GRANTS OFFICE
empowering communities

Mastering Indirect Costs

Advanced Strategies for Cost Recovery and Compliance

Today's Presenters



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TODAY'S AGENDA

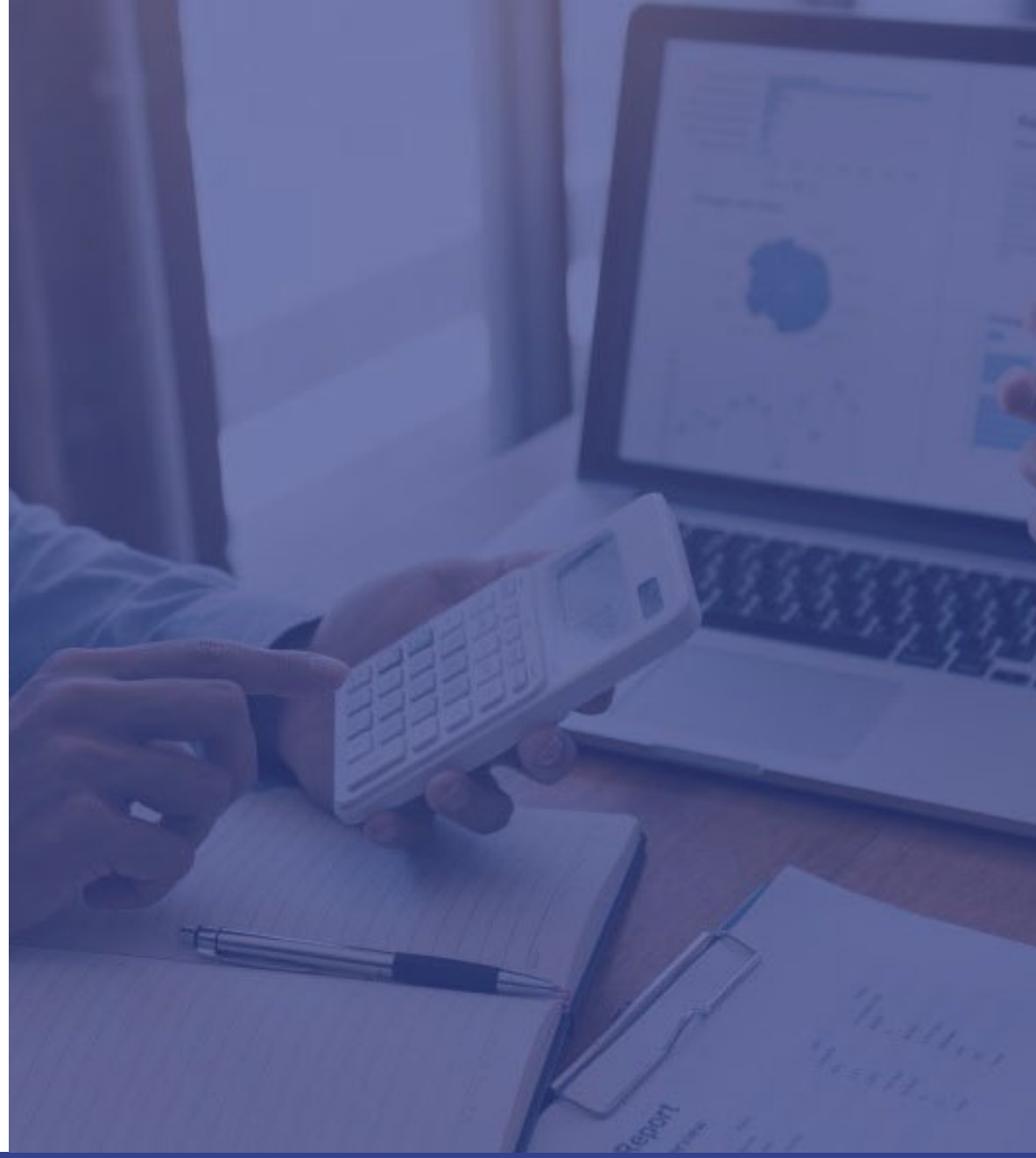
01 | Why Indirect Cost Rates Deserve Attention

02 | How to Justify Indirect Cost Rates Effectively

03 | What Compliance Risks to Consider

04 | Strategically Using Indirect Cost Rates

05 | Grants Office is here to help!



Direct vs. Indirect Costs

Direct Costs

Necessary and reasonable expenses that are **specifically attributable** to the proposed grant project or program.

Examples include:

- Salaries or stipends for staff dedicated to the project
- Project materials, supplies, or equipment (e.g. a computer for staff 100% dedicated to the project)
- Subcontractors for Project Evaluation

VS

Indirect Costs

Not directly attributable to the proposed effort, **but still necessary** to enable the operation of the organization in order to implement the grant if funded.

