

Implementing the Uniform Guidance including Procurement and Financial Management

Course Overview

- Review and discuss the information contained in 2 CFR 200 and how to find the information you need.
- Financial Standards and Requirements, Including Internal Control Requirements under 2 CFR 200.
- Allowable Costs and Cost Principles of 2 CFR 200.

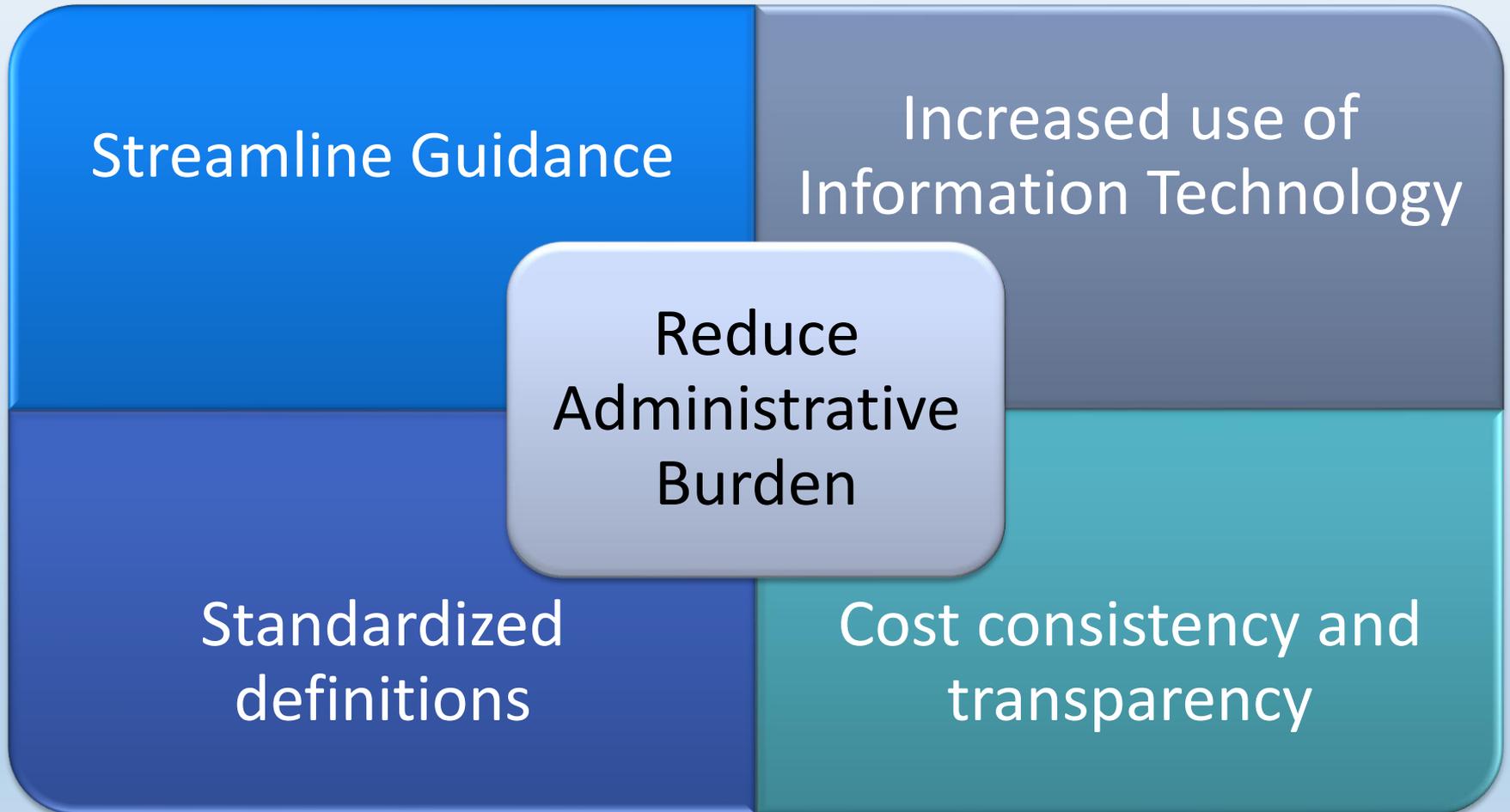
Objectives

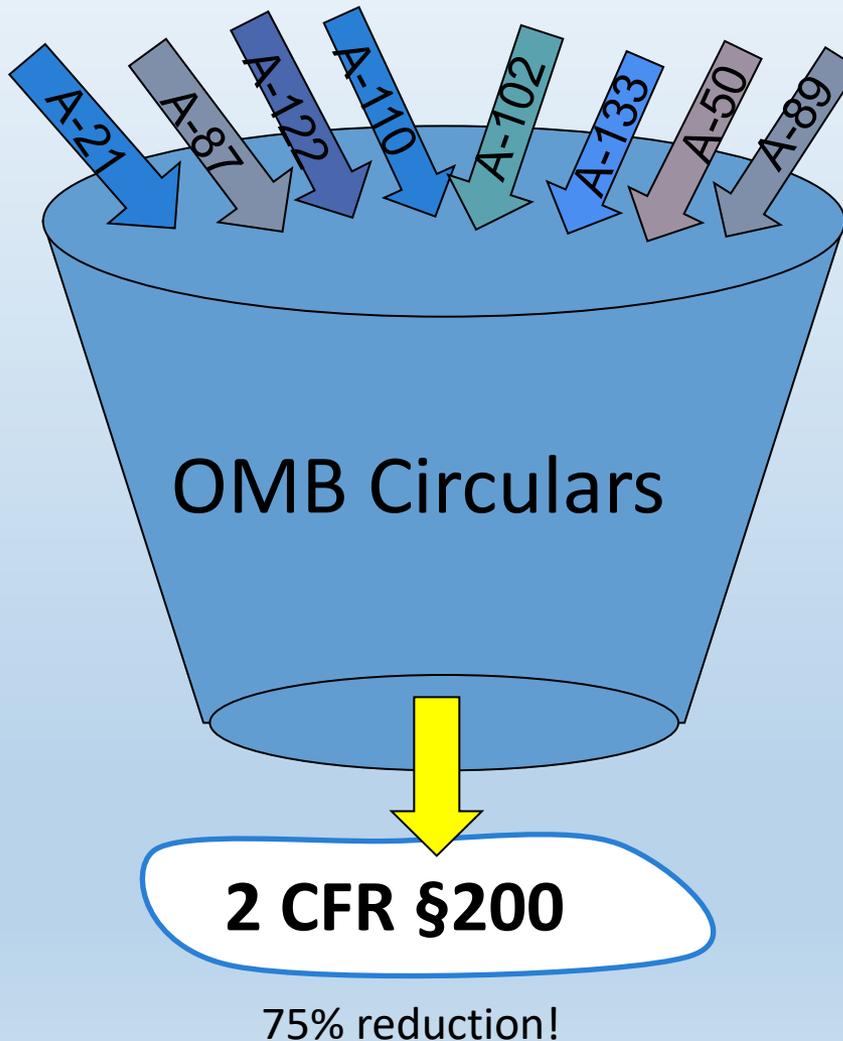
- A better understanding of the rules and requirements for grant administration.
- Ability to review current financial reporting to verify compliance with grant rules.
- Understanding of the purpose of internal controls and the types of requirements included in the rules.
- How to determine whether a cost is allowable.

