

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

Requirements:

In administering the Rehabilitation Act of 1973 programs identified above, as amended, (Identified programs), grantees must comply with the indirect cost requirements in the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), codified at 2 CFR part 200, as well as any guidance issued by the grantee's cognizant agency for indirect costs. In reviewing indirect cost rate proposals submitted by grantees 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, grantees must take care to treat such costs correctly for purposes of indirect cost recovery.

A grantee'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 CFR 200.68, MTDC includes all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward.¹ The definition of MTDC specifically 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 (2 CFR § 200.68). 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, medical, and any other services purchased to benefit applicants and consumers under the Rehabilitation Act.² Purchased services for consumers are those services purchased by the grantee to support the consumer's employment or independent living goal. Because it is not the grantee, but another entity, that is providing the service,

¹ Subawards/subgrants are not allowable under the VR, SE-A, and SE-B grant awards.

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

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.

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