INDIRECT COST RATES

EXECUTIVE SUMMARY

This policy provides the guidance and establishes the procedures regarding indirect cost rate establishment and approval. This policy applies to all Workforce Innovation and Opportunity Act (WIOA) subrecipients who have a subaward in the form of a subgrant, and is effective immediately.

This policy contains some state-imposed requirements. All state-imposed requirements are indicated by bold, italic type.

This Directive finalizes Workforce Services Draft Directive Indirect Cost Rates (WSDD-193), issued for comment on January 8, 2019. The Workforce Development Community submitted four comments during the draft comment period. A summary of comments, including all changes, is provided as Attachment 2.

Retain this Directive until further notice.

REFERENCES

- Appendix IV to Part 200 - “Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations”
- Appendix V to Part 200 – “State/Local Government wide Central Service Cost Allocation Plans”
- Appendix VII to Part 200—“States and Local Government and Indian Tribe Indirect Cost Proposals”

The EDD is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities.
BACKGROUND

On December 26, 2013, the Office of Management and Budget (OMB) issued the Uniform Guidance, which establishes uniform administrative requirements, cost principles, and audit requirements for federal awards. The Uniform Guidance consolidated multiple, previously separate, sets of OMB guidance into one combined set of rules. The following year, the DOL adopted the OMB Uniform Guidance and issued DOL Exceptions.

The Uniform Guidance applies to all federal awards made on or after December 26, 2014. Therefore, beginning with WIOA Program Year (PY) 2015-16 funds, all subrecipients of this funding must adhere to the Uniform Guidance, DOL Exceptions, and corresponding WIOA administrative requirements, cost principles, and audit requirements.

POLICY AND PROCEDURES

Definitions

Agency or Operating Agency – An organizational unit or sub-division within a governmental unit that is responsible for the performance or administration of federal awards or activities of the governmental unit.

Allocated Central Services – Central services that benefit operating agencies but are not billed to the agencies on a fee-for-service or similar basis. These costs are allocated to benefitted agencies on some reasonable basis. Examples of such services might include general accounting, personnel administration, and purchasing.

Base – The accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual federal awards. The direct cost base selected should result in each federal award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.

Billed Central Services – Central services that are billed to benefitted agencies and/or programs on an individual fee for service or similar basis. Typical examples of billed central services include computer services, transportation services, insurance, and fringe benefits.
Central Service Cost Allocation Plan – Documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a state, local government, or Indian tribe on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users.

Cognizant Agency (for indirect costs) – The federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed in accordance with the Uniform Guidance on behalf of all federal agencies.

Cost Allocation Plan – For the purposes of WIOA grants, means central service cost allocation plan.

Cost Objectives – A program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. A cost objective may be a major function of the non-federal entity, a particular service or project, a federal award, or an indirect cost activity.

Direct Costs – Costs that can be identified specifically with a particular final cost objective, such as a federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.

Final Rate – An indirect cost rate applicable to a specified past period that is based on the actual allowable costs of the period. A final audited rate is not subject to adjustment.

Fixed Rate – An indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

Indirect Costs – Costs incurred for a common or joint purpose, benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

Indirect Cost Rate Proposal – The documentation prepared by a non-federal entity to substantiate its request for the establishment of an indirect cost rate.

Indirect Cost Rate – A device 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.
**Indirect Cost Pool** – Accumulated costs that jointly benefit two or more programs or other cost objectives.

**Major Local Government** – Local government that receives more than $100 million in direct federal awards subject to Appendix V to Part 200.

**Modified Total Direct Cost (MTDC)** – 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 remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of $25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

**Motor Pool** – A group of motor vehicles centrally controlled (as by a governmental agency) and dispatched for use as needed.

**Non-Federal Entity** – In the DOL, Non-Federal entity means a state, local government, Indian tribe, institution of higher education (IHE), for-profit entity, foreign public entity, foreign organization or nonprofit organization that carries out a Federal award as a recipient or subrecipient (Title 2 CFR Part 2900.2 DOL Exceptions).