Navigating The Uniform Guidance

2 CFR 200

Primary Objectives





- **A-21** Cost Principles for Educational Institutions
- **A-87** Cost Principles for State, Local and Indian Tribal Governments
- **A-122** Cost Principles for Non-Profit Organizations
- **A-110** Uniform Administrative Requirements for Grants and Other Agreements
- **A-102** Grants and Cooperative Agreements With State and Local Governments (Part 85)
- **A-133** Audits of States, Local Governments and Non-Profit Organizations
- **A-50** Audit Follow up
- **A-89** Catalog of Federal Domestic Assistance

Subparts at a Glance

Subpart A (200.0 - 99)

- Acronyms and Definitions

Subpart B (200.100 - 113)

- General Provisions

Subpart C (200.200 - 213)

- Pre-Federal Award Requirements and Contents of Awards

Subpart D (200.300 - 345)

- Post Federal Award Requirements

Subpart E (200.400 - 475)

- Cost Principles

Subpart F (200.500 - 521)

- Audit Requirements

12 Appendices – I through XII

2 CFR 200.00-200.99

Subpart A—Acronyms and Definitions

- Definitions and acronyms for key terms found throughout the document
 - Compiled from 8 sets of guidance so many conforming changes made to harmonize the definitions with the term
 - Some definitions reflect policy changes
- Use of “***should***” vs. “***must***”
 - “Should” means best practices or recommended approaches
 - “Must” means it is required

2 CFR 200.82

Protected Personally Identifiable Information

- New Definition
- An individual's first name or first initial and last name in combination with any one or more types of information, including, but not limited to: Social Security number, passport number, credit card number, bank number, biometrics, date and place of birth, mother's maiden name, criminal, medical, and financial records, educational transcripts.

2 CFR 200.82

Protected Personally Identifiable Information

You are **REQUIRED** to take reasonable measures to protect Protected Personally Identifiable Information!

Methods include:

- Policies covering nondisclosure and confidentiality
- Procedures to control and protect the information such as limited access, locked file drawers, password protection for access.

2 CFR 200.102

Subpart B – General Provisions

- Agency may apply more restrictive requirements to class of awards:
 - when approved by OMB, or when,
 - required by Federal statutes or regulations,
 - except for the requirements in Subpart F—Audit Requirements of this part
- Case-by-case basis, OMB will approve innovative program designs (see OMB memo M-13-17)

2 CFR 200.113

Mandatory Disclosures

- Violations of Federal criminal law potentially affecting Federal award must be reported to HUD or pass-through entity (timely and in writing)
 - Fraud
 - Bribery
 - Gratuity violations

Post Federal Award Requirements: Standards for Financial and Program Management

Subpart D: 2 CFR 200.300 - 316

2 CFR 200.302

UNIFORM GUIDANCE REQUIREMENT

200.302(b)(1): Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any

2 CFR 200.302

OVERVIEW OF FINANCIAL MANAGEMENT SYSTEM

- One size does not fit all – tailor to staffing and organizational structure
- 2 CFR 200 Post Federal Award 200.302 financial management system standards:
 - Must identify Federal awards received and expended
 - Accurate, current, complete disclosure of financial results
 - Identify the source and application of funds
 - Control over and accountability for all funds, property, and assets
 - Comparison of expenditures with budget amounts for each Federal award
 - Written procedures to meet the requirements for Payment in 2 CFR 200.305
 - Written procedures for determining the allowability of costs in accordance with 2 CFR 200 Subpart E
- Refer to Awarding Agency regulations for any additional requirements.

