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5 REASONS NOT TO USE THE DE MINIMIS RATE



Did your organization elect to charge a “De Minimis” rate of 10% of modified total direct costs?

Uniform Guidance introduced sweeping changes to administrative requirements, cost principles, and audit requirements for Federal awards to non-Federal entities. With these changes came new responsibilities and opportunities to non-Federal entities.

Unfortunately, most publicly available guidance focuses primarily on helping non-Federal entities cope with the added responsibilities, leaving little consideration to the new opportunities that are now available. The most overlooked of these opportunities is the ability, but more importantly the right, to Indirect Cost Recovery.

Assure you are “not leaving money on the table” by utilizing new opportunities to non-Federal entities that provide the right to Indirect Cost Recovery.

Check our experts five reasons why you should not make the De Minimis your first choice.



DON'T ACCEPT THE FIRST OR EASY OFFER

The De Minimis Rate is the government's first offer, right?

If you walked into a car dealership with your eye on a particular vehicle and the dealer walked over and made you an offer, do you think that that's their best offer? No, chances are it's not.

This is a great example of how the De Minimis Rate is. The government has provided De Minimis Rate to give organizations the “easy button” option. Easy for you, but it also saves the government money on their programs, while withholding your organization of the needed indirect cost recovery to pay for the types of support services that support the federal program.

If you consider the definition of the De Minimis Rate or of De Minimis, it means too trivial or minor to merit consideration.

Imagine telling the stakeholders in your organization that your indirect cost recovery strategy is too trivial or minor to consider or to merit any significant consideration?

Make sure that you don't do that in action by taking on the De Minimis Rate.



MOST ORGANIZATIONS OPERATE AT A HIGHER RATE

We are experts in indirect cost recovery, preparation, and negotiation. What we've noticed is that most organizations operate at a higher rate than a de minimis rate. In fact, most of the organizations that we negotiate rates for typically fall between 15 and 40% of modified total direct costs.

An example:



CONSIDER THIS:

An organization that has \$1,000,000 in direct Federal grants costs.

USING THE "DE MINIMIS RATE

Would recover roughly \$100,000 in indirect costs.

NEGOTIATED INDIRECT COST RATE OF 30%

Could recover up to \$300,000 in indirect costs.

If you are electing that 10% of modified total direct costs, chances are you're leaving between five and 30% of additional indirect cost recovery on the table that could really benefit your organization.





NEGOTIATION CREATES AN ANNUAL RETURN ON INVESTMENT

When we help an organization negotiate their indirect cost rates, and they're awarded a 15% modified total direct cost, that means that they're going to be collecting 5% more indirect cost recovery than what they would have collected under the de minimis rate. The best part is, once you negotiate rates, puts your organization on an annual cycle in which you get to negotiate your rate each year moving forward.

Consider - if you would have elected the 10% De Minimis Rate for a four-year grant, you're going to only be collecting 10% over those four years vs. a negotiated 15% rate, providing you five additional percent each year on all your direct spend, for each of those years.

Clearly, once you get this process started, it really does create an annual return on investment that typically provides a lot of new funding into unrestricted funds for organizations. With smaller organizations that don't have a lot of private funding coming in the door, indirect cost recovery and negotiating rates is an important issue.





INDIRECT COST RATE PROPOSALS CAN BE OUTSOURCED

As we reviewed earlier, our experts prepare and negotiate on behalf of the organization's indirect cost rate proposals each year. The service is an allowable indirect cost that your organization can include back on the first negotiated indirect cost rates giving you instant ROI.





SUSTAINABILITY IS KEY

The reason that the De Minimis Rate was even established is because the US government acknowledged that organizations need to receive additional funds to cover shared costs and administrative costs that are incurred, basically indirect support, however not direct costs of their federal programs.

Example: If you have a hundred individuals working on a federal program, someone is processing the payroll and benefits for those people. Typically, that is considered an indirect function.

In order for your organization's programs to continue to render breakthroughs in research, continue to reach the beneficiaries that you need to reach, and for those benefits to keep serving the US populace sustainability of those programs and your organization is key.

The only way to really ensure this is to try to recover as much funding as possible to build your reserve. This allows you to make sure that your organization has enough unrestricted funds to cover shared costs and soft costs that the federal government won't pay for directly.

If you're currently using the De Minimis Rate, just getting into your first grant or cooperative agreement, and you're not sure what to do, contact our Federal Grants Experts.

We are experts dedicated to helping you recover the most amount of money on your cost reimbursement grants and cooperative agreements.





ABOUT CAPITAL EDGE CONSULTING

Capital Edge Consulting is a professional services company comprised of adept problem solvers who deliver tangible results to address today's most complex U.S. government contracting challenges. Capital Edge helps clients address the challenging regulatory, contractual, and compliance requirements of U.S. federal contracts and we have experience working with a wide variety of industries that provide goods or services to the federal government including industries such as biotech and healthcare, nuclear energy, education, information technology, non-profit, professional services, defense, and software.

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