

## Indirect Cost Recapture Process for Federal Grants

To recapture the full value of Prior Years indirect costs on the ESSER grant funds you will need to manually calculate that adjustment. You must apply the appropriate rate for that fiscal year for that calculation and those applicable expenditures.

You will need to write a manual check to the "394" object code to record the recapture of the applicable indirect costs. Below are the suggested steps for this process:

1. Make a journal entry to move the expenditures from the PRC that you will recapture the applicable indirect costs. This entry may create a negative expense in the PRC if you spent all your allotment in the prior fiscal year.

DR PRC YYY

Where YYY represents the funding source where you have funds available. Use an expense code that mirrors an expense code that had been used in the recapture PRC in the previous fiscal year(s).

CR PRC XXX

Where XXX represents the recapture funding source. Use an expense code that had been used in the current or previous fiscal year(s).

2. Charge the appropriate uncollected indirect cost to the recoup PRC.
3. Do a manual check to the "394" object code to record the recapture of the applicable indirect costs.
4. Update your budget documents to reflect the final expenditures that would also reflect this recapture of the indirect costs. These should be submitted as a separate amendment with the caveat that this is to Update Our Budget to Reflect Final Indirect Costs. That should enable the Federal Programs staff to expedite that approval, but please do not let that hold up your recapture of these costs.

**If you have any questions related to this process, please contact [Tina.Boyce@dpi.nc.gov](mailto:Tina.Boyce@dpi.nc.gov) for LEAs and [Roxane.Bernard@dpi.nc.gov](mailto:Roxane.Bernard@dpi.nc.gov) for IPS.**

### ***Update -- Frequently Asked Questions***

1. *Is my district required to charge indirect costs to the ESSER grants?*

No. It is not mandatory to charge indirect costs to any Federal grant, including the ESSER grants.

2. *If my district has already charged indirect costs using the restricted rate (i.e., using code 392) in previous fiscal years, are we required to go back and recalculate the indirect cost using the unrestricted indirect cost rate?*

The only circumstance where it would be mandatory to recalculate indirect cost charges using the unrestricted rate would be in circumstances where a PSU's unrestricted indirect cost rate for a fiscal year was lower than the restricted rate for the same period. Otherwise, it would be **completely voluntary** to make any changes to the indirect cost charges using the instructions provided above. **If a PSU does not wish to recapture any additional indirect cost charges, it does not need to make any changes to its grant budgets or expenditures.**

3. *Should I calculate the additional indirect costs before or after I move expenditures from one PRC to another?*

As noted in the instructions, it is suggested that a unit move the identified expenditures prior to calculating the additional indirect costs. The total amount of indirect costs that can be charged to a grant is dependent on the total life to date qualifying direct costs charged to the grant. As such, you must have the total amount of direct costs determined prior to being able to calculate the additional indirect costs that are eligible to be charged to the grant.

However, as a practical matter, it will likely be necessary to do an estimated indirect cost calculation to identify the total amount of expenditures that need to be moved prior to the actual adjustment being made for the additional indirect costs. It would be advisable to do an initial estimated calculation to see the maximum potential total amount of indirect costs that can be charged using the unrestricted rate (using the correct rate for each fiscal year), identify the corresponding expenditures to make room in the grant budget for the maximum potential total indirect costs, and then recalculating after you have moved the expenditures to ensure that your total actual indirect costs do not exceed the maximum allowable amount and that you are not overspent (or underspent) on the grant as a result of the change. It is each PSU's responsibility to ensure that it does not exceed the total amount of allowable indirect costs for each grant and should expect that auditors will be required to verify the accuracy of the charges for any ESSER grants selected for testing during subsequent audits.

4. *I believe that there was an error in the unrestricted indirect cost rate for my PSU for one of the fiscal years in the file provided by DPI. How can I verify that the rate is correct?*

Upon review of the materials provided last week, a very small number of errors were identified in the indirect cost rate file. That file has been updated and posted to the site under What's New. Please double check the file on our site to ensure that you are using the correct unrestricted indirect cost rate. Again, these errors only impacted a handful of PSUs.

**Additional Information for PSUs with ESSER Grants that were Fully Expended as of 6/30/22 ONLY**

5. *How do I submit a budget adjustment for the additional indirect costs for PRCs that were fully expended as of the end of FY 2022 and therefore have no carryover budget within CCIP/BAAS?*

If your unit had already fully expended one (or more) of the ESSER PRCs, you will be unable to submit a budget amendment for the PRC(s) in question through CCIP. Instead, your unit will need to develop a paper budget (e.g., through Excel) for submission to Federal Programs for approval. The paper budget should include the full budget for the grant, with the changes from the previous year budget highlighted and identified updates to the budget to reflect final indirect costs. If you are moving expenditures to another ESSER PRC and will be submitting a corresponding budget amendment through the system you should note that in your communications to Federal Programs. However, Federal Programs has requested that public school units focus on submission of budget amendments for expiring grants during the final weeks of September to allow for efficient processing of the budgets for the closing grants.

6. *Do I need to submit any updated reports to DPI where I have adjusted expenditures in FY 2022 to allow for recapturing additional indirect costs on grants that were fully expended in FY 2022?*

Because DPI is required to report certain information to the Federal government regarding the use of COVID funding, DPI will need any PSUs that were fully expended on a grant and which are subsequently making changes to the grant to recapture additional indirect costs to submit updated final expenditure reports to allow the agency to complete required reporting. For PSUs that are making changes to grants that were fully expended at the end of FY 2022, DPI will not be able to make changes to the UERS files for that grant. As such, PSUs that are making adjustments to grants that were fully expended as of June 30, 2022 to recapture additional indirect costs must submit to DPI an Excel file containing a final expenditure report by purpose-object code for each PRC to which the PSU is making changes. ***This is only required for grants that were fully expended by the end of Fiscal Year 2022.***

These expenditure reports should be submitted to Tina Boyce ([Tina.Boyce@dpi.nc.gov](mailto:Tina.Boyce@dpi.nc.gov)). **Please note that these reports DO NOT need to be submitted prior to September 30<sup>th</sup>; please ensure that any reports are submitted before the end of October.**