

# POLICY

**Date:** February 6, 2025

**Number:** CWDB25-01

## State-Funded Program: Indirect Costs

### Summary

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This policy provides guidance and establishes procedures on allowable indirect costs. It applies to all entities contracted with the California Workforce Development Board (CWDB) for a state-funded grant and is effective on the date of issuance. For guidance on indirect costs for federal-funded grants, refer to [WSD18-05](#).

### Definitions

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CWDB follows [Uniform Guidance](#) in defining the terms below:

#### *Cost Principles*

**Allocable:** Costs that are chargeable or assignable to a specific state grant award based on relative benefits received

**Allowable:** The cost can be paid by the grant agreement.

**Reasonable:** The cost reflects what a prudent person might pay.

#### *De minimis Rate*

“De minimis” is Latin for “related to insignificant things.” Instead of calculating an indirect cost rate, Fiscal Agents and Subrecipients of CWDB state-funded grants may use a de minimis rate of up to 20% of modified total direct costs (MTDC).

#### *Direct costs*

Costs that are specifically related to a grant objective or that can be easily assigned to grant objectives with a high degree of accuracy.

#### *Fiscal Agent*

Refers to the awarded agency that enters into an agreement with the State of California and carries out the state award as a recipient of grant funds (grantee) under the CWDB.

### *Grant Program*

This refers to the program the Fiscal Agent is carrying out with this CWDB state-funded grant, as described in the grant application and grant agreement.

### *Indirect costs*

Costs incurred for a common or joint purpose benefitting more than one grant or purpose and are not readily assignable to the grant objectives specifically funded [i.e., the grant activities].

### *Indirect cost rate (ICR)*

A calculation for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.

### *Modified Total Direct Costs (MTDC)*

Includes all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition reimbursement, scholarships and fellowships, participant support costs, and the portion of each subaward in excess of \$25,000. With CWDB's prior approval, the grantee may exclude other items to avoid serious inequity in the distribution of indirect costs.

### *Negotiated Indirect Costs Rate Agreement (NICRA)*

An agreement that estimates the indirect cost rate negotiated between the federal government and a grantee organization that reflects indirect costs and fringe benefit expenses incurred by the organization that the federal government may reimburse.

### *Subaward or Subgrant*

An award provided by a pass-through entity (Fiscal Agent) to a subrecipient so that the subrecipient can carry out part of a state award received by the pass-through entity. It does not include payments to a contractor or to an individual who is a state program beneficiary. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

### *Subrecipient or Subgrantee*

A non-federal entity that receives a subaward or subgrant from a pass-through entity (Fiscal Agent) to carry out part of a state program but does not include an individual that is a beneficiary of such program. A subrecipient or subgrantee may also be a recipient of other state awards directly from the state awarding agency.

## Direct vs. Indirect Costs

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There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the award. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances, either as a direct or an indirect cost, to avoid possible double charging of awarded funds.

Generally speaking, costs are direct if they flow immediately to grant activities. Program implementation and the cost of staff directly working to achieve the grant objectives (salaries and fringe benefits) are direct costs. The following items can be direct costs if they are allocable to the project:

- Managing, coordinating, directing, and/or evaluating the overall program/project.
- Preparing program plans, budget schedules, and related amendments.
- Monitoring programs, projects, sub-recipients, and related systems and processes.
- Developing systems and procedures, including management information systems, for assuring compliance with program requirements.
- Preparing reports and other documents related to program requirements.
- Evaluating program results against stated objectives.
- Performing administration services such as program-specific payroll, accounting, auditing, or legal activities.

To decide whether a cost is direct, ask the following:

1. Is it normally charged as indirect?
  - a. If the answer is YES, it is an indirect cost. Stop here.
  - b. If the answer is NO, proceed to question two (2).
2. Does the cost result in a direct benefit to the grant program?
  - a. If the answer is YES, proceed to question three (3).
  - b. If the answer is NO, it is an indirect cost. Stop here.
3. Can the cost be easily and accurately traced to the grant program?
  - a. If the answer is YES, proceed to question four (4).
  - b. If the answer is NO, it is an indirect cost. Stop here.
4. Does it only benefit the grant program?
  - a. If the answer is YES, it is a direct cost.
  - b. If the answer is NO, it is an indirect cost.

**Tip:** If explaining how a cost is tied to the grant is complicated or weak, the cost is probably not a direct cost.

The following are examples of direct and indirect costs:

#### *Direct Cost:*

- The salaries and fringe benefits of employees who work on the grant, the cost of supplies, and other items of expense incurred for the grant program (also known as “direct staff costs”). Direct staff costs must be outlined in budget forms.
- Costs of activities performed primarily as a service to members, clients, or the general public when they are significant and necessary to the fulfillment of programmatic objectives.