**Recipient** – A non-federal entity that receives a federal award directly from a federal awarding agency to carry out an activity under a federal program.

**Participant Support Costs** – Direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects.

**Pass-through Entity** – A non-federal entity that provides a subaward to a subrecipient to carry out part of a federal program.

**Predetermined Rate** – An indirect cost rate, applicable to a specified current or future period, usually the governmental unit's fiscal year. This rate is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment. Because of legal constraints, predetermined rates are not permitted for federal contracts (they may, however, be used for grants or cooperative agreements). Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency for indirect costs.
**Provisional Rate** – A temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on federal awards pending the establishment of a final rate for that period.

**Subaward** – An award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

**Subrecipient** – A non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal 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 federal awards directly from the federal awarding agency.

**Indirect Cost Distinction**

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 federal award or other final cost objective. 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 in order to avoid possible double-charging of federal awards.

A cost is allocable to a particular federal award or other cost objective, if the goods or services involved are chargeable or assignable to the federal award or cost objective in accordance with relative benefits received. For more information on allocable costs see Uniform Guidance Section 200.405, Allocable costs.

Indirect costs are those remaining to be allocated to benefitted cost objectives after direct costs have been determined and assigned directly to awards/grants. Costs cannot be considered indirect if the cost (in like circumstance) serves a similar purpose to costs that have been charged as direct costs (Appendix IV & VII to Part 200).

The following are examples of direct and indirect costs:

<table>
<thead>
<tr>
<th>Direct Costs</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>The salaries and fringe benefits of employees who work on the grant and the cost of supplies and other items of expense incurred for the federal grant.</td>
<td>Administration – Salaries for staff serving multiple program objectives. General administration and general expenses such as the Director’s Office, accounting, and personnel.</td>
</tr>
<tr>
<td>Nonprofit organization – Costs of activities performed primarily as a service to</td>
<td>Facilities – depreciation on buildings equipment and capital improvements, interest on debt</td>
</tr>
<tr>
<td>Direct Costs</td>
<td>Indirect Costs</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
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<tr>
<td>members, clients, or the general public when significant and necessary to the organization’s mission, whether or not allowable, and allocated an equitable share of indirect costs.</td>
<td>associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. (For nonprofits only Uniform Guidance Section 200.414(b))</td>
</tr>
<tr>
<td>Office space (generally calculated by square feet) or building depreciation used by “direct staff”.</td>
<td>Office space (generally calculated by square feet) or building depreciation used by “indirect staff”.</td>
</tr>
</tbody>
</table>

For guidance on allowable costs refer to Uniform Guidance Section 200.403, “Factors affecting allowability of costs.” Further guidance on allowable costs are detailed in Allowable Costs and Prior Written Approval (WSD16-16).

**Types of Indirect Cost Rates**

There are different types of rates that a subrecipient can use for indirect costs. The type of rate must be negotiated and approved within the indirect cost rate proposal or cost allocation plan:

- **Provisional Rate** – A temporary rate that has been agreed upon for a specified period of time. A provisional rate is generally an acting (or estimated) rate for funding and reporting purposes throughout the grant’s term. At the end of the term the actuals will be calculated, resulting in a final rate, which will replace the provisional rate.
- **Final Rate** – Upon completion of a grant that utilizes a provisional rate, the actual costs will be calculated, resulting in a final rate for the grant. This final rate will replace the provisional rate that was used during the grants term.
- **De minimis Rate** – In place of calculating a rate, a de minimis rate of 10% of modified total direct costs (MTDC) can be used. In order to qualify, the subrecipient must never have received a prior approved indirect cost rate. This method may be used indefinitely for all grants until the subrecipient chooses to negotiate a rate, which can be done at any time.
- **Predetermined Rate** – A rate that is established for a current or future period, which is in most cases not subject to adjustment.
- **Fixed Rate** – A rate that has been agreed upon for a specified period of time. Upon completion of the grant, the actual costs will be calculated and the difference between the rate and expenses will be reflected as an adjustment to the rate for the subsequent period.