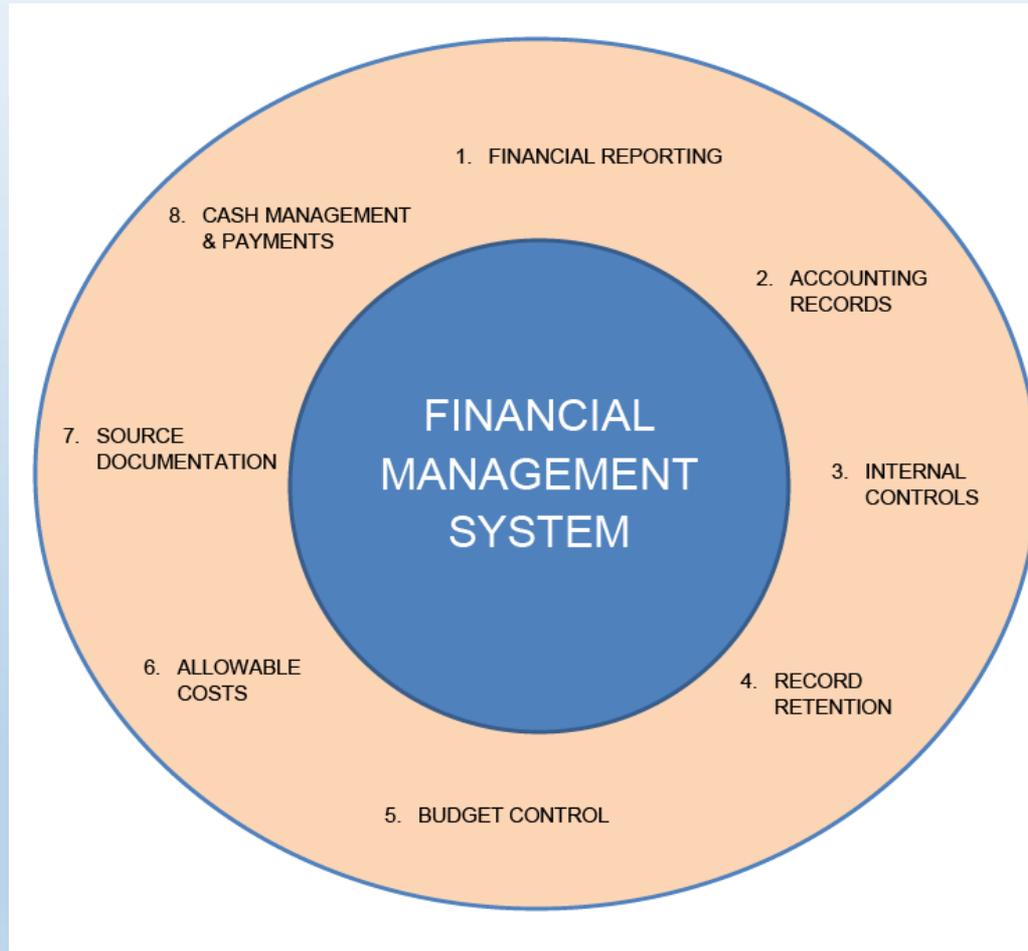
BENEFITS OF A SOUND FINANCIAL MANAGEMENT SYSTEM

- Long term financial planning;
- Accurately organize grant activities;
- Achieve program objectives and fulfill commitments of the award;
- Demonstrates accountability to the Tribe and Federal Awarding Agencies; and
- Gain confidence of Federal Awarding Agencies and other potential funders.

FINANCIAL MANAGEMENT SYSTEM ELEMENTS

- Identification of Federal Awards: 200.302(b)(1)
- Financial Reporting: 200.302(b)(2)
- Accounting Records: 200.302(b)(3)
- Internal Controls: 200.302(b)(4) & 200.303
- Budgeting: 200.302(b)(5)
- Cash Management: 200.302(b)(6) & 200.305 Payments
- Allowable Costs: 200.302(b)(7) and
 - Subpart E – Cost Principles

ASSESSMENT OF A SOUND FINANCIAL MANAGEMENT SYSTEM



Characteristics of an Effective Financial Management System

- Financial reporting is conducted frequently and in a timely manner, with sufficient depth and clarity.
- Roles and responsibilities related to fiscal and financial management and accounting are clearly defined. Backup personnel are trained and available for use when needed.
- Budget comparisons are conducted for the current year and current quarter.
- Capital expenditures are reviewed and analyzed.
- Through good records, timely processing, and effective procedures, the system provides for controls over cash, working capital, and organizational assets.
- Where possible, the fiscal and financial management and accounting functions are automated to reduce the clerical burden.

2 CFR 200.302

UNIFORM GUIDANCE REQUIREMENT

Uniform Guidance 2 CFR 200.302(b)(2):

Provide accurate current, and complete disclosure of the financial results of the program in accordance with reporting requirements in 200.327 Financial reporting – the use of a standard, OMB-approved government data elements for collection of financial information.

200.302(3): Maintain records that identify adequately the source and application of funds for program funded activities. Records must contain information pertaining to the federal award, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

Reporting

- Internal Reporting – used to make decisions within the organization. May be financial or non financial
- Financial:
 - How much did we spend
 - How much did we spend per activity?
 - How much do we have left?
 - Was it spent as planned?

Reporting

- Non financial reporting:
 - How many participants were assisted?
 - Did we do everything we said we would in the grant?
 - If not, do we know why?
 - Can we explain it to the Board/Council/Tribal Members?

Reporting

External Reporting – Reports required by external parties, usually funding sources (Federal, State, Other grant sources)

- What did we do with the grant funds?
- Was it in accordance with the grant?
- Was it in accordance with our policies?
- Did we follow all the grant requirements?
- Can we prove it?

Reporting

Standard Financial Reports:

- SF 425 (due 30 days after each quarter. Annual is due 90 days after end of fiscal year)
- Current month and year to date expenditures vs budget
- Current information showing cash, receivables, and payables

2 CFR 200.302

UNIFORM GUIDANCE REQUIREMENT

200.302(4): The Tribe must have effective control over, and accountability for, all funds, property, and other assets. The Tribe must adequately safeguard all assets and assure that they are used solely for authorized purposes.

2 CFR 200.303

UNIFORM GUIDANCE REQUIREMENT

Establish and maintain effective internal controls over the IHBG funds. Should comply with “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), generally referred to as the COSO Framework.

UNIFORM GUIDANCE REQUIREMENT

Requirement under Section 200.303

- a. Establish and maintain effective internal controls over the IHBG funds.*
- b. Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.*
- c. Evaluate and monitor for compliance.*
- d. Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.*
- e. Safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive.*

THE COSO FRAMEWORK

1. Control Environment – tone at the top
2. Risk Assessment – assess external and internal risks
3. Control Activities – policies and procedures
4. Information and Communication – communication plan to share information
5. Monitoring – assess ongoing quality of internal control systems over time

Example: Applying COSO Framework to determine adequacy of internal controls over activities for allowable and unallowable costs

Control Environment

- Management sets reasonable budgets; identifies allowable expenditures.

Risk Assessment

- Managers and staff are required to use the written policies and procedures as guidance to identify allowable or unallowable costs.

Information and Communication System

- Department managers compare monthly budget and actual expenditures to review for accuracy and initiate corrections, if needed.

