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Indirect Cost Hot Topics and Emerging Issues

Presented by Wally Davis, Partner

Meet the Presenter



Wally Davis
Partner

Wally Davis is a Partner and founding member of Attain Partners. He has been consulting for 31 years and has National Responsibility for Indirect Cost services for Attain Partners. He has worked as a key business advisor to more than 100 premier research universities and academic medical centers. Mr. Davis is experienced in federal cost policy, reimbursement and regulatory compliance, research finance and grants management.

Agenda

Hot Topics in Indirect Costs

- 2024 Revisions Impact
- Outstanding Topics - Rebates and NIH Cap
- The Wind of Change

Objective: Understand the indirect cost landscape and plan for implementation

2024 Uniform Guidance Revisions Impact on Indirect Cost Rates

2024 UG Revisions Impact on Indirect Cost Rates

1. Higher Thresholds- Equipment (\$10K), Subawards (\$50K)
2. Effective Dates (200.110)
3. VUCS Treatment Confirmation (200.306 k)
4. Allow report of rate disputes to OMB (200.414 (c) (2))
5. De-Minimus rate – 15% (200.414 (f))
6. Elimination of DS-2 (200.419)
7. Data and Evaluation Costs (200.455 (c))
8. Unused leave must be charged as general administrative costs (200.431 (b) (i)) – **Technical Correction issued 9-27-2024**
 - Technical correction – Can charge as GA, direct, or in fringe rate
9. Facilities and Administration (F&A) replaced with Indirect Cost (IDC)

Effective Dates for Threshold Changes

Negotiated rates

- No change in equipment and subaward thresholds until new rates are established (200.110)
 - 200.110(b) “Existing negotiated indirect cost rates will remain in place until they expire...”
 - Can only change thresholds in conjunction with next IDC rate base year
- Earliest implementation is FY 2025 (if FY starts October 1, 2024 or January 2025)
- Most likely FY 2026 if FY starts July 1 (July 1, 2025 - June 30, 2026)
- What if your rate is predetermined through FY 2028?

Process for Threshold Change Using FY 2025 as IDC Base Year

- Submit FY 2025 Base Rate Proposal
- Notify CAS your intent to change the thresholds
- Submit a cost impact analysis to CAS before rate negotiation
 - One cost impact analysis for equipment and one for subaward

If you have a proposal already submitted and under review

- Notify CAS of your intent to change the thresholds
- Submit to CAS a cost impact analysis (for equipment and subawards) for establishing rates for FY 2026 and beyond

If extending rates

- Confirm that CAS will be open to extending your rates
- Submit a cost impact analysis (for equipment and subawards) along with the normal extension request information

2024 UG Revisions Impact on Indirect Cost Rates

Higher Thresholds- Equipment (\$10K), Subawards (\$50K)

- Larger MTDC organized research base - Lower rate
- Lower Equipment Depreciation pool for items between \$5,000 and \$10,000 – Lower rate
- Depreciation recapture of undepreciated balance – Higher rate
 - Undepreciated balance written off over life of negotiated rate agreement (Normally 3-4 years)
- IDC Recovery on larger MTDC base
 - Equipment between \$5,000 and \$10,000 are now supplies
 - Subaward amount doubles

Note : Subaward change will lower the rate

Note: Equipment change will lower the rate in future IDC rate proposals

Administration Burden Reduction for Equipment

- Less number of equipment items for maintenance, property inventory and report to Federal agencies
- Less equipment items for prior approval requirement

Impact of Threshold Changes – A Simple Example

Assumptions

- University adopts the higher thresholds
- Current IDC rate - \$25 million (IDC pool)/\$50 million MTDC = 50%
- Changes to MTDC base
 - Equipment: +\$1million
 - Subawards: + \$2.5 million (100 subawards x \$25K)
- Changes to Indirect cost pool
 - Reduction in Equipment Depr. - \$.1 million
 - Equipment Depr. Recapture - \$.6 million

New Indirect cost pool: $25 + .6 - .1 =$
\$25.5 million

New MTDC:
 $50 + 1 + 2.5 =$ \$53.5 million

New IDC Rate:
 $25.5/53.5 = 47.66\%$

50.00% - 47.66% = a rate drop of 2.34%

Cost Impact Analysis - Equipment

Equipment threshold from \$5,000 to \$10,000 (From Base Rate Proposal)

1. Identify the amount purchased on research grants for assets between \$5,000 and \$10,000 (A).
 - Add the equipment value (A) to the Research MTDC base (B) (as they are now treated as supplies)
2. Determine the amount of depreciation allocated to research for assets between \$5,000 and \$10,000 (C).
 - Subtract value of what went to research for these assets (C) from the depreciation cost pool
3. Determine the undepreciated balance for assets between \$5,000 and \$10,000 (D).
 - This amount will be claimed over multiple years (3-4 years)
4. Recalculate the new Facility cost pool (E) by subtracting (C) and adding (D)
5. Calculate New Facility Rate (F) : (E) divided by (B)

Rate Impact : Current Facility Rate – New Facility Rate.

