



Fall Forum 2021

Stimulus Funds and UGG, and You and Me, So Happy (Back) Together

How Sweet It is to Claim Indirect on Stimulus Funds

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- “There is no universal rule for classifying certain costs as either direct or indirect.”
 - *2 CFR 200.412*
- But... there are guidelines

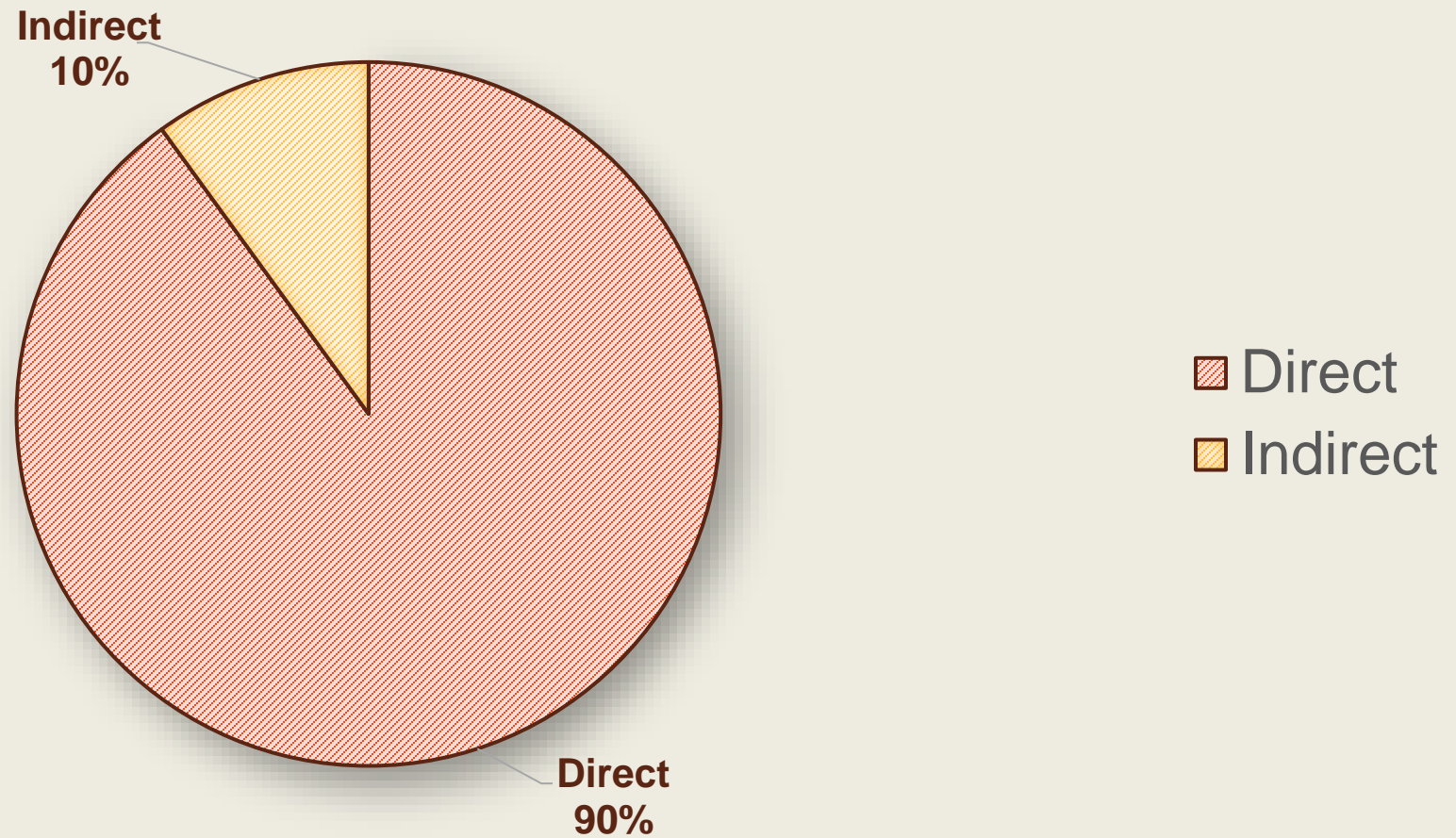


General information

The boring, but necessary basics.



