

Definitions: Direct vs. Indirect Costs

Direct costs: Direct costs are those costs which can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity or that can be directly assigned to such activities relatively easily with a high degree of accuracy. 2 C.F.R. §200.413(a)

Analysis: Direct services are directly related to delivering goods, services or work effort to clients of the Community Living Section programs. Direct costs generally include: salaries or wages including vacations, holidays, sick leave and other excused absences of employees working, other employee fringe benefits allocable on direct labor employees, consultant services contracted to accomplish specific grant/contract objectives, travel of direct labor employees, materials, supplies and equipment purchased directly for use on the program, and communication costs such as long distance telephone calls or telegrams identifiable with the grant.

Indirect Costs: Indirect costs means those 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. 2 C.F.R. §200.56.

Analysis: Indirect costs represent the expenses of doing business that are not readily identified with the grant. Indirect or administrative costs generally include: general administration and expenses, accounting, depreciation or use allowances of buildings and equipment, costs of operating and maintaining facilities, audit expenses, computing services, utilities, or custodial services. It is the Department of Health's policy that indirect costs do not exceed fifteen percent (15%) of the total federal award unless otherwise agreed to in writing. (Federal award includes: Federal funds, State match funds, local match funds, and program income.)

Direct vs. Indirect Discussion: Because of the diverse characteristics and accounting practices of nonprofit organizations, it is not possible to specify the types of cost which may be classified as indirect (F&A) cost in all situations. Identification with a Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct vs. indirect costs of Federal awards. 2 C.F.R. §200.414(b).

Indirect vs. Administrative Costs: The term administrative is broad and it encompasses both direct and indirect portions of administrative costs. Therefore, the difference is whether the administrative support efforts can be identified directly or indirectly to cost objectives. These costs can both be personnel and no personnel, and both direct and indirect. It is the Department of Health's policy that administrative costs do not exceed fifteen percent (15%) of the total federal award unless otherwise agreed to in writing.