

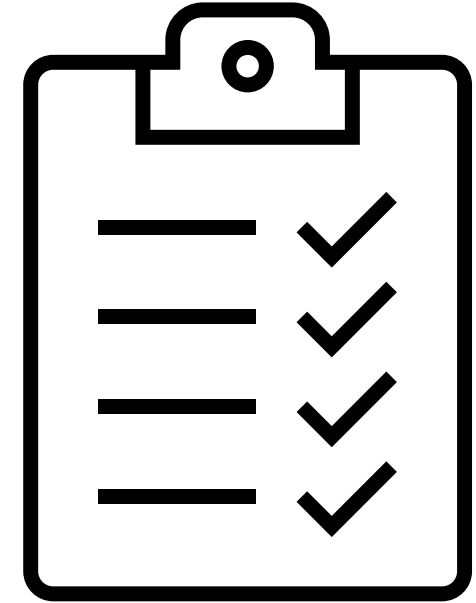


Indirect Cost and How to Recoup!

Presentation for
VA Grant Per Diem
September 24, 2025

Presented by
Office of Business Oversight

- What is an Indirect Cost Rate and who needs one?
- Comparing the two Indirect Cost Rate recovery methods
- Negotiating an Indirect Cost Rate
- Calculating an Indirect Cost Rate
- Electing the De Minimis Rate
- Calculating the De Minimis Rate
- Questions



What is an indirect cost rate?

- An indirect cost rate (ICR) is a percentage used to fairly distribute shared (indirect) costs across multiple programs, grants, or funding sources.
- This rate is then applied to eligible direct cost to calculate how much indirect cost you can charge to each program or grant.

What are the two methods to recover indirect costs?

- Negotiated Indirect Cost Rate Agreement (NICRA)
 - Organizations must apply for a negotiated ICR and receive an Indirect Cost Certification from a cognizant federal agency.
- De minimis Indirect Cost Rate
 - Organizations that do not have a **current** Federal negotiated indirect cost rate (including provisional rate) may elect to charge a de minimis of up to 15% Modified Total Direct Costs.

Who **NEEDS** an indirect cost rate?

- You receive federal awards or grants and want to recover indirect (overhead) costs like rent, utilities, or admin staff salaries.
- You have multiple programs or funding sources that share resources (staff, space, services) and you need a fair and consistent way to spread those costs.
- You want to negotiate with a federal agency for a higher rate than the flat 15% de minimis allowed under 2 CFR 200.414(f).

Who **DOES NOT NEED** an indirect cost rate?

- You choose to use the 15% de minimis rate (available if you do not have a current federal negotiated indirect cost rate).
- You are okay with not charging indirect costs at all (many small nonprofits do this if their funding is small and administrative costs are low).
- You only have one funding source or one program, so all costs can reasonably be charged as direct.

Comparing the two Indirect Cost Rate recovery methods

15% De Minimis Rate	Negotiated Indirect Cost Rates
Decreases administrative burden	Increases administrative burden because of the costs associated with preparing proposals and negotiating indirect cost rates
Helps recipients reduce uncertainty in their indirect cost recovery	Negotiated rates can fluctuate so there can be more uncertainty regarding indirect cost recovery
Can be used indefinitely	Requires a current negotiated rate
No documentation is necessary to justify the rate	Indirect cost proposals must be prepared to support their negotiated rate
May cause the recipient to under recover indirect costs	Allows recipients to recover their actual indirect costs

How is this done?

1. Identify your cognizant agency
2. Identify direct costs for each grant
3. Group all indirect costs for the entire organization
4. Determine how you will compute indirect costs (De Minimis or Negotiated Indirect Cost Rate Agreement (NICRA))
5. Determine appropriate allocation base
6. Apply the rate to each award using the allocation base selected in step 5

What is a cognizant agency?

- The agency that provides the most direct Federal funding to your organization
- Single Federal Agency represents all the Federal agencies on negotiating and approving indirect cost rates.
- Once an agency is assigned cognizance for a particular nonprofit organization, the assignment will not be changed unless there is a shift in the dollar volume of the Federal awards directly funded to the organization for at least three years.



Provisional – Temporary rate established for a given period of time until a final rate is approved for that period.

- Based on estimated cost for a given period (often historical data adjusted for expected changes)
- Subject to adjustment once actual costs are known

Final – Based on actual audited costs for the fiscal year.

