

Indirect Cost Guidance for Community Health Boards (JULY 2025)

OVERVIEW

This document provides guidance to community health board (CHBs) on the implementation of the Minnesota Department of Health (MDH), *Indirect Costs on Outgoing Grants Policy*. This policy recognizes that grantees incur certain “costs of doing business” that are not easily identified with a particular grant or activity. MDH is responsible for negotiating appropriate limits to these costs so that it derives the optimum benefit from grant funding. A change in an indirect rate does not equate to a change in the grant award total. It simply allows for the recategorization of costs. Indirect costs are part of the grant award. The purpose of this guidance document is to help CHBs adapt to the MDH policy and differentiate between administrative and indirect costs and how to properly report each.

DEFINITIONS

Direct Costs

Direct costs are costs for activities, goods or services that benefit and can be traced to a specific project (often included in budget and invoice line items such as “Salary/Fringe”, “Supplies”, “Contractual”, etc.). As much as possible, grant funds should support direct costs that correspond with program activities (as opposed to direct costs that correspond with administrative activities, as described in “Administrative Costs”).

Examples of direct costs that correspond with program activities:

- Wages and benefits for staff time working on a grant-funded project.
- Mileage and lodging for staff who traveled for work on a grant-funded project.
- Space rental costs for grant-funded event or workshop.

Indirect Costs

Indirect costs are costs for activities, goods or services that benefit more than one project and cannot be traced to a specific program without significant effort that would negate the benefit of assigning it to a specific grant or program. These costs are often allocated across an entire agency and multiple programs. In accordance with federal and state requirements, MDH has limits on the amount of indirect costs that can be billed to each grant so that grant funds can be used to support direct costs related to program activities.

Examples of indirect costs:

- A portion of the total cost of the organization's annual audit.
- A portion of human resources, administration or accounting staff
- A portion of the organization's supplies, postage, rent.
- A portion of the total cost of the organization's security system.

Indirect Cost Rate

An indirect cost rate is a percentage used to distribute indirect costs to all an organization's programs that benefit from them. Regardless of funding source, MDH allow grantees to use their Federal Negotiated Indirect Cost Rate Agreements (NICRA) for their budgeting and invoicing of indirect costs or, if they do not have a NICRA, an indirect cost rate of up to 15% of the grant's total direct costs (unless the funding is otherwise restricted).

Indirect Cost Plan Questionnaire

Each year, CHBs submit an Indirect Cost Plan Questionnaire to the MDH. This questionnaire provides the "up to" rate that can be used for MDH grant programs and the items included in the CHBs indirect costs. This information is used by *all* MDH grant managers. The questionnaire allows CHBs to select:

- Not applicable: No charges will be made to any MDH grant programs for indirect costs;
- Federal NICRA: The NICRA will be applied to the MDH grant program. *Note that no CHBs currently have a federally approved rate; or*
- No federally approved indirect cost rate: The CHB is requesting a rate up to the maximum currently allowed.

Different rates may be used for different MDH grants. However, once a rate is chosen for a particular MDH grant, the CHB must use this rate for the duration of the CHB's fiscal year. No variation in the indirect rate from month to month is allowed during that fiscal year.

CHBs may update the rate they want to use annually, coinciding with their fiscal year. If a CHB adjusts their de minimis rate annually, they should refer to the the "budget modification" clause in their grant project agreement to make any adjustments to their approved work plans and budgets.

Administrative Costs

Administrative costs are a type of cost as opposed to a category. Administrative costs are those for activities, goods or services that correspond with administrative functions of an organization. Sometimes administrative costs benefit, and can be directly attributable and appropriately tracked to, a specific project. In those cases, they should be categorized as direct costs. Other times administrative costs benefit more than one project and cannot be traced to a specific program. In those cases, they are categorized as indirect costs. Grantees should

minimize administrative costs so that grants funds support direct costs that are related to program activities.

Examples of administrative costs categorized as **direct costs**:

- A portion of the documented salary and fringe costs of the grantee's administrator or director (if not covered in indirect costs).
- A portion of the organization's monthly printer/copier lease and maintenance fees, calculated by tracking how many pages/printed sheets were coded to the grant program and applying a percentage based on usage.
- A portion of the organization's administrative support, accounting or human resources, calculated by tracking time spent by staff on the grant program.
- A portion of the organization's occupancy costs, calculated by applying a square footage cost total to the amount of physical space used for each grant program management and activities.

Examples of administrative costs categorized as **indirect costs**:

- A portion of the organization's monthly printer/copier lease and maintenance fees, when an internal system does not allow service to be tracked by project.
- A portion of the organization's administrative support, accounting or human resources, when an internal system does not allow time to be tracked by project.
- A portion of the organization's occupancy costs, when it is not feasible or reasonable to calculate by project.

REQUIREMENTS

There are policy requirements for both MDH and grantees regarding indirect costs. These requirements ensure consistency and compliance with MDH and state standards. The requirements apply to all MDH grants regardless of amount, funding source, grantee and grant type.

- As applicable, MDH will include information on indirect costs in Requests for Proposals (RFPs) or funding opportunity notifications and the budget negotiation and approval process. This ensures that potential grantees are aware of MDH requirements when applying for a grant and finalizing a budget.
- Whether an expense is categorized as an indirect or direct cost, the grantee must consistently categorize the expense as such throughout the life of the grant agreement. This ensures that expenses are invoiced consistently, thereby minimizing risk of mistake or double payment.
- CHB must annually submit an Indirect Cost Plan Questionnaire. CHB must also retain on file the corresponding documentation of that indirect cost rate as outlined below:
 - a. Grantees without a federally negotiated indirect cost rate can use grant funds for indirect costs in an amount up to but not exceeding 15% as applied to the grant's total direct costs. As part of the Indirect Cost Plan Questionnaire, CHBs will be asked to

submit a list of expenses that are included in the indirect portion of the budgets. MDH can ask for more information as needed.

- b. This rate (up to the maximum rate currently allowed) can be different for different MDH grants.
 - c. The CHB can choose to apply this rate, no rate, or a reduced rate to a particular MDH grant. However, the chosen rate should remain constant throughout the CHBs budget cycle when a budget revision (if required) is sent to the MDH grant program.
 - d. Some MDH grants, based on funding requirements, may not allow for, or may limit, indirect costs.
- MDH will not make payment on invoices that include only indirect costs. This protects MDH from paying for a CHBs ongoing operational expenses when it is not performing work related to the grant program.
 - CHBs are responsible for maintaining records (including but not limited to time certifications or time studies, payroll and purchase records) that verify all expenses, whether categorized as direct or indirect, for six years from the end of the grant. This ensures that the CHB had done their due diligence in calculating appropriate indirect costs and that adequate documentation is maintained for all expenses, regardless of cost category, in case of financial review, audit or inquiry.

Please note: additional requirements related to indirect costs may apply to state funded and/or federally funded grants. MDH grant staff will inform grantees, including CHBs, if a state or federal program has different indirect cost requirements or restrictions.

REFERENCES & RESOURCES

The following are sources of additional information about indirect and administrative costs related to outgoing grants at MDH:

- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ([eCFR :: 2 CFR Part 200—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#))
- [2 CFR 200: Frequently Asked Questions](#)
- [Minn. Stat. § 16B.98, Subd. 1](#)

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