Please feel free to ask questions throughout this information session. Participant audio will only be muted if there is static or other distracting noises on the line. You can also type your questions into the chat box. The chat box is located on the right side of the screen. If it has a plus (+) sign next to the word “Chat” you can click on the plus sign to expand the box and enter your message.

With me this morning is Timothy Owens, Senior Program Officer with the Institute of Museum and Library Services.
During this session we will:

1. Define Indirect Costs and Indirect Rates
2. Differentiate between Direct and Indirect Costs
3. Discuss Federally Negotiated Indirect Cost Rates
An indirect cost is an organization’s incurred expense that cannot be readily isolated or identified to just one project or one activity.

Indirect Costs are sometimes called Facilities and Administrative (F&A) Costs or Overhead Costs

Typical examples of indirect costs are general telephone service, postage, office supplies, office space expenses, and administrative or financial operations for an entire organization.
Direct Costs are those costs that can be specifically identified with a particular program.

Direct costs generally include:

- Salaries or wages (including vacations, holidays, sick leave, and other excused absences of employees working solely and specifically on objectives of a grant or contract).
- Other employee fringe benefits allocable on direct labor employees.
- Consultant services contracted to accomplish specific grant/contract objectives.
- Travel of employees for project-related purposes.
- Materials, supplies and equipment purchased directly and solely for use on a specific grant or contract.

What are Direct Costs?

- Those costs that can be specifically identified with a particular cost objective. Examples: (program specific)
  
  • Salaries – program and administration direct staff
  • Space – square footage occupied by direct staff
  • Materials and Supplies – used by direct staff
  • Communications – used by direct staff
What is an Indirect Rate?

An indirect cost rate is a device used used to determine what proportion of indirect costs each program (funding source) should pay.

- In general terms, an indirect cost rate is the percentage of an organization’s indirect costs to its direct costs and is a standardized method of charging individual programs for their fair share of indirect costs.

- Typically indirect rates include fringe benefits, overhead, and general and administrative activities.
Indirect Cost Rates and LSTA Grants

There are three options:

1. Declining to receive payments for indirect costs.

2. Using your institution’s Federally Negotiated Indirect Cost Rate

3. Using the de minimis rate of 10% of modified total direct costs (MTDC)

Previously, indirect costs were not an allowable cost in the Missouri State Library’s LSTA grant programs.

Per 2 CFR 200 and guidance from the Institute of Museum and Library Services, institutions are now allowed to charge indirect costs to federal grants.

So subgrantees have three options:

1. You may decline to apply for funds to support indirect costs.

2. You may use an indirect cost rate that has been negotiated with your federal cognizant agency. More on that in just a moment.

3. You can use the de minimis rate of 10% of the modified total direct costs (MTDC).

MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first $25,000. MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward and subcontract in excess of $25,000.

As long as you are an eligible entity and have never had a federally negotiated indirect cost rate, you may use the de minimis rate with no additional documentation required.
Federal Negotiated Indirect Cost Rates

- Submit proposed Indirect Cost Rate and support documentation to your cognizant Federal agency
- Proposed Rates are Reviewed/Audited, and Negotiated by your cognizant Federal agency
  - Acts for All Federal agencies
- Process Governed by Federal Guidelines

An indirect cost rate proposal should be submitted to the organization’s cognizant Federal agency.

The cognizant agency is the federal governmental unit that provides the most grant funds to your entity. Note, if you are part of a larger entity you would identify the cognizant agency for the larger entity, not just your library. For example, an academic library would need to identify the cognizant agency for the University as a whole, not just the library. So, the Federal agency from whom the UNIVERSITY receives the most federal funds.

Note, the Department of Health and Human Services (HHS) is the cognizant agency for all States and most cities.

The cognizant agency reviews, negotiates and approves the grantees’ indirect cost rate.

The Federal Indirect Cost Rate is negotiated with one government agency, then that rate is honored in any federal grant from any agency.

To use the Federal Agency Negotiated Indirect Cost Rate in an LSTA grant, you must submit official documentation of the accepted negotiated rate.
The Indirect Cost Rate is a percentage calculated as follows:

- The Total Indirect Costs divided by the Modified Total Direct Costs

The Total Indirect Costs includes the actual Facilities and Administrative (F&A) costs.

The Modified Total Direct Cost (MTDC) means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first $25,000. MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward and subcontract in excess of $25,000.

An indirect cost rate must be applied to a direct cost base in order to determine the amount of indirect cost.
Indirect Cost Rate

Example:

Organization XYZ Indirect Costs = $50,000
Organization XYZ Direct Salaries & Wages, etc. = $500,000

$$\text{Indirect Cost Rate (\%) = \frac{\text{Total Indirect Costs (\$)}}{\text{Modified Total Cost \text{(\$)}}} \times \frac{\text{Direct Cost Base (\$)}}{\text{}}$$

Indirect Cost Rate = 10% = $50,000
$500,000
Does this matter in figuring out the Indirect Cost Rate?
Musselman, Debbie, 1/21/2015
Does anyone have any questions over the information we covered today?

There is additional information available on the IMLS Indirect Costs page that is listed on your screen.