



“Navigating the State Lead Agency’s Fiscal Requirements and OMB Compliance”

Presenters: Brandi Samuel and Hugh Poole



LEARNING OBJECTIVES

1. Financial Management
2. Cost Principles
3. Internal Controls
4. Record Keeping
5. Procurement Standards
6. Property Management
7. Audit Requirements
8. Conclusion
9. Q&A

FEDERAL REGULATION OVERVIEW

**Office of Management and Budget
(Streamlined and Consolidated Guidance)**



**Uniform Administrative Requirements, Cost Principles, and Audit
Requirements
2 CFR 200**



**Department of Health and Human Services
45 CFR Part 75**



UNIFORM GUIDANCE

PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

- Serves as the main legal framework for different approaches to recovering costs across federal awards.
- The Uniform Guidance aims to promote consistency, reduce administrative burden, and improve accountability and transparency in the management of federal grants.
- It is important for organizations that receive federal funds to understand and comply with the requirements outlined in the Uniform Guidance to ensure proper stewardship of taxpayer dollars and maintain eligibility for future funding opportunities.

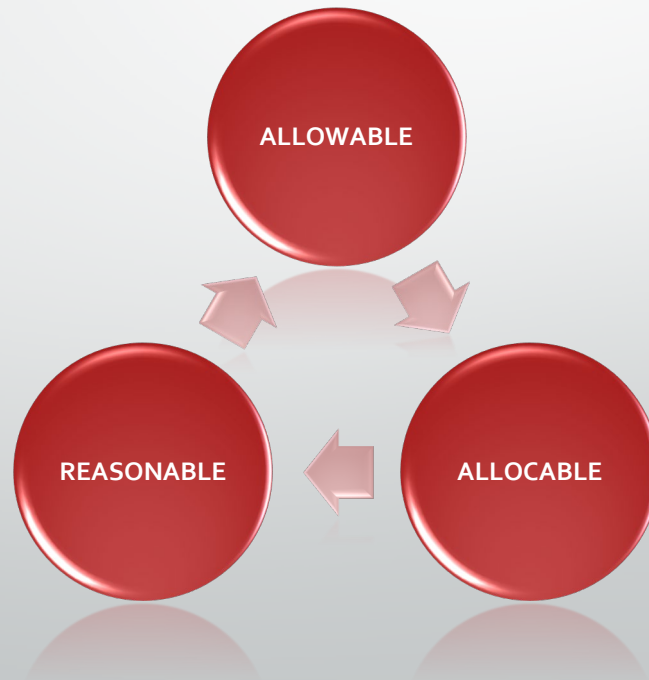
FINANCIAL MANAGEMENT

The financial management system of each non-Federal entity must provide for the following:

- Identification, in its accounts, of all Federal awards received and expended (CFDA title & number, etc.)
- Accurate, current and complete disclosure of financial results for each award
- Source and application of funds
- Effective control over all funds, property and other assets (safeguarding of assets)
- Comparison of actual expenditures to budget
- Written procedures on payments
- Written procedures for determining allowability of costs

COST PRINCIPLES

Cost principles: The Uniform Guidance establishes principles for determining allowable costs, including direct costs, indirect costs, and cost allocation methods. Costs must meet the following general criteria to be allowable under a federal award:



ALLOWABILITY OF COST

A cost is allowable when it is necessary and reasonable for the performance of the Federal award.

Necessary

- A cost is “necessary” if it meets an important program objective – it must address an existing need.

Reasonable

- A cost is “reasonable” if, in its nature and amount, it does not exceed that which would be incurred by a prudent person.



ALLOWABILITY OF COST

- Made within the project period of performance and in accordance with the approved project budget.
- Properly allocated.
- Made in compliance with the organization's policies and procedures and applied uniformly to federal awards and other activities of the organization.
- Made in accordance with generally accepted accounting principles (GAAP).
- Adequately documented.

