

Cost Recovery Considerations for Paycheck Protection Program Loan Forgiveness

Consultant firms that received Paycheck Protection Program (PPP) loans may have to provide credit to indirect cost rate(s) invoiced to government contracts, if those loans are forgiven, per 48 CFR 31.201-5:

31.201-5 Credits.

The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor, shall be credited to the Government either as a cost reduction or by cash refund. See 31.205-6(j)(3) for rules governing refund or credit to the Government associated with pension adjustments and asset reversions.

For federally funded P/T contracts, MnDOT will expect consultants and/or CPA firms to recover required credits, through a reduction to the indirect cost rate(s), used to determine final indirect costs on actual cost-plus fixed fee contracts and fixed hourly rate contracts.

For state-funded P/T contracts, MnDOT has approved a one-time exception to MnDOT Policy FM010, but only as it relates to PPP loan forgiveness requirements. MnDOT will not require PPP loan forgiveness adjustments to overhead rates for MnDOT P/T contracts that are not using federal funds. Consultants should continue to bill for services according to their MnDOT contract and approved (or for fixed hourly rate contracts -reviewed) overhead rate.

All other aspects of Federal Acquisition Regulation (FAR) compliance continue, whether on state or federal funded contracts. This is a one-time COVID-19 exception to MnDOT policy.

Regardless of funding source, MnDOT Office of Audit will be monitoring PPP loans and forgiveness and requires consultants to inform MnDOT Consultant Services about their loans and forgiveness status.

Calculation of Reduced Indirect Cost Rate for Federally Funded P/T Contracts

The amount of the forgiven PPP loan will be credited to the indirect cost rate(s) for the period(s) in which forgiven PPP funds were spent. The amount of the forgiven PPP loan credited to the indirect cost rate must be evaluated for the following items:

- PPP credits will be reduced for expenses of unallowable indirect costs included in the forgiveness application (i.e. unallowable interest expense per FAR) because those costs should already be disallowed for the indirect cost rate(s). Excluded unallowable costs must be supported by a detailed transaction summary showing that the costs were not originally classified as allowable indirect costs.
- If PPP funds are utilized on a FAR government contract, then PPP credits should be offset to indirect cost rate(s), rather than credits to projects. PPP credits should be applied to indirect cost rate(s) consistently for federal and state funded contracts.

- If PPP funds are utilized for private client contract costs, then credits are not necessary to the indirect cost rate(s). Excluded direct costs must be supported by schedules listing the detailed transactions, by excluded contract, including contract client, contract basis of payment, employee name, hours and wages that can be reconciled to the forgiveness application.
- The consultant and/or CPA firm must reconcile the total PPP loan forgiveness to provide a calculation for the credit needed for FAR indirect cost rate(s).

Application of Reduced Indirect Cost Rate for Federally Funded P/T Contracts

The reduced indirect cost rate(s) will be used for final settlement of indirect costs on actual cost-plus fixed fee contracts and fixed hourly rate contracts. Reduced rates will only be applied to labor in the year(s) in which costs were paid with proceeds from PPP forgiven loans.

Reduced rates will impact actual cost-plus fixed fee and fixed hourly rate contracts with direct labor invoiced in the year in which proceeds from PPP forgiven funds were used. There will be no impact on lump sum, fee schedule or cost per unit contracts. **Reduced indirect cost rate(s) will not be used to estimate costs for new contracts.**

MnDOT expects fixed hourly rate (FHR) consultants to prepare and provide revised fixed hourly rate cost detail for the year of PPP loan forgiveness:

- Consultants should utilize the MnDOT Audit [FHR Cost Detail template](#) and the [Sample Overhead \(Indirect Cost\) Rate Estimate](#).
- The revised fixed hourly rates must include current pay rates for the year of PPP loan forgiveness, and a reduced indirect cost rate estimate for that same year, and the same fixed fee that had been determined for the project.
- MnDOT Audit will plan to adjust fixed hourly rates for the year of loan forgiveness, at the time of project closeout.

Reporting Loan Forgiveness for State and Federally Funded P/T Contracts

Regardless of funding source, MnDOT will require consultants and/or their CPA's to provide information regarding their PPP loans and forgiveness. MnDOT Office of Audit will be monitoring PPP loan forgiveness and requires consultants to inform MnDOT Consultant Services about their loans and forgiveness status, including the status of loan forgiveness and amounts to be credited to the indirect cost rate(s). Consultants and/or CPA firms must utilize the [MnDOT Paycheck Protection Program \(PPP\) Certification Form](#), and any other reconciliation detail to justify the two indirect cost rate(s) when applicable.

MnDOT will continue to monitor PPP loans until they are forgiven or repaid. Consultants will be expected to notify MnDOT within 30 days of forgiveness approval for loans that were not forgiven when they submitted their consultant indirect cost rate(s) package (overhead package and/or pre-award package).

Independent audits of consultant indirect cost rate(s) by their CPA's or state DOT auditors should disclose footnotes in the indirect cost rate report regarding PPP loans including loan amounts, approval dates, forgiveness status, forgiven amounts, covered period for forgiveness, application of forgiven funds and repayment of principal.