

Indirect and Direct Cost Guidance for State Agencies & School Food Authorities

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Topics We Will Cover

- ▶ Federal cost principles & an SFA's responsibility
- ▶ What are Indirect and Direct Costs?
- ▶ What is an Indirect Cost Rate Agreement and why do SFAs use them?
- ▶ Who Develops the Indirect Cost Rate Agreement?
- ▶ How are SFAs charged for Indirect Costs?
- ▶ Timing & Take-Aways



Federal Cost Principles

- ▶ Establish government-wide principles for determining allowable cost under contracts, grants, and other agreements within Federal programs.
- ▶ School Meals Programs regulations require that any cost paid from the Nonprofit School Food Service account meet the standards for allowable costs as outlined in the Federal cost principles.
- ▶ Costs can be classified as direct or indirect.



School Food Authority (SFA) Responsibilities

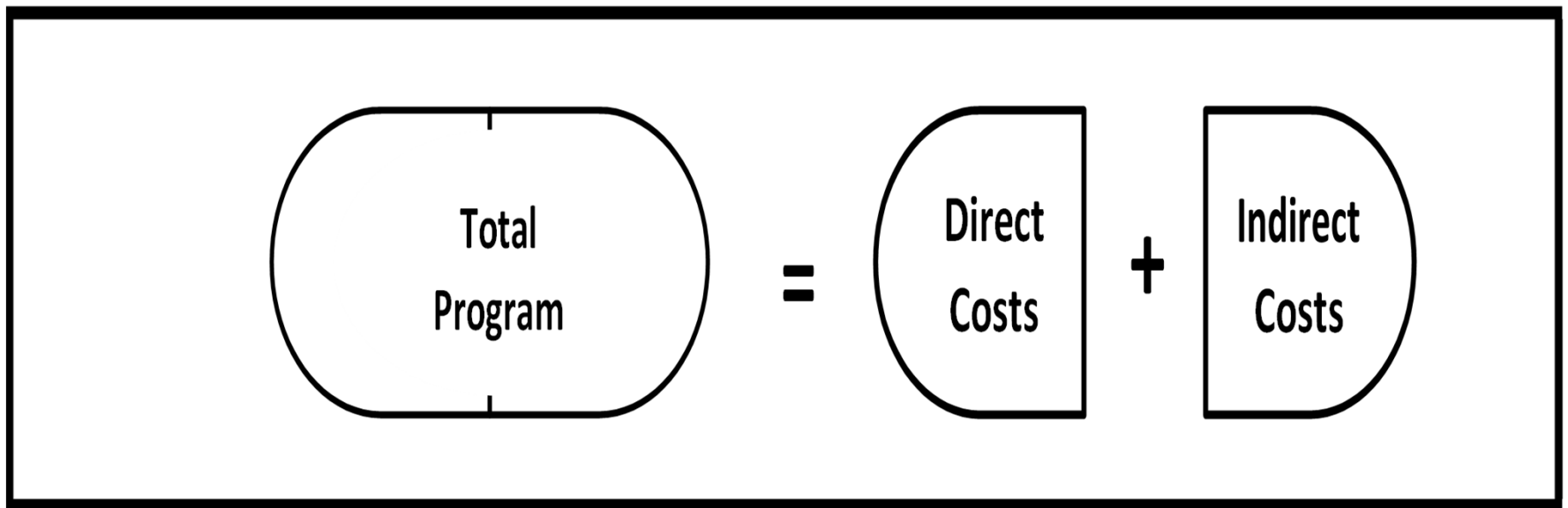
The SFA is the steward of the nonprofit school food service account that makes funds available for the school meals programs.

The SFA must ensure that only allowable costs are paid with these funds and that these costs are accurately classified as direct or indirect.



What are Direct and Indirect Costs?

Total Program Cost



Direct Costs

- ▶ Can be identified specifically with a particular cost objective
- ▶ Are attributable to the nonprofit school food service
- ▶ Can be substantiated through written documentation such as time cards, invoices, receipts, etc.



Indirect Costs

- ▶ Those incurred for a common or joint purpose
- ▶ Benefiting more than one cost objective
- ▶ Not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved



Direct and Indirect Costs

Direct Costs	Indirect Costs
Wages and salaries of food service workers	Payroll services
Cost of purchased foods	Human Resources
Food service supplies	Workers' compensation
Media promotional materials relating to the food service	Procurement Office
Capital expenditures relating to food service (e.g. food service equipment purchases)	Utilities such as gas, electricity, sewer, water, trash
	Superintendent's Office



What is an Indirect Cost Rate Agreement?