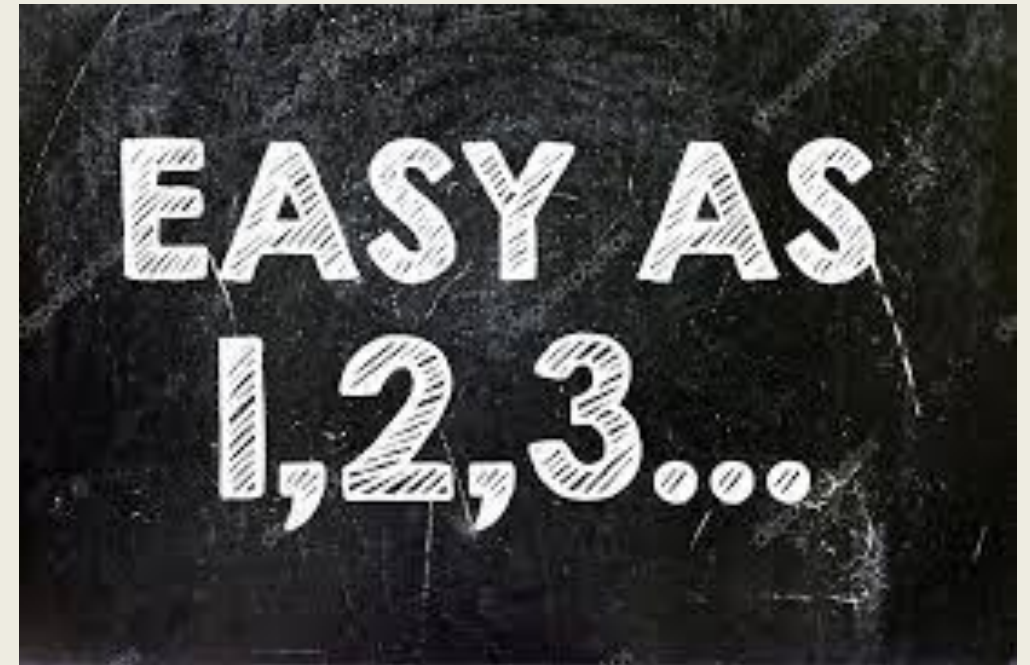
Total Cost of Federal Awards





Allowable Costs

- Reasonable
- Necessary
- Allocable
 1. *Direct Charge*
 - Cost Allocation Plan
 2. *Indirect Costs/Facilities and Administrative (F&A) Costs*





It's a fraction!

$$\frac{\text{Indirect Cost Pool}}{\text{Allocation Base}} = \text{Indirect Cost Rate}$$





What the regs say

- 2 CFR 200.412 – 200.414
 - *Post-secondary institutions: Appendix III*
 - *Nonprofits: Appendix IV*
 - *State/local governments: Appendices VII*





OMB Revisions to Indirect Costs

- Expanded use of de minimis rate (includes grantees that have previously negotiated a rate)
 - *Unavailable for restricted rate programs and certain state/local gov'ts*
 - *200.414(f)*
- Rate agreements must be available on OMB-designated website
 - *200.414(h)*
- Adds program evaluation costs as a direct cost example
 - *200.413(b)*



OMB Revisions to Indirect Costs – Pass-throughs

- If subrecipient does not have approved rate, pass through must accept:
 - *Negotiated indirect rate between pass-through and subrecipient;*
 - *Negotiated rate between different pass-through and subrecipient; or*
 - *De minimis rate*
 - *200.331(a)(4)*
- *SEAs must negotiate rates with LEAs: 34 CFR 76.561(b)
 - *May offer flat 8% restricted rate to IHEs and nonprofit subrecipients,*
 - 34 CFR 76.564



Still, Ineligible to use the **de minimis rate**, according to ED:

- State and local governments
 - *EDGAR 75.561 and 76.561 requires States to negotiate rates with LEAs; accordingly, these entities have a negotiated rate.*
 - What about new LEAs/charters?
 - What if State only negotiated *restricted* rates, and LEA has never negotiated an *unrestricted* rate?
- Restricted rate programs
 - *De minimis rate is an “unrestricted” rate. Cannot be used for programs with supplement not supplant provisions*
- Training rate programs, as defined under EDGAR 75.562



Reimbursement of indirect costs

Show me the money!



