Mastering Indirect Costs: Advanced Strategies for Cost Recovery and Compliance

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Presented by Michael Paddock and Marc Smithers, Grants Office, LLC

Welcome and Introductions

Michael Paddock:

Hello everyone, and thanks for joining us for Mastering Indirect Costs: Advanced Strategies for Cost Recovery and Compliance. I'm Michael Paddock, CEO of Grants Office, and I want to welcome you to this advanced strategy session. We're going to be doing a little bit more of an in-depth conversation around, specifically, indirect costs today. We have a whole series of these more advanced sessions, and hopefully you've already been participating, but if you haven't, you can certainly see some of the past sessions on our website at grantsoffice.com or sign up for upcoming ones as well. But today we're talking about indirect costs specifically, and we're going to go over several of the elements of indirect costs, how they work, and when to think about a negotiated indirect cost versus using the de minimis, or default, indirect costs. We'll be talking about all of that.

Housekeeping

But before we do, I want to cover a few housekeeping items, which you may have seen on your screen while you were waiting to join today's session. You can listen hands-free over your computer speakers or headphones. There's no need to dial in. But if you do become disconnected, you can find alternative ways to access the audio portion of today's session by going to the show menu bar at the top of your screen and selecting audio and video from there. Also, you can ask questions at any time using the question-and-answer interface at the bottom right-hand corner of your screen. If you don't see it, look for the three dots down at the bottom right-hand corner of your screen, and you should be able to select that Q&A tab to pop up for you.

And then the session is being recorded, and the replay will be available, ostensibly, at the same place where you registered for today's session. Kate, our intrepid webcast producer, will provide the link in the chat once that's up and live, and then resources will be available for you there, including the slide deck, the replay link, and other resources that we talk about during the course of today's session. So, very happy to have you with us today, and we're looking forward to a great session.

Okay, I'm joined today by Dr. Marc Smithers, Grants Development Associate here at Grants Office. It's just the two of us today, so again, it's going to be shorter than normal, probably. Normally we do about a 60-minute session. This is going to be anywhere between 30 and 45 minutes of just talking specifically about indirect costs. So welcome, Marc, and we're ready to jump in.

Level Setting: Direct vs. Indirect Costs

So let's start first with just a brief level setting. This is an advanced session. Most of you probably already know the difference between direct costs and indirect costs, but let's just make sure to sort of set the record straight on what direct costs are versus indirect costs. So think of direct costs as things you buy only for your grant project. If you hire a researcher, buy specialized lab gear, or pay for travel to a project conference, those are direct costs. You can easily point to a receipt or a timesheet and prove that the money went straight toward meeting your grant's specific goals. And because these expenses are tied directly to your project's daily operations, auditor oversight tends to be strict. You have to carefully track every single dollar with clear documentation to prove the expense directly advanced your approved scope of work.

And then indirect costs are the background expenses that keep your whole organization running. These are things like the electricity in your building, the Wi-Fi, rent, and the accounting team that handles your payroll. Since you can't easily measure exactly how many kilowatt-hours of power or HR time your specific grant used, you can't charge them directly to the project. And even though these overhead expenses are less visible than a new piece of lab equipment, your project couldn't operate without them. They are the vital infrastructure that allows your team to focus entirely on completing grant objectives. So they are a legitimate component of your grant project. You just can't necessarily delineate them the way you can direct costs. That's the big difference between direct costs and indirect costs at a high level. Okay, so that'll be the basis upon which we kind of continue our conversation.

Two Resources to Learn More

I also want to direct your attention to two resources that are available. We're only going to talk for a few minutes here, Marc and me, but there are other, more in-depth resources, even in today's session, that are available. One is a great article in our February issue of FUNDED magazine — which, by the way, you can go to our website and subscribe to; it comes out every quarter, full of great grants information. A specific article was written by Dr. Liz Shay about indirect costs specifically. That's the first. I tested both of these QR codes; they both should work for you, and these will also be on the resources page too. That's a great article, well worth a read. And then a video on our Guidance for Grantseekers section of our website, on writing budget justifications. The Guidance for Grantseekers section of the website is just full of great grantseeking tips, information, and guidance that you probably will benefit from regardless of what level of grantseeker you are.