**Claiming Indirect Costs**

Subrecipients of WIOA funds are not required to claim indirect costs, however, if a subrecipient is awarded a subgrant and also has more than one source of funding (including direct federal
funding), an indirect cost rate is needed. If indirect costs are claimed, subrecipients must have an indirect cost rate or a cost allocation plan. If none of the above exist, the subrecipient must negotiate a rate with their pass-through entity, or if eligible may elect to use a de minimis indirect cost rate (Uniform Guidance Section 200.331). To determine whether a subrecipient and pass-through entity relationship exists, refer to Directive WSD18-06 Subrecipient and Contractor Distinctions.

*Subrecipients of the Employment Development Department (EDD) will be required to declare in writing their intentions to claim indirect costs each program year prior to receiving WIOA funds by completing and returning the Indirect Cost Declaration that the EDD will provide with the initial subgrant packet (Attachment 1). If the rate is being negotiated during this time, the previously approved rate may be used and the subrecipient is required to submit updated documentation to EDD when the indirect cost rate or cost allocation plan is approved.*

Subrecipients of the EDD that will claim indirect costs and have approved indirect cost rate agreements (ICRA) with their cognizant agency (or other federal agency), or a cost allocation plan must submit one of the following with the initial subgrant packet:

a. A copy of their ICRA with the signed approval letter from the federal agency or signed certification letter (see page 11 - Required Documentation for Proposals).
b. A copy of their cost allocation plan.

If approval has not been received, a copy must be submitted as soon as the indirect cost rate approval documentation or cost allocation plan is received from the cognizant or approving agency. After the EDD has received proper documentation to substantiate federal agency approval of indirect costs or a cost allocation plan, the EDD will send the subrecipient a letter of acknowledgement and approval.

Subrecipients that have not previously established an indirect cost rate, not opting to use the 10% de minimis rate, or only receive federal funds as a subrecipient must submit their indirect cost rate proposals to their pass-through entity for negotiation and approval.

Failure to provide or negotiate a proposed indirect cost rate can lead to disallowance of indirect costs and/or other remedies of noncompliance (Uniform Guidance 200.207 and 200.338).

**Cognizant Agency for Approval of Indirect Costs**

In general, unless different arrangements are agreed to by the concerned federal agencies, for indirect cost rates and departmental indirect cost allocation plans, and central service cost allocation plans, the cognizant agency is the federal agency with the largest dollar amount of federal awards with a non-federal entity.
For state and local government, and Indian tribe-wide central service cost allocation plans, the cognizant agency assignment is described in Appendix V, Section F, “Negotiation and Approval of Central Service Plans.” Once designated as the cognizant agency for indirect costs, the federal agency must remain so for a period of five years.

For nonprofit organizations, once a federal agency is assigned as cognizant agency, the assignment will remain for at least three years, unless there is a shift in the dollar amount of the federal awards to the organization.

Central Service Cost Allocation Plans

Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other documentation that will support the propriety of the costs assigned to federal awards.

Each state is required to submit a plan to the Department of Health and Human Services for each year in which it claims central service costs under federal awards. Each major local government is also required to submit a plan to its cognizant agency for indirect costs annually. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in Appendix V of Part 200 and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for federal approval unless requested to do so by the cognizant agency for indirect costs. When a local government only receives federal funds as a subrecipient, the pass-through entity will be responsible for monitoring the subrecipient’s plan.

Subrecipients of the EDD that are local government must submit a copy of their agency’s cost allocation plan to EDD with the initial subgrant packet. Each cost allocation plan must be accompanied by a certification letter as described in Appendix V Section E4 of Part 200. After receiving the subrecipient’s cost allocation plan and letter of certification, EDD will send a letter to the subrecipient acknowledging receipt and approval of the plan.