Control Activities

- Managers follow established written procedures for authorization and approval of purchases based on approved budget, prior to purchase.

Monitoring

- Accounting provides financial reports to managers for monthly review; includes the reports to the Board.

INTERNAL CONTROLS



CREATE A CONTROL ENVIRONMENT HOW?

WITH POLICIES AND PROCEDURES that everyone has to follow.

EXAMPLE:

Ethics Policy: require all staff and Council to follow all requirements for Protected Personally Identifiable Information and Conflict of Interest requirements. Require disciplinary actions for ALL violations.

INTERNAL CONTROLS

WELL DESIGNED WRITTEN POLICIES AND PROCEDURES

- Safeguard assets.
- Promotes reliability and integrity.
- Ensures compliance.
- Promotes efficient and effective operations



INTERNAL CONTROLS

A good internal control system is either:

- **Preventative.** Prevent undesirable activities from happening with policies and procedures.
- **Detective.** Identifies what happens after the something happens.



INTERNAL CONTROLS

Separation Of Duties

- Solid internal controls require a separation of duties - a check and balance
- **The same person cannot initiate, approve, and record a transaction**
- Clear responsibility for various steps in the financial process

For example, the following requirements might be instituted:

- **Chairman - Authorization**
- **Tribal Administrator: Review and authorization**
- **Bookkeeper: Origination and review**
- **Office Assistance/Receptionist: Origination**



INTERNAL CONTROLS ON CASH RECEIPTS

Cash is the first asset listed on the Statement of Net Position.

Cash consists of currency, checks, money orders, money on hand, or on deposit in a bank.

Safeguard Cash - most susceptible to improper use:

- ✓ Store cash in safe, secure place
- ✓ Limit access
- ✓ Write cash receipts for all cash transactions
- ✓ Make bank deposits daily
- ✓ Reconcile bank statements to GL on regular and timely basis
- ✓ Bond personnel
- ✓ Require vacations

INTERNAL CONTROLS ON CASH RECEIPTS

Responsibility and Segregation of duties –



Designate different staff to perform different functions:

- Receptionist receives cash and writes cash receipts.
- Bookkeeper reconciles cash to cash receipts and prepares the bank deposit. Bookkeeper also posts the cash receipts to the accounting system.
- Tribal administrator reviews the bank deposit to the deposit ticket, and reviews and approves the bank reconciliation.

INTERNAL CONTROLS ON CASH DISBURSEMENTS

Cash is disbursed to pay expenses and liabilities or to purchase assets.

For effective internal control over cash disbursements, use the accounts payable module in your accounting system.

Benefits:

- Record of invoices paid. Vendor history reports. Aging of invoices.
- Cash management. Automated bank reconciliation functions.
- Ease in creating 1099's at the end of the year.
- Using pre-numbered checks adds another level of oversight, strengthening your internal controls.
- The paid check provides proof of payment.

INTERNAL CONTROLS FOR CASH DISBURSEMENTS

Responsibility and segregate duties.

- Only designated personnel are authorized to sign checks.
- There must be a clear separation of duties in the accounts payable processes.
- Use pre-numbered checks and account for them in sequence.
- Each check must have an approved invoice that is correctly coded and proof of receipt.

INTERNAL CONTROLS ON CASH DISBURSEMENTS

VENDOR REQUIREMENTS

W-9 FORM.

- Each vendor must fill out a W-9 Form – Request for Taxpayer Identification Number and Certification.

Form 1099-MISC – What is it?

- Reports *Miscellaneous Income* for all vendors that you paid \$600 or more in non-employee compensation for services, rents, and other income payments (refer to Instructions for Form 1099-MISC in appendix or website: <http://www.irs.gov>).

INTERNAL CONTROLS ON ELECTRONIC BANKING

ELECTRONIC FUNDS TRANSFER SYSTEM (EFT)

Enhances internal controls of cash received and cash disbursed.

- Acceptable and convenient means of receiving payment and making payments.
- Safe, private, and convenient.
- In isolated tribal areas far from banks, EFT is an excellent way to manage the Tribe's cash transactions.

INTERNAL CONTROLS ON CREDIT CARDS

CREDIT CARDS CONTROL

- More common practice for making small purchases
- Can result in efficiencies and timely purchases
- Must have procedures that includes authorized users, credit card limits, purchases authorized with credit cards, document flow and approvals.
- Reconcile charges to statements timely – book transactions to GL timely!
- Control use through bank administration rights

INTERNAL CONTROLS ON CREDIT CARDS

Responsibility and segregation of duties

- Card administrator has access to on-line banking and on-line statements
- Card Administrator can control credit card usage and limits through on-line access to credit cards
- Procedures clearly outline responsibilities of cardholders
- Cardholders sign an “Agreement and Acknowledgement of Understanding.”
- Cardholder submits charges to Supervisor for review and approval
- Credit card charges are entered into the Accounts Payable module on a timely basis
- Charges are reconciled to the statement prior to payment

INTERNAL CONTROLS BANK RECONCILIATIONS

BANK RECONCILIATIONS – PROCEDURES

- Reconciling your bank accounts each month is an important internal control.
- Timely reconciliations allow you to know what has come in and got out of each account to verify that it was appropriate and allowable

INTERNAL CONTROLS BANK RECONCILIATIONS

Document procedures:

1. Receptionist – receive and date stamp.
2. Bookkeeper – use accounting system to reconcile to GL.
3. Attach copies of all cash receipts
4. Post interest earned and bank fees in the general ledger.
5. Attach the accounting system generated bank reconciliation reports to the bank statement
6. Tribal Administrator – Review and approve the reconciliation.

INTERNAL CONTROLS BANK RECONCILIATIONS

INTERNAL CONTROLS ON BANK RECONCILIATIONS

Responsibility and Segregation of duties:

- The Receptionist receives the bank statement and stamps it received;
- The Bookkeeper reconciles the bank statement; and
- The Tribal Administrator reviews and approves the reconciliation.
- Council may review bank reconciliations as part of their financial oversight.

INTERNAL CONTROLS ON BANK RECONCILIATIONS

Physical, mechanical, and electronic controls.

