Indirect Cost (IDC) Frequently Asked Questions (FAQs)

What are (IDC)?

Costs incurred for common or joint objectives and cannot be readily identified with a particular final cost objective (i.e., cannot directly be tied to the grant award as a direct cost)

See 2 CFR 200.414.

What are examples of (IDC)?

Typical indirect costs could be - rent, utilities, office equipment rental, insurance, accounting, security costs, and Human Resources. Sometimes a typical indirect cost can directly be tied to the project grant award and would then be identified as a direct cost. However, it cannot be both a direct cost and an indirect cost on a grant award.

What is a cost objective?

A program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and or which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. with a specific outcome. See 2 CFR 200.1

What is an IDC?

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 share of indirect costs. A Cost Allocation Plan (CAP), CPA audit, IDC rate plan, and de minimis rate are example methodologies to calculate an IDC rate.

Is charging IDC mandatory?

No. If an organization receiving a MnDOT award voluntarily chooses to waive indirect costs this is allowed. A completed and signed Certificate of Indirect Costs is required indicating Not Charging Indirect Costs. Sometimes the funding mechanism disallows IDC or has a cap on the maximum IDC allowed. Generally, capital (e.g., equipment) grants disallow IDC.

Does a non-federal entity using the de minimis rate need to provide documentation to substantiate its IDC?

No. The de minimis rate was designed to reduce burden for small non-federal entities. No documentation is required to justify the de minimis indirect cost rate. However, the budget will be reviewed to verify the de minimis rate was applied correctly to the modified total direct costs.

What is an IDC rate proposal?

The documentation prepared by a non-federal entity to substantiate its request for the establishment of an indirect cost rate. See 2 CFR 200.1, 200.416, and Appendix V for local governments and IV for non-profits.

Why does my organization need an IDC rate?

To be reimbursed for indirect expenses associated with a project or program an organization must have a state or federally negotiated indirect cost rate from the cognizant agency, or if eligible they may elect to use the de minimis rate of modified total direct costs.

No indirect costs will be reimbursed without an approved rate. If an indirect cost rate proposal cannot be approved, or if the organization chooses not to provide the required indirect cost rate proposal documentation, then the organization can only get reimbursed for direct costs only. See 2 CFR 200.332(4)(i).

Why do we need to review direct costs when this is an IDC review?

Per 2 CFR 200.328, 200.332(a)(5), 200.415(a) Uniform Guidance, budgets need to be reviewed to verify the direct costs are allowable costs.

Why does my budget have to be reviewed?

All subrecipients must provide budgets with budget narratives for every federal MnDOT subaward as budgets need to be reviewed for allowable direct and indirect costs and appropriate allocation of these costs (i.e., one cost cannot be both direct and indirect and indirect; sometimes a typical indirect cost may be applied on a specific award as a direct cost). MnDOT will review budget line item names, comments, calculations, and descriptions to assess whether the item is allowable under 2 CFR 200.403, Uniform Guidance Subpart E, state requirements, and/or the award contract.

What is specifically needed for a calculation and/or narrative for each line in my budget?

Each budget line should contain enough detail to determine how the budgeted amounts were calculated and what is included in the amount, such as unit description (e.g., steel-toed boots), estimated cost per unit (e.g., $238/pair), quantity of units to be purchased (e.g., 10 pair; subtotal of 10x $238 = $2,380). Salary should include personnel, title, rate per hour (or salary), and hours (or % of time; such as: Project Coordinator, $35/hour or $72,800, 2080 hours or 1FTE or 100%). Fringe benefits should list out benefits included and the calculation for each of the fringe benefits (such as PERA (7.5%), FICA (6.2%,), Medicare (1.45%), Health Insurance (15%), Dental Insurance (1.1%), Life Insurance (0.10%), Unemployment Insurance (0.10%), Workers Comp (3.0%) = 34.45%).

If budget information is based on historical information, the calculations used to estimate the amount(s) should be provided. If budget information is based on a contract or service agreement, the contract or service agreement should be provided.

What IDC method should I use?

It depends. The rate structure depends on the size and complexity of your organization as well as the types of costs your organization incurs. In general, the smaller the organization the simpler the rate structure. A larger organization with many projects and a complicated accounting system should use a more complex system.

