



Department of Natural Resources
Office of Management and Budget Services
500 Lafayette Road
Saint Paul, MN 55155

December 3, 2020

Mark Johnson
Executive Director
Lessard-Sams Outdoor Heritage Council
100 Rev. Dr. Martin Luther King Jr. Blvd.
State Office Building, Room 95
St. Paul, MN 55155

Dear Mr. Johnson:

I am writing in response to your request for more information on how organizations are using the Direct Support Services line. Specifically, this letter provides background on how the Minnesota Department of Natural Resources (DNR) Pass-Through Grants Unit considers that cost category. I hope this is helpful for the Lessard-Sams Outdoor Heritage Council (LSOHC) as it considers how to evaluate those costs.

Direct Support Services are meant to capture the costs associated with administration and support that are direct to and necessary to execute the projects for which funding is appropriated. The LSOHC approves Direct Support Services budget lines and calculations through the accomplishment plans. The DNR Grants Unit's role is to make sure those approved plans are implemented correctly.

To ensure correct plan implementation, the Grants Unit requires all organizations to provide detail on their methodology for calculating Direct Support Services expenses before we will reimburse them. The methodology has to be consistent with what they describe in their approved accomplishment plan, and it has to identify only costs that are direct and necessary to the project as directed by Outdoor Heritage Fund statute, appropriation law, and Minnesota Management and Budget guidance.

Eight groups are currently charging Direct Support Services. Their methodologies are updated and reviewed on a regular basis, and I approve any changes. Of these:

- Five use their federally-approved indirect cost rate, which identifies which indirectly-billed expenses are directly related to the running of a program.
- Two use an indirect costs rate created using the simplified allocation method laid out by federal guidelines. I review and approve these two groups' rate calculations.

- One has split out its shared services for Legacy funds so that they are entirely direct-billed, and developed shared services rates based on those costs.

When used above, “direct” versus “indirect” expenses refer to the accounting method used to track the expense by an organization, and *not* whether an expense was necessary to the purpose of the program. These rates are all calculated so that they represent only allowable, necessary costs. The rate is a reflection of the way the organization has chosen to organize its shared services and the amount of administrative effort it expends on each program.

Regardless of the method used to create the rate, all organizations apply it similarly: they charge the rate based on the amount of direct costs incurred on budget lines where expenses are in direct proportion to the amount of administrative work required, chiefly the personnel line. Expenses like land acquisition and capital equipment are not tied to administrative efforts and therefore are not considered when developing the rate and charging. As a result of this methodology, allowable Direct Support Services costs will naturally be lower on activities that have a smaller personnel line as a proportion of the grant, such as protection in fee or easement.

The Grants Unit never reimburses above the amount the Council has approved on the Direct Support Services budget line in each accomplishment plan. Organizations usually include only a portion of their eligible costs in their budget request, and cover the rest of the eligible costs out of matching funds.

I hope this information is useful to the LSOHC, and look forward to discussing it further on December 8. Please let me know if you have any questions beforehand.

Sincerely,

Katherine Sherman-Hoehn
Grants Manager, Office of Management and Budget Services

CC: Bob Meier, DNR Assistant Commissioner
Kelly Wilder

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