UNALLOWABLE COST

- Cost specifically excluded or limited by federal regulation, (e.g., alcoholic beverages, personal expenses)
- Goods and services used for personal use
- Fines or penalties
- Fundraising activities
- Public relations meetings, conventions, and events that promote non-award grant activities
- Cost inadequately documented (e.g., missing receipts, invoices)
- Transactions involving prohibited business dealings
- Cost that is not consistent with policies

UNALLOWABLE COST

- An unallowable costs are costs that cannot be paid for with federal funds.
- These Costs should never see their way into the federal awards and are prohibited by the regulations.
- These are the types of things that keep the auditors busy looking for the “*bad apple*” in the barrel of spending and put your organization at risk for repayment of grant funds, suspension, and debarment from Federal grants.

REASONABLENESS OF COSTS

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

What are some things you should consider when determining if a cost is reasonable?

- Whether the cost is ordinary and necessary to achieve the overall program objectives outlined in the federal award.
- Whether cost is a fair price and comparable to market prices for comparable goods or services for the geographic area.
- Whether the agency significantly deviates from its established practices and policies regarding the incurrence of costs.

ALLOCABILITY OF COSTS

A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.

The allocability standard is met if the cost:

- (1) Is incurred specifically for the Federal award
- (2) Benefits both the Federal award and other work of the organization and costs can be distributed using a reasonable allocation method

Equitable allocation:

If a cost benefits two or more projects or activities the cost must be allocated to all the projects based on their proportional benefit.

DIRECT COSTS

Direct costs are those costs that can be identified specifically with a particular project or program.

Examples of Direct Costs

- Project Director Salary
- Staff salaries
- Materials and Equipment
- Travel
- Supplies

Can be specifically identified and assigned to one project

INDIRECT COSTS

INDIRECT COSTS

- Helps all projects but not specific to one project
- Shared costs also known as allocated costs

Examples of indirect costs

- Payroll
- Human Resources
- Facilities
- Maintenance
- Utilities

INTERNAL CONTROLS

- Establish and maintain effective internal control over the Federal award that provides reasonable assurance the organization is managing the Federal award in compliance with Standards for Internal Control in the Federal Government (Comptroller General of the United States) "the Green Book" and internal Control Integrated Framework (COSO).
- Evaluate and monitor compliance with statutes, regulations and the terms and conditions of Federal awards.
- Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
- Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, State, local, and tribal laws regarding privacy and responsibility over confidentiality.

INTERNAL CONTROLS

Internal Control Framework

- **Control Environment** – Organization’s culture that influences ethical behavior.
- **Risk Assessment** – Process of identifying risks that threaten achievement of goals.
- **Control Activities** – Processes and procedures to support compliance and mitigate risk.
- **Information and Communication** – Providing the right information to the right people at the right time.
- **Monitoring** – Process to verify that the controls are working as intended.

INTERNAL CONTROLS

Revised Green Book: Principles

Control Environment

1. Demonstrate Commitment to Integrity and Ethical Values
2. Exercise Oversight Responsibility
3. Establish Structure, Responsibility, and Authority
4. Demonstrate Commitment to Competence
5. Enforce Accountability

Risk Assessment

6. Define Objectives and Risk Tolerances
7. Identify, Analyze, and Respond to Risk
8. Assess Fraud Risk
9. Analyze and Respond to Change

Control Activities

10. Design Control Activities
11. Design Activities for the Information System
12. Implement Control Activities

Information & Communication

13. Use Quality Information
14. Communicate Internally
15. Communicate Externally

Monitoring Activities

16. Perform Monitoring Activities
17. Remediate Deficiencies

RECORD KEEPING

- Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report.
- Records for real property and equipment acquired with Federal funds must be retained for 3 years after final disposition.

If any litigation, claim, or audit is started before the expiration of the 3-year period, the records must be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken.



**Why do we
monitor....?**



...because...

**We want our
programs, and
therefore our
agencies, to be
*successful!!!***

Why is 2 CFR 200 Important?

Department	
Office of Management and Budget	2 CFR 200
Health and Human Services	45 CFR 76
Energy	10 CFR 600
Education	34 CFR 74
Housing and Urban Development	24 CFR 84

ALLOWABILITY

In a block grant environment, determinations of allowability are made at the state (not federal) level.

States are responsible for interpreting existing guidance to make determinations of cost allowability.

- CSBG Act
- Uniform Guidance
- CSBG Information Memoranda

As long as a state's determination of allowability is not "clearly erroneous", OCS normally defers to the state's interpretation.