- Electronic statements allow for more timely reconciliations and enhances cash management.

Maintain a bank reconciliation file. Records of the monthly reconciliations should be filed by month for easy access and use in various audits.



INTERNAL CONTROLS ON BANK RECONCILIATIONS



Other controls.

- Periodically the bank reconciliation should be completed by someone other than the bookkeeper.
- The Reviewer should review cancelled checks, outstanding checks and deposits.
- If you no longer receive physical copies, you should be able to review all checks and endorsements electronically.

INTERNAL CONTROLS FOR CAPITAL ASSETS

- 2 CFR 200.302(b)(4) requires effective control over and accountability for all funds, property and other assets.
- Fixed Assets system provides processes for recording and managing all capital purchases and capital developments, disposals of assets, asset lives and depreciation.
- Asset grouping and asset lives are determined by Policy.

INTERNAL CONTROLS FOR CAPITAL ASSETS

- All procured capital assets should be approved through the budget process
- Adopt a Policy and Procedure that includes definition of asset groupings, asset life for depreciation.
- Include the process for disposing of assets.
- Physical inspection/ inventory should be done annually to determine the records are accurate and assets are where they are supposed to be and in good condition.

INTERNAL CONTROLS FOR CAPITAL ASSETS

a. Define Capital assets: All capital items that cost \$5,000 or more will be capitalized and depreciated.

b. Identify the categories of assets that will be managed and the depreciable life of the assets.

- Land not a depreciable asset
- Buildings and buildings improvements 30 Years
- Site improvements 30 Years
- Furniture, Fixtures, and Equipment 10 Years
- Automotive 7 Years

INTERNAL CONTROLS FOR CAPITAL ASSETS

Maintain a Schedule of fixed asset category (Buildings, Land, and FFE):

- Capital asset description (complete)
 - Date of purchase
 - Current location
 - Cost delivered
 - Funding source and any restrictions
 - Depreciable life of the asset
 - Depreciation amount – current and cumulative
-
- Depreciation is calculated beginning the first full month an asset is placed into service



INTERNAL CONTROLS FOR CAPITAL ASSETS

- Maintain and update the Capital Asset Ledger and Depreciation Schedule

Review and Reconcile to:

- Agree the Capital asset ledger to the Statement of Net Position
- Agree the accumulated depreciation to the Statement of Net Position
- Agree the current year depreciation schedule to the Statement of Activities (Income Statement)

INTERNAL CONTROLS ON PAYROLL

PAYROLL AND ALLOCATIONS

- Significant cost of tribal operations.
- Often staff time is allocated to various grants and programs.
- Requires significant planning and documentation to support the charges.

Internal Controls:

- **Payroll Action Forms (PAF)**. PAFs are the authorizing document for employee set up in payroll.
- **W-4** – Employee's withholding information.

INTERNAL CONTROLS ON PAYROLL

PAYROLL AND ALLOCATIONS

System Set-up

- Set up deductions and benefits as liabilities on the balance sheet.
- Deductions – Amounts withheld from the employee's gross wages to get to net pay.
- Benefits - Employer pays on behalf of the employee.
- Matching items - FICA and Medicare.

Reconcile Reconcile Reconcile!!

INTERNAL CONTROLS ON PAYROLL

TIMESHEETS: NON-EXEMPT EMPLOYEES

An accurate record of time worked is important. If an employee is working on multiple projects or is paid from multiple sources the timesheet should accurately reflect the time worked on each project.

- Record actual hours worked in a pay period.
- Must be signed by employee.
- Must be reviewed and approved by the supervisor.

INTERNAL CONTROLS ON PAYROLL

Department of Labor regulations for implementing the Fair Labor Standards Act (FLSA) (29 CFR part 516) require charges for the salaries and wages of *nonexempt employees to be supported by records indicating the total number of hours worked each day (200.430), without affecting their employees' exempt status.*

IMPORTANT:

- Track actual hours worked if charged to a federal grant
- This should not affect salary amount for given pay period.

Good Business Practice:

Track the different types of leave offered on timesheet

- Sick Leave
- Holiday
- Vacation

INTERNAL CONTROLS

PAYROLL GUIDANCE AND REPORTING

1. Deposit requirements and deposit schedule for Federal income tax withholding and Social Security and Medicare:
 - a. Quarterly filing tax liabilities electronically is required for all employers that have a tax liability over \$2,500.
 - b. Deposits are due either monthly or semi-weekly depending on your tax liability in the calendar look back period. (See page 25 of Circular E);

INTERNAL CONTROLS ON PAYROLL

- c. Form 941: Employer's quarterly Federal Tax Return and Schedule B (Form 941) must be filed quarterly; and
 - d. The employer is required to file Form W-2 which reports an employee's annual wages and taxes withheld from paychecks.
2. The employer is required to give an employee an I-9 and W-4 to fill at their hire date.
 3. Employer payroll tax record retention is four (4) years.

AUDITOR MUST REPORT AUDIT FINDINGS:

- Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse
- Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards related to a major program
- Questioned costs greater than \$25,000
- Known or likely fraud affecting the federal award
- Report on prior audit findings and corrective action

DOCUMENTATION

- Each grant must have its own file(s).
- Consider color-coded paper folders.
- Keep electronic copies.
- File must be safe from theft, fire, and water damage

Files should include:

- A copy of the assistance agreement and the award letter
- The grants management calendar and tracking chart
- Work plan and budget detail
- Notes and communications

2 CFR 200.302

UNIFORM GUIDANCE REQUIREMENT

200.302(3): Maintain records that identify adequately the source and application of funds for grant funded activities. Records must contain information pertaining to the award, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

200.333 requires financial and programmatic records to be retained for 3 years from the date of submission of the final expenditure report or from the date of the submission of the annual financial report for grants that automatically renew annually. Records must also be maintained for any litigation, claim, or audit that was started before the expiration of the three year period and must be kept until final action is taken.

