

# Indirect Cost Guidance for Community Health Boards

## OVERVIEW

This document provides guidance to community health board regarding the implementation of Minnesota Department of Health (MDH) policy, “Grants, Indirect and Administrative Costs.” This policy recognizes that grantees incur certain “costs of doing business” that are not easily identified with a particular grant or activity. With this policy MDH is encouraging grantees to attribute as many costs as appropriate directly to the grant program by including these costs in a budget line item and not as part of an organization’s indirect costs.

The purpose of this guidance document is to help CHBs adapt to the MDH policy and differentiate between administrative and indirect costs and how to properly report each.

## DEFINITIONS

### A. DIRECT COSTS

Direct costs are costs for activities, goods or services that benefit and can be traced to a specific project (often included in budget and invoice line items such as “Salary/Fringe”, “Supplies”, “Contractual”, etc.). As much as possible, grant funds should support direct costs that correspond with program activities (as opposed to direct costs that correspond with administrative activities, as described in “Administrative Costs”).

*Examples of direct costs that correspond with program activities:*

- *Wages and benefits for staff time working on a grant-funded project.*
- *Mileage and lodging for staff who traveled for work on a grant-funded project.*
- *Space rental costs for grant-funded event or workshop.*

### B. INDIRECT COSTS

Indirect costs are costs for activities, goods or services that benefit more than one project and cannot be traced to a specific program. These costs are often allocated across an entire agency and multiple programs. In accordance with federal and state requirements, MDH has limits on the amount of indirect costs that can be billed to each grant so that grant funds can be used to support direct costs related to program activities.

*Examples of indirect costs:*

- *A portion of the total cost of the organization’s annual audit.*
- *A portion of the organization’s total depreciation costs.*
- *A portion of the total cost of the organization’s security system.*

### C. ADMINISTRATIVE COSTS

Administrative costs are a type of cost as opposed to a category. Administrative costs are those for activities, goods or services that correspond with administrative functions of an organization. Sometimes administrative costs benefit and can be traced to a specific project and, in those cases, are categorized as **direct costs**. Other times administrative costs benefit more than one project and cannot be traced to a specific program. In those cases, they are categorized as **indirect costs**. Grantees should minimize administrative costs so that grants funds support direct costs that are related to program activities.

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Examples of administrative costs categorized as **direct costs**:

- A portion of the organization's monthly printer/copier lease and maintenance fees, calculated by tracking how many jobs were coded to the grant program and applying a percentage based on usage.
- A portion of the organization's administrative support, accounting or human resources, calculated by tracking time spent by staff on the grant program.
- A portion of the organization's occupancy costs, calculated by applying a square footage cost total to the amount of physical space used for grant program management and activities.

Examples of administrative costs categorized as **indirect costs**:

- A portion of the organization's monthly printer/copier lease and maintenance fees, when an internal system does not allow service to be tracked by project.
- A portion of the organization's administrative support, accounting or human resources, when an internal system does not allow time to be tracked by project.
- A portion of the organization's occupancy costs, when it is not feasible or reasonable to calculate by project.

### D. INDIRECT COST RATE

An indirect cost rate is a percentage used to distribute indirect costs to all of an organization's programs that benefit from them. Regardless of funding source, MDH allow grantees to use federally negotiated indirect cost rates for their budgeting and invoicing of indirect costs or, if they do not have one, an indirect cost rate of up to 10% of the grant's total direct costs.

## REQUIREMENTS

There are policy requirements for both MDH and grantees regarding indirect costs. These requirements ensure consistency and compliance with MDH and state standards. The requirements apply to all MDH grants regardless of amount, funding source, grantee and grant type.

1. As applicable, MDH will include information on indirect costs in Requests for Proposals (RFPs) or funding opportunity notifications and the budget negotiation and approval process.

*This requirement ensures that potential grantees are aware of MDH requirements when applying for a grant and finalizing a budget.*

2. The grantee should categorize any costs that can be traced to a specific grant program or project as a direct cost.

*This requirement helps to minimize indirect costs.*

3. Whether an expense is categorized as an indirect or direct cost, the grantee should consistently categorized this expense as such throughout the entire grant period.

*This requirement ensures that expenses are invoiced consistently, thereby minimizing risk of mistake or double-payment.*

4. Administrative costs must be minimized.

*This requirement helps to ensure that, as much as possible, grant funds support direct costs that are related to program activities.*

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5. Grantees cannot use funds for indirect costs in excess of the indirect cost rate that applies to their organization, and they must submit and retain on file the corresponding documentation of that indirect cost rate as outlined below:
  - a. Grantees with a federally negotiated indirect cost rate can use grant funds for indirect costs in an amount up to but not exceeding that rate as applied to the grant's total direct costs. Grantees will be asked to submit proof of this rate. When a new federally negotiated indirect cost rate is issued, MDH will honor the new rate beginning the date that it receives notification from the grantee.
  - b. Grantees without a federally negotiated indirect cost rate can use grant funds for indirect costs in an amount up to but not exceeding 10% as applied to the grant's total direct costs. Grantees will be asked to submit a list of expenses that are included in the indirect portion of the budget.

*This requirement ensures that, as much as possible, grant funds support direct costs.*

6. MDH will not make payment on invoices that include only indirect costs.

*This requirement protects MDH from paying for an organization's ongoing operational expenses when it is not performing work related to the grant program.*

7. Grantees are responsible for maintaining records (including but not limited to time certifications or time studies, payroll and purchase records) that verify all expenses, whether categorized as direct or indirect, for six years from the end of the grant.

*This requirement ensures that adequate documentation is maintained for all expenses, regardless of cost category, in case of financial review, audit or inquiry.*

*Please note: additional requirements related to indirect costs may apply to federally funded grants. MDH grant staff will inform grantees if a federal program has different indirect cost requirements or restrictions.*

## REFERENCES & RESOURCES

The following are sources of additional information about indirect and administrative costs related to outgoing grants at MDH:

1. [Minnesota Statute 16B.98 \("Grants Management Process", Subdivision 1 \("Limitation"\)\)](#): – *State statute that requires agencies to limit the amount of grant funded administrative costs.*
2. [Code of Federal Regulations 2 CFR 200.412-419](#): *Federal requirements relating to indirect costs (applicable to federally funded grants).*

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