

Coronavirus State Fiscal Recovery Fund (SFRF)

Case Study for Reporting Indirect on Subcontracts and Capital Expenditures

Case Study for Reporting Indirect on subcontracts and Capital Expenditures for SFRF grants

The COVID Fiscal Relief Team (CFRT) has added additional guidance for the Quarterly Report template to reflect a change in applying indirect costs to expenditures. (*See the Example Entries at the end of this document.*) Previously we had placed a cap of \$25,000 on subawards and subcontracts made by the subrecipient of the SFRF grant. While that is the rule for some federal grants the rule for SFRF grants is that indirect costs can be recovered against \$25,000 or less **of subawards** for the life of the grant agreement. **There is no cap on indirect for subcontracts.** Indirect costs can be recovered against the full amount of a subcontract if the subcontract is otherwise eligible.

It is the responsibility of the subrecipient to determine if they are entering into a subaward, a subcontract or are disbursing funds to a beneficiary. If the SFRF subrecipient intends to recover their administrative costs through an indirect rate they are allowed to charge either their federally negotiated indirect rate or a de minimis rate of 10% of their Modified Total Direct Costs (MTDC). If the SFRF subrecipient elects to charge all of their administrative costs as **direct costs** to their federal grants, then this guidance **does not apply** to those subrecipients.

We have noted that many of the subcontracts being entered into by our subrecipients are for capital expenditures and equipment. The indirect rate **cannot** be applied to those subcontract expenditures. We offer the following example and have provided the Uniform Grant Guidance or US Treasury Guidance to support our analysis.

Example: Subrecipient, New Day Center has received a SFRF grant of \$1,000,000 to refurbish a rundown existing building to use as a community gathering spot for youth and to develop programming and outreach strategies for the center. Subrecipient enters into a contract with ABC Build to do all the demolition and remodeling of the building for \$500,000. The contract is a capital expenditure since it will improve and modify the building and materially increase the value and useful life of the building.

New Day Center also enters into a contract for \$30,000 with Reach, Inc. that will help them develop and implement an outreach strategy tailored to the youth and parents in their community. New Day has also identified \$80,000 of the grant to cover staff costs to manage the grant and project for New Day. The balance of the grant will be used to purchase furnishings, IT equipment, sports equipment, and other program items as well as cover indirect charges. New Day does not have a federally negotiated federal indirect rate and so is electing to use the 10% de minimis rate.

Applying federal guidance:

1. We would expect that the indirect rate cannot be applied to the contract with ABC Build because it is for a capital expenditure.
2. We would expect that the indirect rate could be applied to all the expenditures under the services contract with Reach, Inc., even though it exceeds \$25,000.
3. We would also expect to see the indirect rate applied to the direct staff costs for managing the grant and project. This is the staff who are charging their time for activities directly related to the project.
4. On the issue of furnishings, IT equipment, sports equipment etc., New Day will have to decide whether those expenditures are supplies (indirect can be applied) or fall within the definition of equipment or a capital asset (indirect cannot be applied).

The MTDC is defined as:

Modified Total Direct Cost (MTDC) means 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. [https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#p-200.1\(Modified%20Total%20Direct%20Cost%20\(MTDC\)\)](https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#p-200.1(Modified%20Total%20Direct%20Cost%20(MTDC)))

If the subcontract is for equipment or capital expenditures no indirect can be charged against the subcontract expenditures. Below are the Uniform Grant Guidance definitions of equipment, capital asset and capital expenditures.

Equipment means 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 non-Federal entity for financial statement purposes, or \$5,000. See also the definitions of *capital assets*, *computing devices*, *general purpose equipment*, *information technology systems*, *special purpose equipment*, and *supplies* in this section. [https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#p-200.1\(Equipment\)](https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#p-200.1(Equipment))

Capital asset means:

(1) Tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP. Capital assets include:

(i) 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

(ii) 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).

(2) For purpose of this part, capital assets do not include intangible right-to-use assets (per GASB) and right-to-use operating lease assets (per FASB). For example, assets capitalized that recognize a lessee's right to control the use of property and/or equipment for a period of time under a lease contract. See also § 200.465. [https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#p-200.1\(Capital%20assets\)](https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#p-200.1(Capital%20assets))

Capital expenditures means 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. [https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#p-200.1\(Capital%20expenditures\)](https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#p-200.1(Capital%20expenditures))

Capital expenditures and equipment are also excluded if they are a direct cost to the subrecipient. It is the responsibility of the subrecipient to determine if an expenditure is for supplies (part of MDTC) or equipment (excluded from MDTC).

Because many of our subrecipients may not be able to recover the administrative costs of implementing their grants through indirect we want to remind you that administrative costs can be charged directly to the SFRF grant if done consistently and appropriately.

The following is a summary of US Treasury's Guidance on administrative costs. [SLFRF-Compliance-and-Reporting-Guidance.pdf \(treasury.gov\)](#), page 8.

