UNITED STATES DEPARTMENT OF EDUCATION
Office of Special Education and Rehabilitative Services
Rehabilitation Services Administration

TREATMENT OF INDIRECT COSTS FOR PURCHASED SERVICES

Applicable Programs:

- State Vocational Rehabilitation Services (VR) (ALN 84.126A)
- State Supported Employment Services - A (SE-A) (ALN 84.187A)
- State Supported Employment Services - B (SE-B) (ALN 84.187B)
- Independent Living Services for Older Individuals Who are Blind (OIB) (ALN 84.177B)

Requirements:

In administering the Rehabilitation Act of 1973 programs identified above (identified programs), recipients must comply with the indirect cost requirements in the Office of Management and Budget Uniform Grants Guidance (Uniform Guidance), codified at 2 C.F.R. part 200, as well as any guidance issued by the recipient's cognizant agency for indirect costs. In reviewing indirect cost rate proposals submitted by recipients to their cognizant agency, we noted differences in the treatment of indirect costs related to purchased services for consumers under the identified programs. Due to the significant amount of funds expended for goods and services purchased for consumers under the identified programs, recipients must take care to treat such costs correctly for purposes of indirect cost recovery.

When a recipient's approved indirect cost rate is calculated by using a Modified Total Direct Cost (MTDC) base (denominator) and a numerator of accumulated indirect costs. In accordance with the definition in 2 C.F.R. § 200.1, MTDC includes all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $50,000 of each subaward[1] (or the threshold approved by the cognizant agency for indirect costs 34 C.F.R. §§ 75.564 & 76.562(b)). The definition of MTDC specifically excludes equipment (per-unit acquisition cost that equals or exceeds the lesser of the capitalization level), capital expenditures, charges for patient care, rental costs (if deemed distorting by the cognizant agency for indirect costs), tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of $50,000 (2 C.F.R. § 200.1). Under the identified programs, services purchased for consumers are treated as participant support costs under the definition of MTDC. Therefore, when calculating the MTDC and consistent with the excluded costs identified herein, the cost of purchased services for consumers under the identified programs must be excluded from the MTDC base. This includes expenses for higher education, equipment, maintenance,

[1] Subawards/subgrants are not allowable under the VR, SE-A, and SE-B grant awards, pursuant to the terms and conditions of those grant awards in accordance with the Education Department General Administrative Regulations at 34 C.F.R. § 76.50(b).

medical, and any other services purchased to benefit applicants and consumers under the Rehabilitation Act's identified programs.[2] Purchased services for consumers are those services purchased by the recipient to support the consumer's employment or independent living goal. Because it is not the recipient, but another entity, that is providing the service, inclusion of purchased services in the MTDC would distort the amount of indirect costs allocated to the programs listed above and is therefore not permitted.

[2] For the VR program, purchased services for consumers also include goods, services, and equipment purchased for individuals with significant disabilities operating small businesses under the supervision of the State agency in accordance with Section 103(b)(1) of the Rehabilitation Act.