Indirect cost methodologies exist to best reflect various types of organizations. It is advisable to consult with a CPA that is knowledgeable about the various methodologies to assist in determining which is the best option for your organization. Based on 2 CFR 200 Uniform Guidance, MnDOT allows the following six categories:

- Negotiated Indirect Cost Rate Agreement (NICRA) or Federal Cognizant Rate Letter.
- Non-Cognizant CPA Indirect Rate Audit Report for the most recently closed fiscal year/calendar year.
- De Minimis Rate on Modified Total Direct Costs (MTDC).
- Non-Cognizant Indirect Cost Rate Proposal.
- Non-Cognizant Cost Allocation Plan (CAP).
- Not Charging Indirect Costs.

What is the timeframe to return the requested information?

When additional information is requested to complete the indirect cost rate review, the grantee should return the requested information within two weeks of the request. An additional 1-week extension may be granted after the initial 2 weeks. Extension of time beyond the 1 week will require discussion between Office of Financial Management and Office of Audit.

Subrecipient should be aware funds may be withheld if they are not meeting the required timeframes. If the request for information is 30 days or more the subrecipient will be notified funds will be withheld if the information is not received within 2 weeks from the notice.

What is the purpose of the IDC review?

The IDC review analyzes the IDC calculation, verifies no unallowable costs are included in the IDC rate calculation, reviews the grant budget to verify no unallowable costs are included in the budget, and determines if the IDC rate used was applied correctly.

This is just a budget, why do I need to provide all this detail?

Subrecipients must provide justification for all direct and indirect costs charged to the federal grant in the budget narrative and invoicing documentation.

I am not charging indirect costs, why do I need to have an IDC rate review?

If not charging indirect costs, MnDOT must still approve using this methodology. This requires the review for the allowability of budget line items per 2 CFR 200.403. This review ensures costs are allowable and the budget does not include any indirect costs.

What factors affect the allowability of costs?

Per 2 CFR 200.403, except where otherwise authorized by statute, costs must meet the following general criteria to be allowable under federal awards:

a. Be necessary and reasonable for the performance of the federal award to be allocable thereto under these principles.
b. Conform to any limitations or exclusions set forth in these principles or in the federal award as to types or amount of cost items.
c. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-federal entity.
d. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
e. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or prior period.
f. Be adequately documented.
g. Cost must be incurred during the approved budget period.

What are unallowable costs?

Charges to a federal award that the federal awarding agency or pass-through entity determines to be unallowable, in accordance with the applicable Federal statutes, regulations, or the terms and conditions of the federal award. See 2 CFR 200 Subpart E Cost Principles for additional information.

Common unallowable costs: (not all inclusive)

- Alcoholic beverages
- Bad debts
- Contributions
- Contingency provisions generally unallowable
- Entertainment costs
- Fines, penalties, damages, and other settlements
- General costs of government
- Goods or services for personal use
- Lobbying
- Memberships in any country club, social or dining club, or where primary purpose is lobbying
- Organization costs such as incorporation fees, brokers' fees, etc. for the establishment or reorganization of an organization
- Student activity costs

Note: other than "alcohol" (200.403) and "alumni/ae activities(200.424), all other typically unallowable costs have exceptions, which are stated in Subpart E, 200.420-476.

Can a federal awarding agency or pass-through entity (PTE) restrict recipients or subrecipients use of indirect costs to the de minimis rate?

No. Federal awarding agencies and pass-through entities must recognize a federally approved negotiated indirect cost rate.

Are suppliers and subcontractors considered subrecipients?

The nature of the relationship determines whether an agreement is considered a subaward. Recipients may refer to an entity as a subcontractor or supplier, but they may be considered a subrecipient for the purposes of applying the Uniform Guidance requirements.

A subaward is for the purpose of carrying out a portion of a federal award and creates a federal assistance relationship with the recipient.

A contract is for the purpose of obtaining goods and services for the recipient's own use and creates a procurement relationship with the contractor. See 2 CFR 200.331.

Is the Modified Total Direct Cost (MTDC) applied to the first $25,000 for an award's period of performance or is it applied to each year of a multi-year agreement?

The allowance of $25,000 is for one time during the period of performance of each individual subaward.

If a non-federal entity allows its negotiated indirect cost rate to expire, is it eligible to request the de minimis rate?

Yes. Inform your cognizant agency for indirect costs that you will be switching to the de minimis rate and will not be submitting an indirect cost proposal. No documentation is required to justify the de minimis indirect cost rate. Costs must be consistently charged as either indirect or direct costs but may not be double charged or inconsistently charged as both. If chosen, this methodology once elected must be used consistently for all federal awards until another rate is chosen by the non-federal entity. A non-federal entity may choose another IDC rate for approval at any time. See 2 CFR 200.414.