So be sure to check that out as well. We'll have more resources as we go forward as well, but I just want to bring those two things to your attention specifically. Okay, with that, I'm going to turn it over to Dr. Marc Smithers to talk to us a little bit about why indirect cost rates deserve our attention. Marc?

Why Indirect Cost Rates Deserve Attention

Marc Smithers:

Thanks, Mike, for explaining a bit more about the what of indirect costs. But I want to spend the first part of our time together talking about why indirect costs are important, and more specifically, why they are important for your organization to be on the same page about. I first want to make a bold claim to convince you why they're important. It's my belief that the organizations that do not have clear indirect cost rate strategies are, in effect, subsidizing the work of federal and state or provincial agencies.

The Conventional View, and Where It Breaks Down

Now, often, when I hear conversations about indirect cost rates, they're talked about in the exact opposite way: that organizations seek to maximize the dollars from their indirect cost rate and are looking for ways for the federal and state or provincial governments to subsidize their work; that as they receive money for things like overhead costs or administrative oversight as any part of a grant award, this money is, in essence, serving to pad that organization's bank account. And in this view, covering the necessary general administrative or F&A costs that come with running a higher education institution or a healthcare organization or other nonprofit entity — these costs should be the burden of that organization to fund, and the federal or state or provincial government really has no or little responsibility to cover these costs directly associated with their direct implementation of a grant-awarded project.

This is why indirect cost rates have been a particular target for some budget hawks in the federal government, from both the right and the left sides of the aisle. They don't see a reason why federal money should be used to pay much or any of the utility costs or organizational salaries in grant awards. And honestly, this line of thinking makes some sense. When I donate money to a charitable cause, I want to know that my money's being used to do the most good possible, and when this money's used to cover things like advertising costs or bloated executive salaries, there's a sense in which I feel almost betrayed by these charities.

But here's where that logic breaks down. There's no such thing as a project that exists without infrastructure. Staff need to be hired, paid, and supported. Finances need to be tracked and audited, data needs to be secured, the lights need to be kept on. These are not extras. They're the foundation from which the direct work of a grant project is actually built upon. When funders limit or underpay

indirect costs, those costs don't disappear. They just get shifted somewhere else inside the organization. So rather than organizations using government funds to subsidize themselves, what's far more common is the exact opposite. Organizations are often using their own flexible resources, or unrestricted dollars, to subsidize the true cost of delivering publicly funded work — work that federal and state and provincial agencies want to see happen but do not have the infrastructure themselves to actually undertake.

To say it again, no project operates independently of the infrastructure that supports it. The functions that are often thought of as secondary or administrative in purpose — employee recruitment, compensation, fringe benefits — these are the underlying systems that make the direct work of a grant possible in the first place. They're not overhead. They make the organization's work possible. And when funders restrict or fail to fully support indirect costs, those expenses don't vanish. They're simply absorbed elsewhere within the organization, most often through unrestricted organizational resources.

How the United States and Canada Approach Recovery

Now, countries have approached this reality in different ways. In the United States, indirect cost recovery is often built around institution-specific negotiated rates, where organizations work directly with federal agencies to determine what percentage of project costs can reasonably support infrastructure and those administrative functions. In Canada, federal funders have generally taken a somewhat more centralized approach, often supporting institutional infrastructure through separate national funding mechanisms rather than expecting every individual grant to fully account for those costs independently. These are broad generalizations, and, as Michael said, we don't have enough time to delve deeply into these differences, but what's revealing is that there is an implicit recognition that research, education, and community programming cannot occur without organizational infrastructure. So the difference is less about whether indirect costs exist and more about how openly and systematically institutions are supported in recovering these costs.

Maximizing indirect cost recovery, then, is not about padding a budget. It's about accurately pricing the work. It's about ensuring that the full cost of delivering a project is understood, acknowledged, and supported, because when those costs are consistently underfunded, the long-term result isn't efficiency; it's fragility. And organizations that are financially fragile are ultimately less capable of delivering the very outcomes those grants are meant to achieve.

Why Indirect Costs Are Hard to Separate from Direct Costs

Now, part of the reason that indirect costs are not consistently captured by organizations is because indirect costs are typically not as easily discernible from direct costs. Now, they need to be, from an accounting and compliance perspective, but in reality, they're hard to separate cleanly from one

another, in part because most of the organizations that we work within are far more complex and intertwined with one another than we typically assume.