Applying the Rate

- Apply rate (percentage) **to the base** (apply to your current year direct costs minus capital expenditures, etc., NOT entire grant!)
- That “reimbursement” has no federal accountability



Wrong Way/Right Way: Modified Total Direct Cost Base

<u>Incorrect Calculation</u>	
Total Award	\$4,000,000
	<u>\$4,000,000</u>
Rate Applied	20%
Indirect costs	\$800,000

<u>Correct Calculation</u>	
Total Direct Costs	\$3,350,000
Less: Equipment	(\$100,000)
Less: Subcontracts	(\$2,550,000)
Plus: first \$25,000ea	<u>\$50,000</u>
MTDC Base	<u>\$750,000</u>
Rate Applied	20%
Indirect costs	\$150,000



Pro tip:

The costs you exclude when developing your rate are the same costs you exclude when applying your rate for reimbursement



Applying the Rate - Frequency

- Can claim indirect costs periodically (monthly, quarterly, annually)
- Must be based on actual expense already incurred (i.e., couldn't take all at beginning of year)



Types of rates

The restricted indirect cost rate.



Restricted rate calculation

- Applies to programs with supplanting prohibition
 - *34 CFR 76.563*
- It's a different fraction!
 - *34 CFR 76.564*

$$\frac{\text{General management costs} + \text{Fixed costs}}{\text{Other expenditures}} = \text{Restricted Rate}$$



Administration, Indirect Cost or Both?



Administrative cost limitations

Administrative costs may be direct OR indirect

Administrative Cost Cap

- Limit applies against total grant amount
- Grantee should list administrative costs in budget breakout
 - *ESSER Guidance*: “Administrative costs include costs (direct and indirect) involved in the proper and efficient performance and administration of ESSER or GEER funds.”



Must my ICR be capped at the same percentage as my admin cap?

- Perkins subgrant has 5% cap on admin
- Post-secondary subgrantee has 8% restricted rate

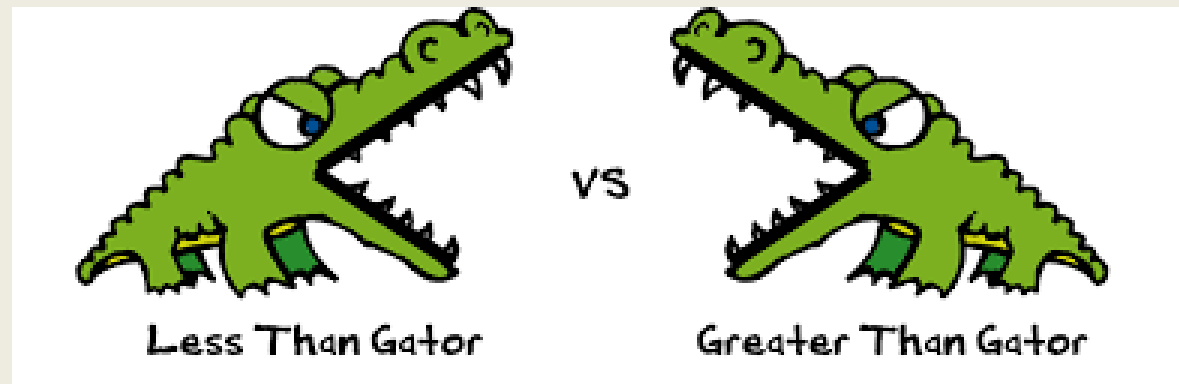
- Perkins subgrant = \$100,000
- Grantee spent \$96,000 on direct costs
 - *\$46,000 went toward equipment, distorting items*
- Applying the rate: $\$50,000 * 8\% = \$4,000$

- Even if all indirect costs are “administrative”, grantee still does not exceed 5% cap in applying 8% rate.



Must my ICR be capped at the same percentage as my admin cap?

- Not necessarily. If admin is capped at 5%, the grantee may still apply a higher indirect cost rate. However, recovery of indirect administrative costs and direct administrative costs must be within the 5% cap.