Any non-federal entity that has a current federally negotiated indirect cost rate may apply for a one-time extension of the rates in that agreement for a period of up to four years. The extension will be subject to the review and approval of the cognizant agency for indirect costs. If an extension is granted the non-federal "entity must re-apply to negotiate a rate. Subsequent one-time extensions (up to four years) are permitted if a renegotiation is completed between each extension request. See 2 CFR 200.414.

Is it acceptable to require a subrecipient to accept a rate lower than the de minimis rate, or their negotiated Facilities & Administration (F&A) rate?

If the subrecipient already has a negotiated F&A rate with the federal government, the negotiated rate must be used. It is also not permissible for pass-through entities to force or entice a subrecipient without a negotiated rate to accept less than the de minimis rate. However, the funding mechanism could disallow indirect costs or cap the indirect cost rate.

What are Facilities & Administration (F&A) costs?

Per 2 CFR 200.1, F&A are costs 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. To facilitate equitable distribution of indirect expenses to the cost objective served, it may be necessary to establish several pools of indirect F&A costs. Indirect F&A cost pools must be distributed to benefitted cost objectives on bases that produce an equitable result in consideration of relative benefits derived.

For major Institutions of Higer Education and major nonprofit organizations, indirect F&A costs must be classified within two broad categories: "Facilities" and Administration". See 2 CFR 200.414(a).

Facilities is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.

Administration is defined as general administration and general expenses such as director's office, accounting, personnel, and all other types of expenditures not listed specifically under one of the subcategories of "Facilities".

If the federal agency awards a Federal Acquisition Regulation (FAR) based contract to a non-federal entity, to what extent is the Uniform Guidance applicable to the contract?

The Cost Principles in Subpart E and Audit Requirements in Subpart F are applicable to FAR based contracts awarded by a federal awarding agency to a non-federal entity. Non-federal entity is defined in 2 CFR 200.1 and includes Indian Tribes, institutions of higher education, nonprofit organizations, and State and local governments. The Cost Principles are not applicable in certain instances, e.g., when procuring a commercial item or a firm-fixed-price contract is awarded based on adequate price competition without the submission of certified cost or pricing data. While the Audit Requirements are applicable, those requirements are not sufficient to meet FAR contract audit requirements. The other subparts of the Uniform Guidance are applicable, but only to the extent the Uniform Guidance provision is consistent with the contract's terms and conditions and FAR requirements.

The FAR is the principal set of rules regarding Government procurement in the United States. See Chapter 1 of Title 48 of the Code of Federal Regulations 48 CFR 1.

FAR establishes rules and requirements that Federal agencies must follow when procuring goods and services. The Uniform Guidance establishes requirements that must be followed by grantees when procuring goods and services needed to carry out a federal award.

Definitions:

Award:

Grants, cooperative agreements, cost reimbursement contracts, and other agreements between the federal government and a non-federal entity such as:

- State government
- Local government
- Indian Tribal government
- Non-profit organization
- Institution of Higher Education

Methodology:

Outlines the process of how to determine indirect costs and indirect cost rate.

Modified Total Direct Cost (MTDC):

All direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel and up to the first $25,000 of each subaward (regardless of the period under the award. Excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward more than $25,000.

MTDC is the base to which the indirect cost rate is applied.

Pass-through entity (PTE):

A non-federal entity that provides a subaward to a subrecipient to carry out part of a federal program.

Recipient:

An entity, usually but not limited to non-federal entities that receives a federal award directly from a federal awarding agency. Does not include subrecipients or individuals that are beneficiaries of the award.

Subaward:

An award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

Subcontractor:

Entity that undertakes to perform part or all of the obligations of another’s federal award or contract.

Subrecipient:

An entity usually but not limited to non-federal entities, that receives a subaward from a pass-through entity to carry out part of a federal award; but does not include an individual that is a beneficiary of such award. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.

Supplier:

Person or company who provides goods or services to another person or entity.

Uniform Guidance:

Government-wide framework for grants management and provides an authoritative set of rules and requirements for federal awards. It is the foundation on which federal agencies develop their policies for grants and cooperative agreements.

Resources:

2 CFR 200 Uniform Guidance

MnDOT Office of Financial Management – Grants Unit, MnDOT Subrecipient Guide

U.S. Chief Financial Officers Council, 2 CFR Frequently Asked Questions

The following states also provide FAQs that grantees have found to be useful:

Oregon Department of Transportation, Local Government Indirect Cost Rate Plans – Frequently Asked Questions

Colorado State University, Frequently Asked Questions about Uniform Guidance: General and Allowability