Let me just give you one brief example. I have a friend currently supporting one of his children in her first year of college. And as I was talking with him about budgeting for these costs, he was surprised when I told him that tuition was likely going to increase each year. Now, most institutions raise tuition by about 3 to 6% each year. And this is not because this increased 3 to 6% of revenue is going to go directly into raising faculty salaries or buying new lab equipment or enhancing the student learning environments directly. Some of the money will, sure, but tuition prices are raised each year mainly because tuition is not, and never will be, directly aligned to the individual instructional costs of each individual student. A student's tuition pays for the faculty to teach them, but also pays for the plumbing in academic buildings, the lawn care for the university quad, and the administrative assistant salary for financial aid officers. Operating expenses, whether you're talking about a large research university or you're talking about a local nonprofit agency, are nearly always complex and multifaceted.

And because of this complexity, they're not as easily separated neatly into categories of direct and indirect costs as we like to imagine. And this is why organizations that struggle to strategically use indirect cost rates to recover some of their operational costs are more often than not subsidizing the work of federal and state or provincial agencies, because ultimately they don't have a true accounting of the overall true cost of their work. And when you don't fully understand the true cost, you can't fully recover it. What gets left out of the budget doesn't disappear. It just gets absorbed elsewhere in the organization, often quietly and without intention. And over time, that gap compounds. It stretches your staff, it weakens the infrastructure, and ultimately limits an organization's ability to grow or even sustain its current level of service.

So the challenge isn't just identifying indirect costs. It's recognizing that they're already there, embedded in everything you do. The real question is whether you are intentionally accounting for them and recovering them, or unintentionally absorbing them and paying for them yourself. I'll pass it to Michael to talk further about how this can impact an organization.

A Cautionary Tale: When Indirect Costs Go Unaccounted For

Michael Paddock:

Thanks, Marc. And yes, I just want to kind of expand on what Marc was describing there and, before we talk further about strategy, kind of ground the conversation in what happens when indirect costs aren't taken seriously. We had considered the idea of using a specific example, but rather than calling out any one particular institution, I'll share a composite scenario that, unfortunately, plays out more often than a lot of higher ed administrators would like to admit. So picture a mid-sized regional university with a growing research enterprise. A faculty member in the College of Education lands a significant federal

grant — let's say $1.2 million over three years from the Department of Education. Now, that's wonderful news, celebrated in the campus newsletter, leveraged in the next accreditation report. But here's what happened behind the scenes. In the rush to be competitive, the principal investigator, or PI, and the department chair agreed to waive a substantial portion of the institution's negotiated finance and administration rate. The funder didn't require it, the institution simply didn't push back, and no one at the sponsored programs office flagged it before submission.

Three years later, the project is technically a success. The deliverables have been met, the publications have been produced, students have been supported. But when the finance office runs the numbers, they find the institution actually subsidized the project by about $180,000 in unrecovered indirect costs — costs that were, as we've been talking about, absolutely real. The building the research occurred in still needed heating and cooling. The compliance staff still needed institutional research board protocols. The grants accounting team still processed every transaction. The library still maintained the databases that the research relied on. Those costs didn't disappear just because the budget didn't acknowledge them. They were just shifted onto the institution's general fund, which means they were ultimately covered by tuition dollars or state appropriations, or even debt.

So multiply that pattern across the department, across the college, across the funding cycle, and you begin to see how an institution can be wildly successful at winning grants while quietly eroding its own financial foundation. The faculty member is rewarded, the department has celebrated, and the institution slowly weakens its capacity to support the next generation of research. The lesson here isn't that we should refuse grants that limit indirect cost recovery. Some of those are exactly the right opportunities to pursue. The lesson is that when we don't account for the real cost of our work, we make decisions in the dark, and institutions that make enough decisions in the dark eventually find themselves unable to make the investments that made them competitive in the first place. So, a little bit of a cautionary tale for you before we move on. All right, with that, I'll turn it back over to Marc.

How to Justify Indirect Cost Rates Effectively

Marc Smithers:

Thanks, Michael. Yeah, so that's sort of the why behind indirect costs. Now into sort of the how of this. And before moving on, getting into justifying costs and compliance risks, I want to be sure to first note that Grants Office is not a legal advisor, not a financial advisor. Compliance issues can really quickly snowball into complex and thorny financial messes. So be sure to involve your financial advisors and, if appropriate, legal advisors with any changes you're hoping to make in your indirect cost rate strategies.

