

## DWD Policy 2024-11: Allowable Costs for Federal Grant Awards

**To:** DWD Administrators of Federal Grant Awards and Indiana's Workforce System

**From:** Indiana Department of Workforce Development (DWD)

**Date:** May 14, 2025

### PURPOSE

To provide guidance on allowable costs for Federal grant awards and clarify DWD staff responsibilities to ensure appropriate use of Federal grant award funding.

### REFERENCES

- 2 CFR Part 200 and 2900 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
- 20 CFR Part 683 *Administrative Provisions under Title I of the Workforce Innovation and Opportunity Act*
- Indiana State Board of Accounts *Accounting and Financial Reporting Regulation Manual*
- U.S. Department of Labor *One-Stop Comprehensive Financial Management Technical Assistance Guide Part II*<sup>1</sup>
- Title III of the Social Security Act
- TEGL 07-04: *Issues Related to Real Property Used for ETA Program Purposes*
- TEGL 06-02: *Guidance on the Recovery of Indirect Costs*
- TEGL 03-07: *Transfer of Federal Equity in State Real Property to the States*
- TEGL 03-19: *Real Property Under Employment and Training Administration-Funded Grants*
- TEGL 10-24: *Salary and Bonus Limitation Imposed by Appropriations Language*
- DWD Policy 2024-09: *United States Department of Labor Grant Award Closeout*

### DEFINITIONS

**Allocation base:** An allocation base is the method of documentation used to measure the extent of benefits received when allocating joint costs among multiple cost objectives. The base is incorporated into a mathematical formula that, when applied to the accumulated costs in the pool, results in the amount to be distributed to each final cost objective. Organizations are likely to use different bases for different costs.<sup>2</sup>

**Allowable Cost:** A cost to a particular award or other cost objective, if the goods or services involved are chargeable or assignable to the award or cost objective.<sup>3</sup>

<sup>1</sup> [https://www.dol.gov/sites/dolgov/files/ETA/grants/pdfs/TAG\\_PartII\\_July2011.pdf](https://www.dol.gov/sites/dolgov/files/ETA/grants/pdfs/TAG_PartII_July2011.pdf).

<sup>2</sup> U.S. DOL One-Stop Comprehensive Financial Management Technical Assistance Guide Part II

<sup>3</sup> See selected items of cost in 2 CFR 200.420 for specific examples. See 2 CFR 200.431 for fringe benefits compensation. See 2 CFR 200.439 for equipment and other capital expenditures.

**Award:** Also referred to as “grant” in this document. Any money, loans, or non-cash assistance, granted to the State from the Federal government — or granted by the State to a subrecipient—to support a program authorized by law.

**Capital Asset:** Tangible or intangible assets<sup>4</sup> used in operations having a useful life of more than one year which are capitalized in accordance with Generally Accepted Accounting Principles (GAAP). Capital assets<sup>5</sup> include:

- Land, buildings (facilities), equipment, and intellectual property (including software) whether acquired by purchase, construction, manufacture, exchange, or through a lease accounted for as financed purchase under Government Accounting Standards Board (GASB) standards or a finance lease under Financial Accounting Standards Board (FASB) standards; and
- Additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life (not ordinary repairs and maintenance).

**Capital expenditures:** Expenditures to acquire capital assets or expenditures to make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life.<sup>6</sup>

**Cognizant agency for indirect costs:** The Federal agency responsible for reviewing, negotiating, and approving cost allocation plans and indirect cost proposals on behalf of all Federal agencies.<sup>7</sup>

**Contract:** A legal instrument by which a recipient or subrecipient conducts procurement transactions under a Federal award.<sup>8</sup>

**Cost allocation:** The process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may involve assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.<sup>9</sup>

**Cost objective:** 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 recipient or subrecipient, a particular service or project, a Federal award, or an indirect cost activity.<sup>10</sup>

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<sup>4</sup> See more in the Indiana State Board of Accounts Accounting and Financial Reporting Regulation Manual.

<sup>5</sup> 2 CFR 200.1.

<sup>6</sup> 2 CFR 200.1.

<sup>7</sup> 2 CFR 200.1.

<sup>8</sup> 2 CFR 200.1.

<sup>9</sup> 2 CFR 200.1.

<sup>10</sup> 2 CFR 200.1.