2 CFR 200.333-337

RECORD KEEPING AND RETENTION

ADOPT A POLICY AND INCLUDE:

- Retention requirements for records (200.333) - How long should you keep the records Method to transfer certain records to the federal agency, if required (200.334);
- Methods for collection, transmission and storage of information (200.336);
- Access to records; (200.337) – for the federal agency, the Inspector General’s, the Comptroller General of the United States;
- Restrictions on public access to records (200.337) – for example, Personnel files.

RECORD KEEPING AND RETENTION

Specific accounting related records that should be maintained:

1. Bank Reconciliation Files
2. Journal Entry Files
3. Financial Statement Files
4. Other General Grant Files
5. Vendor Files
6. Tenant Files
7. Personnel Files – Important – Maintain 3 separate files for each employee
 - File 1 – Application and other general information
 - File 2 - For example - health related information
 - File 3 – Payroll information

RECORD KEEPING AND RETENTION

- Accounting records, journal entries and financial records must all be supported by source documentation. They describe the basic facts of a transaction such as its date, purpose, and amount.
- Tribal Governments who cannot provide source documentation (e.g., journal, ledger, receipts, purchase orders, etc.) for all expenditures under their assistance agreements, costs may find their costs deemed unallowable.

DOCUMENTATION

- Basic files needed for managing Grant awards include:
- The original application and certifications including the work plan and budget
- Initial award and amendment documents
- Request and/or approvals for scope/budget changes
- Financial status reports *FFR (SF 425)*
- General ledger detailing revenues, expenditures, assets, and liabilities
- Support documents for expenditures

Documentation

Folders in the grants management files should contain items like:

- Narrative
- Budget
- Budget modification
- Communications with officials
- Partnerships
- Progress reports
- Financial Reports
- Close outs

Documentation

Source documents provide the basic evidence needed to support accounting transactions.

Examples of source documents include:

- Cancelled checks
- Paid bills
- Payroll
- Time and attendance records
- Contracts and sub-award documents

Documentation

Expenses to programs must be properly documented, which includes justification that the expense is allowable.

The following check list may be attached to purchase orders or check requests to explain why the purchase was made. Auditors and regulators look for the following justification.

Documentation

- Reasonable:** Is the use of program dollars reasonable?
- Necessary:** Is it necessary in performing the requirements of the program?
- Allowable:** Is the use of program dollars allowable?
- Allowable within the scope of the project proposed:** Is it within the scope of the program project as proposed?
- Clear business purpose:** Is there a clear business purpose? It is evident to a third party that the purchase is not for personal use.
- Budgeted:** Is the purchase properly budgeted for?
- Funding available:** Is there funding still available in the budget? If a budget revision needs to be done in accordance with the program regulations, the Project Officer has been contacted.
- Coded:** Is the purchase order or check request properly coded with the correct fund, program, year, and account codes?

Documentation

- Approved:** Has the purchase order or check request been properly approved by supervisors?
- Conflict of interest:** Do any of the supervisors have a conflict of interest in making this purchase? Do any of the supervisors have a personal relationship or stand to gain personally by making this purchase?
- Allowable under 2 CFR 200 Subpart E Cost Principles?**
- Processed within deadlines:** Have you followed policy and allowed enough time for the paperwork to be processed within established deadlines?
- Policy followed:** Each check request and purchase order must be documented to stand on its own as to what, where, why, when, and how the funding was used.
- Documented:** If you do not think it would be clear to an outside third party, such as an auditor, then please take a moment and document the reasons for the purchase. Remember, at the end of the year or two years from now, you might not be here to explain the purchase.
- Comfortable:** Would you be comfortable with making this purchase if it was reported on the front page of the daily newspaper with photos of you?

Cost Principles – Basic Considerations

Subparts E of 2 CFR 200.400 - 475

UNIFORM GUIDANCE REQUIREMENT

The Tribe must comply with Financial Management provision 200.302(7): Written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles (200.400-475) and conditions of the Federal award.

- a. §200.412 Classification of Cost:
no universal rule for classifying costs as direct or indirect Facilities and Administration (F&A).
- b. Requirement to treat like costs consistently in like circumstances (costs incurred for like purposes required to be applied consistently as either direct or indirect).

EXPENDING FEDERAL AWARDS RESPONSIBILITIES

2 CFR 200.400

- Efficient and effective administration with sound management practices
- Administer grants in accordance with the program statutes and regulations
- Employ sound organization and management techniques tailored to unique needs
- Be consistent & provide adequate documentation to support costs charged to the award.
- Must not earn profit unless authorized by the terms and conditions of the Federal award.

FACTORS AFFECTING ALLOWABILITY OF COSTS 2 CFR 200.403



Necessary, reasonable, allocable



Conform to grant award purpose



Consistent with policies and procedures



Accorded consistent treatment – allowable or allocable.



Generally GAAP



Cannot use as cost sharing or matching requirement

Allowable Costs

Reasonable: Does not exceed the amount that would be incurred by a prudent person under the circumstances at the time the decision was made.

Necessary: Needed to perform the grant requirements.

ALLOCABLE COSTS

a. Allocable costs means it is chargeable or assignable to a Federal grant if goods or services are:

- Incurred specifically for the federal award
- Benefits more than one Federal award and costs can be distributed in proportions that may be approximated using reasonable methods, and
- Cost is necessary to the operation and assignable.

b. All activities that benefit from the indirect (F&A) cost, including unallowable activities and donated services, are allocated a portion of that cost.

ALLOCABLE COSTS

- c. DISALLOWED:** Any cost allocable to a particular Federal award may not be charged to other Federal awards to:
- overcome fund deficiencies
 - avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons

EXCEPT:

- Can shift costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regs, or terms and conditions of the Federal award

ALLOCABLE COSTS

d. Direct Cost Allocation Principle:

- If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit.
- IF NOT, costs may be allocated or transferred to benefitted projects on any reasonable documented basis

APPLICABLE CREDITS

2 CFR 200.406

- Receipts or reduction of expense transactions
- Applicable credits must offset or reduce expenses allocable to the federal award

Examples:

- Purchase Discounts
- Rebates or Allowances
- Recoveries or indemnities on losses
- Insurance refunds and rebates
- Adjustments of overpayments or erroneous charges
- **IMPORTANT: Credits are NOT PROGRAM INCOME!**

DIRECT COSTS

2 CFR 200.413

Costs that can be identified specifically with the federal grant and can be directly assigned to grant activities.
(grant purpose)

Examples:

- Compensation for employees who work exclusively for the a Federal program;
- Cost of materials and supplies for the housing maintenance program
- Administration of Federal funds and programs
- Costs for acquisition of fixed assets needed to run the Federal program

Indirect (F&A) Costs

2 CFR 200.414

- Those costs incurred for a common or joint purpose benefiting more than one cost objective, and
- Not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.
- To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs.