Examples include:

- Facilities rent/mortgage
- Utilities (gas & electric, water, waste, internet & phone)
- General administrative salaries & services (e.g., outsourced IT)

Looking to Learn More About ICRs & Budget Building?

Read our FUNDED article, "Unpacking Indirect Costs: What They Are and How They Work"



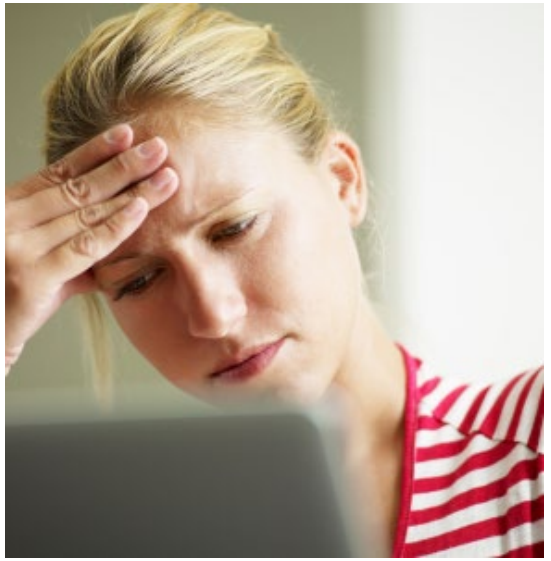


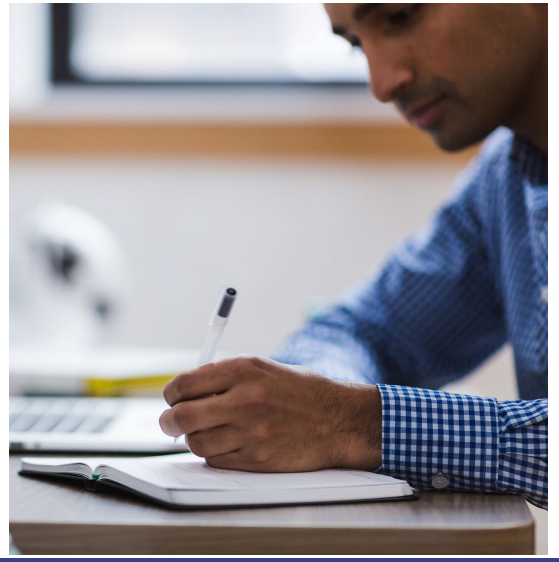
Watch our Guidance for Grantseekers video, *Writing Budget Justifications*.

Why Indirect Cost Rates Deserve Attention

Organizations without clear indirect cost rate strategies are subsidizing the work of federal and state/provincial agencies.

















Indirect costs aren't overhead; They're what make the work possible. When funders underpay them, Nonprofits absorb the difference.

In complex organizations, indirect costs are not as easily discernible from direct costs.