**Cost Sharing or Matching:** The portion of project costs not paid by Federal funds or contributions (unless otherwise authorized by Federal statute).<sup>11</sup>

**Disallowed Costs:** Costs charged to a grant that the Federal agency or pass-through entity determines to be unallowable in accordance with applicable federal statutes, regulations, the provisions of the Uniform Guidance cost principles, or the terms and conditions of the federal award.<sup>12</sup>

**Equipment:** Tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the recipient or subrecipient for financial statement purposes or \$10,000.<sup>13</sup>

**Expenditures:** Charges made by a recipient or subrecipient to a project or program for which a Federal award was received.<sup>14</sup>

**Indirect Costs:** Those 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. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs. Indirect cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.<sup>15</sup>

**Non-Federal Entity:** A state, local government, Indian tribe, institution of higher education, or non-profit organization that carries out a Federal award as a recipient or subrecipient.<sup>16</sup>

**NOTE: This may include local areas as established by the Workforce Innovation and Opportunity Act of 2014 (WIOA).**

**Supply/Supplies:** All tangible personal property other than those described in the definition of equipment in this section. A computing device is a supply if the acquisition cost is less than the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or \$10,000, regardless of the length of its useful life.<sup>17</sup>

**Uniform Guidance:** The guidance at 2 CFR part 200, including any exceptions identified by the Department at 2 CFR part 2900, which recipients and subrecipients of a Federal award must follow.

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<sup>11</sup> 2 CFR 200.1.

<sup>12</sup> 2 CFR 200.1.

<sup>13</sup> 2 CFR 200.1.

<sup>14</sup> 2 CFR 200.1.

<sup>15</sup> 2 CFR 200.1.

<sup>16</sup> 2 CFR 200.1.

<sup>17</sup> 2 CFR 200.1.

**NOTE: This policy cites the Uniform Guidance as updated in 2024. These revisions to the Uniform Guidance apply to all federal grant awards issued on or after October 1, 2024, including any amendments to grant awards that result in the award of additional funds and/or any incremental funding awarded by the United States Department of Labor Employment and Training Administration (ETA) on or after October 1, 2024.**

## CONTENT

Federal grant award funding can only be used for costs that are necessary, reasonable, and allocable, as permitted by federal guidance. There are primarily two types of costs: direct costs and indirect costs. Determinations of allowable costs will be made in accordance with the Cost Principles found at 2 CFR Part 200 and 2900 (Uniform Guidance). Determinations of allowable costs may also involve examining programmatic statute and regulations (such as WIOA) that may impact allowability and the specific terms and conditions of the grant.

### Direct and Indirect Costs

To determine the difference between direct and indirect costs, ask whether the cost can be traced. If the cost can be identified specifically with a particular cost objective such as a grant, program, project, function or activity, then it is a direct cost. If the cost cannot be readily assigned to a cost objective or benefits multiple cost objectives, then it is an indirect cost. A cost methodology must be used to assign these costs to a final cost objective. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. A cost cannot be charged as a direct cost to one grant and as indirect to another.

#### Direct Costs

Direct costs<sup>18</sup> are costs that can be identified specifically for a particular final cost objective, such as:

- A Federal award; or
- Other internally or externally funded activity to which the costs can be directly assigned with a high degree of accuracy.

Examples of direct costs include:

- Salary and fringe benefits for a project coordinator who only works with a certain project or program.
- Space costs assigned to the project coordinator that is based on the square footage of their office/cubicle.
- Computing devices assigned to the project coordinator.

Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect costs of Federal awards. Typical costs charged directly to a Federal award include the compensation of employees who work on that award, their related fringe benefit costs, the costs of materials,

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<sup>18</sup> 2 CFR 200.413.

and other items of expense incurred in the performance associated with the Federal award. If directly related to a specific award, certain costs that otherwise would be treated as indirect costs may also be considered direct costs. Examples include extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities, program evaluation costs, or other institutional service operations.

Some direct costs may also benefit more than one cost objective or program. These costs are often allocated based on the proportion of underlying direct costs for a specific grant.

Examples include:

- Salaries for a case manager who works with WIOA Title I participants.
- Square footage of an office/cubicle.
- Computing devices assigned to generally manage cases.

### **Indirect Costs**

Indirect costs<sup>19</sup> are costs incurred for a common or joint purpose benefitting more than one cost objective and are not readily assignable to the cost objectives specifically benefitting without effort disproportionate to the results achieved. When indirect cost pools are necessary, they must be distributed to benefitting cost objectives on bases that will produce an equitable result compared to relative benefits derived. Cost incurred for the same purpose and treated as direct costs cannot be charged as indirect costs. Not all indirect costs are classified as administrative costs and vice versa. Administrative costs can be personnel, non-personnel, direct and indirect.<sup>20</sup> The amount chargeable is limited.

