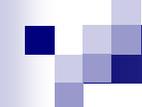


Objectives

- **To introduce participants to the requirements of Federal Grants Management.**
- **To provide sources of information and periodicals which are accessible to all.**



Grants Management

An Auditor's Perspective

- **Grants Management includes:**
- **Grant Award Proposal Preparation**
- **Grant Award Negotiation**
- **Grant Award Accountability**
- **Grant Award Monitoring**
- **Grant Award Reporting**

Grants Management

- This presentation provides historical information and highlights the expectations, and/or requirements for an entity who is a direct recipient, a pass-through entity or a subrecipient of Federal awards over their:
 - **Grant Award Accountability, and**
 - **Monitoring responsibility.**

Background



Law makers at work, or auditors after discovering a fraudulent transaction?

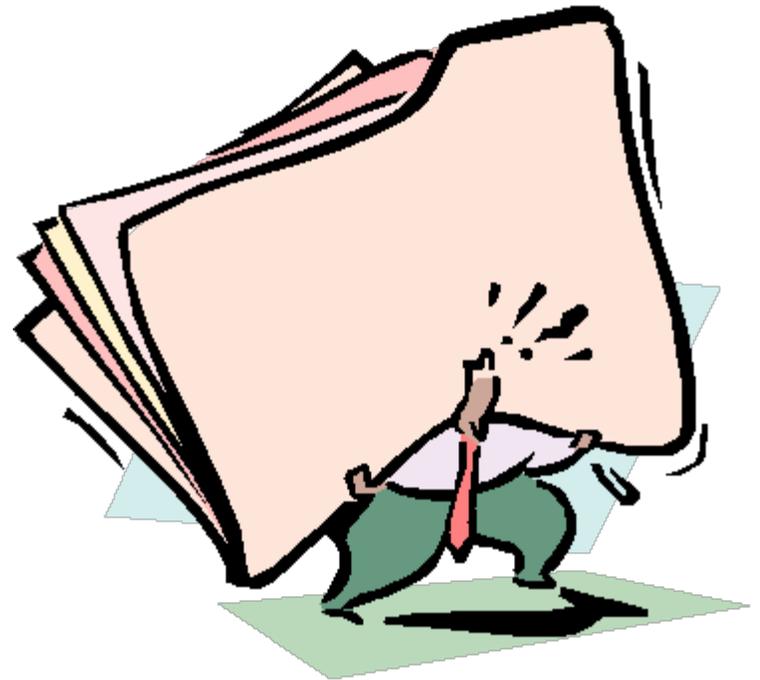
- As programs increased:
 - More technical assistance was needed.
 - More specific and stricter compliance requirements evolved.
 - Federal government needed a mechanism to recoup money from noncompliant grantees.

Background

- In 1968 Congress Passed the Intergovernmental Cooperation Act, which provided uniformity for certain administrative requirements.
- In 1971 OMB issued Circular A-102, *Uniform Administrative Requirements for Grant-in-Aid to State and Local Governments* (now called *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*).

Background

- Within OMB Circular A-102 was a section prescribing standards for financial management systems of grant-supported activities of state and local governments.



**Just what we need.
more rules.**

Background

- **In 1984 The Single Audit Act was enacted. This was to improve audit coverage and to clarify the single audit concept. This replaced the Attachment P audit requirements of OMB Circular A-102.**
 - **OMB Circular A-128 – Audits of State and Local Governments.**

Background

- In 1987 OMB revised Circular A-102 and the grants management requirements were codified into each Code of Federal Regulations.
- **State and Local Governments**
 - For HHS – 45 C.F.R. Part 92.
 - For Labor – 29 C.F.R. Part 97
- **Non-Profits/Universities**
 - For HHS – 45 C.F.R. Part 74.
 - For Labor – 29 C.F.R. Part 95

Background

- In 1990 OMB issued Circular A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions.*
- This Circular was issued since universities and other non-profit recipients were excluded from coverage under the Single Audit Act of 1984.

Background

- In 1997 OMB issued revised Circular A-133. *Audits of States, Local Governments and Non-Profit Organizations.*
- This revision superseded the previous OMB Circular A-133 and rescinded OMB Circular A-128.

