



Professional Development: Indirect Costs vs Direct Costs

Brief Intro to Indirect Costs & Federal Grant Components

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Indirect Costs – Purpose



2 CFR 200.1 Indirect (facilities & administrative (F&F) costs

Purpose of Indirect Costs

- Account for and recover costs that are associated with federal grant management but cannot be identified otherwise

Direct and Indirect Costs



Determining Whether a Cost is Direct or Indirect: Direct costs are those costs that can be identified specifically with a *particular final cost objective*, such as a federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.

2 C.F.R. § 200.413(a): Indirect costs are those that have been incurred for a *common or joint purpose benefitting more than one cost objective*, and *not readily assignable to the cost objectives specifically benefitted*, without effort disproportionate to the results achieved (HR, Payroll, Business office functions like Accounts Payable).

2 C.F.R. § 200. 01 (facilities & administrative costs): Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. 2 C.F.R. § 200.413(a).

Classification of Costs as Direct or Indirect



2 CFR 200.412 Classification of costs.

“There is **no universal rule** for classifying certain costs as either direct or indirect (F&A) under every accounting system. A **cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective.**

Therefore, it is essential that each item of **cost incurred for the same purpose be treated consistently** in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards. Guidelines for determining direct and indirect (F&A) costs charged to Federal awards are provided in this subpart.”

Comparison between Direct and Indirect Costs



Direct cost charging is applicable if all conditions apply:

- **Administrative or clerical services** are integral to a project or activity
- **Individuals** working on the project or activity can be **specifically identified**
- Costs are explicitly **listed in the budget** or have prior written permission from the federal awarding agency
- Material and travel expenses **specifically occurred** for the purpose of the programs
- Cost are **not charged as indirect costs**

Comparison between Direct and Indirect Costs Continued



Indirect cost charging applies to:

- **Salaries of administrative and clerical staff**
- **Overhead** - typical examples of indirect costs may include: procurement, payroll, personnel functions, maintenance and operations of space, data processing, accounting, auditing, budgeting, communications (telephone, postage), etc.

Indirect Cost Rate Proposal



2 CFR 200.1 Indirect cost rate proposal

“means the **documentation prepared** by a non-Federal entity to **substantiate its request** for the **establishment of an indirect cost rate** as described in appendices III through VII and appendix IX to this part.”

Indirect Cost Rate Calculation



- The **indirect cost rate** refers to the **percentage of general management costs that federal grants** should bear.
- The approved rate is the **maximum rate** and can be **applied at less than the maximum.**
- Indirect costs are recovered only to the extent of direct costs incurred. Once a **rate is received it is applied to the net direct cost amount expended**

Applying the Indirect Cost Rate



- Once the LEA has an approved indirect cost rate, the percentage is multiplied against the actual direct costs (excluding distorting items such as equipment, contracts in excess of \$25,000, pass-through funds, etc.) incurred under a particular grant to produce the dollar amount of indirect costs allowable to that award. 34 C.F.R. § 75.564; 34 C.F.R. § 76.569.
- Once the LEA applies the approved rate, the funds that may be claimed for indirect costs have no federal accountability and may be used as if they were non-federal funds.
- For Direct Grants, reimbursement of indirect costs is subject to the availability of funds and statutory or administrative restrictions. 34 C.F.R. § 75.564. (example: fixed rate, limited rate)