

WAP State Monitor's Training



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Agenda

- 2 CFR Part 200 Basics
- Fraud Concerns
- Fiscal Monitoring, Red Flags and Audit Essentials

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Overview 2 CFR Part 200

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Requirements and Contents of
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- Subpart D (200.300) – Post Federal Award Regulations
- Subpart E (200.400) – Cost Principles
- Subpart F (200.500) – Audit Requirements

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- Appendix I. Full Text of Notice of Funding Opportunity
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- Appendix III. Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Educational Institutions
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- Appendix V. State/Local Government and Indian Tribe-Wide Central Service Cost Allocation Plans



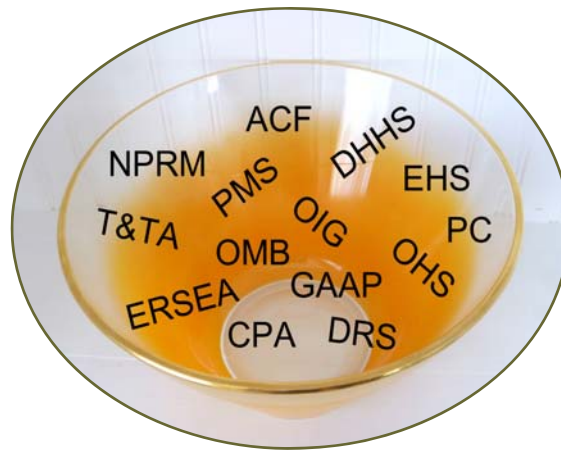
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Subpart A. Acronyms and Definitions

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Subpart A. Acronyms & Definitions

NEW § 200.0 Acronyms

44 Acronyms – Examples:

- F&A – Facilities and Administration
- FAR – Federal Acquisition Regulation
- PII – Personally Identifiable Information
- PMS – Payment Management System
- PPII – Protected Personally Identifiable Information
- SAM – System for Award Management

45 CFR 75.1

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Subpart A. Acronyms & Definitions

§ 200.1 – 99 Definitions

98 Definitions – Combines definitions from all prior circulars. Examples:

- § 200.20 Computing devices
- § 200.22 & 23 Contract and Contractor
- § 200.45 Fixed amount awards
- § 200.61 Internal controls
- § 200.67 Micro-purchase

45 CFR 75.2



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Quiz – Introduction to 2 CFR Part 200

Select True or False for each of the following:

1. The term “contractor” and “subrecipient” means the same thing.
2. Proceeds from sale of equipment of less than \$5,000 are unrestricted income.
3. Grantees can keep no more than \$250 in interest earned.
4. Non-Federal entities must comply with COSO.
5. Prior approval is required to use an asset as a trade-in.

True False

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Quiz – Introduction to 2 CFR Part 200

Select True or False for each of the following:

6. In these regulations, when the word "should" is used it mean you are required to comply with the guidance.
7. A recipient is not required to get bids or quotes for a micro-purchase.
8. All grant records can be destroyed after three years of submission of the final report.
9. Indirect costs not reimbursed (unrecovered) by a Federal awards can be used as in-kind.
10. The Federal awarding agency may, at its option, restrict the transfer of funds among direct cost categories for Federal awards that exceed the SAT and the cumulative amount of such transfers exceeds or is expected to exceed 10% of the total budget.

True False

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Subpart B. General Provisions

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Subpart B. General Provisions

§ 200.100 Purpose

- Uniform administrative requirements, cost principles and audit requirements
- Federal awarding agencies must not impose additional or inconsistent requirements

45 CFR 75.100

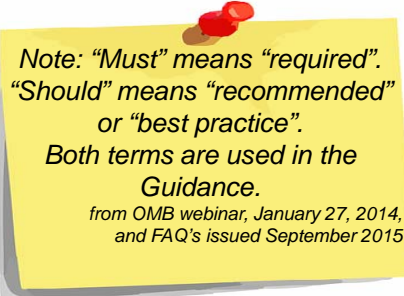
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Subpart B. General Provisions

§ 200.101 Applicability

- (b)(1) Non-Federal entities must comply with requirements regardless of whether the entity is a recipient or subrecipient



*Note: "Must" means "required".
"Should" means "recommended" or "best practice".
Both terms are used in the Guidance.
from OMB webinar, January 27, 2014,
and FAQ's issued September 2015*

45 CFR 75.101

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Subpart B. General Provisions

§ 200.109 Review Date

OMB will review this part at least every 5 years after 12/26/2013.

§ 200.110 Effective Date

Federal awarding agencies implemented effective 12/26/2014.

Audit requirements effective now.

Non-Federal entities may delay implementation of procurement standards for **3** fiscal years, years beginning after 12/26/2017



45 CFR 75.109 & 110

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Subpart B. General Provisions

NEW § 200.113 Mandatory Disclosures

Non-Federal entities must disclose, in a timely manner, in writing to the awarding agency or pass-through entity all violations of Federal criminal law involving fraud, bribery or gratuity violations.



