Changing the Narrative On Overhead

Ken Berger, Charity Navigator
Tim Delaney, National Council of Nonprofits
Norma Mtume, SHEILDS
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Overhead Cost Recovery: Variations of the Same Theme

Norma Mtume, MA
Numerous Guidelines to Follow

• Full recovery based on approved negotiated rate
• Partial recovery despite approved negotiated rate
• Minimal recovery with or without negotiated rate
Calculating & Budgeting for What is Allowable

<table>
<thead>
<tr>
<th>Total Salaries</th>
<th>Total Benefits</th>
<th>Total S&amp;B</th>
<th>Total Budget</th>
<th>22.5% of S&amp;B</th>
<th>10% of Salaries</th>
<th>10% of Budget</th>
<th>7% of Budget</th>
<th>Neg. Rate</th>
<th>Max IDC</th>
<th>Max IDC</th>
<th>Max IDC</th>
<th>Variance</th>
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<td>65,177</td>
<td>307,830</td>
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<td>-44,996</td>
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</table>

SHIELDS for families

believing, building, becoming
Funding Streams Can Dictate What is Allowed, or Can/Will They?

• Funds originating at the federal level, passed to State, passed to County.......  

• Whose guidelines prevail and how is that decision made?
Reconciling and Justifying

- Funds originating at the federal level, passed to State, passed to County......
- Whose guidelines prevail and what is the reasoning for the decision?
- Year-end report back to Feds and others on actual indirect/administrative costs
Recovery of Indirect Costs

► WHY it matters to CA nonprofits & grantmakers
► HOW the OMB reforms are designed to work
► WHAT nonprofits can expect to see in next 12 months

Tim Delaney
President & CEO

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@NatlCouncilNPs
Why Indirect Costs Matter … to California Nonprofits and Grantmakers

When compared to other states, California ranks as the:

- **4th worst** in the country re **failing to pay full costs.**
  
  69% said that governments failing to pay full costs = problem

- 67% of surveyed California nonprofits report that governments imposed artificial caps on general administrative/overhead.

- Of those, **65% are reimbursed at rates of 10% or less.**

**SOURCE:** Urban Institute 2014

http://www.govtcontracting.org/sites/all/files/govt/California-UrbanData%202014.pdf
Federal Law

Congress Appropriates the $$

Executive Branch Manages the $$
Reforms in OMB Uniform Guidance

Some highlights (from 700+ pages):

- State & local governments, tribes, and other “pass-through” entities using federal funds will be required to reimburse nonprofit contractors and grantees for reasonable indirect costs.

- In some cases, it expands which administrative expenses can be reported as direct costs, rather than indirect.

- Eliminates some duplicative audit criteria, and clarifies cost allocation rules.
What = “reasonable” indirect costs?

1. Apply the nonprofit’s federally negotiated indirect cost rate – if it already exists.

2. If a federally negotiated indirect cost rate does not already exist, then …

… the NONPROFIT has the power to pick either option:

a) To negotiate a rate with the government entity, OR

b) To use the default minimum rate of 10%.
## Timing: What to Expect

<table>
<thead>
<tr>
<th>Year</th>
<th>OMB</th>
<th>Fed Agencies</th>
<th>States &amp; Localities</th>
<th>Nonprofits</th>
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<tbody>
<tr>
<td>2011-2013</td>
<td></td>
<td></td>
<td></td>
<td>Advocacy</td>
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<tr>
<td>Dec. 26, 2013</td>
<td>Final Rules</td>
<td></td>
<td></td>
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<tr>
<td>now - Dec</td>
<td>FAQs; review fed agency rules</td>
<td></td>
<td></td>
<td>1. Awareness 2. Advocacy 3. Accounting</td>
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<td>Dec. 26, 2014</td>
<td>approve final fed agency rules</td>
<td>Final Rules</td>
<td></td>
<td>continue</td>
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<tr>
<td>Jan - June</td>
<td>learn &amp; comply</td>
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<td>July - Dec</td>
<td>learn &amp; comply</td>
<td>learn &amp; comply</td>
<td></td>
<td>continue</td>
</tr>
</tbody>
</table>
Step 1 of 3: Awareness of the Reforms

