to determine the indirect cost rate and amount are consistent with those guidelines. Some of the options OOD had made available in the past were found by RSA to be inconsistent with those guidelines, and OOD has eliminated those options as a result.

Q2. Can OOD calculate an indirect cost rate on behalf of a contractor or subcontractor?

A2. No, federal code requires that the rate be negotiated, meaning contractors or subcontractors must calculate a rate on their own and then propose that rate to OOD. The roles of rate creator and rate approver must be segregated, with the cognizant agency (in this case, OOD) taking the role of rate approver.

Q3. How do contractors that do not incur direct costs recover indirect costs from the contract?

A3. Contractors that do not incur direct costs are not eligible to recover indirect costs from the contract.

Q4. Can contractors/subcontractors just use the indirect cost rate approved by OOD for the prior contract?

A4. No, the prior rates were determined by OOD. As noted above in A2, this method was inconsistent with federal guidelines so the rates produced by that method can no longer be used.

Q5. What is the difference between a restricted indirect cost rate and an unrestricted indirect cost rate?

A5. An unrestricted indirect cost rate is, in general terms, the ratio of all facilities and administration costs (also known as operating or management costs) to all direct program costs. A restricted rate is the result of moving certain unallowable costs (as defined in EDGAR 76.564 through 76.569) from the facilities and administration cost pool (the numerator) into the direct program cost pool (the denominator). The result of this procedure is a lower “restricted” indirect cost rate.

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Q6. Can OOD walk contractors/subcontractors through the steps of creating a restricted indirect cost rate?

A6. OOD is available to provide technical assistance if contractors or subcontractors have specific questions pertaining to their indirect cost rates or the restricted rate methodology, in general. EDGAR 76.564 through 76.569 provides the formula to be used in the restricted rate calculation and defines each component. Contractors and subcontractors are asked to review those sections of EDGAR and compile financial information to ensure the requirements of each component of the formula are met.

Q7. What information is needed to support the proposed indirect cost rate?

A7. OOD requests a chart of accounts and financial documentation at the line item level that provides the total amounts of each component of the calculation. The level of detail must be sufficient enough to ensure the requirements pertaining to each component are met.

Q8. If 2014 financial information is not complete, can contractors and subcontractors use 2013?

A8. OOD requires contractors and subcontractors to use their most recently audited financial statements to develop and support their indirect cost rate proposals.

Q9. Will a new budget template be distributed?

A9. No, a new budget template will not be distributed. OOD will make updates to the current budget template for the FFY 2016 contract period and will share those updates with each contract on an individual basis.

Q10. What is the federal cognizant agency for this program?

A10. The U.S. Department of Education is cognizant over this program. However, as it pertains to Option 1 (federally-approved indirect cost rate agreement), either the U.S. Department of Health and Human Services or the U.S. Department of Defense will be cognizant for the purpose of indirect cost rate determination. OOD suggests that contractors and subcontractors submit indirect cost rate proposals to the U.S. Department of Health and Human Services.

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Q11. Can contractors or subcontractors use an indirect cost rate approved by CMS (Medicaid rate)?

A11. No, according to the U.S. Department of Education, Medicaid is not a grant program; therefore, it does not apply to the Department's restricted indirect cost rate. Contractors and subcontractors must negotiate a restricted rate.

Q12. Why is the method of calculating indirect cost rates under EDGAR different than what is stipulated in 2 CFR Part 200?

A12. 2 CFR Part 200 establishes the rules that apply broadly to all federal programs. However, 2 CFR Part 200 also includes the caveat that each program has the authority to impose additional rules in order to ensure grantees meet program goals and expectations. EDGAR contains additional rules imposed by the U.S. Department of Education. One of the additional rules indicates that programs that prohibit the use of federal funds to supplant non-federal funds must use restricted indirect cost rates computed in accordance with EDGAR 76.564 through 76.569.

Q13. Can contractor or subcontractor staff who might ordinarily be included in the indirect cost pool be included in the direct staffing budget if proper documentation of time and effort on the contract is maintained?

A13. Yes, OOD will consider including such staff in the direct staffing budget on a case-by-case basis, depending on the needs of the contract. Contractors and subcontractors will be asked to explain in detail the role such staff would play and how their involvement is necessary to fulfill the purpose of the contract. If approved, such staff would be required to maintain the same documentation required of staff who are customarily included in the direct staffing budget; specifically, personnel activity reports (PARs) to document the actual time and effort spent performing contract-related duties.

Q14. Where can contractors and subcontractors find the presentation material from the June 9th training session?

A14. The presentation material can be found on the OOD website under the Provider Information tab on the Monitoring and Auditing page at <http://www.ood.ohio.gov/Provider-Information/Monitoring-and-Auditing>.

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Q15. Would OOD be able to provide more guidance on subcontractor monitoring requirements? Is documentation required and, if so, what that would that look like? Is this such that contractors review invoices and budget revisions, or take a more in-depth look?

A15. OOD suggests contractors review past monitoring and audit findings to identify and assess risk associated with subcontractors. Also, contractors may want to review any other audits (A-133 or financial) subcontractor(s) have had and focus on findings that may affect the contract. In the past, OOD has recommended contractors test all expenditures on the October invoice for compliance with the contract and Federal requirements (2 CFR 200), i.e. allowability, allocability, and appropriateness. It is up to contractors to determine the level of monitoring required for each subcontractor. Whatever policy the contractor determines to be appropriate must be documented. OOD requests subcontractor monitoring policies and procedures when contracts are audited.

Q16. Is equipment that has a unit cost less than \$1,000 still expected to be depreciated?

A16. Yes, OOD will continue to depreciate items of equipment with a unit cost of \$300 or more according to its useful life schedule.

Q17. Can OOD explain what is changing with regard to monitoring contracts?

A17. Contract monitoring is changing as a result of the knowledge gained from OOD's experience with contractors and subcontractors over the past few years, as well as in response to some of the feedback OOD has received from them. Fiscal monitoring formerly involved a sampling of one or two monthly invoices in a contract year, analysis of supporting documentation (accounting ledgers, payroll information, etc.), and a formal assessment that may include questioned cost findings. Moving forward, fiscal monitoring will consist of a "behind the scenes" monthly invoice review to ensure proper alignment with the approved budget and to detect any expenditure trends that may become problematic if continued throughout the entire contract period. No supporting documentation is requested. The focus of fiscal monitoring will be to provide technical assistance to help contractors and subcontractors meet their goals while avoiding using contract funds for unallowable costs.

Program monitoring has become more streamlined, reducing the burden placed on contractors and subcontractors during the onsite visit by adjusting the monitoring agenda from six to eight hours down to three to four hours. Rather than focusing on the degree to which all documentation maintained by the contractor or subcontractor met or did not meet requirements, discussion is focused on the results of the OOD review rather than the process of the review itself. And whereas the goal of program monitoring at one time was to ensure compliance with the monitoring process, moving forward emphasis will be placed on providing technical assistance in developing best practices and to strengthen the relationship among OOD, contractors and subcontractors.