Start with an Internal Justification

Now, from there, I believe the first step in effectively justifying indirect costs is to first start by building internal alignment on their importance. An internal justification starts with a recognition that parsing indirect from direct costs is ultimately an imperfect science, as Michael suggested around the specific kilowatt-hours of energy devoted to a particular project. Recognizing that it's more likely that your organization is subsidizing the work of a grant-making agency, rather than the other way around, is a helpful way of reframing the work of indirect cost allocation. When we talk about justifying any part of a grant project's budget, most organizations instinctively start with the external, funder-facing perspective — e.g., you might justify indirect costs by explaining that they ensure compliance and audit readiness, they support financial oversight and reporting accuracy, or they provide the administrative infrastructure necessary to execute this specific project successfully. These are all valid and often necessary explanations, as I'll get to later, but they're framed in a way that responds first to funder expectations rather than organizational realities.

An internal justification starts from a different place. Internally, indirect costs represent the true cost of sustaining the people and systems that make the work possible: the shared infrastructure that allows multiple projects to operate simultaneously without failing and breaking down, and the long-term investments in capacity — the staff, the systems, and the processes that make this all work. These investments ensure the organization can deliver not just on this project but on the next one as well. And from this perspective, indirect costs are not peripheral; they're foundational, and they represent the true cost of the work as a whole. And that distinction matters, because when you start with the external justification, you're often trying to defend or minimize indirect costs to make them more palatable to the funder. But when you start with the internal justification, you're grounding your budget in reality and then translating that reality into a message the funder understands and resonates with.

Internal alignment on these matters is especially important when trying to create cohesion within a grantseeking organization. I've had more than one conversation with faculty members at institutions of higher education, for instance, who try desperately to get around working with their internal grants office because they don't want to deal with including indirect costs in their budget. They see a grant award with a maximum amount of $400,000 a year, and they can quickly find ways to spend every cent of that $400,000 directly on their research. And they'd rather not give 15%, or whatever, of those direct costs of that award back to administrative infrastructure — and honestly, who could blame them? Especially if the administrative leaders haven't spent any time building internal alignment on indirect cost justifications. So getting internal team members on the same page is essential.

Building Internal Alignment: Clear Up Misconceptions

How do you build that internal alignment? The first step is to clear up misconceptions around indirect cost rates. Indirect costs are not profit. They're not revenue, and they're not an inter-organizational tax that your grants management office places on the direct implementation of the work of grant projects. Instead, indirect costs are real and often hidden infrastructural costs that are the foundation from which direct grant projects can build upon. I like how the Office of Justice Programs defines it. They say the best indirect cost rate is the one that allows your organization to operate programs without leaving resource funding unused or needing additional funding to support costs.

Calculate a "True" Indirect Cost Rate

Because indirect costs are often hidden, a helpful second step you can take is to try and calculate what could be called the true indirect cost rate of just a few of your programs. This can be especially helpful in organizations where program staff and finance might not interact all that much. Program staff — those that are directly in charge of a grant program's functioning — may look at just the direct costs of their work and say they need $100,000 to run a program, whereas your finance team may look and see that the costs are actually closer to $130,000 after they factor in things like utilities and rent and staff benefits and other overhead costs. Getting these folks in the same room and working on figuring out what a true cost of a program is — one that factors in the indirect costs — can be a helpful exercise.

And when you do this, don't limit the indirect costs to just those that are typically considered allowable. This is an internal thought exercise. It's not one that you're going to turn over to the auditors. So try to include as many indirect costs that the group can think of as possible, just for the sake of the exercise itself. This can help program staff especially get a deeper understanding of the importance of the indirect infrastructure that makes their work possible, and it gives each team member a shared understanding of why it's important to recover these costs as much as possible.

Create a Shared Philosophy

This step leads to a final step that you can take to build internal alignment: create a shared philosophy for indirect cost recovery. Now, there are various reasons why you may choose to pursue funding opportunities that offer little or no indirect cost reimbursement, and Michael will go into more detail about how to build a balanced grantseeking portfolio later. But whatever strategy you use, having clear buy-in from organizational stakeholders is really the key here, because ultimately, it's important to be clear with your team about why indirect costs are vital to the overall functioning of the organization and why it is essential that you try and recover these costs as best as you can in all of your grantseeking efforts as a whole. And this shared philosophy will direct your team members' attention to the opportunities that are right for your unique budgetary situation.