Expecting nonprofits to deliver services without paying for overhead/indirect costs is like expecting to throw a great cookout this summer, but refusing to pay for charcoal. Covering full costs is essential to service delivery.
Step 2: Advocacy to Protect the Reforms

Federal

State/Local – Implementation & Compliance

State/Local – Application to Non-federal Funds
Step 3: Accounting Skills to Secure the Reforms

Cost Allocations

- Direct Costs
- Indirect Costs
- Other Costs

Common Knowledge

- Nonprofits
- Grantmakers
- Governments

Negotiations
25,000+ nonprofit members

42 State Associations & Nonprofit Allies

280+ Employees

500+ Board members

Coast to Coast, Border to Border
Ken Berger, President & CEO, Charity Navigator

BEYOND OVERHEAD TO MEANINGFUL INFORMATION

INSTITUTIONAL FUNDERS supply $ & technical assistance for meaningful information

INNON PROFITS and other stakeholders supply meaningful information

INTERMEDIARIES* facilitate and assess flow of meaningful information

DONORS** demand and use meaningful information

Beneficiaries are engaged & empowered to provide meaningful information

The Nonprofit Marketplace
Hewlett Fdn,
WHAT IS MEANINGFUL INFORMATION FOR MEASURING A CHARITY’S PERFORMANCE AND ACCOUNTABILITY?
CN’s EVOLVING RATING SYSTEM

CN 1.0
2002 -
Financial
Health

CN 2.0
2011 -
Organization
al
Accountabil
ity
(Governanc
e) &
Transparen
cy

CN 3.0
2013 –
Mission
Results
Reporting

A scalable,
in depth, multi-
dimensiona
l charity
rating
system.

THE FUTURE (CN 4.0?):
OUTCOME MEASUREMENT
LEVEL ONE RESULTS REPORTING IS OUR PRIMARY FOCUS

NESTA: STANDARDS OF EVIDENCE

Level 1
You can describe what you do and why it matters, logically, coherently and convincingly

Level 2
You capture data that shows positive change, but you cannot confirm you caused this

Level 3
You can demonstrate causality using a control or comparison group

Level 4
You have one + independent replication evaluations that confirms these conclusions

Level 5
You have manuals, systems and procedures to ensure consistent replication and positive impact
BATTLING MYTHS

STEP ONE

To the Donors of America:

We write to correct a misconception about what matters when deciding which charity to support.

The percent of charity expenses that go to administrative and fundraising costs—commonly referred to as “overhead”—is a poor measure of a charity’s performance.

We ask you to pay attention to other factors of nonprofit performance: transparency, governance, leadership, and results. For years, each of our organizations has been working to increase the depth and breadth of the information we provide to donors in these areas so as to provide a much fuller picture of a charity’s performance.

That is not to say that overhead has no role in ensuring charity accountability. At the extremes the overhead ratio can offer insight: it can be a valid data point for rooting out fraud and poor financial management. In most cases, however, focusing on overhead without considering other critical dimensions of a charity’s financial and organizational performance does more damage than good.

In fact, many charities should spend more on overhead. Overhead costs include important investments charities make to improve their work: investments in training, planning, evaluation, and internal systems—as well as their efforts to raise money so they can operate their programs. These expenses allow a charity to sustain itself (the way a family has to pay the electric bill) or to improve itself (the way a family might invest in college tuition).

When we focus solely or predominantly on overhead, we can create what the Stanford Social Innovation Review has called “The Nonprofit Starvation Cycle.” We starve charities of the freedom they need to best serve the people and communities they are trying to serve.

If you don’t believe us—America’s three leading sources of information about charities, each used by millions of donors every year—see the back of this letter for research from other experts including Indiana University, the Urban Institute, the BridgeSpan Group, and others that prove the point.

So when you are making your charitable giving decisions, please consider the whole picture. The people and communities served by charities don’t need low overhead, they need high performance.

Thank you,

Art Taylor
President & CEO,
BBB Wise Giving Alliance

Jacob Harrell
President & CEO,
GuideStar

Ken Berger
President & CEO,
Charity Navigator

STEP TWO

To the Charities of America

We ask you to pay attention to other factors of nonprofit performance: transparency, governance, leadership, and results. For years, each of our organizations has been working to increase the depth and breadth of the information we provide to donors in these areas so as to provide a much fuller picture of a charity’s performance.

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