OMB Grants Management Circulars

■ Cost Principles

- A-21 – Colleges and Universities
- A-87 – Governments
- A-122 – Not-for-Profit

■ Administrative Requirements

- A-102 – Common Rule – Governments
- A-110 – Everyone Else

■ Audit Requirements

- A-133 and OMB Compliance Supplement - All

Relation to Other Circulars

Institution	Cost Principles	Administrative Requirements	Audit Authority
State/Local Government	A-87	A-102 “Common Rule”	A-133
Colleges & Universities	A-21	A-110	A-133
Hospitals & Care Facilities	Various, 45CFR 74	Various, A-110	Various, A-133
Other Non-Profits	A-122	A-110	A-133
For Profits	48 CFR Part 31	Federal Acquisition Regulations	Federal Acquisition Regulations

Layers of Grant Requirements

■ Statutes

- Authorizations: establish program, define purpose, prescribe eligibility standards and sets grant terms
- Appropriations: make funding available

■ OMB Circulars – Are adopted by agencies in their regulations

■ Public Policy Requirements – Drug free work place

■ Agency Program & Administrative Regulations

■ Other Agency Guidance – Policies, contracts

Common Rule

- The Common Rule, *which was initially part of OMB Circular A-102*, is now the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local Governments which are codified into the Codes of Federal Regulations (CFR)*.

Financial Administration

45 C.F.R. Part 92

- **92.20(a) States:**
- **“A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost type contractors, must be sufficient to-**

Financial Administration

45 C.F.R. Part 92

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”

Financial Administration

45 C.F.R. Part 92

- **92.20(b) States:**
- **“The financial management systems of other grantees and subgrantees must meet the following standards:**
- **(1) *Financial Reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with financial reporting requirements of the grant or subgrant.**

Financial Administration

45 C.F.R. Part 92

- **(2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.**

Financial Administration

45 C.F.R. Part 92

- **(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.**

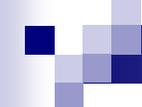
Financial Administration

45 C.F.R. Part 92

- (c) An awarding agency may review the adequacy of the financial management system of any applicant for financial assistance as part of a pre-award review or at any time subsequent to award.



**Hi! I'm your friendly auditor,
and I'm here to help you!**



Financial Administration

45 C.F.R. Part 92

- **(4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant....**

Financial Administration

45 C.F.R. Part 92

- **(5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.**

Cost Principles

- **OMB Circulars – Cost Principles**
 - **A-87- State, local or Indian tribal government**
 - **A-122 – Private nonprofit**
 - **A-21 – Educational institutions**
 - **48 CFR Part 31 – For profit organizations other than hospitals**

Which cost principles apply?

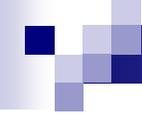
Example:

- The State of Ohio receives a Federal award: A-87 applies,
- Ohio passes funding to a County: A-87 applies,
- The County sub-awards funds to ProSenior, a nonprofit: A-122 applies.

OBM Circular A-87 & A-122

- Purpose

The Circulars establish principles and standards for determining costs for Federal awards carried out through grants, contracts, and other agreements.



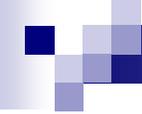
OBM Circular A-87 & A-122

Provides the guidance for federal awards to bear their fair share of cost recognized except where restricted or prohibited by law.



Cost allowability differences

Both sets of principles reflect essentially the same policies toward cost allowability and documentation.



The General Policy...

"Failure to mention a particular item of cost in the...[circular] is not intended to imply that it is either allowable or unallowable, rather, determination of allowability in each case should be based on the treatment or standards for similar or related items of cost."

OBM Circular A-87 & A-122

- Attachment A: General Principles
- Attachment B: Selected Items of Cost
- MUST be used together.

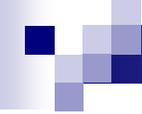


Tests of Allowable Costs

- Reasonable
- Allocable
- Conforms to limitations or exclusions
- Consistent
- Not prohibited

Tests of Allowable Costs

- Follows GAAP
- Not used to meet cost-sharing or matching requirements of any other Federal award; and,
- Be adequately documented.



