

Minnesota Department of Public Safety Office of Justice Programs (OJP)

Indirect Costs Overview

What are Indirect Costs?

Indirect costs, often referred to as overhead, are all costs shared by the organization as a whole, and most often are not able to be broken down within each program of the organization. Guidance on indirect costs can be confusing; agencies may need professional assistance, such as from a Certified Public Accountant or financial advisor, to sort out the appropriate allocations of costs.

OMB Uniform Guidance §200.414 categorizes indirect costs under two headings:

- **Facilities:** Depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.
- **Administration:** General administration and general expenses such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of "Facilities."

OMB Uniform Guidance §200.412 explains that there is no universal rule for classifying if a cost is direct or indirect. This means that the method and rationale for classifying and allocating direct and indirect costs must be:

- Allowable by terms of the grant program
- Reasonable and necessary
- Consistently applied
- Rationally allocated
- Adequately documented

Minnesota Statute 16B.98.Subd.1 requires grantees of state funds to minimize administrative costs and instructs granting agencies to negotiate proper limits so the state receives optimum benefit of grant funds.

When are Indirect Costs allowed?

The allowability of indirect costs is detailed in each grant program's Request for Proposals. Indirect costs are never required as part of your OJP budget.

When considering the use of indirect costs, it is important to balance transparency with efficiency.

- Direct billing is the most transparent. The organization is reimbursed for actual expenses directly related to a grant project. This requires clear tracking and verification of direct grant expenditures.
- Indirect allocations can be more efficient to process since they are based on a grantee's reasonable and fair assessment of costs. Your accounting system must distinguish between, and closely track, direct and indirect costs and have an allocation chart that show how funds are allocated across various programs. A grantee may be required to occasionally provide sample back-up documentation to demonstrate actual expenditures included as indirect costs. The allocation chart will be reviewed in either the pre-award process and/or during the grant

monitoring process, to allow OJP's review of types of expenses contributing to the indirect cost rate in the grant budget.

There are two types of indirect cost rates:

- Federally Approved Rate
- The 10% De Minimis Rate

Federally Approved Indirect Cost Rates

If allowed by the grant program, grantees with a current Federally approved indirect cost rate may choose to use it to calculate indirect costs for the grant budget. Federally approved indirect cost rates must be proportionately allocated to each funding source within a grant (e.g., VOCA & State).

Calculations must be formulated using the *Base listed in "Section I: Rates" of the Indirect Cost Negotiation Agreement. Examples of *Base expenses are 1) total direct salaries and wages excluding fringe benefits, or 2) total direct costs excluding capital expenditures and that portion of each subaward in excess of \$25,000.

Requesting to use your Federally Approved Indirect Rate

Use the applicable *Request to Include a Federally Approved Indirect Cost Rate* form that is available in your application.

The 10% De Minimis Rate

If allowed by the grant program, grantees who do not have a current Federally approved indirect cost rate may request to use up to 10% as a de minimis rate, as described in OMB Uniform Guidance § 200.414. Under this option, agencies would calculate 10% of the *modified total direct costs* (MTDC) and that would be the maximum that could be reimbursed for indirect expenses.

MTDC is defined in federal guidance as consisting of all direct salaries and wages, fringe benefits, materials and supplies, services, travel, and the first \$25,000 of each sub-award (i.e., contracts to vendors, contract workers, sub-contracts to other agencies contributing work toward the grant funded project, etc.).

MTDC **excludes** equipment, capital expenditures, charges for direct client assistance, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of sub-awards which exceeds \$25,000. Grantees and grant making agencies are responsible for making sure costs are consistently charged to avoid charging the same eligible expenses to the grant twice or "double dipping."

Requesting to Use the De Minimis Indirect Rate

To calculate a de minimis rate, multiply the total of all modified total direct costs (MTDC) by the percentage of indirect costs you are allocating to this grant, up to 10%. This becomes the amount a grantee can charge for indirect costs.

Use the applicable *Request to Include the 10% De Minimis Indirect Cost Rate* form that is available in your application.