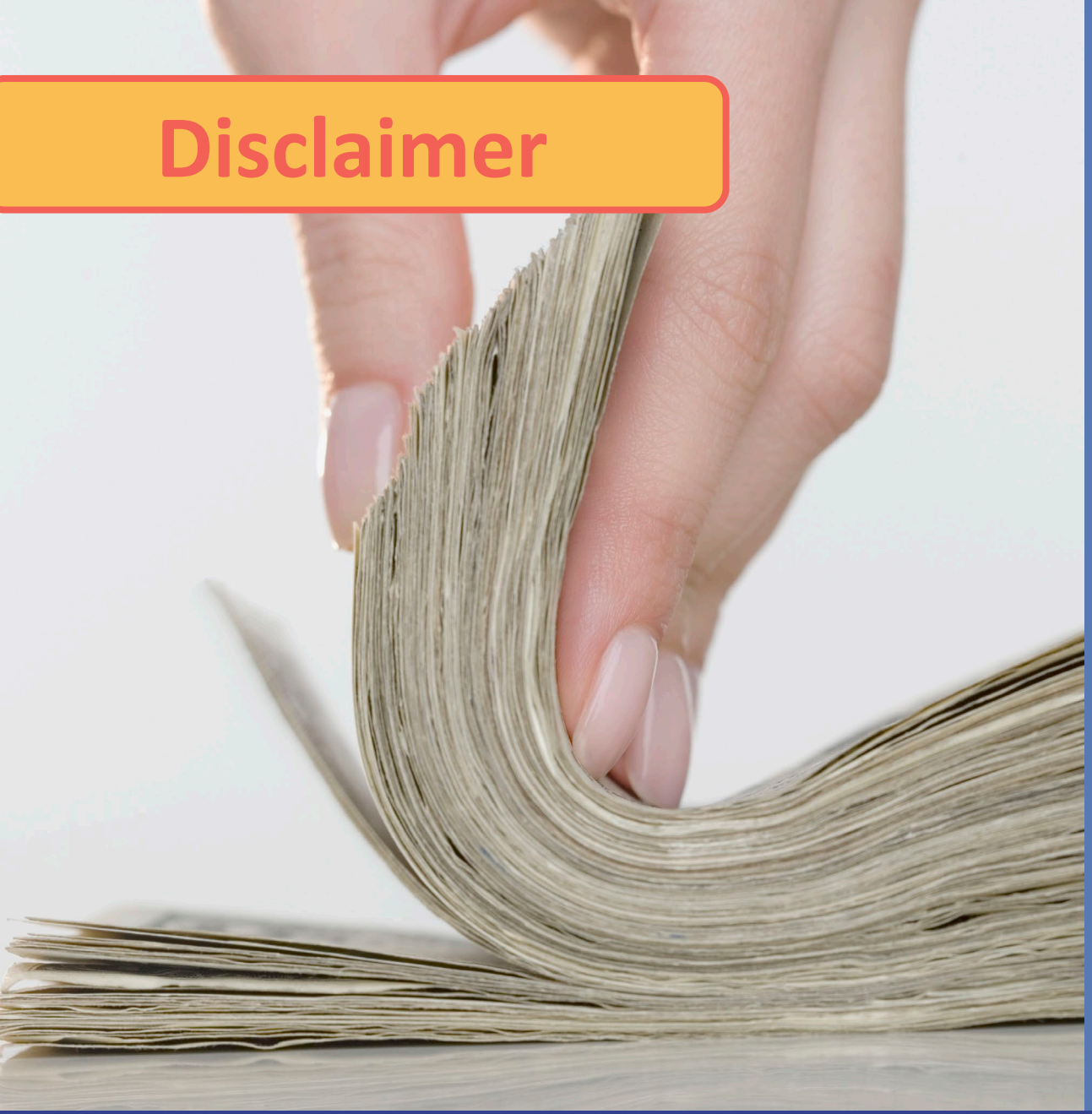
When Indirect Costs Go Unaccounted For : A Cautionary Tale



The direct costs you budgeted are **only the tip of the iceberg.**

Facilities, compliance, and administration sit beneath the waterline — funded one way or another.

How to Justify Indirect Costs Effectively



Disclaimer

Grants Office is NOT a legal advisor

All financial decisions should be cleared with your financial advisors and, ultimately, organizational leadership.

Effectively Justifying Indirect Costs Starts Internally

Framing from an External Perspective

The organization seeks to make indirect costs defensible based on a funder's expectations

vs

Framing from an Internal Perspective

The organization seeks to capture the true cost of the project

Building Internal Alignment on Indirect Cost Rates



Clear up misconceptions

Calculate a “true” indirect cost rate

Create a shared philosophy

Translating Internal Alignment into a Budget Justification

Pursue the Right Opportunities

Allocate appropriate time to programs that offer full, partial, or no recovery

Have Clear Processes

As you are building your program budget, know your post-award reconciliation procedures so these are accurately reflected and accounted for in your proposal

Consider the Value of IDC

Show the funder how your indirect costs are providing value for their investment by ensuring internal cohesion, mitigating risks, and building sustainability

Connect to Outcomes

Remember that while recovering indirect costs are important, they are not the star of the show—always connect these costs to the outcomes funders are interested in

Use Your Appropriate Rate

If using the *de minimis* rate, regularly evaluate its appropriateness for your needs and your programs

What Compliance Risks to Consider

The Three C's of Indirect Cost Compliance

01

Clear Guidelines

Written guidance is needed that clearly defines what direct and indirect costs are, how these are allocated internally, and who to contact with questions

02

Consistent Application

Applying this written guidance consistently is essential—and is one of the biggest sources of financial audits

03

Communication

Regularly communicate with grant program staff, not just if there is an issue, to ensure they have ongoing support, not just compliance enforcement

Strategically Using Indirect Cost Rates

Using Indirect Costs Strategically

Portfolio Balance

Mix high-recovery and mission-aligned opportunities intentionally. Don’t let F&A maximization crowd out strategic, lower-recovery awards.

Structure Costs Intentionally

Within Uniform Guidance, direct-charge project-specific costs where appropriate. Work within funder rules, not around them.

Maximize Your Allowable Rate

Ensure your negotiated rate reflects true costs. Small percentage gains compound across hundreds of awards.

Know When to Negotiate

Pursue a NICRA when federal volume is growing, true costs exceed de minimis, and financial systems can support it.