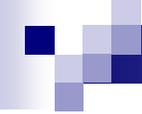
Reasonable Costs

A cost is reasonable if, in its nature or 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 costs.

Reasonable Cost (cont.)

Consideration shall be given to:

- Whether a cost is ordinary and reasonable
- Sound business practices
- Conditions of the award or other laws
- Comparable market prices
- Prudent Care
- Not in accordance with normal practices



Allocable Costs

A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances.

Allocable costs (cont.)

Consideration will be given to:

- The relative benefit received
- Whether the cost was allocated to all activities
- Was the allocation made to overcome fund deficits?



Composition of Total Cost

The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.

Direct Costs

Direct costs are those that can be identified specifically with a particular final cost objective.

Examples include:

- Compensation for time devoted specifically for the purpose of the award.

Direct Costs - Examples (Cont.)

- Cost of material acquired, consumed, or expended specifically for the award
- Equipment and other approved capital expenditures
- Travel expenses incurred in support of the award.

Indirect Costs

Indirect costs are those: (a) incurred for a common or joint purpose (b) not readily assignable to a specific cost objective (c) must produce an equitable distribution related to the relative benefits received.

Indirect Costs

Examples include:

- Administrative costs (e.g. human resources)
- General expense (e.g. insurance)
- Depreciation
- Maintenance costs
- Utilities

Classification of Cost

There is no universal rule for classifying cost as either direct or indirect.

Therefore, it essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost.

General Rule

A cost may not be allocated to a federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.



Intent of Classification of Cost Requirements

To prevent a practice where some of the cost of a given activity are directly identified to programs or functions while other costs that could also have been charged as direct are treated as indirect.

General Policy

- Identify all costs that can be directly assignable to a specific program or cost objective first.
- Remaining common costs should be supported by a cost allocation plan which is indicative of the relative benefits received.



Common RMS Audit Issues

- Lack of case participant identifiers as required
- Lack of descriptive evidence related to hits for cases not yet established or general program



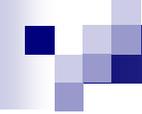
Common RMS Audit Issues

- Lack of documentary support for claimed program or activity
- Staff assigned to wrong RMS type (IM versus SS)

Examples of Unallowed Costs

Examples of not allowable costs include:

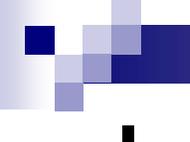
- Alcoholic beverages;
- Bad debts;
- Personal use of automobiles;
- Donations or contributions;
- Entertainment fees;



Examples of Unallowed Costs

Examples of not allowable costs include:

- Goods or services for personal use;
- Fines or penalties;
- Lobbying costs;



In conclusion, just ask yourself...

- CAN you justify this expense (to local auditors, state monitors, the federal auditors, and any other 'inquiring minds who want to know')?
- Do you WANT to justify this expense?
- If the answer is "NO" to either of the above questions, consider the expense Not Allowed.



5 words to remember...

- Necessary
- Reasonable
- Prudent
- Effective
- Efficient

Resources...

ASMB C-10 Implementation Guide for A-87

Know Net: The Audit Resolution and Cost Policy SuperSite

http://www.knownet.hhs.gov/policy/policy/c10/asmb_c-10.htm

Financial Administration

45 C.F.R. Part 92

- **(6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contracts and subgrant award documents, etc.**

Financial Administration

45 C.F.R. Part 92

- **(7) Cash management.** Requires that procedures for the transfer of funds from the U.S. Treasury to the grantee(s) should be as close as possible to the time of making the disbursements.
- **31 C.F.R. Part 205**
- **OMB Circular A-102 §__.20 and §__.21**



Cash Management

- **Prohibits cash draws in excess of immediate cash needs.**
- **Ensures the Federal government receives interest instead of state and local governments**

Cash Management

- **Applicable to both grantees and subgrantees.**
- **Applies to both advances and reimbursements.**
 - **Advance – receive money before expenditure is made**
 - **Reimbursement – receive money after expenditure is made.**

Cash Management

- **Request system must meet the standards prescribed by CFR.**
- **Be for immediate cash needs.**
- **Expenditures reported on cash basis for each request.**