Cost Impact Analysis #1 - Subawards

Subaward threshold from \$25,000 to \$50,000 (From Base Rate Proposal)

Assumption: The base year rate proposal has \$2M of subaward costs included in the research base

- Impact will be to double the \$2M to \$4M
 - For impact analysis we will include the additional \$2M in the base
- The \$2M will be included in the base over the 4-year period (portfolio turns over 25% per year)
 - Example: Include 25% of \$2M in 1st year (\$400,000); Include \$800,000 in 2nd year, etc.

Note: Only new subawards will increase to \$50,000 for IDC recovery. Current subawards stay at \$25,000

Cost Impact Analysis #2 - Subawards

Subaward threshold from \$25,000 to \$50,000 (From Base Rate Proposal)

Assumption: The base year rate proposal has \$2M of subaward costs included in the research base

- Impact will be to double the \$2M to \$4M
 - For impact analysis we will include the additional \$2M in the base
- The \$2M will be included in the base over a 5-year period (portfolio turns over 25% per year) – Not all grants start on July 1
 - First year expenditures would be 15% of \$2M (\$300,000)
 - Second year expenditures would be 40% of \$2M (\$800,000)
 - Third year expenditures would be 65% of \$2M (\$1,300,000)
 - Fourth year expenditures would be 90% of \$2M (\$1,800,000)
 - Fifth year would be the first year the full \$2M would be included in the base

Note: Only new subawards will increase to \$50,000 for IDC recovery. Current subawards stay at \$25,000

Outstanding Topics – Rebates and NIH Cap

University Rebates

- **Rebates from Vendors, mainly associated with P-cards**
- **Historically most institutions used rebates to offset O&M costs in the IDC proposal**
 - Method approved by Audit and Cost Policy and CAS
 - Based on recent audits by OIG, this method was discontinued
- **CAS and OIG Expectations**
 - OIG wants rebates to offset costs at the award level
 - Not practical for most organizations – Rebates from vendors do not sync up with award periods
 - Alternative method - Lump sum cash payback
 - Easy method – Federal purchases divided by total purchases times total rebates
 - If cash payback – Submit paperwork to support calculation to CAS for review
 - CAS will approve and provide guidance for payment to the Treasury
 - Alternative method – Consider working with vendors to get the rebate built into the purchase price

University Rebates

- **200.406 – Applicable Credits-** requires payment of rebates earned from federal award spending
 - “To the extent that such credits accruing to or received by the non-Federal entity relate to allowable costs, they must be credited to the Federal award either as a cost reduction or cash refund, as appropriate.”
- **Caution – Doing nothing is not okay**
 - CAS has indicated they will likely review during rate negotiations
 - Expect more OIG Audits
- **What if we have never done anything?**
 - May have to review and payback on several years

Salary Cap on Executive Salaries

- NIH Salary Cap was implemented in 1990 through the Consolidated Appropriations Act for NIH
- Cap initially at \$120,000 then later at Senior Level II (\$221,900 for 2024)
- Recent 2022 HHS OIG suggests that the Cap should also apply to Executive salaries
 - HHS Audit Report - Cost Allocation Services Needs To Update Its Indirect Cost Rate-Setting Guidance, June 2022
(<https://oig.hhs.gov/oas/reports/region6/62001000.pdf>)
- CAS kicked this ruling up to the HHS Grants Office and OMB, but it was recently decided the implementation of the Cap will move forward
 - CAS will not be sending out a notification
 - Will send an updated checklist for IDC rate submissions
 - Applies to overhead cost pool salaries (O&M, Library, GA, DA, SPA)
 - Applies only to future IDC rates

Salary Cap on Executive Salary

Observations

- Since 1990 and until now, both CAS and ONR only applied the cap to the direct salary and wages
- The Cap will minimally affect colleges and universities
- Non-profits and hospitals will feel the “pain”
- A Cap will require different rates for Non-NIH projects (NSF, NASA, DOD, EPA)
- The 2023 Consolidated Appropriations Act, Department of Labor explicitly states that the cap applies to both direct and indirect salary for its Job Corps and ETA programs

The Wind of Change

The Wind of Change

Heritage Foundation

- “Indirect Costs: How Taxpayers Subsidize University Nonsense” – January 18, 2022
 - Cap rate at lowest rate accepted by universities from private organizations
- “The Poison Ivy League: How Taxpayers Subsidize Wealthy Universities” – February 16, 2024
 - Eliminate indirect cost “subsidy” for schools with >\$5 billion endowment
 - Cap rate at 15% for 38 schools with endowment between \$2-\$5 billion

Project 2025 – Presidential Transition Project

- Cap rate at lowest rate accepted by universities from private organizations (page 355)

The Wind of Change

Congress - Energy and Commerce

- Reforming the National Institutes of Health Framework for Discussion – June 2024
 - **“Reexamine Indirect Costs** – consider alternative mechanisms to limit indirect, or F&A, costs, such as tying the indirect cost rate to a specific percentage of the total grant award, either universally or for certain designated entities; capping indirect costs at a graduated rate dependent on a recipient’s overall NIH funding; or providing incentives or preferences to recipients with established and proven lower indirect costs.
 - **Demand Transparency on Indirect Costs** – require any entity receiving grants or awards to report publicly and make searchable their indirect F&A costs, including fixed capital costs, administrative overhead, and labor costs.”

To Continue the Discussion

Thank
You !



Want to learn more about how
Attain Partners is different?

Please contact us.
We're eager to work with you.

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