45 CFR 75.113

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Subpart D. Post-Federal Award Requirements

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Subpart D. Post-Federal Award Requirements

§ 200.302(b) Financial Management System Must:

- ✓ Identify funds received and expended
- ✓ Disclose accurate, current and complete financial results
- ✓ Identify source and application of funds
- ✓ Provide effective controls and accountability for funds, property and other assets
- ✓ Compare budget to actual results
- ✓ Provide for written procedures for payment requirements
- ✓ Provide for written procedures for determining allowability of costs

45 CFR 75.302(b)

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Subpart D. Post-Federal Award Requirements

NEW § 200.303 Internal controls

Non-Federal entity must:

- (a) Establish and maintain a system of internal control that provides for reasonable assurance that the entity is managing the award in compliance with Federal statutes, regulations and the terms and conditions of the award
 - Internal controls should comply with the Committee of Sponsoring Organizations of the Treadway Commission (COSO)
- (b) Comply with Federal statutes, regulations and terms and conditions of the award

45 CFR 75.303



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Subpart D. Post-Federal Award Requirements

NEW § 200.303 Internal controls

Non-Federal entity must: (cont.)

- (c) Evaluate and monitor compliance
- (d) Take prompt action for noncompliance
- (e) Take reasonable measures to safeguard PPII

45 CFR 75.303



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Subpart D. Post-Federal Award Requirements

§ 200.308 Revision of budget or program plans

- (e) The Federal agency *may, at its option*, restrict transfer of funds among direct cost categories for cumulative transfers exceeding 10% for grants exceed the Simplified Acquisition Threshold

45 CFR 75.303

§ 200.309 Period of performance

Charge to the award only allowable costs incurred during the period of performance.

45 CFR 75.309



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Subpart D. Post-Federal Award Requirements

§ 200.313 Equipment

- (a) *Conditional* title vests in the non-Federal entity
- (c) Use:
- (1) Use in program as long as needed whether or not programs continues to be supported by a Federal award
 - Prior approval to encumber
 - When not needed, may use in the following priorities:
 - (i) Other projects funded by the same Federal agency
 - (ii) Projects funded by other Federal agencies

45 CFR 75.320



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Subpart D. Post-Federal Award Requirements

§ 200.313 Equipment

(c) Use: (cont.)

- (2) User fees may be charged if appropriate when equipment is used by other programs
- (3) Cannot be used to provide services for less than private companies charge
- (4) **NEW** Use as trade-in without prior approval

45 CFR 75.320



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Subpart D. Post-Federal Award Requirements

§ 200.313 Equipment (cont.)

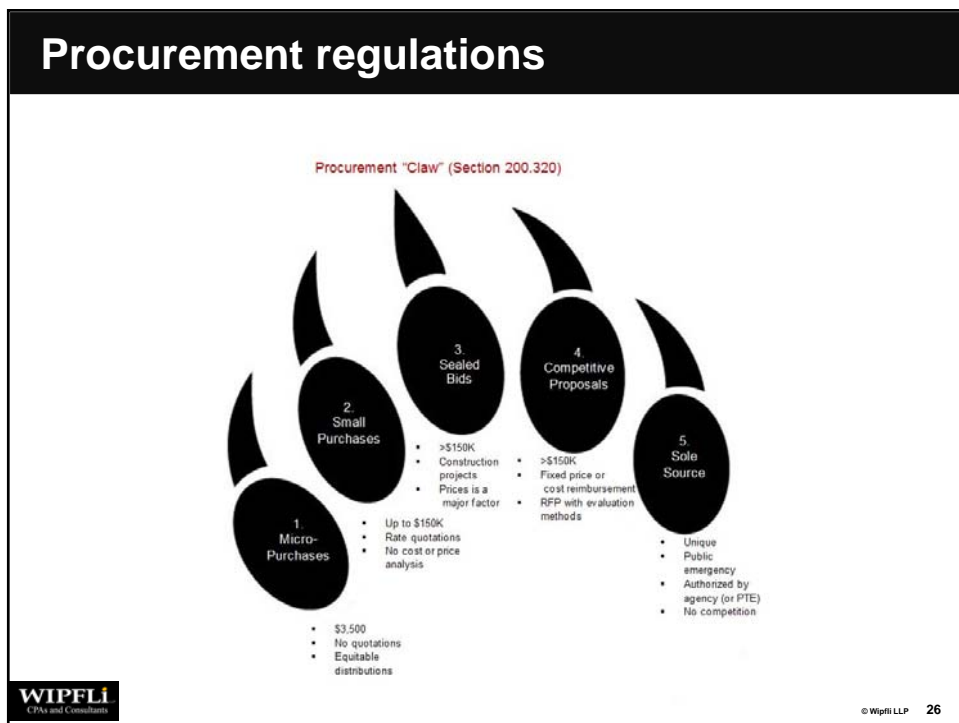
(e) Disposition

- (1) **NEW** FMV \$5,000 or less, prior approval not needed to dispose of and no further obligation to the awarding agency
- (2) FMV greater than \$5,000, must ask for instructions:
 - No response in 120 days, may keep or sell but must pay awarding agency its share of proceeds of FMV
 - Non-Federal entity may keep \$500 of proceeds

45 CFR 75.320



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Subpart D. Post-Federal Award Requirements