**Facilities and Administrative Examples:** Administrative salaries, executive director salary, payroll processing agent, administrative space, and operational expenses.

The salaries of administrative and clerical staff should normally be treated as indirect costs. Direct charging of these costs may be appropriate only if the following conditions are met:

- Administrative or clerical services are integral to a project or activity;
- Individuals involved can be specifically identified with the project or activity;
- Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
- The costs are not also recoverable as indirect costs.

**Cost associated with facilities examples:** Depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.

**Cost associated with administration examples:** General administration and general expenses such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories.

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<sup>19</sup> 2 CFR 200.414.

<sup>20</sup> 20 CFR 683.215.

For DWD to claim indirect costs incurred under a federal grant, contract, or cooperative agreement, the indirect costs must be contained in a cost allocation plan and/or indirect cost rate proposal developed in accordance with the requirements of Uniform Guidance and approved by the awarding Federal agency.<sup>21</sup>

### **Standards for Evaluating Allowable Costs**

When evaluating costs, DWD and any subrecipients must determine whether the costs are allowable, specifically considering whether the costs are necessary, reasonable, and allocable.

Costs are allowable<sup>22</sup> if they:

- Are reasonable, necessary, and allocable for the performance of the Federal grant;
- Conform to any limitations or exclusions set forth in federal law, regulations, and grant terms;
- Are consistent with policies and procedures that apply uniformly to both federally financed and other activities of the recipient or subrecipient;
- Are accorded consistent treatment;
- Are in accordance with Generally Accepted Accounting Principles (GAAP);
- Are not included as a cost or used to meet cost sharing requirements of any other federally-financed program in either the current or a prior period;
- Are adequately documented; and
- Are incurred during the approved budget period.

Costs are necessary<sup>23</sup> if they:

- Align with allowable grant activities; and
- Are necessary to accomplish the grant's goals.

Costs are reasonable<sup>24</sup> if they:

- Do not exceed what would be incurred by a prudent person under the same circumstances;
- Are ordinary and necessary for the proper and efficient performance of the grant;
- Follow sound business practices, applicable laws and regulations, and the terms and conditions of the grant award;
- Are using market prices for comparable goods/services;
- Are the result of prudent action; and
- Do not significantly deviate from established practices.

Costs are allocable<sup>25</sup> if they:

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<sup>21</sup> TEGL 06-02.

<sup>22</sup> 2 CFR 200.403.

<sup>23</sup> 2 CFR 200.403.

<sup>24</sup> 2 CFR 200.404.

<sup>25</sup> 2 CFR 200.405.

- Are goods or services that are assignable to the Federal award or cost objective in accordance with the relative benefits received. This standard is met if the cost:
  - Is incurred specifically for the Federal award;
  - Benefits the federal award, the work of DWD, and the work of the subrecipient;
  - Can be distributed in proportions that may be approximated using reasonable methods;
  - Is necessary to the overall operation of DWD and is assignable in part to the Federal award; and
  - Provide an acceptable base to measure benefits.

## Unallowable and Prohibited Costs

Federal funds cannot be used for:

- Legal expenses for prosecution of claims or civil actions.<sup>26</sup>
- Costs of lobbying.<sup>27</sup>
- Fines, penalties and damages resulting from violations of, alleged violations of, or failure to comply with Federal, state, and/or local laws.<sup>28</sup>
- Other items outlined in program regulations, statute, Uniform Guidance or grant terms and conditions.

Payments made for costs determined to be unallowable by either the Federal awarding agency, cognizant agency for indirect costs, or pass-through entity, either as direct or indirect costs, must be refunded (including interest) to the Federal government in accordance with instructions from the Federal agency that determined the costs are unallowable unless Federal statute or regulation directs otherwise.

Unless the Federal Grant Officer has given prior approval, costs cannot be charged to a grant before the applicable period of performance start date,<sup>29</sup> nor can they be charged after the applicable period of performance end date.<sup>30</sup>

## Cost Considerations and Common Risks

DWD or subrecipient staff who administer costs to a Federal grant award should consider if costs are necessary, reasonable, and allocable and be aware of associated common cost risks when determining whether the cost is allowable. See **Attachment A** for additional guidance on cost considerations and common risks.

## Cost Classification

To determine the cost classification,<sup>31</sup> the function or activity with which a cost is associated and the category that benefits from the related function or activity must be considered. Expenditures that are misclassified or coded to cost categories or expenses that are not

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<sup>26</sup> 2 CFR 200.435.