The De Minimis Rate: Pros, Cons, and Strategic Fit

PROS

Administratively simple – no proposal, no negotiations, no triennial renewal

Predictable and universally accepted by federal agencies

Lowers the **barrier to entry** for emerging federal grants programs

vs

CONS

15% dramatically under-represents true F&A costs at most institutions (research universities average 50-60% MTDC)

Systemically **subsidizes federally funded work** from institutional funds.

Establishes a **precedent that's difficult to shift** later.

Itemize Direct Costs Thoroughly

Capture every legitimate cost

Project-specific admin, technical staff, software, equipment, and communications

Never a catch-all

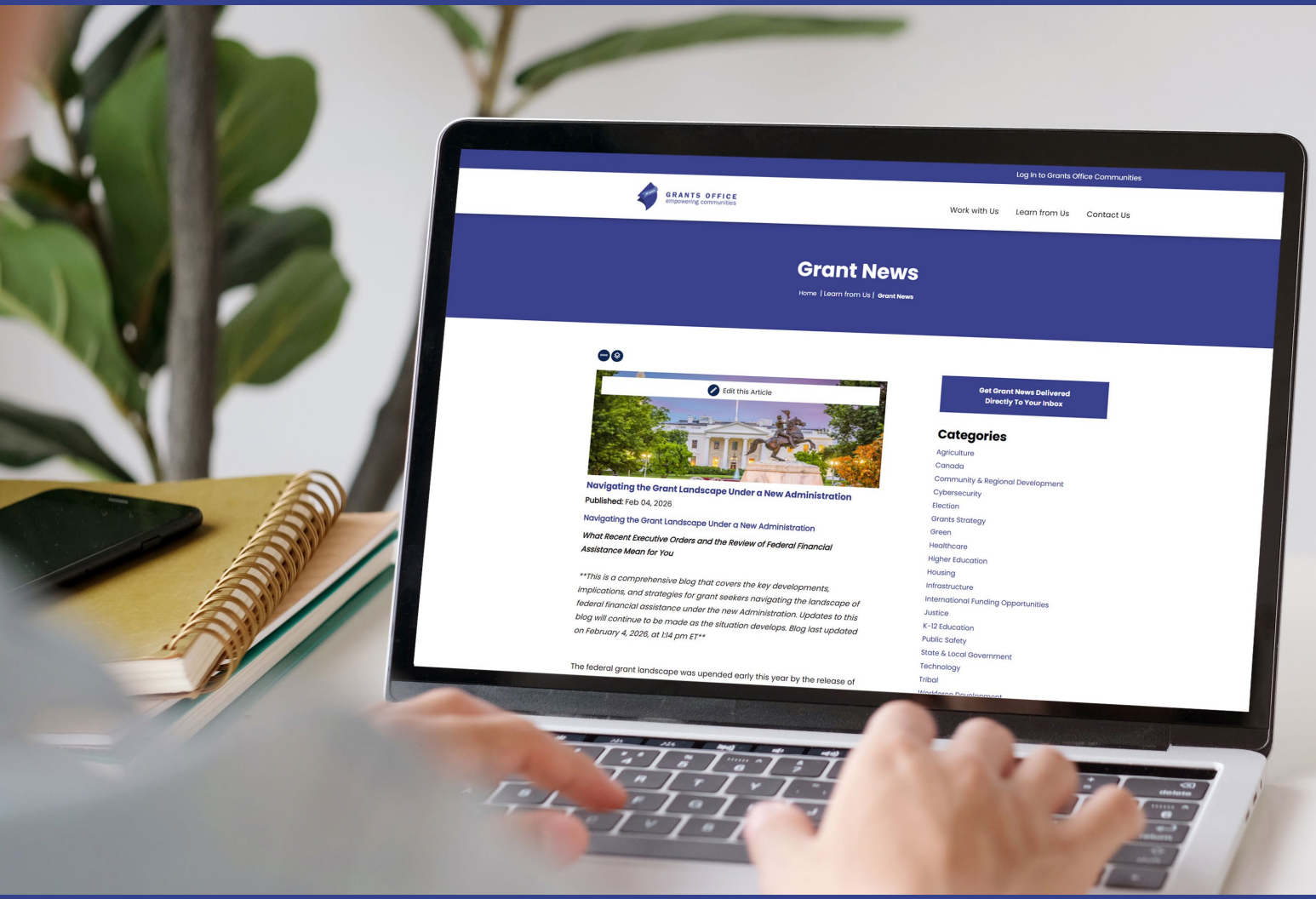
Direct costs are not a bucket for forgotten items or costs that belong in the indirect pool.

Always defensible

Allocable, allowable, reasonable, and documented – the four-part test.

Grants Office is Here to Help

Questions about FY26? We have the answers.





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