- No Adjustment Afterward (except by audit that finds unallowable costs)

Other types of rates not typically seen:

- Fixed Rate – negotiated in advance, based on estimated cost and adjusted later through carry-forward adjustments
- Predetermined Rate – based on estimated future cost, no adjustment afterward

Definition of Direct Costs

- Cost identified specially with a particular cost objective with relative ease.
- Cost objective means a function, contract, grant or other activity for which costs are incurred.
- Must be allowable, allocable, and reasonable according to the guidelines set forth by the funding agency and the Federal regulations.

Examples of Direct Costs:

- **Personnel Costs:** Salaries and wages for staff directly involved in providing services to homeless veterans.
- **Program Supplies:** Costs for supplies specifically used in the GPD-funded program, such as therapeutic materials, hygiene kits, and clothing for Veterans.
- **Housing Costs:** Rent or lease expenses for facilities where homeless veterans are housed, if the cost is directly related to providing housing services under the GPD grant.
- **Utilities:** Utility expenses (electricity, water, heating) for the facilities used to house Veterans, to the extent that these costs are directly attributable to the GPD program.
- **Food and Meal Services:** Costs associated with providing meals to Veterans participating in the GPD program.
- **Transportation:** Expenses for transportation services that directly benefit Veterans served by the GPD program, such as shuttle services to medical appointments, job interviews, or other essential activities.
- **Training and Professional Development:** Costs of training or professional development programs for staff directly involved in the GPD project, to better equip them to serve homeless veterans.
- **Contracted Services:** Payments to third-party providers for services such as mental health counseling, substance abuse treatment, or job training programs that directly benefit veterans in the GPD program.
- **Equipment:** Purchase or lease of equipment necessary for the delivery of services under the GPD grant, such as computers for case management, furniture for the housing units, or healthcare supplies.

Definition of Indirect Costs

- Costs incurred for a common or joint purpose that benefit multiple cost objectives and cannot be readily assigned to a specific objective.
- These costs are necessary for the general operation of an organization.
- Indirect costs are typically allocated to various projects or departments based on a predetermined rate or allocation method.

Examples of Indirect Costs:

- **Administrative Salaries:** Salaries of administrative staff, like accounting, HR, or executive personnel, who support the entire organization and not just the GPD program specifically.
- **Office Supplies:** General office supplies like paper, pens, and other consumables used by administrative staff across the organization.
- **Utilities:** A portion of the utility costs (electricity, water, heating) for the organization's headquarters or administrative offices, not attributed directly to the GPD program.
- **Depreciation:** Depreciation expense related to buildings and major equipment used for multiple programs, not exclusively for the GPD program.
- **Rent:** A proportion of rent for office space used by administrative staff handling various organizational tasks, including but not limited to the GPD program.
- **Insurance:** Costs of organizational insurance policies, like general liability, property insurance, or workers' compensation, which cover the entire organization.
- **Information Technology:** Costs related to IT infrastructure, such as servers, network maintenance, software licenses for general administrative use, and tech support.
- **Professional Services:** Fees for auditors, accountants, and other consultants who provide services that benefit the entire organization.

Determine appropriate allocation base by type:

- Direct Salaries and Wages including Fringe Benefits – Organizations where labor is a primary driver of costs (social services, counseling, case management)
- Total Direct costs – Not recommended for most nonprofits because it can overallocate costs to large equipment purchases or pass through sub-awards that don't really use admin resources
- Modified Total Direct Cost (MTDC) – Best for most nonprofits because it is fair, consistent and easy to calculate

Determine Indirect Cost Rate:

- Indirect Cost Rate = Total Indirect Costs / Direct Cost Base

How to Calculate Indirect Costs – Using “Total Salaries and Wages including Fringe Benefits”

Category	Total Costs	Indirect Costs	Total Direct Costs
	A= (C+D)	C	D
Salaries	\$460,000	\$60,000	\$400,000
Benefits	\$138,000	\$18,000	\$120,000
Other Costs	\$131,205	\$19,134	\$112,071
Total	\$729,205*	\$97,134	\$632,071

= Indirect Cost Pool / Direct Cost Base
Total Indirect Costs / Total Salaries and Wages including Fringe Benefits
 $\$97,134 / \$520,000$
18.68%

*Must reconcile to Financial Statements

How to Apply the Rate – Using “Total Salaries and Wages including Fringe Benefits”

Applying an Approved Rate based on Total Direct Salaries including fringe benefits to a GPD award.

