SPARK ROUND 1 - LOCAL GOVERNMENT

Supply Chain Disruption and Delays

Memorandum

Date: October 30, 2020

Re: How to Navigate Supply Chain Disruptions or Delays

**DESCRIPTION**

This Memo outlines the process entities should follow when addressing supply chain disruptions or delays while responding to the COVID-19 crisis. The pandemic has immensely strained supply chain systems. There now exists uncertainty in meeting eligibility deadlines for ongoing projects due to questionable availability or accessibility of high-demand products. This memo serves as guidance when supply chains cannot distribute, deliver, or install goods or products for use prior to the eligibility deadline.

**BACKGROUND**

Expenditures reimbursed with Treasury’s CRF funds must comply with all federal requirements set forth in section 601(d) of the Social Security Act, as added by Section 5001 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Expenditures must be incurred during the period beginning March 1, 2020 and ending December 30, 2020. Said expenditures must also be recorded and documented using the generally accepted accounting principles and provisions of Title 2 CFR Part 200 – Uniform Administrative Requirements. Specifically applicable are sections  2 C.F.R. § 200.303 regarding internal controls, 2 C.F.R. § 200.330 through 200.332 regarding subrecipient monitoring and management, and Subpart F regarding audit requirements.

The CARES Act, which funds the Coronavirus Relief Fund, requires payments to cities, counties, states, territories, or Tribal governments be used to only cover expenses that:

* 1. Are necessary expenditures incurred due to the public health emergency due to COVID-19
	2. Were not accounted for in the state or local government budget approved as of March 27, 2020; and
	3. Were incurred between March 1, 2020 and December 30, 2020.

As a response to COVID-19, entities and businesses across the globe are mass purchasing necessary items, such as personal protective equipment (PPE). This has caused supply chain challenges, including: bottlenecks, productivity loss, and workforce disruptions. Municipalities and businesses are encountering hurdles regarding supply chain constraints. Up to 75 percent of companies have reported some kind of supply chain disruption[[1]](#footnote-2). It is required that all “purchases be incurred and received, by December 30.”[[2]](#footnote-3) Therefore, it is important to have a supply chain disruption plan to ensure goods are received promptly and that these purchases remain eligible under U.S. Treasury guidance and local policy.

Consideration of supply chain demands and disruptions is critical. Supply chain disruption is widespread. The pandemic has caused an unprecedented disruption in how goods and services are produced, manufactured, and delivered. Disruptions have included demand surges, reduced productivity, and storage or access restrictions due to social distancing and policy guidance. Preparing for disruptions can help with navigating the uncertainties around supply chain fluctuations.

It is important to distinguish between delays that are expected or anticipated, and delays that are unexpected. Expected or anticipated delays extending beyond December 30, 2020, for material shipments or project completion will remain ineligible. Unexpected delays will need proper documentation that demonstrates the unexpected nature of that delay to remain eligible. The most recent Kansas SPARK FAQ addresses this topic:

“Accordingly, if the expenditure is for something that cannot be delivered and used during that time period, it is not eligible. The guidance gives some flexibility for unforeseeable delays during delivery, but if you know the good or service cannot be delivered and used before December 30, it is not an eligible expense.”[[3]](#footnote-4)

Supply chain disruptions can impact material availability for projects. Contracts should specify a date of completion on or before December 30, 2020. Kansas SPARK guidance on this topic states: “Projects that cannot be completed before December 30, 2020, where the recipient knows that at the time of contracting, do not qualify for CRF funds.”[[4]](#footnote-5)

It is critically important to research and document any supply chain challenges or concerns prior to the beginning of a project or purchase. Preparing for these challenges through a supply chain disruption plan can help with current and future efforts. Considerations for these plans should be well-documented. Those considerations are enumerated herein.

KEY TERMS

Supply Chain: the system of people, organizations, activities, and materials involved in supplying a product or service.

Supply Chain Disruption: any sudden change, external force, or crisis that negatively impacts the process. Instances of disruptions could include significant delays (bottleneck), reduced productivity (shortages), and storage or access restrictions (product handling).

Supply Chain Scenario: the process of determining the outcomes of a supply chain, based on probable occurrences that could impact the supply chain.

