



## Guide Sheet

# Indirect Costs

Indirect costs are costs of an organization that are not readily assignable to a particular project, but are necessary to the operation of the organization and the performance of the project. Examples of costs usually treated as indirect include those incurred for facility operation and maintenance, depreciation, and administrative salaries. By contrast, direct costs can be attributed directly to a specific cost objective and tracked in discrete categories such as personnel, travel, supplies, etc.

## Grant Financial Management Requirement

Proper understanding of indirect costs and how they are charged to a program is key in ensuring compliance with established budgets and financial reporting regulations.

This compliance is mandatory and failure to adhere to it could lead to suspension of program drawdowns and even future grant awards.

## Important Information to Know

Indirect costs are allocated using an indirect cost rate (ICR). An organization can either use the de minimis ICR or establish a negotiated ICR with a cognizant federal agency, such as the U.S. Department of Justice or Department of the Interior. The ICR will then apply across all federal grant programs that an organization operates. Selecting the best ICR is an important decision that impacts the budget of every federal grant the organization receives.

### Negotiated ICR

- ▶ Organization must apply for a negotiated ICR and receive an Indirect Cost Certification from a cognizant federal agency.
- ▶ Organizations must prepare and submit the [Indirect Cost Proposal](#) no later than six months after the organization's fiscal year end.
- ▶ A negotiated ICR is applicable only during the current fiscal year (July 1 to June 30). It may be extended for up to four years but cannot be renegotiated until its term has expired. These dates could be subject to change, so corroborate them with your grant manager.

### De minimis ICR

- ▶ Organization must be eligible to use the de minimis rate under §200.414 Indirect (F&A) Costs.
- ▶ Organization must have never received a federally negotiated ICR for any federal award.
- ▶ Organization must have received less than \$35 million in direct federal funding in the fiscal year the de minimis ICR is requested.
- ▶ Organization must submit the [Certification of De Minimis Cost Rate](#) for each program.
- ▶ De minimis ICR may be used indefinitely

**Example:** Consider occupancy expenses such as rent and utilities, where an organization may have multiple programs running under one "roof." These are not unique and specific to just one program and therefore must be distributed among all programs. This is done through allocations at an established rate, usually based on direct costs.



Required documentation for the Indirect Cost Proposal includes, but is not limited to:

- ▶ Prior Indirect Cost Certification (if applicable).
- ▶ Organization chart.
- ▶ Cost Policy Statement.
- ▶ Audited Financial Reports.
- ▶ Comprehensive list of grants, presenting source funding with amounts and award dates.
- ▶ ICR proposal reconciled with the program budget or financial reports.
- ▶ Cost Pool and Direct Cost Bases used in each item calculation.
- ▶ Signed Statewide Cost Allocation Plan and Fixed Plus Carry Forward Calculation (if a local government agency).
- ▶ Personnel Cost Worksheet and Statement of Employee Benefit (if a non- or for-profit organization).

## How This Applies to Your Grant

Selecting the best ICR for your organization involves evaluating the benefits and disadvantages of each. The best ICR is the one that allows your organization to operate programs without leaving resource funding unused or needing additional funding to support costs. This section presents the different ways an ICR can be calculated for a sample \$350,000 grant.

### Calculating a Negotiated ICR

An organization can choose to calculate its negotiated ICR in one of two ways: based on **Total Direct Labor** or based on **Total Direct Salaries**.

**Total Direct Labor Approach**—This approach to calculating the ICR considers the total direct salaries and fringe benefits offered to your employees. Exhibit 1 shows an example of this calculation.

## Exhibit 1. Sample Total Direct Labor Calculation for a Negotiated ICR

Grant Amount: \$350,000 Proposed ICR: 10%	
<b>Direct Costs</b>	<b>\$324,125</b>
Salaries (Personnel)	225,000
Fringe Benefits	33,750
Contractual	30,000
Equipment	15,000
Supplies	5,000
Subawards	15,375
<b>Indirect Costs</b>	<b>\$25,875</b>
<b>Budget Grant Amount</b>	<b>\$350,000</b>

Total Direct Labor ICR calculation is 10% of \$258,750 (\$225,000 + \$33,750)

Once the negotiated ICR is approved, organizations will calculate the actual indirect costs on a periodic basis. With the Total Direct Labor approach, the approved ICR is multiplied by the actual total of salaries (personnel) and fringe benefits for the period, as shown in exhibit 2.

## Exhibit 2. Sample for Applying a Total Direct Labor Negotiated ICR to Calculate Actual Indirect Costs

Grant Amount: \$350,000 Approved ICR: 10%				
	Period 1	Period 2	Period 3	Period 4
<b>Direct Costs</b>	<b>\$38,872</b>	<b>\$33,454</b>	<b>\$30,453</b>	<b>\$22,828</b>
Salaries (Personnel)	16,280	15,960	19,829	16,546
Fringe Benefits	2,442	2,394	2,974	2,482
Contractual	150	1,900	1,650	1,800
Equipment	15,000	3,000	-	-
Supplies	1,000	1,200	1,000	-
Subawards	4,000	9,000	5,000	2,000
<b>Indirect Costs (10% TDL)</b>	<b>\$1,872</b>	<b>\$1,835</b>	<b>\$2,280</b>	<b>\$1,903</b>
<b>Total Actual Amount</b>	<b>\$40,744</b>	<b>\$35,289</b>	<b>\$32,733</b>	<b>\$24,731</b>

For period 1, the actual indirect costs are calculated as 10% of \$18,722 (\$16,280 + \$2,442).



## Total Direct Salaries (Excluding Fringe Benefits) Approach

This approach to calculating the ICR takes into account the total direct salaries but excludes the fringe benefits offered to your employees. Exhibit 3 shows an example of this calculation.