Procurement

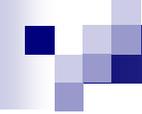
- **OMB Circular A-102 §___.36**
- **May use local standards as long as the standards cover the federal requirements and the basic principles all entities use, such as state procurement requirements.**
- **(Theory is to utilize the most stringent requirements that affect the purchase.)**

Equipment

- **OMB Circular A-102 §__.32**
- **Purchase using procurement policies.**
- **Equipment inventory must take place for federally purchased equipment once every two years.**
- **Inventory control system required**
- **Proper maintenance required.**

Equipment

- **Capitalization - \$5,000 or local capitalization threshold, whichever is lower.**
- **Can be used as long as project exists or may be used for other Federal projects once project terminates**
- **Disposal**
 - **<\$5,000 dispose according to local policies and use proceeds for program activities**
 - **>\$5,000 contact state agency and ask for written disposition for disposal.**



Overview of Circular A-133

- **Key terms under OMB Circular A-133:**

- Federal award

- Nonfederal entity

- Recipient

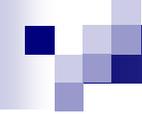


Overview of Circular A-133

Pass-through entity

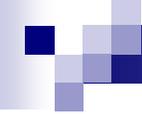
Subrecipient

Vendor



Overview of Circular A-133

- Requires audit of “non-Federal entities” expending more than \$500,000 of Federal awards in a single year
- If expenditures are all in one Federal program, may be “program-specific” audit
- Otherwise, must be entity-wide Single Audit

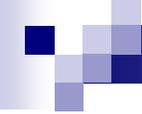


Overview of Circular A-133

- Circular provides guidelines for determining “Federal awards expended”
- Circular specifies responsibilities of “recipients,” “subrecipients,” “vendors,” “pass-through entities,” “auditees,” and “auditors.”

Subrecipient vs. Vendor Status

- **Characteristics of a subrecipient include:**
 - **Determines eligibility to receive Federal financial assistance**
 - **Has performance measured against whether objectives of a Federal program are met**
 - **Has responsibility for programmatic decision making**



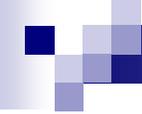
Subrecipient vs. Vendor Status

- Is responsible for adherence to applicable Federal program compliance requirements**
- Uses Federal funds to carry out a program of the organization, as compared to providing goods or services for a program of the pass-through entity**



Subrecipient vs. Vendor Status

- **Characteristics of a vendor include:**
 - **Provides goods or services within normal business operations**
 - **Provides goods or services to many different purchasers**
 - **Operates in a competitive environment**



Subrecipient vs. Vendor Status

- Provides goods or services ancillary to the operation of the Federal program**
- Is not subject to compliance requirements of the Federal program**

Subrecipient vs. Vendor

- In determining subrecipient/vendor status:
 - **The substance of the relationship is more important than the form**
 - **Characteristics may be mixed, and not all characteristics of one status may be present**

Subrecipient vs. Vendor

- Any entity which passes through Federal funds needs to decide and document whether a subrecipient or vendor relationship exists with the entities with which it is doing business
- If you are passing-through Federal funds to a subrecipient, then you must decide what type of monitoring you will be performing