INDIRECT (F&A) COSTS

- Facilities and Administrative costs are classified as Indirect Costs
- No universal rule for classifying costs as direct or indirect – depends on the organization
- A Tribe may allocate Indirect costs, or
- A Tribe may negotiate an IDCR with their cognizant agency (200.414 (e)(3))
- Negotiated rates must be accepted by all Federal awarding agencies except when Federal Statute or regulation overrides it.

INDIRECT (F&A) COSTS

- If a Tribe has never had an IDCR, the Tribe may elect to charge a 10% de minimis rate of 10% of Modified Total Direct Costs (MTDC), which may be used indefinitely until the Tribe negotiates an approved rate with an agency.
- A Tribe that has a current federally negotiated IDCR may apply for a one time extension of the rate for a period of up to 4 years. At the end of the 4 year period, must re-apply or negotiate a rate.

ALLOCABLE INDIRECT COSTS

Examples:

- Costs for IT services allocated based on the number of desk to computers
- Telephone charges allocated based on number of employees in each Program
- Maintenance person's time is charged to the activities or programs based on actual time spend on these activities

WRITTEN PROCEDURES FOR ALLOWABILITY OF COSTS 2 CFR 200.302(B)(7)

- New requirement under the Uniform Guidance
- Must have written procedures to determine the allowability of costs
- Procedures must be consistent with typical costs that are normally incurred and allowable under the IHBG funds.

Audit Services

2 CFR 200.425

UNALLOWABLE AUDIT COSTS

1. When audits are required by the Single Audit Act and Subpart F—Audit Requirements, any costs are unallowable if:
 - The audits have not been conducted, or
 - Have been conducted, but not in accordance with these requirements.
2. Auditing costs for audits exempted from the Single Audit Act because its expenditures under Federal awards are less than \$750,000.



Compensation – Personal services

2 CFR 200.430(c)

(c) Professional activities outside the non-Federal entity.

Unless an arrangement is specifically authorized by a Federal awarding agency, a non-Federal entity:

Must follow its written non-Federal entity-wide policies and practices concerning the permissible extent of professional services that can be provided outside the non-Federal entity for non-organizational compensation.

Compensation – Personal services

(c) Professional activities outside the non-Federal entity.

Where written policies do not exist or do not adequately define the permissible extent of consulting or other non-organizational activities undertaken for extra outside pay, the Federal Government may require that the effort of professional staff working on Federal awards be allocated between:

- (1) Non-Federal entity activities, and
- (2) Non-organizational professional activities.

Compensation – Personal services

(c) Professional activities outside the non-Federal entity

If the Federal awarding agency considers the extent of non-organizational professional effort excessive or inconsistent with the conflicts-of-interest terms and conditions of the Federal award, appropriate arrangements governing compensation will be negotiated on a case-by-case basis.

Compensation – Personal services

(f) *Incentive compensation – ALLOWABLE*

Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., is allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the non-Federal entity and the employees before the services were rendered...

Standards for Documentation of Personnel Expenses 2 CFR 200.430(i)

- (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed.

These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;

Standards for Documentation of Personnel Expenses

- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities
- (iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
- (v) Comply with the established accounting policies and practices of the non-Federal entity

Standards for Documentation of Personnel Expenses

- (2) For records which meet the standards required in paragraph (i)(1) of this section, the non-Federal entity will not be required to provide additional support or documentation for the work performed, other than that referenced in paragraph (i)(3) of this section.
- (3) In accordance with Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR part 516), charges for the salaries and wages of nonexempt employees, in addition to the supporting documentation described in this section, **must also be supported by records indicating the total number of hours worked each day.**

Compensation – Fringe Benefits

2 CFR 200.431

- In general § 200.431 expands language providing greater specificity and clarity on allowable costs for fringe benefits: leave, employee insurance, pension plans, post-retirement health plans, and severance pay:
- Overarching criteria of §200.431 – unless excepted elsewhere in these principles, allowable if:
 - Reasonable
 - Required by law or employment agreement
 - Or established (written) policies of the entity

Compensation – Fringe Benefits

- (b) Leave Pay - Allowable if all of the following criteria are met:
- Provided under established written leave policies
 - Costs are equitably allocated to all related activities and Federal awards
 - The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed.

NOTE: “Family-related” and “administrative” is new language added to the list of types of allowable leave

Compensation – Fringe Benefits

(e) Insurance: (cont.)

(2) Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility are allowable only to the extent that the insurance represents additional compensation. The costs of such insurance when the non-Federal entity is named as beneficiary are unallowable.

Compensation – Fringe Benefits

- (f) Automobiles – That portion of automobile costs furnished by the entity that relates to personal use by employees (including transportation to and from work) is unallowable as fringe benefit or indirect (F&A) costs regardless of whether the cost is reported as taxable income to the employees.

Compensation – Fringe Benefits

- (i) Severance Pay. (1) ...Costs of severance pay are allowable only to the extent that in each case, it is required by:
- law,
 - employer-employee agreement,
 - established policy that constitutes, in effect, an implied agreement on the non-Federal entity's part, or
 - circumstances of the particular employment.

Compensation – Fringe Benefits

- (i) Severance Pay. (3) Costs incurred in certain severance pay packages which are:
- in excess of the normal severance pay paid
 - paid to the employee contingent upon a change in management control over, or ownership of, the non-Federal entity's assets,
 - are unallowable.

Conferences

2 CFR 200.432

- Expanded language
- “...unless further restricted” by award terms/conditions
- Cost of identifying, but not providing, locally available dependent care resources are allowable.
- Conference hosts/sponsors must exercise discretion...
- Federal awarding agency may authorize exceptions where appropriate for programs including Indian Tribes, children, and the elderly.