Submission of Indirect Cost Proposals

A subrecipient that receives more than $35 million in direct federal funding must submit its indirect cost rate proposal to its cognizant agency for indirect costs for negotiation and approval. These agencies are not eligible to elect a de minimis rate of 10% (Uniform Guidance Section 200.414 (f)). Subrecipients that receive $35 million or less in direct federal funding must develop an indirect cost proposal and maintain the proposal and related supporting
documentation for audit. These subrecipients are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency for indirect costs or their pass-through entity.

Indirect cost proposals must be developed and, when required, submitted within six months after the close of the governmental unit’s fiscal year. If the proposed central service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared, including an amount for central services that is based on the latest approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.

If a subrecipient does not have a prior approved indirect cost rate or cost allocation plan from their cognizant agency, an approved de minimis rate of 10%, or only receives federal funds as a subrecipient, the subrecipient must request approval of indirect costs from their pass-through entity.

Subrecipients of the EDD that require approval of indirect costs by the EDD (as their pass-through entity) must develop and submit their indirect cost rate proposal to the EDD immediately after the organization is advised that a federal award will be made. The proposal must be submitted no later than three months after the grant effective date.

To negotiate and obtain approval from the EDD, indirect cost proposals or cost allocation plans must be submitted to WSBFinancialManagementUnit@edd.ca.gov with the subject line “Indirect Cost Rate Approval”. The hardcopy original signature must be mailed to the following address:

Attn: WSB Financial Management Unit, MIC 69
Central Office Workforce Services Division
Employment Development Department
P.O. Box 826880
Sacramento, CA 94280-0001

Once the indirect cost rate is approved, the Financial Management Unit will send a notification to the subrecipient.

Subrecipients of the EDD that qualify may elect to charge a de minimis rate of 10% of modified total direct costs, which may be used indefinitely. The EDD may request additional information and/or supporting documentation as appropriate or necessary.

**Required Documentation for Proposals**

Subrecipients that require approval of their proposed indirect cost rates must include the following documentation with their proposals:
• Proposed rate, and all relevant worksheets and data
• Copy of the financial data that the rate is based (financial statements, comprehensive annual financial reports, executive budgets, accounting reports, etc.)
• Approximate amount of direct base costs incurred under the federal award, broken out between salaries and wages and other direct costs
• Organizational structure (i.e., organizational charts) of the agency during the period for which the proposal applies, including functional (roles and responsibilities) statements (Revisions are submitted with subsequent proposal)
• A certification letter for your applicable organization (found within Appendix III-VII)

Because of the nature of the federal awards, governmental departments or agencies may be required to develop a cost allocation plan that distributes indirect costs to the specific funding sources. In these cases a narrative cost allocation methodology should be developed, documented, maintained for audit, or submitted, as appropriate to the cognizant agency for indirect costs or the pass-through entity for review and approval. For more detail about these requirements see Appendix VII to Part 200.

For more information about indirect costs and instructions on how to prepare an indirect cost rate proposal refer to the Office of Cost Determination published web guidelines and the Uniform Guidance:

• Appendix III - Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs)
• Appendix IV - Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations
• Appendix V - State/Local Government-wide Central Service Cost Allocation Plans
• Appendix VI - Public Assistance Cost Allocation Plans
• Appendix VII - States and Local Government and Indian Tribe Indirect Cost Proposals

This directive contains guidance from the Uniform Guidance, the EDD, and the U.S. Department of Labor. While the information can be applied to many federal grant programs, we recommend grantees discuss their grant management practices with their own cognizant agencies and pass-through entities to ensure all requirements and expectations are being met.

**ACTION**

Bring this directive to the attention of the appropriate staff.
INQUIRIES

If you have any questions, please contact Financial Management Unit at WSBFinancialManagementUnit@edd.ca.gov.

/s/JAIME L. GUTIERREZ, Chief
Central Office Workforce Services Division

Attachments are available on the internet:

1. Indirect Cost Declaration (DOCX)
2. Summary of Comments (DOCX)