



**MAXIMUS®**

# **WHAT'S NEW WITH COST ALLOCATION – CURRENT ISSUES AND IMPACT OF THE REVISED 2-CFR PART 200**

**March 25, 2021**

**Nelson Clugston, Maximus**

**Jennifer Pacheco, State of North Carolina**

**MAXIMUS**

## **AGENDA**

1. Revised Uniform Guidance
2. Areas Where We Lack Clarity
3. Section II Negotiation Issues
4. Discussion and Questions



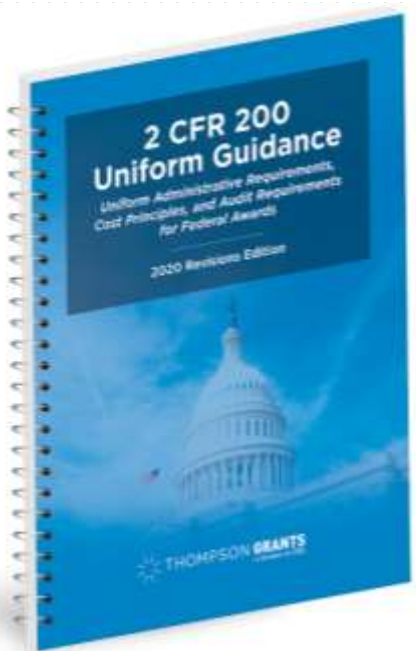
# 2020 REVISIONS:

PENSIONS



LEASES

DE MINIMIS  
RATE

OTHER  
CHANGES



# Section 200.430 Compensation of Personal Services and Fringe Benefits Proposed UG Change

Section 200.431 Compensation-fringe benefits	(g) Paragraph 3	What's Happening
<p>(g) <i>Pension Plan Costs</i>. Pension plan costs which are incurred in accordance with the established policies of the non-Federal entity are allowable, provided that:</p>	<p>3) For entities using accrual based accounting, the cost assigned to each fiscal year is determined in accordance with GAAP.</p> <p style="text-align: center;">↓</p> 	<ul style="list-style-type: none"><li>✓ This paragraph was deleted in the revision</li><li>✓ Return to the rules prior to UG</li></ul> 

# Section 200.430 Compensation of Personal Services and Fringe Benefits (cont.)

## OPEB

(h) *Post-Retirement Health.* Post-retirement health plans (PRHP) refers to costs of health insurance or health services not included in a pension plan covered by paragraph (g) of this section for retirees and their spouses, dependents, and survivors. PRHP costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the non-Federal entity.



# LEASES:

§200.465 Rental costs of real property and equipment.

**This is a change from what was proposed**



(e) Rental or lease payments are allowable under lease contracts where the non-Federal entity is required to recognize an intangible right-to-use lease asset (per GASB) or right of use operating lease asset (per FASB) for purposes of financial reporting in accordance with GAAP.

# Other Changes-Section 200.414(f) De Minimis Rate

The revision to 2 CFR §200.414(f) allows the use of the de minimis rate of 10% of modified total direct costs (MTDC) to all non-Federal entities with no current negotiated rate except:

## No. 1

Governments that receive more than \$35 million in direct federal funding

## No. 2

Education Agencies



When a non-Federal entity is using the de minimis rate for its federal grants, it is not required to provide proof of costs that are covered under that rate.

# Other Changes:

**#1 For transparency purposes, a proposed revision adds a new subsection to 200.414 (h) to require that all grantees' negotiated agreements for indirect cost rates are collected and displayed on public website. Except Indian Tribes.**

**#2 Appendix IV C 2: If the nonprofit does not receive any funding from any Federal agency, the pass-through entity is responsible for the negotiation of the indirect cost rates in accordance with section §200.331(a)(4).**





# Other Changes (cont.)

## Basic Factors of Allowability 200.403



### To be allowable, a cost must:

- Be necessary, reasonable and allocable ▪ Comply with the cost principles and federal award
- Be consistent with policies and procedures applying uniformly to federal and non-federal activities and costs
- Be consistently treated as either direct or indirect costs ▪ Be determined in accordance with GAAP
- Not be included or used to meet cost sharing / match requirements
- Be adequately documented
- Be incurred during approved budget period **(NEW)**



# Effective Dates Revised UG

- ✓ Issued after 5 year review
- ✓ Effective date 11/12/20
- ✓ For individual grants = guidance in the effect when grant was awarded
- ✓ For indirect rates next submission after 8/13/20

# Areas Where We Lack Clarity:



1. Pension – no longer GASB 68 basis but Actuarially Required Contribution may be an issue. HHS CAS has questioned but not yet disallowed pension contributions in excess of ARC or ADC.



2. Blended charge rates for defined benefit and defined contribution Pension Plans

# Areas Where We Lack Clarify (Cont.)

Software capitalization threshold-conflicting guidance \$5,000 like equipment or GAAP capitalization

This is from the HHS CAS Best Practices Manual for Reviewing State and Local Governments CAPS page I-4 published in 2017



*Information technology systems have been included in the definition of equipment. Software is included in the definition of information technology systems. The maximum capitalization level of \$5,000 now applies to software. This definition encompasses both purchased software with a unit cost greater than \$5,000 and internally developed software projects with a cost greater than \$5,000 (or a lesser level established for financial statement purposes). [The Cost Principles 2 CFR parts 200.33 and 200.58]*



# Areas Where We Lack Clarify (Cont.)

Software capitalization threshold-conflicting guidance \$5,000 like equipment or GAAP capitalization



We believe this interpretation is incorrect and should follow the UG sections below:

## §200.58 Information technology systems

*Information technology systems* means computing devices, ancillary equipment, software, firmware, and similar procedures, services (including support services), and related resources. See also §§200.20 Computing devices and 200.33 Equipment

## §200.12 Capital Assets

*Capital assets* means tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP. Capital assets include: Land, buildings (facilities), equipment, and **intellectual property (including software)** whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases;

## §200.436 Depreciation

(a) *Depreciation* is the method for allocating the cost of fixed assets to periods benefitting from asset use. The non-Federal entity may be compensated for the use of its buildings, capital improvements, equipment, and software projects capitalized in **accordance with GAAP**, provided that they are used, needed in the non-Federal entity's activities, and properly allocated to Federal awards. Such compensation must be made by computing depreciation



# Section II Negotiation Issues

There is new intense focus on Section II in the East

- States are being required to provide revenue, expense & fund balance by service for IT funds. This has been required in other regions for over 20 years.
- There is more focus on transfers in and out of billed services funds.
- You need to make sure there is coordination between what you put in Section I and what you report in Section II.

# SECTION II NEGOTIATION ISSUES NORTH CAROLINA EXPERIENCE

Jennifer Pacheco

*Taxation and Cost Allocation Compliance Specialist - Lead*

# SECTION II NEGOTIATION ISSUES NC



- Delayed Approvals
- Staff Turnover
- Billed Services



# SECTION II NEGOTIATION ISSUES NC



Staff  
Turnover

Back Log of  
Approvals

Excess  
Balances

## SECTION II NEGOTIATION ISSUES NC

- Allocation of Revenue/Expenses
- Staff Turnover
- Legacy Systems
- Excess Balance  Rainy Day Fund



# Questions & Discussion

Thank you!

**Nelson Clugston, Maximus**

**Jennifer Pacheco, State of North Carolina**