Single-Point Dependency: significant reliance on a single business, machine, or service to generate revenue or provide services.

CONSIDERATIONS

There are many considerations relative to creating an overarching supply chain disruption plan. In establishing a plan, varying supply chain scenarios must first be evaluated. Evaluating supply chain scenarios prior to a purchase or project can result in production of relevant documentation and also outline the scope of the plan. The supply chain disruption plan considerations herein should be explored and documented where possible. Documentation should demonstrate all CRF expenditures will be incurred and purchases received no later than December 30, 2020. The following considerations are viable options for responding to supply chain disruption challenges.

1. Expedited Shipping

Many companies offer expedited shipping on a wide range of items. It is important to check or ask about available shipping options in order to document the expected shipping and receiving dates. Shipping costs, expedited or otherwise, are CRF eligible expenses.

*Example(s) of documentation could include: receipts or invoices, email correspondence pertaining to shipping options or delays, etc.*

1. Alternative/Multiple Suppliers

Businesses or municipalities often have an established relationship with a single vendor to provide products or services. However, this single point dependency can cause additional supply chain concerns. In an effort to receive necessary items in time, expanding beyond usual or traditional suppliers is a prudent response to supply chain challenges. Many businesses have shifted production and priorities toward pandemic-related items; therefore, it is important to conduct thorough research on businesses that could provide necessary goods. Additionally, multiple suppliers should be explored. One supplier may be unable to fulfill a large order; consider splitting large orders between multiple suppliers to fulfill the total order.

*Example(s) of documentation could include: purchase orders or bids, email correspondence etc.*

1. Alternative Products

All efforts should be made to determine if there are products available that function in the same or similar manner as the desired product. For example, plexiglass is a high-demand product being used in many building renovations. Plexiglass may have a higher demand or longer waiting periods compared to similar products, such as acrylic glass or polycarbonate sheets. A combination of determining a different supplier and product alternative could yield a quicker delivery timeline. Additionally, counties may have supplies on hand that can be repurposed to meet their needs.

*Example(s) of documentation could include: online shopping or shipping data, quotes from suppliers, etc.*

1. Reworking Projects

Many recipients and subrecipients have knowingly proposed large capital improvement projects that could extend past the eligibility period. An important step could include determining if the project could be changed or reduced in scope so that it can be in use by December 30, 2020. Per U.S. Treasury FAQs, projects must be in use by December 30, 2020[[5]](#footnote-6) to remain eligible.

*Example(s) of documentation could include: Project SOW document changes, documenting correspondence with all vendors on delivery, etc.*

1. Think Creatively!

Unprecedented situations call for creative solutions. Thinking outside of the box for supply chain challenges is an important step to overcoming these hurdles. Some examples could include: picking up an order in lieu of delivery (the transportation is related to COVID-19, and is an eligible expense too), using local talent or county employees when regular contractors are unavailable, or repurposing current assets to meet a need, as mentioned previously.

*Example(s) of documentation could include: digital or paper receipts, email correspondence, etc.*

1. 5 Types of Supply Chain Disruption with COVID-19 Examples. 10/2/2020. https://www.softwareadvice.com/resources/supply-chain-disruption-types/ [↑](#footnote-ref-2)
2. Kansas Sparks FAQ dated 9/3/2020 p.8, https://covid.ks.gov/wp-content/uploads/2020/09/Compiled-Webinar-FAQs\_9.3\_EU-002.pdf [↑](#footnote-ref-3)
3. Kansas SPARK FAQ. Dated 9/3/2020 p 8. https://covid.ks.gov/wp-content/uploads/2020/09/Compiled-Webinar-FAQs\_9.3\_EU-002.pdf [↑](#footnote-ref-4)
4. Kansas SPARK FAQ. Dated 9/3/2020 p 8. https://covid.ks.gov/wp-content/uploads/2020/09/Compiled-Webinar-FAQs\_9.3\_EU-002.pdf [↑](#footnote-ref-5)
5. CRF FAQ. Dated 10/19/2020. P 11-12. Q.54. <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Frequently-Asked-Questions.pdf> (emphasis added) [↑](#footnote-ref-6)