Subrecipient vs. Vendor

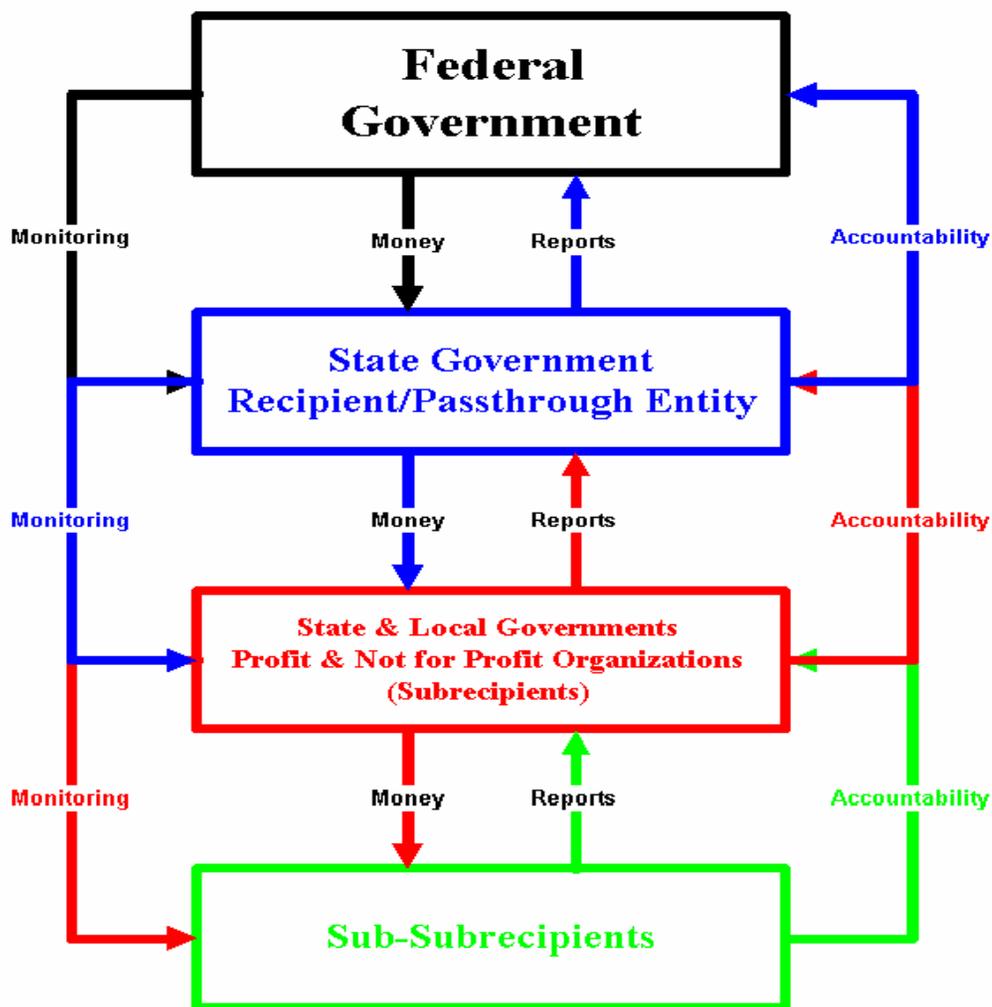
- A pass-through entity can take exception to determinations by its subrecipients of the status of entities to which the subrecipient passes-through federal awards

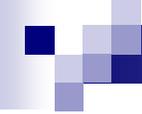


Subrecipients of the State

- Local Governments
- Other State Agencies
- Work Force Investment Areas (WIA)
- Colleges & Universities
- Schools
- Non-Profit Entities
- For Profit Entities (Federal Justice & HHS recognize them as subrecipients)

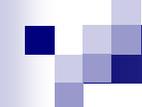
Federal Monitoring Model Recipient/Subrecipient Relationship





Pass-Through Entity Responsibilities

- Identify the federal awards to subrecipients
- Inform subrecipients of federal, state and local compliance requirements



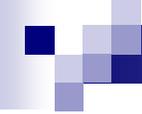
Pass-Through Entity Responsibilities

- Monitor subrecipient activities
- Ensure subrecipients have single audits if required. (Expend \$500,000 or more in a fiscal year)



Pass-Through Entity Responsibilities

- Provide technical assistance and training
- Issue management decisions within six months on subrecipients' single audit findings against their grants, and ensure corrective action was taken by subrecipients

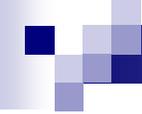


Pass-Through Entity Responsibilities

- Determine if pass-through entity must adjust their record as a result of subrecipient audits
- Require subrecipients to permit the pass-through entity and its auditor access to their records for monitoring and audit purposes.

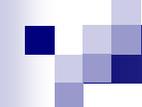
Vendors

- Pass-through entity must assure that procurement, receipt, and payment for goods and services comply with laws, regulations, and the provisions of contract or grant agreements
- If a vendor transaction is structured to make the vendor responsible for program compliance, the pass-through entity must assure compliance.