<sup>27</sup> 2 CFR 200.450.

<sup>28</sup> 2 CFR 200.441.

<sup>29</sup> 2 CFR 200.458.

<sup>30</sup> 2 CFR 200.472.

<sup>31</sup> 2 CFR 200.412.

associated with a particular function, service, or program misrepresents the actual costs of managing a program or project. When determining cost classification,<sup>32</sup> remember that:

- There is no universal rule.
- Costs may be program or administrative.
- Costs may be direct or indirect.
- Costs must be treated consistently in like circumstances.
- Double-charging must be avoided.

Accurate financial reporting whether through the ETA-9130 reports, SF 425s, or the budget to actual reports is essential to ensure that decisions made by third party users are correct. Equally important is the classification of revenues or fund source that is being used to cover such costs.

### **Program Costs**

Program costs are costs related to the direct provision of services to participants and employers. Examples include:

- Costs not considered administrative in definition or nature.
- Costs related to participants, direction, supervision, management, or tracking.
- Costs related to training, providers, labor market information, or performance.
- Costs directly associated with a program activity or goal.
- Personnel and non-personnel costs.
- Direct and indirect costs.

### **Administrative Costs**

Administrative costs are expenditures incurred in the performance of administrative functions and in carrying out activities that are not related to the direct provision of services to participants and employers.<sup>33</sup> Such costs include both personnel and non-personnel costs and both direct and indirect costs. Examples include:

- Accounting, Budgeting, Payroll, Procurement, Cash Management.
- Facilities, Property Management, Insurance, Personnel, General Legal, HR.
- Monitoring, Audits, Investigations, Incident reports, Resolution activities.
- Automated Systems.
- Any contract or sub-award that is “administrative” in function.

Please note that administrative costs after the period of performance that are associated with closeout are allowable.<sup>34</sup> If closeout costs are incurred, they must be liquidated prior to the due date of the final report and charged to that final budget period.<sup>35</sup>

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<sup>32</sup> 2 CFR 200.412.

<sup>33</sup> 20 CFR 683.215.

<sup>34</sup> 2 CFR 2900.

<sup>35</sup> DWD Policy 2024-09: *United States Department of Labor Grant Award Closeout*

## Cost Limitations

Costs may not exceed the maximum amount of the Federal grant award.<sup>36</sup> The Federal award may have statutory requirements that limit the allowability of costs. Examples include:

- Administrative costs.
- Pay-for-performance contract expenditures.
- Transitional job expenditures.
- Incumbent worker training expenditures.

The Funding Opportunity Announcements (FOAs) and Grant Terms and Conditions may also either restate or identify new cost limitations for a particular program. Some include:

- Administrative costs.
- Salary & bonus.
  - Recipients and subrecipients are prohibited from using funds to pay any individual (salary plus bonuses) at a rate more than the annual rate of basic pay of a [Federal Executive Level II](#).<sup>37</sup>
- Consultants.
- Pay-for-Performance contract strategies.

If a grant has a limit on administrative costs, recipients will be monitored for compliance with the administrative cost limit during the entire period of performance. Any amounts that exceed this limitation at closeout will be disallowed and subject to debt collection.<sup>38</sup>

## Shifting of Costs

A cost allocable to a particular Federal award may not be charged to other Federal awards (for example, to overcome fund deficiencies or to avoid restrictions imposed by Federal statutes, regulations, or the terms and conditions of the Federal awards). However, this prohibition would not preclude the recipient or subrecipient from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.<sup>39</sup>

It is possible to shift costs within the same federal award. For example, costs could be shifted from the administrative cost category to the program cost category, if applicable.

Additionally, costs could be shifted from direct costs to indirect costs, or vice versa depending on the circumstances of the award.

## Applicable Credits Towards Allowable Costs

Applicable credits are credits that reduce expense items allocable to the grant as either direct or indirect costs.<sup>40</sup> Examples include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of

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<sup>36</sup> 2 CFR 200.408.

<sup>37</sup> TEGL 10-24.

<sup>38</sup> 2 CFR 200.346.

<sup>39</sup> 2 CFR 200.405(c).

<sup>40</sup> 2 CFR 200.406.

overpayments or erroneous charges. They must be credited to the Federal award either as a cost reduction or cash refund, as appropriate. These reductions in costs cannot be counted towards a match requirement.