### Exhibit 3. Sample Total Direct Salaries Calculation for a Negotiated

Grant Amount: \$350,000 Proposed ICR: 10%	
<b>Direct Costs</b>	<b>\$324,125</b>
Salaries (Personnel)	225,000
Fringe Benefits	33,750
Contractual	30,000
Equipment	18,000
Supplies	5,000
Other	15,750
<b>Indirect Costs</b>	<b>\$22,500</b>
<b>Budget Grant Amount</b>	<b>\$350,000</b>

Total Direct Salaries ICR calculation is 10% of \$225,000.

Again, for this approach, once the negotiated ICR is approved, organizations will calculate the **actual** indirect costs on a periodic basis. With the Total Direct Salaries approach, the approved ICR is multiplied by the actual total of salaries (personnel) **only**, as shown in exhibit 4.

### Exhibit 4. Sample for Applying a Total Direct Salaries Negotiated ICR to Calculate Actual Indirect Costs

Grant Amount: \$350,000 Approved ICR: 10%				
	Period 1	Period 2	Period 3	Period 4
<b>Direct Costs</b>	<b>\$38,872</b>	<b>\$33,454</b>	<b>\$30,453</b>	<b>\$22,828</b>
Salaries (Personnel)	16,280	15,960	19,829	16,546
Fringe Benefits	2,442	2,394	2,974	2,482
Contractual	150	1,900	1,650	1,800
Equipment	15,000	3,000	-	-
Supplies	1,000	1,200	1,000	-
Subawards	4,000	9,000	5,000	2,000
<b>Indirect Costs (10% TDS)</b>	<b>\$1,628</b>	<b>\$1,596</b>	<b>\$1,983</b>	<b>\$1,655</b>
<b>Total Actual Amount</b>	<b>\$40,500</b>	<b>\$35,050</b>	<b>\$32,436</b>	<b>\$24,483</b>

For period 1, the actual indirect costs are calculated as 10% of \$16,280.

## Calculating the De Minimis ICR

The de minimis ICR is calculated based on Modified Total Direct Cost (MTDC), which includes the costs on the left but excludes the costs on the right.

### Includes

- ▶ Direct salaries and wages.
- ▶ Fringe benefits.
- ▶ Materials and supplies.
- ▶ Contractual services.
- ▶ Travel.
- ▶ Up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award).

### Excludes

- ▶ Equipment.
- ▶ Capital expenditures.
- ▶ Charges for patient care.
- ▶ Rental costs.
- ▶ Tuition remission.
- ▶ Scholarships and fellowships.
- ▶ Participant support cost.

Portion of each subaward in excess of \$25,000. Exhibit 5 shows an example of this calculation.

### Exhibit 5. Sample De Minimis ICR Calculation

Grant Amount: \$350,000 De Minimis ICR: 15%	
<b>Direct Costs</b>	<b>\$329,945</b>
Salaries (Personnel)	112,000
Fringe Benefits	16,800
Contractual	41,750
Equipment	9,000
Supplies	5,000
Subawards	145,395
<b>Indirect Costs</b>	<b>\$20,055</b>
<b>Budget Grant Amount</b>	<b>\$350,000</b>

De minimis ICR calculation is 15% of \$158,000  
(\$112,000 + \$16,800 + \$41,750 + \$5,000 + \$25,000).

Note: Only \$25,000 of the \$150,00 subawards amount was considered.



As with negotiated ICRs, organizations will calculate the actual indirect costs on a periodic basis. With the de minimis ICR, the 15% de minimis is multiplied by **only the actual MTDC**, as shown in exhibit 6.

### Exhibit 6. Sample for Applying the De Minimis ICR to Calculate Actual Indirect Costs

Grant Amount: \$350,000 Approved ICR: 10%				
	Period 1	Period 2	Period 3	Period 4
<b>Direct Costs</b>	<b>\$38,872</b>	<b>\$33,454</b>	<b>\$30,453</b>	<b>\$22,828</b>
Salaries (Personnel)	16,280	15,960	19,829	16,546
Fringe Benefits	2,442	2,394	2,974	2,482
Contractual	150	1,900	1,650	1,800
Equipment	15,000	3,000	-	-
Supplies	1,000	1,200	1,000	-
Subawards	4,000	9,000	5,000	2,000
<b>Indirect Costs (De Minimis 10%)</b>	<b>\$2,387</b>	<b>\$3,045</b>	<b>\$3,045</b>	<b>\$2,283</b>
<b>Total Actual Amount</b>	<b>\$41,259</b>	<b>\$36,499</b>	<b>\$33,499</b>	<b>\$25,111</b>

For period 1, the actual indirect costs are calculated as 10% of \$23,872 (\$16,280 + \$2,442 + \$150 + \$5,000 + \$1,000 + \$4,000).

### Summary Comparison

In exhibit 7, we purposely used a 15% ICR for both the negotiated and the de minimis examples to compare the actual values of period 1 for all three rates.

### Exhibit 7. Sample for Applying the De Minimis ICR to Calculate Actual Indirect Costs

	Period 1 Actuals With 15% ICR
Total Direct Labor	\$1,872
Total Direct Salaries	\$1,628
De minimis	\$2,387

In this case, the de minimis rate comes up with the highest amount of indirect costs. Now, is this the most convenient for your program? Or would your program rather allocate a lower amount towards indirect costs (achieved by using Total Direct Salaries) so that the difference could be used in other program categories? Whichever the case, these are the calculations and analysis that must be performed in order to choose the appropriate ICR for your program.

### Resources

[2 CFR § 200.414 Indirect \(F&A\) costs](#)

[DOJ Grants Financial Guide](#)

[Indirect Cost Proposal](#)

[OJP Grant Application Resource Guide: Indirect Cost Rate Agreement](#)

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