RISK in the *UNIFORM GUIDANCE*

Requirements for pass-through entities

- All pass-through entities shall:
 - Evaluate each subrecipient's **risk of noncompliance** with Federal statutes, regulations and terms and conditions of the subaward, which includes consideration of:
 - Subrecipient's prior experience with same or similar subawards
 - Results of previous audits
 - New personnel, or new or changed systems
 - Federal agency monitoring

RISK continued

- Depending upon pass-through entity's assessment of **risk** posed by the subrecipient, the following tools may be used to ensure proper accountability and compliance with program requirements and achievement of performance goals
 - Performing on-site reviews of operations
 - Providing training and technical assistance
 - Arranging for agreed-upon procedures engagements
 - Imposing specific subaward conditions upon the subrecipient, if appropriate, as described in § 200.208²⁵

PROCUREMENT PROCEDURES

- The non-Federal entity must have and use documented procurement consistent with State, local, and tribal laws and regulations and the standards of this section, for the acquisition of property or services required under a Federal award or subaward.
- The non-Federal entity's documented procurement procedures must conform to the procurement standards identified in the Uniform Guidance and funding award agency's fiscal policies.
- All procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a manner providing full and open competition.

PROCUREMENT PROCEDURES

Methods of Informal Procurement:

1. Micro-purchase

- Generally \$10,000 or less

Up to Micro-purchase threshold of \$50,000

- Distribute equitably among qualified suppliers
- No solicitation necessary

2. Small purchase

- \$250,000 or less
- Simplified Acquisition Threshold
- Price/rate quotations from adequate # of qualified sources

PROCUREMENT PROCEDURES

Methods of Formal and Non-Competitive Procurement:

3. Sealed bid

- Lowest price
- Publicly advertised and opened

4. Competitive proposal

- Publicly advertised and opened
- Written method for conducting technical evaluation
- Solicited from an adequate number of qualified sources
- Most advantageous to the program, price and other factors considered

5. Non-competitive proposals

- Single source
- Emergency requirement
- Pre-approval

PROPERTY MANAGEMENT

Procedures for managing equipment (including replacement equipment) under a Federal award, until disposition takes place must meet the following requirements:

- A physical inventory of the property must be taken and the results reconciled with the property records at least once every 3 years.
- A control system must be developed to ensure adequate safeguards to prevent property loss, damage, or theft. Any loss, damage, or theft must be investigated.
- Equipment records requirements: Description, Serial, model number source, including award number, Acquisition date, Federal percentage, Location and condition, Unit acquisition cost, and Ultimate disposition data
- When original or replacement equipment acquired under an award is no longer needed for the original project or program or for other activities currently or previously supported by the awarding agency the non-federal entity must request disposition instructions from the awarding agency.

AUDIT REQUIREMENTS

- Audit requirements: The Uniform Guidance sets forth the requirements for audits of federal awards. It defines the responsibilities of auditees and auditors, outlines the scope and frequency of audits, and establishes the criteria for determining the type of audit required.
- Single Audit: The Uniform Guidance includes provisions for the Single Audit Act, which requires non-federal entities that expend \$750,000 or more in federal funds during a fiscal year to undergo a single audit annually.
- The audit must be completed and submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a different period is specified in a program-specific audit guide.

CONCLUSION

- Compliance: Crucial for organizations to comply with federal regulations.
- Stewardship of Taxpayer funds: Ensures that taxpayer funds are used wisely and efficiently.
- Fairness and Equity: Promotes fairness and equity in the distribution of federal funds.
- Transparency and Accountability: Enables organizations to maintain transparent financial practices.
- Effective Grant and Contract Management: Provides a framework for organizations to effectively manage grants and contracts.

CONCLUSION

- Familiarize yourself with the Uniform Guidance and understand your organization's specific requirements.
- Know what costs can or cannot be allocated to federal awards.
 - If in doubt, check with your state office!
- Document your cost allocation plan.
- Maintain adequate documents to substantiate all direct and indirect costs.
- Review your organization's policies and procedures to ensure policies align with federal regulations.
- Consult with experts in your organization and awarding agency to ensure your organization's compliance.



Q&A