Translating Internal Alignment into a Budget Justification

Building internal alignment on the value of indirect costs isn't enough, though. You need to be able to translate this shared understanding into a budget justification that's compelling to a funder, even though justifying indirect costs may be a small part of your proposal. Translating this understanding starts with pursuing the right opportunities. Knowing whether you can fully or nearly fully recover costs in your program budget is the first step, and it can be helpful to break down opportunities into three buckets: those that offer full or near-full cost recovery, those that offer only partial recovery, and those that offer no recovery. This also helps you know how to allocate your time for grantseeking appropriately.

If your organization's going through a concerted effort to try to recover your costs — maybe after years of failing to account for these in a strategic way — it makes sense to spend most of your grantseeking efforts on those full or partial recovery opportunities, and so foundations may not play a significant role in your seeking. And if you're in that season, it's important to see this as a temporary strategy for your organization to be most effective later on down the road, when you may balance your portfolio to include ones from each of those buckets.

Be sure to also have clear internal financial processes, and that these are understood by your grant program managers. You need to build your budget in the proposal development stage with a good idea of your post-award reconciliation procedures. This ensures that you know how to account for relevant indirect costs on the budget development side, and ultimately how these will be tracked if your proposal is awarded.

When building your budget, consider the value that your indirect costs have to the funders themselves. As I said earlier, this is often where grantseekers start as a way to justify these costs, but just because it's not a good place to start doesn't mean that it's not important. Communicating the value these F&A costs have to the funder is essential, even though it's not something grantseekers think to include in their budget justification; they typically just take the indirect costs as sort of a given allowance. But I'd encourage you to do the work here. Find ways to include why these are essential to the success of your project. It almost goes without saying, but be sure to also connect the need for indirect costs to the actual outcomes of the project the funder's most concerned with supporting. Funders don't want to simply give you money to ensure your organization continues to exist. They want to know that your existence ultimately will make possible the societal outcomes that they want to see. So connect their investment — even their investment in the utilities and indirect support staff of your organization — to the overall outcomes of the project itself.

Finally, always be open to evaluating whether your current rate is appropriate for your needs. If you're using the de minimis rate, be sure that you're getting a true sense of your program's cost to know if it

would be worthwhile for you to consider pursuing a negotiated indirect cost rate agreement in the future. This is a lengthy process and adds some administrative burdens, so it's important to have internal alignment on whether this is a worthwhile pursuit to take in the future. And Michael will go into some more detail about some questions to ask yourself to determine whether a negotiated rate could be a helpful next step.

What Compliance Risks to Consider

Now, once you've gone through effectively justifying these costs, some compliance risks to consider. Just from the outset, I think justifying costs is really important, but indirect cost compliance is really essential, and knowing how to remain compliant starts with knowing what some of the biggest mistakes grantseekers tend to make in the budgeting and reconciliation process. These mistakes generally can be seen as a result of misunderstanding allowable versus unallowable costs, inconsistent application of internal policies and procedures, and a general lack of communication between finance offices and grant program managers. To correct these mistakes, then, I encourage you to apply what I'm calling the three C's of indirect cost compliance: clear guidelines, consistent application, and communication.

Clear Guidelines

Now, having clear guidelines gets at the first common mistake that's made: misunderstanding of allowable and unallowable costs. Program managers don't need to have an accountant's understanding of these terms. They just need to have a basic understanding of what allowable direct costs are, what allowable indirect costs are, and, if pursuing publicly sourced grants, what costs are unallowable based on the updated Uniform Guidance. And ultimately, they need to know who they can go to with questions. Having these guidelines clear and accessible and understandable to a non-finance audience can save your organization months of audit headaches. You can test how clear your guidelines are with a helpful exercise. Ask three people from different areas how they would classify a sample expense, like a piece of technology. If your guidelines are clear, you should get the same answer each time. If not, work to get that internal understanding.

