Paying for Indirect Costs

Organizations receiving Federal grants often incur costs to operate the group as a whole which cannot easily or specifically be applied to the grant's particular purpose. The following is a guide on how to recover these costs.

TYPES OF COSTS

There are two types of costs an organization can incur: direct and indirect.

Direct Costs: As the name implies, direct costs are expenses incurred as a direct result of carrying out a program, project or grant objective as defined by the funder and can be determined with a high degree of accuracy. Typical direct costs include salaries and benefits of employees directly performing work related to the specific grant, travel costs incurred in the performance of a specific program, and program supplies consumed to achieve a specific the scope of work. For more regulatory detail please refer to (2 CFR 200.413(a)).

Indirect Costs: Indirect costs are more complex. Often called administrative or operational costs, these are expenses incurred for a common organizational purpose benefitting more than one program objective, and are not readily assignable to any one particular grant or project. Typical indirect costs include facility occupancy costs (rent, utilities, insurance), furniture, equipment leases, office supplies, and legal and auditing charges. Indirect costs can also include the salaries and benefits of operational and/or administrative employees like the Executive Director, Human Resource staff, and IT staff. For more regulatory detail please refer to (2 CFR 200.56.)

While each organization decides the treatment of its own costs, the organization must be consistent among all grants and from year to year. For example, a group's rent cannot not be allocated as an indirect cost for one Federal award, and then charged as a direct expense for another. To know how an organization treats costs, you can refer to its chart of accounts which must classify each type of expense as either direct or indirect. For more regulatory detail please refer to (Appendix IV Section A (1) to 2 CFR 200).

Recovering Indirect Costs from a Funder

There are three ways LISC groups can recoup indirect expenses from funders but again, once the method is chosen, it must be **applied consistently.** For more regulatory detail relating to indirect please refer to 2 CFR 200.

Negotiated Indirect Cost Rate Agreement (NICRA): Indirect cost rates are negotiated between the organization and its overseeing (or "cognizant") Federal agency. The rate is determined by the group's accountant and cognizant agency using calculations of the direct cost base. Once the rate is approved, it is applicable to all federally funded grants to an organization. For example, if a group has an approved indirect rate of 15%, then 15% of a grant approved base will be included as a line item on the grant budget as such. Applying for a NICRA is a fairly arduous and expensive process, though for larger groups it is worth the effort.

De *minimis* rate: This new method for recovering indirect **applies only to Section 4 FY2014 and onward.** An organization without a NICRA can now charge 10% of direct grant costs as indirect. The indirect costs using this method are calculated based on the modified total direct costs or MTDC. *NOTE: the MTDC are direct costs minus equipment of more than $5,000, rental costs, and participant support costs*, among others. Therefore, these types of direct costs cannot be included when calculating the de *minimis* rate. The *de minimis* rate does not require a proposal or extensive support documentation so it is a great option for new or small groups. For more regulatory detail please refer to (2 CFR 200.68) and (2 CFR 200.414(f).

Internal Cost Allocation Plan: The internal cost allocation plan is the manner in which an organization distributes or allocates overhead costs to its specific grants. For example, one organization may allocate its rent by the square footage used in carrying out the grant, while another group may allocate rent by the total payroll dollars charged by program staff carrying out the grant in a given area of the office. To determine how much rent a group with an internal cost allocation plan may charge to a particular grant, LISC program staff must first know how they have allocated it. For example, if a group with an internal cost allocation plan wants to have a particular portion of their rent paid for with a grant, they will have to show the program staff how they arrived at the number. This internal cost allocation plan must be consistently applied, codified in policy, and approved by the Executive Director. These plans are generally highly complex and not easily understood by non-accountants. However, program staff can request the group's cost allocation plan summary and the chart of accounts to conclude if, indeed, the group has a cost allocation plan. If a group with multiple funding streams is looking to pay for their rent with a Federal grant, their chart of accounts should show codes for how their rent is being apportioned by grant. If the chart does not indicate this level of detail, then rent is not an allowable expense because it is not allocated.