Defense and Prosecution of Criminal and Civil Proceedings, Claims, Appeals and Patent Infringements

2 CFR 200.435

- Overall basic intent:
 - Legal expenses for administration of Federal programs are allowable.
 - Legal expenses for prosecution of claims against the Federal Government are unallowable
- Language at § 200.435 (e): strict criteria for how cost may be allowed –
 - Must be reasonable and necessary in relation to the administration of the Federal award
 - Payment is not prohibited
 - Costs are not recovered from another party

Entertainment Costs

2 CFR 200.438

Allowable Under Certain Circumstances

“...Where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency.”

Fines, Penalties, Damages and Other Settlements 2 CFR 200.441

UNALLOWABLE:

Costs resulting from non-Federal entity violations of, alleged violations of, or failure to comply with, Federal, state, tribal, local or foreign laws and regulations

Except when incurred as a result of compliance with specific provisions of the Federal award, or with prior written approval of the Federal awarding agency.

Fund Raising and Investment Management Costs 2 CFR 200.442(a)

Unallowable – NO CHANGE

- Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions

Allowable

- Fund raising costs for the purposes of meeting the Federal program objectives are allowable with prior written approval from the Federal awarding agency.



Goods or Services for Personal Use

2 CFR 200.445

SPECIFIC TO EMPLOYEES

NO CHANGE - UNALLOWED

- (a) Cost of goods for personal use – unallowed.
- (b) Cost of housing (rent), housing allowances and personal living expenses are only allowable as direct costs, but must be approved in advance by Federal awarding agency.



General costs of government

2 CFR 200.444

Added language in (b) For Indian tribes and Councils Of Governments (COGs) (see §200.64 Local government), the portion of salaries and expenses directly attributable to managing and operating Federal programs by the chief executive and his or her staff is allowable. Up to 50% of these costs can be included in the indirect cost calculation without documentation.

Materials And Supplies, Including Costs of Computing Devices

2 CFR 200.453

New language added at paragraph (c):

Materials and supplies used for the performance of a Federal award may be charged as direct costs. In the specific case of computing devices, charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated, to the performance of a Federal award.

Participant Support Costs

2 CFR 200.456

Allowable with the prior approval of the Federal awarding agency for conferences or training projects (but not for employees).

Definition: § 200.75 Participant support costs.

Participant support costs means direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects.

Recruiting Costs

2 CFR 200.463

Are allowable to the extent that such costs:

- (a) Are incurred pursuant to the non-Federal entity's standard recruitment program and costs of employment agencies are not in excess of standard commercial rates for such services.
- (b) Any form of compensation (fringe benefits, salary allowance) must meet test of reasonableness.
- (c) Allowable, but the non-federal entity must pay back the relocation costs to the awarding agency for an employee who resigns for reasons within the employee's control within 12 months after hire.

Relocation Costs of Employees

2 CFR 200.464

- (a) Relocation costs are costs incident to the permanent change of duty assignment (for an indefinite period or for a stated period of not less than 12 months) of an existing employee or upon recruitment of a new employee. Relocation costs are allowable, subject to:
- (1) The move is for the benefit of the employer.
 - (2) Reimbursement to the employee is in accordance with an established written policy consistently followed by the employer.
 - (3) The reimbursement does not exceed the employee's actual (or reasonably estimated) expenses.

Relocation Costs of Employees

- (b) Allowable relocation costs for current employees are limited to the following:
- (1) The costs of transportation of household, and personal effects to the new location.
 - (2) The costs of finding a new home, up to maximum period of 30 calendar days.
 - (3) Closing costs, of the employee's former home. These costs, together with those described in (4), are limited to 8 per cent of the sales price of the employee's former home.

Travel Costs

- (e) Commercial Air Travel: Airfare costs in excess of the basic least expensive unrestricted accommodations class offered by a commercial airlines are unallowable except when such accommodations would:
- (i) Require circuitous routing; (ii) Require travel during unreasonable hours; (iii) Excessively prolong travel;
 - (iv) Result in additional costs that would offset the transportation savings; or
 - (v) Offer accommodations not reasonably adequate for the traveler's medical needs. First-class or business-class airfare must be justified to be allowable.

Documentation

Expenses to programs must be properly documented, which includes justification that the expense is allowable.

The following check list may be attached to purchase orders or check requests to explain why the purchase was made. Auditors and regulators look for the following justification.

Documentation

- Reasonable:** Is the use of program dollars reasonable?
- Necessary:** Is it necessary in performing the requirements of the program?
- Allowable:** Is the use of program dollars allowable?
- Allowable within the scope of the project proposed:** Is it within the scope of the program project as proposed?
- Clear business purpose:** Is there a clear business purpose? It is evident to a third party that the purchase is not for personal use.
- Budgeted:** Is the purchase properly budgeted for?
- Funding available:** Is there funding still available in the budget? If a budget revision needs to be done in accordance with the program regulations, the Project Officer has been contacted.
- Coded:** Is the purchase order or check request properly coded with the correct fund, program, year, and account codes?

Documentation

- Approved:** Has the purchase order or check request been properly approved by supervisors?
- Conflict of interest:** Do any of the supervisors have a conflict of interest in making this purchase? Do any of the supervisors have a personal relationship or stand to gain personally by making this purchase?
- Allowable under 2 CFR 200 Subpart E Cost Principles?**
- Processed within deadlines:** Have you followed policy and allowed enough time for the paperwork to be processed within established deadlines?
- Policy followed:** Each check request and purchase order must be documented to stand on its own as to what, where, why, when, and how the funding was used.
- Documented:** If you do not think it would be clear to an outside third party, such as an auditor, then please take a moment and document the reasons for the purchase. Remember, at the end of the year or two years from now, you might not be here to explain the purchase.
- Comfortable:** Would you be comfortable with making this purchase if it was reported on the front page of the daily newspaper with photos of you?

Questions?

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THANK YOU

**Thank you
For participating in our
Training**