Consistent Application

Second, and perhaps most important, is a commitment to consistently apply these internal guidelines around indirect costs. Grant awardees run into the most trouble when they don't follow their own internal procedures, or when they engage in things like double dipping — like by double charging, or inconsistently charging costs as both indirect and direct costs. Having clear guidelines is obviously the first and best step an organization should take for indirect cost compliance, but the consistent application of these guidelines is the actual means by which an entity mitigates those compliance risks.

Consistent application of guidelines, and consistently documenting these procedures, will ultimately help you justify the decisions you've made years after the fact if you're facing an audit in the future.

Communication

The final C undergirds the previous two: communication. Open and regular communication between finance and program managers is key to efficient and compliant cost recovery. This starts at the proposal development stage, with the finance team joining with the program management team and developing a budget together — one that's clearly and consistently applying the financial standards for indirect costs that the institution has agreed upon, and that comes to a shared understanding of the process moving forward. Now, I will say it's possible that the indirect cost management might be handled by different staff from those who handle direct cost management. This just makes communication all the more important.

So regular check-ins between these groups can help to ensure that these guidelines are continuing to be consistently applied and any problems that are identified are addressed early rather than allowed to fester. It changes the relationship from being one that's just about enforcing compliance to one where the program staff feel consistently supported along the way in their work. From here, I'll pass it to Michael to talk more about how to strategically use your indirect cost rate.

Strategically Using Indirect Cost Rates

Michael Paddock:

Thanks, Marc. That was great information. Okay, so how do we move from passive cost recovery to strategic cost recovery? I will walk through four principles that should guide how institutions think about this.

Portfolio Balance

First, think in terms of portfolio balance. Create a mixture of programs that offer varying levels of cost recovery. Now, not every funder will allow full indirect cost recovery, and not every opportunity should be turned down simply because it won't. This is especially important for institutions with strong negotiated rates — a lot of universities have those very high negotiated rates — because those rates can sometimes be viewed by administrative leadership as justification for avoiding programs that cap or waive indirect costs. And that's understandable from a pure cost recovery perspective, but it has the unintended effect of communicating to faculty and program managers that the sponsored programs office exists primarily to maximize those indirect cost recovery efforts rather than to advance the mission of the institution as a whole. A more effective approach is to hold both priorities together.

High-recovery opportunities sustain the institutional infrastructure that makes research possible, and lower-recovery or no-recovery opportunities might still be worth pursuing when they strongly align with the mission — expanding partnerships, building a faculty member's portfolio toward a larger future award, or opening doors to a new funding agency. The key is not to treat these decisions as either-or, but to make them intentionally and in balance.

Structure Costs Intentionally

And second, when indirect cost recovery is limited, be intentional about how you structure costs within the budget itself, within the allowable parameters of the program. Not all costs need to live in the indirect category. Many funders will allow administrative, technical, or project support functions to be directly charged when they're clearly tied to project implementation and are budgeted and justified appropriately under Uniform Guidance. This is an advanced strategy, and it requires close coordination with your sponsored programs office and your finance team. The goal here isn't to work around funder rules. It's to work within them strategically, and many legitimate project-related costs can be directly charged when you make a compelling case supported by accurate documentation. And I think any sponsored programs officer and any financial officer who's involved in the grants development pre-award process is going to tell you to try to include as much in the direct costs of your project as you can possibly justify.

Maximize Your Allowable Rate

And then third, take a close look at whether you're maximizing your allowable indirect cost rate. For institutions of higher education — most of the people on this call today — this almost always means having a current federally negotiated rate agreement with your cognizant agency, maybe the Department of Health and Human Services, or HHS, maybe the Office of Naval Research, or ONR, depending on your research portfolio. If your true indirect costs are significantly higher than what you're currently recovering, you're consistently under-recovering the real cost of your work. Even small percentage increases applied across hundreds of awards can compound significantly over time. This isn't about inflating costs or padding the bottom line. As Marc mentioned, it's about accurately capturing what it actually costs to host sponsored research at your institution.

Know When to Negotiate — or Renegotiate

And this brings me to the question I want to expand on, because I think it's particularly relevant for growing institutions: When does it make sense to pursue a negotiated rate, or renegotiate the one you have? For institutions without a negotiated rate — typically smaller colleges or emerging research universities, or institutions whose grant portfolio has historically been modest — pursuing a federally negotiated rate becomes worth the investment when a few conditions come together. First, when your

annual federal funding volume is consistently growing and projected to continue growing. The administrative effort to negotiate and maintain a rate is pretty significant, and the return only justifies that effort at a certain scale. Second, when your actual indirect costs meaningfully exceed the de minimis rate, which we kind of talked around — it's currently 15% of modified total direct costs under the updated 2024 Uniform Guidance.