#### *Indirect Costs:*

- Administration—Salaries for staff serving multiple program objectives (also known as “indirect staff”); general administration and general expenses such as the Director’s Office, accounting, and personnel.
- Office space (generally calculated by square feet) or building depreciation.
- Pens, paper clips, and other office equipment that are essential for all staff (direct and indirect) for the overall business processes.

## Indirect Cost Rate Options

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An indirect cost rate is a calculation for determining fairly and conveniently, within the boundaries of administrative principles, what proportion of indirect cost each program should bear. Fiscal Agents may use one of two options in charging indirect costs to grant funds.

#### *Option #1*

The first is the de minimis cost rate option. In place of calculating an indirect cost rate, Fiscal Agents and Subrecipients may claim up to a certain percentage of modified total direct costs (MTDC) as reimbursable indirect costs.

For example, for the current H RTP: Healthcare grant, the de minimis indirect cost rate is defined as 20% of the grant award.

Indirect costs that can be requested are not based on the entire budget but on the MTDC amount. To calculate allowable de minimis costs, first calculate the MTDC.

To calculate the MTDC:

1. Add up all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward.

2. Exclude equipment, capital expenditures, charges for patient care, rental costs, tuition reimbursement, scholarships and fellowships, participant support costs, and the portion of each subaward in excess of \$25,000.
3. The resulting amount is the MTDC.
4. Multiply the MTDC by 0.2 to calculate the de minimis cost rate for this state grant-funded program (i.e., the maximum allowable indirect costs may be incurred).

Example

<b>Cost category</b>	<b>Amount</b>
Direct salaries and wages	\$500,000
Fringe benefits (e.g., health insurance retirement plan costs for grant program employees)	\$50,000
Materials and supplies	\$5,000
Services (e.g., training programming, consultants for grant programming work)	\$200,000
Travel	\$5,000
Subaward #1	\$25,000
Subaward #2	\$25,000
<i>MDTC Total</i>	<i>\$810,000.00</i>

De Minimus Rate calculation

$$\$810,000 \times 0.2 = \$162,000 = \text{De Minimus Cost Rate}$$

*Option #2*

CWDB honors federal NICRAs. The second option is to use the Fiscal Agent/Subgrantee’s NICRA, if they have one. To use a NICRA, it must be in place, effective on the date the grant agreement is executed, and valid for the entire grant period. The Fiscal Agent must provide documentation of the NICRA to CWDB program staff upon request.

*Application of Policy to Subrecipients*

CWDB directly contracts with and manages the Fiscal Agent. The Fiscal Agent is responsible for managing its Subgrantees and ensuring their costs conform with this policy. Refer to [Subrecipient and Contractor Management](#) policy (CWDB24-01).

## Examples

- If the Fiscal Agent has a NICRA that provides a 28 percent limit on indirect costs at the time of award, Subrecipients may also use the 28 percent limit if the Fiscal Agent wishes to allow it.
- If a Subrecipient has a 28 percent limit in its NICRA at the time of award but Fiscal Agent or other Subrecipients *do not* have a NICRA at the time of award, the Fiscal Agent may decide whether or not to let Subrecipient use its NICRA or de minimis rate.
- If the Fiscal Agent does not have a NICRA at the time the grant is executed but obtains one later, the Fiscal Agent *may not* use the NICRA.

## Duplicate Allocation

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There is no universal rule for classifying certain costs as either direct or indirect under every accounting system.

The Fiscal Agent/Awardee is responsible for strategic cost allocation and ensuring expenditure consistency throughout the grant term. The Fiscal Agent/Awardee must have established mechanisms in place upon being awarded to ensure proper financial management, including systems that prevent possible double charging of awarded funds. For instance, an item categorized as indirect in the budget cannot also be charged to the grant as direct.

For more information on allocable costs, see Uniform Guidance at 2 CFR 200.405, Allocable costs.

## Fundamental Rules

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- Fiscal Agent may elect to use either the de minimis rate for indirect costs or up to the negotiated amount in its NICRA (if it has one).
- Subrecipients/Subgrantees may use the same option the Fiscal Agent selected for indirect costs. Fiscal Agents/Awardees have the authority and discretion of utilizing the indirect cost rate method they deem best suited for their grant program and that aligns with cost principles.
- A financial system should be in place at the initiation of the grant term to ensure proper use of funds and prevent possible double charging.

## References

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- [Subrecipient and Contractor Management](#) (CWDB24-01)
- Uniform Guidance, [2 CFR 200.405](#)

## Action

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Bring this policy to the attention of all relevant parties interested in or receiving CWDB state funds.

## Inquiries

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If you have any questions, contact the CWDB Program Analyst/Manager through the assigned grant program initiative email address.

California Workforce Development Board