- ▶ A document that formalizes the indirect cost rate negotiation process and provides instructions on how the rate should be applied.
- ▶ The indirect cost rate can be thought of as a tool for determining the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to the direct cost base.



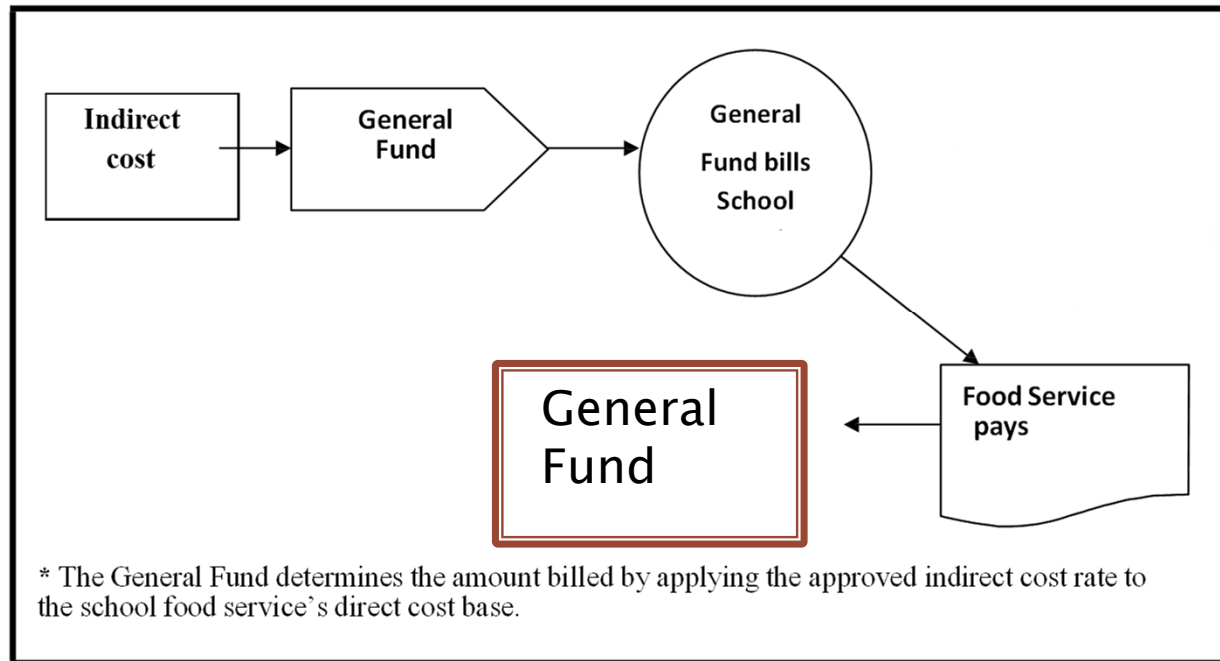
Who Develops an Indirect Cost Rate

- The US Department of Education approves the State Education Agency methodology
- SEAs then establish indirect cost rates or indirect cost allocation plans used by LEAs to allocate their indirect costs to programs and activities.



How Are SFAs Charged for Indirect Costs?

Example: General Fund Recovers Indirect Costs Benefitting Nonprofit School Food Service



Should an SFA Ask Questions?

- ▶ Yes, If billed by the LEA an SFA should ask for a copy of the indirect cost rate agreement so that they can understand the “base” to which the indirect cost rate percentage is being applied
- ▶ The base tells us what we need to apply the percentage against



Timing

- ▶ Receiving notice of a billing for indirect costs at the last minute does not allow a SFA authority to plan costs for the school year
- ▶ Notification should be received during the current school year or between the end of one school year and the start of another to allow the SFA to plan accordingly



Take-Aways

- ▶ Understand the difference between an indirect and direct cost
- ▶ Recognize that indirect costs are not “extra” costs
- ▶ Understand what comprises the Indirect Cost Rate



Additional Resources

- ▶ Indirect Cost study. The study is located at www.fns.usda.gov/school-foodservice-indirect-cost-study.
- ▶ *Indirect Cost Q&As in the Guidance*, Sept. 30, 2016.
- ▶ Typical Costs and their Classification as Direct or Indirect found in 2 CFR



Questions



CONTACT INFORMATION

- ▶ If you have questions please contact me at:
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