Administrative Cost limitations

Direct v. Indirect Costs Administrative Costs

- Salaries of administrative and clerical staff should be treated as “indirect” unless all of following are met:
 1. *Such services are integral to the activity*
 2. *Individuals can be specifically identified with the activity*
 3. *Such costs are explicitly included in the budget*
 4. *Costs not also recovered as indirect*
- Section 200.413



Guidance Excerpts:

- “[T]o maximize the funds available for services to students and the public, the Department encourages each Governor and subgrantee to minimize the amount of administrative costs charged to the program.”
 - ESSER FAQs, E-4





Coronavirus Funding: Indirect Recovery



Education Stabilization Funds

- Governor's Emergency Education Relief Fund (GEER):
 - *Unrestricted indirect cost rate; State may set cap on admin for subrecipients*
- Elementary and Secondary School Emergency Relief (ESSER):
 - *Unrestricted indirect cost rate; "reasonable and necessary" cap on admin*
- Higher Education Emergency Relief Fund (HEERF):
 - *Unrestricted indirect cost rate on institution portion (50%)*
 - *No indirect on student grant awards (50%)*



Guidance Excerpt:

- “Indirect costs may be charged only to Institutional Portion awards ...and (r)easonable direct administrative costs may be charged only to Institutional Portion awards ... because the student allocation represents an amount of funds that must be distributed to students.”
 - HEERF May FAQs, 43-44



CRF (Treasury)

- Coronavirus Relief Fund (CRF):
 - *Total of \$150 billion; Administered by Treasury*
 - *CRF payments are NOT considered a grant, but are “other financial assistance”*
 - *CRF payments are still subject to 2 CFR 200.303 (internal controls), 200.330-332 (subrecipient monitoring), and Subpart F (audit requirements)*



CSLFRF (Treasury)

- State/Local Fiscal Relief Funds
- Maybe
- Use funds for “administrative purposes”, including payroll of employees managing the funds
 - *But, generally applies the cost principles*



How might coronavirus funds affect indirect cost recoveries?

- The ICR is based on actual cost information from a prior year (which did not account for increased funding under CARES/CRRSA/ARP)
- Applying the ICR to coronavirus funding can result in an over-recovery of funds
- In subsequent years, indirect recovery will be reduced to account for the over-recovery



ARRA Lessons Learned:

“The negotiated indirect cost rate for the current fiscal year is based on actual cost information from a prior fiscal year. Therefore, applying the currently negotiated indirect cost rate to the increased funding under ESSER or GEER (which was not considered in the indirect cost rate calculation) could result in an over-recovery of indirect costs in the current period. Such an over-recovery will be adjusted in a future fiscal year, thereby reducing indirect cost recoveries during that future period. To avoid a future compounding effect of fewer program dollars and reduced indirect costs, the Department recommends that an SEA or LEA closely monitor the potential impact of ESSER and GEER funds on its indirect cost recoveries and consider making appropriate adjustments during the current period (i.e., by potentially recovering less funding for indirect costs in the current period). Those adjustments will reduce the dollar impact in future years and allow for stability in future budgets.” (FAQs, E-9)





Can a State prohibit a subgrantee from recovery indirect costs on Coronavirus awards?

- No, 2 CFR 200.332 requires pass-through entities to recognize a subrecipient's negotiated indirect cost rates.
 - *But states can limit administrative costs, which effectively limits indirect recovery for ESSER and GEER (FAQ, E-6)*



Are grantees required to claim indirect costs on coronavirus awards?

- No! May choose to direct charge the funds and forego indirect recovery.
- Follow-up: Are grantees required to use an unrestricted rate, or can they choose to use the restricted rate?
 - *Current, negotiated rate should be used, but grantees may choose to use the restricted rate if easier for planning and budgeting*



Do employees in my indirect cost pool need to keep time and effort?

- Not unless they work on indirect cost activities and direct cost activities; or two indirect cost activities allocated using different allocation bases; or indirect cost activities and unallowable activities





If we hire an accountant to handle CARES, CRSSA, and ARP funding, can we direct charge to those awards?

- Yes, if you meet the conditions in 2 CFR 200.413(c)



What if we re-purposed staff in our indirect cost pool to work on Coronavirus funding issues? Can we direct charge them?

- Maybe, but you would need to remove the staff from the indirect cost pool in order to ensure you are not double-charging the costs.
 - *2 CFR 200.413(c)*



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