### **Accounting for Grant Funds**

DWD must disburse and account for the Federal award in accordance with federal and state laws and procedures for expending and accounting for the funds. Accounting systems must contain sufficient codes of revenue and expenses to adequately track spending of grants. Additionally, the accounting system must track grant activities that have an expenditure cap or threshold.

DWD's and any subrecipients' financial management systems (if applicable), including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions. The systems must be able to trace funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

### **Documenting Costs**

DWD and any subrecipients must keep records showing that Federal grant award costs are allowable, necessary, reasonable, and allocable. The records may include fully executed contracts, agreements, leases, invoices, bank statements, time and attendance records, eligibility for stipends, written approvals, and justification for needs-related payments. The records must explain or support the cost classification used.

Additionally, the documentation must show allocation to the appropriate Federal award. The records may include information regarding Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest, and be supported by source documentation listed in the paragraph above. Subrecipients will be asked to provide cost documentation during monitoring.

Grant recipients may be required to revise grant application budget documents prior to award execution to account for discrepancies among estimated funding availability, funding requests, and actual award amounts.

### **Prior Written Approval**

DWD must seek written approval<sup>41</sup> before incurring costs that are special or unusual costs or costs that may not clearly be allowable. DWD must review the terms and conditions of the Federal award to decide whether prior written approval is needed. Inclusion of items in the statement of work or budget as awarded do not constitute prior approval. When prior written approval is sought, the cost must still be necessary, reasonable, and allocable. The written approval from the authorizing federal agency determines if the cost is allowable. When submitting a request for prior written approval, DWD will:

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<sup>41</sup> 2 CFR 200.407.

- Submit the request to the relevant Grant Officer who is authorized to provide prior written approval.
- Submit the request at least 30 days before the requested action occurs.<sup>42</sup>
- Include the timeframe or scope of the agreement in the request.

If the Grant Officer authorizes the request, purchases must be made before the last funded year of the applicable grant.

Subrecipients must seek written approval from DWD before incurring costs that may not be clearly allowable. Once DWD receives a request for written approval, the agency may also contact the relevant Grant Officer regarding the request.

## **ACTION**

All DWD staff, subrecipients, and administrators of Federal grant awards must follow this guidance.

## **ATTACHMENTS**

**Attachment A** - Cost Considerations and Common Risks

## **EFFECTIVE DATE**

Immediately.

## **ENDING DATE**

Upon rescission.

## **ADDITIONAL INFORMATION**

Questions regarding the content of this publication should be directed to [policy@dwd.in.gov](mailto:policy@dwd.in.gov).

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<sup>42</sup> 2 CFR 2900.16.

## ATTACHMENT A

### COST CONSIDERATIONS AND COMMON RISKS

#### Considerations

DWD or subrecipient staff who administer costs to a Federal grant award should consider these questions when determining whether the cost is allowable (list not exhaustive):

Is the cost necessary?

- Does the purchase align with the objectives/goals of the program for which the Federal funds were awarded?
- Is the cost necessary for the performance of the award?
- Is this item or service needed to meet grant goals?
- Is this the minimum amount of funds required to meet DWD's or the subrecipient's grant needs?

Is the cost reasonable?

- Does DWD or the subrecipient have the capacity to use what is being purchased?
- Did DWD or the subrecipient pay a fair price?
- Could DWD or the subrecipient comfortably defend this purchase?

Is the cost allocable?

- Does DWD's or the subrecipient's grant, program, or project benefit from this cost?
- Are there benefits to both the Federal award and other work of DWD or the subrecipient and, if so, can they be distributed based on proportionate share?
- Are the benefits measured using acceptable bases?

#### Common Risks

DWD or subrecipient staff who administer costs to a Federal award must be aware of these common risks:

- Cost Allowability
  - Expenditure funds that are explicitly prohibited by statute or regulations by misclassifying them.
  - Prudent person standard is not applied consistently between grant funds and non-Federal funds.
  - Documentation does not demonstrate that costs are necessary, reasonable, and allocable.
  - Shifting costs to meet program's statutory administrative cost limitations.
  - Not considering applicable credits when calculating total costs.
- Cost classification
  - Misclassifying administrative costs under program costs.
  - Misclassifying costs based on job title rather than function.
  - Inconsistent treatment of classifying costs to meet statutory cost limitations.
- Cost allocation

- Charging a cost under the direct cost category for one program when the cost benefits multiple funding streams or programs.
- Using unacceptable bases.
- Lack of documentation to support the allocation of costs.
- Treating costs inconsistently each quarter.
- Allocating costs not based on relative benefit received.