= Indirect Cost Pool / Direct Cost Base
Total Indirect Costs / Total Salaries and Wages including Fringe Benefits
\$97,134 / \$520,000
18.68%

SF-425 – Section 11

GPD GL Account	GPD Cost
a. Salaries	\$90,000
b. Fringe Benefits	\$27,000
c. Equipment	\$25,000
d. GPD Program Supplies	\$18,000
e. Contractual Services	\$6,500
f. Food for Veterans	\$1,200
g. Total Direct Charges(Sum a – f)	\$167,700
h. Indirect Charges(a +b * 18.68%)	\$21,855.60
i. TOTAL Costs	\$189,555.60

11. Indirect Expense						
a. Type	b. Rate	c. Period From	Period To	d. Base	e. Amount Charged	f. Federal Share
Final Rate	18.68	10/01/2024	09/30/2025	117,000.00	21,855.60	21,855.60
g. Totals:				117,000.00	21,855.60	21,855.60

How to Calculate Indirect Costs – Using “ Total Direct Costs”

Category	Total Costs	Indirect Costs	Total Direct Costs
	A= (C+D)	C	D
Salaries	\$460,000	\$60,000	\$400,000
Benefits	\$138,000	\$18,000	\$120,000
Other Costs	\$131,205	\$19,134	\$112,071
Total	\$729,205*	\$97,134	\$632,071

= Indirect Cost Pool / Direct Cost Base
Total Indirect Costs / Total Direct Costs

\$97,134 / \$632,071
15.37%

*Must reconcile to Financial Statements

Applying an Approved Rate based on Total Direct Costs to a GPD award

GPD GL Account	GPD Cost
a. Salaries	\$90,000
b. Fringe Benefits	\$27,000
c. Equipment	\$25,000
d. GPD Program Supplies	\$18,000
e. Contractual Services	\$6,500
f. Food for Veterans	\$1,200
g. Total Direct Charges(Sum a – f)	\$167,700
h. Indirect Charges (g * 15.37%)	\$25,775.49
i. TOTAL Costs	\$193,475.49

= Indirect Cost Pool / Direct Cost Base
 Total Indirect Costs / Total Direct Costs
 \$97,134 / \$632,071
 15.37%

SF-425 – Section 11

11. Indirect Expense						
a. Type	b. Rate	c. Period From	Period To	d. Base	e. Amount Charged	f. Federal Share
Final Rate	15.37	10/01/2024	09/30/2025	167,700.00	25,775.49	25,775.49
g. Totals:				167,700.00	25,775.49	25,775.49

**INDIRECT COST RATE AGREEMENT
NONPROFIT ORGANIZATION**

ORGANIZATION:
ABC Grantee
4309 Tun Tavern
Philadelphia, PA 19134

DATE: February 16, 2025

The rates approved in this Agreement are for use on grants, contracts, and other agreements with the Federal Government to which 2 CFR 200, Subpart E, 200.414(c) applies, subject to the conditions below in Section II, A. **ABC Grantee** and the U.S. Department of Veterans Affairs negotiated the rates in accordance with the authority contained in 2 CFR 200, Subpart E, and Appendix IV for nonprofit organizations.

SECTION I: INDIRECT COST RATE(S)

<u>POOL</u>	<u>TYPE</u>	<u>EFFECTIVE PERIOD</u>		<u>RATE</u>	<u>APPLICABLE TO</u>
		<u>FROM</u>	<u>TO</u>		
Indirect Costs	Final	7/1/2022	6/30/2023	17.20%	All Programs
Indirect Costs	Provisional	7/1/2023	6/30/2025	17.20%	All Programs

BASE:
Modified Total Direct Cost

Common Errors:

- Not applying the approved rate
- Applying the approved rate to an incorrect base
- Using an expired rate
- Not negotiating a final rate
- Applying the rate to an incorrect effective period
- Failing to code indirect costs into the Accounting System

Overview of MTDC:

- Simplified method for calculating indirect costs for government grants and contracts
- Allows organizations to charge a standardized indirect cost rate of up to 15% of Modified Total Direct Costs (MTDC)
- Avoids complex process of negotiating their own indirect cost rates with the Federal government

Determining MTDC:

- $MTDC = \text{Total Direct Costs} - \text{Exclusions}$ (Equipment, Capital expenditures, Rental costs, Participant support costs, Subawards exceeding \$50,000 (e.g., If a subaward totals \$55,000, then \$5,000 would be excluded.))

MTDC Includes:

- Direct salaries and wages (e.g., Project manager's salary)
- Applicable fringe benefits (e.g., Health insurance)
- Materials and supplies (e.g., Office supplies)
- Services (e.g., Contracted IT support)
- Travel (e.g., Conference travel for staff)
- Subawards up to the first \$50,000 of each subaward. (e.g., If partner services costs total \$55,000, then only \$50,000 would be allowable.)

