

Theresa Utton-Jerman

Subject: FW: Indirect Costs & CRF Reallocation
Attachments: Indirects Reallocation HAC 1 21 21.docx; ATT00001.htm

From: "Clark, Sarah"
Date: January 21, 2021 at 7:14:13 PM EST
Subject: Indirect Costs & CRF Reallocation

Good evening Representatives Fagan, Yacovone and Maria,

See below for a description of direct and indirect costs and some examples of indirect costs. Given that CRF cannot be used to cover indirects, the primary issue that AHS is addressing by shifting GF from DOC to the departments relates to the indirect costs associated with the management of overseeing multiple programs. This section is highlighted in yellow below.

- Administrative costs can include direct and indirect costs:
 - Direct administrative costs are those that can be directly attributed to a specific benefitting program, such as a Division Director who oversees a particular federal program;
 - However, indirect administrative costs are associated with department-wide or agency-wide costs that benefit all programs managed under its umbrella, and as such, cannot be attributed *directly* to any *one* program. Therefore, indirect administrative costs are allocated among *all* benefitting programs overseen by higher-level executive-type employees. Examples include:
 - Statewide Cost Allocation Plan (SWCAP) charges;
 - The State of Vermont utilizes a SWCAP, as authorized by federal regulations in the Uniform Guidance (2 CFR Part 200), to charge statewide indirect administrative costs to federal programs including portions of costs for Finance & Management, the Treasurer, BGS depreciation and purchasing costs, DHR, and the SoA;
 - Non-SWCAP Internal Service Fund (ISF) charges such as for DHR, the ADS statewide allocation, Fee-for-space or lease charges depending on the specific operations situated with a particular space or site, etc.
 - AHS-specific “central service” costs including payroll expenditures associated with overseeing multiple programs or divisions such as with the Secretary’s office of AHS, respective departments’ offices of the Commissioner and Deputy Commissioner.

To provide some additional context, I’ve attached a memo that details the process and rationale behind this approach. It also includes a table that details the impact on each of the departments. This is also detailed in the FY21 BAA ups & downs in each impacted appropriation.

Please let me know if I can provide any additional information or clarity. This topic can be a bit technical.

Thank you,
Sarah Clark
Chief Financial Officer
Agency of Human Services

To: House Appropriations Committee
From: Sarah Clark, CFO, Agency of Human Services
Re: CRF Reallocation of funds due to unallowable indirect costs
Date: January 21, 2021

The Agency of Human Services (AHS) reallocated \$5,142,655 of existing AHS CRF appropriations from affected AHS departments to the Department of Corrections (DOC) to address the federal Treasurer guidance that indicated that Coronavirus Relief Funds (CRF) cannot be used for indirect costs. AHS used the Excess Receipts process as detailed in 32 VSA Section 511 to both provide the CRF authority to DOC and reduce the CRF authority in the respective departments.

The FY21 BAA request shifts the general fund spending authority from DOC to the other departments of AHS. This is a budget neutral adjustment and reflects a one-time reduction to the DOC budget.

Response to the Pandemic: During SFY20 and the first quarter of SFY21, AHS departments incurred CRF-associated indirect costs totaling \$5,142,656 (\$3,154,680 and \$1,987,975, respectively) during the Agency's response to the pandemic. Per US Treasury guidance available through September 1st, 2020, neither the AoA nor AHS had any indication that indirect costs would be considered an unallowable use of CRF. However, effective September 2nd, 2020, the US Treasury issued revised guidance disallowing the use of CRF for indirect costs. In accordance with federal cost allocation principles, indirect costs attributed to CRF activities that could no longer be eligible for CRF revenue would otherwise be covered by General Fund (GF). As such, in a net-neutral adjustment of CRF spending authority with DOC's appropriated GF for SFY21, AHS can cover the loss of CRF indirects without further statewide pressure on CRF or GF.

Proposed Use of Reallocation: Per current US Treasury guidance, Public Safety functions are presumed to be substantially dedicated to the COVID-19 response effort. Specifically, the US Treasury's updated guidance issued September 2nd, 2020 explicitly states that correctional officers are included in its definition of "Public Safety". As such, payroll costs for COI, COII and their direct supervisors are eligible for CRF. AHS proposes to equally exchange current CRF spending authority at the AHS-CO, DCF, VDH, DMH, DVHA and DAIL with DOC's GF, which will make AHS solvent and comport with federal cost allocation principals and US Treasury guidance.

Confirmation Proposal Complies with CARES Act CRF Guidelines: The proposed use of CRF, as outlined above, is explicitly stated as an acceptable use in the CRF guidance and was previously vetted by the Administration's CRF contractor.



The table below details the indirect costs in each of the respective departments. This information is reflected in the FY21 BAA ups & downs document as submitted to the Legislature.

	<u>Total</u>
AHS-CO	460,101
DCF	909,418
VDH	3,103,846
DMH	205,718
DVHA	331,095
DAIL	132,478
Total	5,142,656

