

**Michigan Department of Education
Office of Health and Nutrition Services
Fiscal and Administrative Services**

The Monthly Training Topic for June is Indirect Costs in the Nonprofit School Food Service Account (NSFSA). We hope you find this information helpful.

Indirect Costs Summary and Guidance

Funds in the NSFSA must be spent solely on the School Meals Programs (SMPs). Program regulations at 7 CFR 210.14 and 220.13(i) require a School Food Authority (SFA) to establish a NSFSA, in which all reimbursements and other revenues from all food service operations conducted by the SFA, principally for the benefit of school children, are retained and used **only** for the operation or improvement of the SMPs. Therefore, the SFA must maintain a NSFSA to accomplish two goals:

- 1) To ensure that the school food service operates on a nonprofit basis, and
- 2) To safeguard assets of the school food service and ensure that they are used only for authorized purposes.

An SFA is the steward of the NSFSA and maintains the funds available for the SMPs. In that role, it is important for the SFA to monitor costs charged to this account. The SFA is charged with ensuring that only allowable costs are paid with NSFSA funds and costs are properly classified as direct or indirect.

The current guidance regarding direct and indirect costs is [USDA SP 60-2016](#)¹. It was released September 30, 2016. Additional guidance is found in the Uniform Guidance in 2 CFR Part §200.412-200.415. A cost item must be treated consistently as direct or indirect in all activities of the SFA unless legislation, regulations, or guidance from an awarding agency dictates otherwise. A cost may not be assigned to a Federal award as a direct cost if that same cost, incurred for the same purpose, in similar circumstances, has been allocated to other Federal awards as an indirect cost.

Direct costs are incurred specifically for a program and can be readily identified to a particular objective such as the school food service program. Examples of direct costs include, but are not limited to: food, wages and salaries of staff working in food service, supplies and equipment which are specifically used in food service.

Indirect costs are incurred for the benefit of multiple programs and therefore cannot be readily identifiable specifically for one program. Costs that cannot be exclusively attributable to the SMPs must be treated as indirect costs. Indirect costs typically support maintenance and operations such as custodial, trash and utilities and administrative overhead functions such as accounting, human resources and payroll.

[USDA SP 60-2016](#)² appendix D includes a valuable chart that lists typical costs and their classification as either a direct or indirect cost. Costs are required to be treated consistently across all other programs. Here are some questions to help determine if a cost is direct or indirect:

- Does the cost benefit multiple programs or other cost objectives, or solely the school food service?
- Does the cost have a direct relationship to the school food service?
- What guidance do the Federal cost principles provide for this cost?
- How are similar costs treated in other cost objectives of the SFA?
- How has this cost been treated historically by the SFA?

Calculating Indirect Costs

Indirect costs must be calculated and charged with the approved methodology as outlined in USDA SP [60-2016](#). To calculate indirect costs the SFA should begin by calculating the modified direct cost base. This is done by beginning with the total of all allowable expenditures for the food service program and then excluding capital outlay, excluding all food costs and items for resale and excluding contracts amounts over \$25,000. To be clear, each contract can be included in the modified direct cost base, but only for a maximum of \$25,000 per contract.

Michigan Department of Education (MDE) publishes a report annually which includes the approved indirect cost rates for all public schools. The unrestricted rate is then applied to the modified direct cost base to determine the maximum allowable indirect costs that can be charged to the food service program. SFAs must use the unrestricted rate published by MDE and limit the indirect cost rate to a maximum of 15% if the approved unrestricted indirect cost rate exceeds 15%.

Non-public schools and residential child care institutions (RCCIs) follow the same calculation but may use a maximum of 10% for the indirect cost rate.

All SFAs must perform these calculations and keep adequate documentation on file if indirect costs are charged to the NSFSAs. MDE is required to ensure that the calculation is being done properly and that the SFA can demonstrate the knowledge on how to calculate the SFA's maximum allowable indirect costs regardless of the actual amount of indirect costs charged to food service program. An SFA does not have to take the maximum allowable amount for indirect costs. However, the SFA cannot exceed their maximum allowable amount. If the maximum allowable amount for indirect costs is exceeded, MDE must require that the SFA reimburse the NSFSAs for the amount in excess.

Included with this training, MDE has developed a template for indirect cost calculations. This template may be used for calculating indirect costs, although the calculation methodology is required this template is not mandatory. An SFA may use other avenues for charging indirect costs provided the calculations are done in accordance with the approved methodology and adequate supporting documentation is maintained on file.

Monitoring

During a Resource Management Review (RM) in which indirect costs are charged to the NSFSAs, the following will be reviewed:

- Indirect Costs Calculations Supporting Documentation
- Detailed General Ledger to confirm Indirect Costs charged to the NSFSAs
- FID School Meals Report or School Lunch Year End Report (SLYER) to confirm Indirect Costs reported

Findings are typically issued in a RM Review when the following are discovered:

- Direct costs that benefit multiple programs charged to the NSFSA but not treated consistently across all other programs
- Indirect costs charged improperly without the required methodology
- Indirect costs calculations supporting documentation not available
- Indirect costs charged in excess of approved unrestricted rate
- Indirect costs exceeding the maximum allowable

Questions regarding Indirect Costs may be directed to the Office of Health and Nutrition Services, Fiscal and Administrative Services, Fiscal Monitoring Unit, by email to MDE-Fiscal@michigan.gov or by calling the Fiscal main office line at 517-241-5380.

Resources:

USDA Policy Memo SP 60-2016

¹<https://www.fns.usda.gov/cn/indirect-cost-guidance>

²<https://fns-prod.azureedge.us/sites/default/files/cn/SP60-2016a.pdf>

Indirect Cost Guidance

<https://www.fns.usda.gov/indirect-cost-guidance>