MTDC Excludes:

- Equipment costs (e.g., New computers)
- Capital expenditures (e.g., Building improvements)
- Rental costs (e.g., Office rent)
- Student tuitions (e.g., Tuition payments for training)
- Scholarships and fellowships (e.g., Participant scholarships)
- Participant support costs (e.g., Stipends)
- Subawards exceeding \$50,000 (e.g., If partner services costs total \$55,000, then \$5,000 would be excluded.)

GPD GL Account	GPD Cost
a. Salaries	\$90,000
b. Fringe Benefits	\$27,000
c. Equipment	\$25,000
d. GPD Program Supplies	\$18,000
e. Contractual Services	\$6,500
f. Food for Veterans	\$1,200
g. MTDC (a+b+d+e+f (excluding c))	\$142,700
h. Indirect Charges(g * 15%)	\$21,405
i. TOTAL Costs (c+g+h)	\$189,105

Applying the De Minimis Rate to an Award

MTDC = Salaries + Fringe Benefits + GPD Program Supplies + Contractual Services + Food for GPD Veterans
De minimis rate = 0.15 × \$142,700 = \$21,405

SF-425 – Section 11

11. Indirect Expense						
a. Type	b. Rate	c. Period From	Period To	d. Base	e. Amount Charged	f. Federal Share
De Minimis rate	15.00	10/01/2024	09/30/2025	142,700.00	21,405.00	21,405.00
g. Totals:				142,700.00	21,405.00	21,405.00

Common Errors:

- Including exclusions such as equipment cost, participant support cost, and rental cost in MTDC
- Using revenue to calculate indirect cost
- Failing to apply the de minimis rate consistently
- Not supporting MTDC calculation



Question: What happens if I make a mistake in calculating my indirect costs?

- Answer: If you realize that a mistake has been made, it is best to address the issue proactively by notifying the relevant funding agency and taking corrective actions as required. This approach demonstrates transparency and a commitment to compliance.

Question: Do I need special approval to use the de minimis rate?

- Answer: You must elect to use the de minimis method with the GPD program office.

Question: What happens if my final rate is less than the provisional rate? What happens if it is higher?

- Answer: If the final rate is greater than the provisional rate and there are no funds available to cover the additional indirect costs, the organization may not cover all indirect costs. Conversely, if the final rate is less than the provisional rate, the organization will be required to pay back the difference to the funding agency.

Question: How often are NICRA's due?

- Answer: The indirect cost proposal is due annually and must be submitted within six months following fiscal year closeout. Some examples:
 - If your fiscal year ends on September 30, your indirect cost proposal is due by March 31
 - If your fiscal year ends on December 31, your indirect cost proposal is due by June 30
 - If your fiscal year ends on June 30, your indirect cost proposal is due by December 31

Question: Can we get an extension on indirect cost rates?

- Answer: Yes, a one-time only final rate extension may be granted up to four years by your cognizant agency.

Question: What's the difference between final rate and provisional rate?

- Answer: The provisional rate is an interim rate established at the beginning of an entity's fiscal year and it's based on estimated costs, subject to adjustment while the final rate is determined after the entity's fiscal year has ended and it's based on actual incurred costs.

Question: What if one of my grants cap indirect cost?

- Answer: You apply the lower of the two. If your cap is lower you can only get that amount, if the indirect cost is lower that is your rate. The other awards would use the approved rate.

Question: Which Federal agency is my cognizant agency?

- Answer: Your cognizant agency for negotiating indirect cost rates is the Federal agency that provides the majority of your Federal funding (2 CFR part 200, App VII, sec. F). VA OBO provides negotiating services for both SSVF and GPD grantees.

Federal Regulations

- [2 CFR 200, Cost Principles and Audit Requirements for Federal Awards](#)

Indirect Cost Rate Guide

- [DOL Indirect Cost Rate Guide \(July 2024\)](#)

Indirect Cost Rate Training Recording

- [Understanding Cost Allocation and Indirect Cost Rates Recording \(December 2023\)](#)

Indirect Cost rate Training Slides

- [Understanding Cost Allocation and Indirect Cost Rates Slides \(December 2023\)](#)

15% De Minimis Certification

- [Certification of De Minimis Rate](#)

GPD Indirect Cost email group

- gpdicrp@va.gov

GPD Fiscal email group

- gpdfiscal@va.gov

Questions?