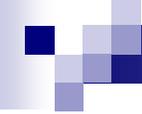
Subrecipient Responsibilities

- **Administer the grant from award to closeout**
- **Develop policies and systems to ensure effective management of federal funds and compliance with federal, state and local laws and regulations**



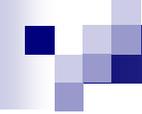
Subrecipient Responsibilities

- Ensure they have a grant financial management system, procurement and property management systems
- Have an established budget of costs to perform the program and a method for monitoring actual costs against the budget



Subrecipient Responsibilities

- Keep abreast of changes in policies, procedures or requirements and advise staff of any changes
- Request prior approvals when necessary
- Cooperate during on-site visits by the pass-through entity



Subrecipient Responsibilities

- Prepare necessary reports
- Keep the pass-through entity informed about subaward project progress
- Provide Single Audit reports to pass-through entities.

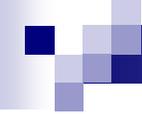


Subaward Agreement

- For each subaward passed-through to each subrecipient there should be a subaward agreement
- This subaward agreement is potentially the most important tool for monitoring subrecipient activities

Key Provisions of a Subaward Agreement

- To identify Federal awards to a subrecipient, you must provide:
 - The CFDA number
 - Program name
 - Award year
 - Awarding agency
- Information is available at www.cfda.gov



Key Provisions of a Subaward Agreement

- Scope of work, budget, and performance requirements
- Program authorizing legislation
- Program regulations

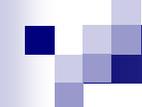
Key Provisions of a Subaward Agreement

- Administrative requirements
 - Grants Management Common Rule
 - Financial management
 - Procurement
 - Financial reports
 - Program reports
 - Records retention
 - Cost allocation/allowable cost



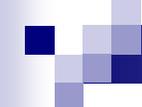
Key Provisions of a Subaward Agreement

- Payment**
- Matching**
- Period of availability**
- Program income**
- Real property**



Key Provisions of a Subaward Agreement

- Equipment**
- Supplies**
- Monitoring (including access to records)**
- Audits**
- Additional requirements**



Key Provisions of a Subaward Agreement

- **Structure of Agreement**
 - **Incorporation by reference**
 - **Certification statement**
 - **Additional guidance**



Common Monitoring Procedures

- Review single audits
- Arrange for limited-scope audits
- Schedule site visits
- Review subrecipient reports



Common Monitoring Procedures

- Require prior approval for certain activities
- Require third-party evaluations
- Provide technical assistance and training
- Make telephone calls and e-mails
- Follow subrecipient coverage in the news

Which Monitoring Procedure Should Be Used

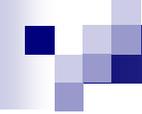
- Factors to consider:
 - Purposes and objectives of monitoring
 - Risk on noncompliance by subrecipient
 - Available resources

Single Audits

- If a subrecipient expends \$500,000 or more in total federal financial assistance during their fiscal year then they are required to have an audit performed in accordance with OMB Circular A-133 (Single Audit)
- Pass-through entities must ensure that such subrecipients have their audits performed

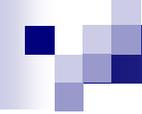
Single Audits

- Cost of a Single Audits is an allowable reimbursable cost. Cost is paid by the entity being audited
- Subrecipient must provide pass-through entity a copy of the single audit report



Limitations of Single Audits

- Only tests compliance for major programs
- Higher materiality thresholds are usually used for testing. This may not satisfy the needs of the pass-through entity
- Only required to cover 50 percent of Federal awards



Limitations of Single Audits

- Reports are usually not available until nine months after the end of the fiscal year
- Limiting monitoring to review of the Single Audit is insufficient, as monitoring must occur throughout the year

Insufficient Monitoring

- **Subject of audit findings by Auditor of State in State Single Audit**
- **May result in questioned costs or Federal sanctions for which the “causal county” may have financial liability**
- **Subject of audit testing by ODJFS auditors**
- **May result in questioned costs**

Auditor's Review

- **Review 14 compliance requirements which cover all concepts of the program.**
- **Review 50% of federal dollars (25% if low-risk auditee)**
- **Report questioned costs over \$10,000 (actual or projected), material non-compliance and material internal control citations.**



Grant Administration

- **Are there any Questions?**