If you're operating a real research enterprise with dedicated compliance staff, research administration infrastructure, and specialized facilities, your true rate is almost certainly higher than that 15%. And then third, when you have the financial systems and documentation in place to support the negotiation process, which requires several years of clean, auditable cost data.

So for institutions that already have a negotiated rate, the question becomes whether to renegotiate. And this generally makes sense when your cost structure has changed significantly — major new facilities, expanded research administration, or new compliance requirements — or when your rate is approaching expiration and your underlying costs have grown faster than your rate reflects. Institutions sometimes leave a rate in place too long out of inertia, and that inertia, keep in mind, can have real financial consequences. And then lastly, maximizing indirect cost recovery isn't a single decision. It's an ongoing institutional practice. It requires sustained awareness of your true costs, intentional decisions across your funding portfolio, and a willingness to align budgeting practices with how your institution actually operates. Institutions that do this well are more resilient, more sustainable, and better positioned to deliver on their mission over the long term.

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

And then that takes us to the de minimis rate. So especially for institutions that don't yet have a federally negotiated rate, when does it make sense to use the de minimis rate, and how does that compare to a negotiated indirect cost rate? A quick definition. The de minimis rate is currently, as I mentioned, 15% of modified total direct costs under the revised Uniform Guidance that took effect in October 2024. It's available to any non-federal entity that has never had a negotiated rate agreement. In contrast, a federally negotiated indirect cost rate agreement, or NICRA, is a customized rate that's developed through formal negotiation with your cognizant federal agency, based on your institution's actual cost structure and documented through a rate proposal covering multiple years of historical cost data.

So, some of the pros of using the de minimis rate — and I know we're running close to the top of what we promised you, 30 to 45 minutes; we're like 44 minutes into this, but I just want to quickly run through these. The pros of using the de minimis rate: it's administratively simple. There's no proposal to prepare, no negotiation cycle, no cognizant agency relationship to maintain, no triennial review. For institutions that are just beginning to build a federal grants portfolio, it lets you focus administrative

capacity on the grants themselves rather than on rate negotiations. It's predictable and universally accepted. Established in federal regulation, federal agencies cannot reject it for entities that are entitled to use it, and that removes a lot of uncertainty from proposal budgeting and lowers the barrier to entry for institutions that have never had a federal grant.

Some of the cons: for established colleges and universities, as we've talked about at length, that 15% dramatically under-represents the true indirect costs. The average federally negotiated rate for research universities falls in the range of 50 to 60%, with some institutions that we've seen significantly higher — and these are justified indirect cost rates, 50 to 60%. Even teaching-focused institutions with modest research operations typically have true indirect costs well above 15% when it's fully calculated. So using the de minimis when your real costs are 40 to 50% means you're systematically subsidizing every federally funded project on your campus. So that's one of the cons. And when you're operating under the de minimis rate, every legitimate direct cost you fail to capture is a cost your institution absorbs entirely. So careful attention is needed for things like project-specific administrative support, dedicated technical staff, project-specific software and equipment, communications costs — anything that can be tied directly to the project.

Okay, how this compares. A negotiated rate, when supported by your cost infrastructure, will almost always recover more revenue than the de minimis. It also signals to federal funders that you have institutional maturity and capacity. But it does require an investment — financial, administrative, and analytical — that not every institution is ready to make. For institutions that are growing, my general advice is this: Use the de minimis rate strategically as a bridge, not as a destination. It gets you into the federal funding ecosystem, but begin building toward a negotiated rate as soon as your portfolio and your financial infrastructure — and, I would add, relationships with federal funding agencies — can support that.

Grants Office is Here to Help

Okay, I want to thank everyone for sticking with us. Just a couple of notes here. Grants Office is here to help. I've already provided some QR codes that'll be in the resource page for the article from Dr. Liz Shay about indirect costs and a video on our Guidance for Grantseekers. You can also connect to Guidance for Grantseekers resources here — a lot of great videos that we've really tried to distill down into some of the most valuable tools and tips that you can use as a grantseeker. That's available here. You can scan the code here or wait and review the resources page.