Treasury's final rule, program guidance, and the Uniform Guidance outline the types of costs that are allowable, including certain audit costs. For example, per 2 CFR 200.425, a reasonably proportionate share of the costs of audits required by the Single Audit Act Amendments of 1996 are allowable; however, costs for audits that were not performed in accordance with 2 CFR Part 200, Subpart F and the Compliance Supplement are not allowable. Please see 2 CFR Part 200, Subpart E regarding the Cost Principles for more information.

a. Administrative costs: Recipients may use funds for administering the SLFRF program, including costs of consultants to support effective management and oversight, including consultation for ensuring compliance with legal, regulatory, and other requirements.¹ Further, costs must be reasonable and allocable as outlined in 2 CFR 200.404 and 2 CFR 200.405. Pursuant to the SLFRF Award Terms and Conditions, recipients are permitted to charge both direct and indirect costs to their SLFRF award as administrative costs as long as they are accorded consistent treatment per 2 CFR 200.403. Direct costs are those that are identified specifically as costs of implementing the SLFRF program objectives, such as contract support, materials, and supplies for a project. Indirect costs are general overhead costs of an organization where a portion of such costs are allocable to the SLFRF award such as the cost of facilities or administrative functions like a director's office. Each category of cost should be treated consistently in like circumstances as direct or indirect, and recipients may not charge the same administrative costs to both direct and indirect cost categories, or to other programs. If a recipient has a current Negotiated Indirect Costs Rate Agreement ("NICRA") established with a Federal cognizant agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals, then the recipient may use its current NICRA. Alternatively, if the recipient does not have a NICRA, the recipient may elect to use the de minimis rate of 10 percent of the modified total direct costs pursuant to 2 CFR 200.414(f).

b. Salaries and Expenses: In general, certain employees' wages, salaries, and covered benefits are an eligible use of SLFRF award funds. Please see Treasury's final rule for details.

		03/03/21-12/31/21	01/01/22 - 03/30/22	04/01/21-06/30/22	07/1/22-09/30/22	10/1/22-12/31/22	01/01/23-03/31/23	04/01/23-06/30/23	Total Expenditures
SubAward vs Contractor		The subrecipient/subcontractor detail below will be subtotaled on the Detail Expenditure Report tab.							
Sub ABC Construction-Capital Expenditure	Costs under \$25,000								\$ -
Total Obligation	\$ 325,000.00	\$20,000.00	\$50,000.00	\$35,000.00	\$30,000.00	\$40,000.00	\$35,000.00		\$ 210,000.00
Sub Jones - SubAward	Costs under \$25,000	\$15,000.00	\$10,000.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,000.00
Total Obligation	\$ 49,000.00		\$ -	\$ 3,000.00	\$ 3,000.00	\$ 3,000.00	\$ 3,000.00	\$ 3,000.00	\$ 15,000.00
Sub Smith Engineering-Contractor	Costs under \$25,000	\$25,000.00	\$ 5,000.00	\$ 2,500.00	\$ 1,500.00	\$ -	\$ -	\$ -	\$ 34,000.00
Total Obligation	\$ 31,000.00				\$ -	\$ -	\$ -	\$ -	\$ -
Sub Jane Doe Consulting Subaward	Costs under \$25,000	\$ 7,500.00	\$ 7,500.00	\$ 2,500.00	\$ 2,500.00	\$ 2,000.00	\$ 2,000.00	\$ 1,000.00	\$ 25,000.00
Total Obligation	\$ 25,500.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,000.00	\$ 1,000.00	\$ 1,000.00
Sub [NAME]	Costs under \$25,000								\$ -
Total Obligation									\$ -
Sub [NAME]	The COVID Fiscal Relief Team is sending out this UPDATED guidance regarding the application of Indirect to subrecipients/subawards and Contractors. Please consider this guidance when determining if your contract is one with a subrecipient (subaward) or a subcontract (Contractor).								
Total Obligation									
Sub [NAME]	We have received additional guidance with respect to the application of indirect on eligible Contracts. The Uniform Guidance defines MTDC as follows:								
Total Obligation									
Sub [NAME]	Modified Total Direct Cost (MTDC) means 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. 2 CFR 200.1 (DAS emphasis added.)								
Total Obligation									
Sub [NAME]	A "subaward," in turn, is defined as follows:								
Total Obligation									
Sub [NAME]	Subaward means 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. (Emphasis once again.)								
Total Obligation									
Sub [NAME]	With this information only subawards are specifically addressed in the MTDC definition which requires that all but the first \$25,000 of each subaward be excluded from the calculation.								
Total Obligation									
Sub [NAME]	Subcontracts are specifically not mentioned and not excluded from the full amount of the contract being assessed the indirect rate.								
Total Obligation									
Sub [NAME]	Costs over \$25,000								\$ -
Total Obligation	Costs under \$25,000								\$ -
Total Obligation	Costs over \$25,000								\$ -
Subtotal subject to indirect		\$47,500.00	\$22,500.00	\$ 5,000.00	\$ 4,000.00	\$ 2,000.00	\$ 2,000.00	\$ 1,000.00	\$ 84,000.00
Subtotal not subject to indirect		\$20,000.00	\$50,000.00	\$38,000.00	\$33,000.00	\$43,000.00	\$38,000.00	\$ 4,000.00	\$ 226,000.00
Subcontractor/Subrecipient Total		\$67,500.00	\$72,500.00	\$43,000.00	\$37,000.00	\$45,000.00	\$40,000.00	\$ 5,000.00	\$ 310,000.00

Indicate the type of Contract: eg: SubAward, Contractor or Capital Expenditure

Contractor-Capital Expenditure Indirect may not be recovered to any funds that are for Capital Expenditure.

Subawards Only the first \$25,000 of any Subaward are eligible for Indirect. The remaining balance must be entered on the second line for the respective entity.

Contractor- NON Capital Expenditure (eg: professional services, contracting for another entity to do specific work.) The entire contract may have indirect applied.