Grants Office provides a full range of pre-award grants development services, from institution-wide research and consultation all the way through proposal review and proposal development. And we do individual projects too. So if you have one PI with one project and they need help getting it across the

finish line, we support that, and then we also support entire institution-wide grants development, research, consultation, and proposal development projects.

If you're interested in having just your own tools for finding and managing your pre-award grants development activities, I would recommend Grants Office Communities. You can sign up for a free two-week trial. We have a lot of very satisfied users on there who have found the comprehensiveness of the data to be helpful from a grants research standpoint. If you're using a tool that only gives you foundation information, you're only getting about maybe 15%, maybe 20% of the whole funding landscape picture. Grants Office Communities includes federal, state, and foundation funding, so you can see the whole picture of funding there. And then you can manage your projects and proposals from start to finish in there. So a lot of great information and support from Grants Office Communities, and the price is fairly reasonable, if I do say so myself.

Q&A Session

Okay, we are going to have time just for one or two questions. I just want to kind of quickly go through these questions for Marc, and then we'll let you go. But if you do have to drop off, I just want to say how much we appreciate your joining us on today's session. And if you have additional questions that are specific to your institution, or more nuanced than even what we've talked about today, you can just send us an email to grantwriting@grantsoffice.com, as you see here on your screen, and we'll be sure to get back to you on that. Okay, Marc, we have time for just a couple of questions here.

Audience Questions

Q1: Do any foundation opportunities reimburse indirect costs, and how does that differ from federal and state agencies?

Michael Paddock:

The first one is: "This is focused a lot on federal and state agencies and indirect cost rates, but I'm wondering how this differs from foundation opportunities. Are there any foundation opportunities that have indirect cost rate reimbursements as well?"

Marc Smithers:

Yeah, that's a good question. And the short answer is that foundations don't tend to do a lot of indirect cost rate reimbursement. I think a general sort of rule of thumb is: the larger a foundation is, the more open they are — larger in the sense of the grant awards that they give out, the size of those awards, the number of those awards — the greater the likelihood is that they would be open to that. So, for instance, the Gates Foundation has a pretty robust calculation system for indirect cost rate

reimbursement, like 0% for government agencies, up to 10% for universities, and then up to 15% for other NGOs, or non-governmental organizations, and nonprofits. So those foundations exist. They're just in smaller numbers out there.

Michael Paddock:

Great. And we like to say they can fill in the gaps where federal and state funding don't fit. They tend to be more locally responsive, and they can actually be a source of matching funds if you need matching funds for a federal or state program.

Q2: How do you calculate a true indirect cost rate uniformly across an entire organization?

Michael Paddock:

Okay, and then the last question we'll cover today: "I like the idea of calculating a true indirect cost rate, but how do you do this uniformly across an entire organization? I expect we will get very different answers from our different department heads. So how do I navigate the difference?" And I have to say, I imagine you'd probably get, in some institutions, very different answers on the color of the sky from different department heads. So that could be really challenging. What do you think?

Marc Smithers:

Yeah, exactly. And that's a great question. I do want to stress that calculating the true cost of a program is really helpful as an internal exercise that you can do to sort of get some internal alignment around these. So I wouldn't start with calculating your true cost of all programs that you offer for your entire organization. Just pick a department, or a handful of departments, where you're not dealing with such a wide spectrum of understandings of the true cost of things. Almost treat it like a focus group. So bring some people together to just look at a program, or two or three programs, and get a sense of how they would each individually sort of calculate that rate, and almost use it as an internal team-building exercise, where you might have them submit a sample true-cost budget that they can then discuss with one another — just so that they can each get a sense, somebody coming from the finance side, somebody coming from the direct program side, just to see where they match up, where they differ, and then get them to sort of talk about that.

I think that's how you build internal alignment: get people in the same room, hearing the perspectives of others and having your own perspective challenged, and hopefully reaching some sort of consensus through that process.

Closing

Michael Paddock:

Great. Okay, well, that is more than all we have time for. I want to very much thank our speaker, Dr. Marc Smithers. Thanks very much for contributing your knowledge and insights into today's session, and to all of you, thanks for joining us for today's session. I hope you found this a valuable use of your time, and we'll look forward to seeing you again on a future webcast. Have a great day, everybody.

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