§ 200.318 General procurement standards

- (d) Avoid purchasing unnecessary or **duplicative** items.
Lease vs. purchase analysis where appropriate
- (e) Encouraged to enter into state and local intergovernmental or inter-entity agreements **NEW for nonprofits**
- (f) Encouraged to use Federal excess and surplus property
NEW for nonprofits

45 CFR 75.327



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Subpart D. Post-Federal Award Requirements

§ 200.319 Competition

- (a) Full and open competition consistent with the regulations
- (b) **NEW** No state, local or tribal preferences unless mandated by Federal statute
- (c) Must have written procedures; name brands used only as a description
- (d) **NEW** Pre-qualified contractors: Must ensure lists are current and include enough qualified sources to ensure competition



45 CFR 75.328



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Subpart D. Post-Federal Award Requirements

§ 200.320 Methods of procurement to be followed

(a) **NEW** Micro-purchase:

- Aggregate dollar amount per purchase not to exceed the micro-purchase threshold (\$3,500, defined at 48 CFR 2.1 – *increased 10/1/2015*)
- To the extent practicable, must distribute equitably among qualified suppliers
 - “Practicable” means realistic, feasible, possible, doable
- May be awarded without competitive quotes if price is considered reasonable

45 CFR 75.329



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Subpart D. Post-Federal Award Requirements

§ 200.320 Methods of procurement to be followed

(b) Small purchase procedures:

- Up to \$150,000 (Simplified Acquisition Threshold)
- Relatively simple and informal
- Competition is required from adequate number of qualified sources

45 CFR 75.329



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Subpart D. Post-Federal Award Requirements

Greater than \$150,000 (SAT), use sealed bids or competitive proposals

(c) Sealed bids (preferred method for construction):

(1) Required conditions:

- (i) Complete, adequate and realistic specifications
- (ii) Two or more responsible bidders
- (iii) Selection can be made principally on price

(2) Requirements:

- (i) For units of government, bids publicly advertised
- (ii) Bids include all information needed for proper response
- (iii) For units of government, bids publicly opened
- (iv) Firm fixed price contract awarded
- (v) Bids may be rejected if there is a sound documented reason



45 CFR 75.329

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Subpart D. Post-Federal Award Requirements

§ 200.320 Methods of procurement to be followed

(d) Competitive proposals: Used when conditions not appropriate for sealed bids. Requirements:

- (1) RFP includes all evaluation factors and their relative importance
- (2) Proposals solicited from adequate number of sources
- (3) Written method for conducting technical evaluations and for selecting contractors
- (4) Contract awarded to proposer most advantageous to the program, with price and other factors considered



45 CFR 75.329

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Subpart D. Post-Federal Award Requirements

§ 200.320 Methods of procurement to be followed

- (f) Noncompetitive proposals. Solicitation from only 1 source (sole source). Use in following circumstances:
 - (1) Item is available only from a single source;
 - (2) Emergency will not permit a delay resulting from a competitive solicitation;
 - (3) Federal awarding or pass-through agency expressly authorizes noncompetitive proposal in response to a written request; or
 - (4) After solicitation, competition is determined inadequate (only 1 proposer)

45 CFR 75.329



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Subpart D. Post-Federal Award Requirements

§ 200.321 Contracting with small and minority businesses, women's business enterprises, and labor surplus area firms (**NEW**). (A labor surplus area is designated by the Dept. of Labor.)

- (a) Non-federal entities must take all necessary affirmative steps to assure minority businesses, women's business enterprises and labor surplus area firms are used when possible

<https://www.doleta.gov/programs/lisa.cfm>

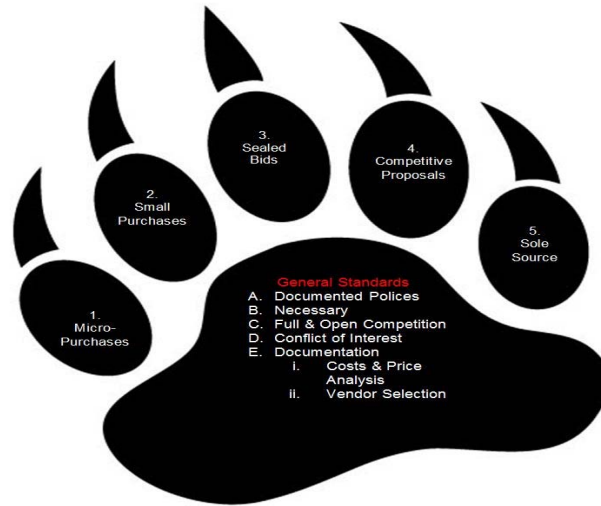
45 CFR 75.330



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Procurement Bear Claw

Procurement "Claw" (Sections 200.317-326)



2 CFR part 200 Appendix II

CONTRACT PROVISIONS

- A. Administrative, contractual or legal remedies where contractors violate contract terms (all contracts in excess of the SAT) **NEW**
- B. Termination for cause and convenience (contracts in excess of \$10,000) **NEW**
- C. Equal Employment Opportunity (construction contracts)
- D. Davis-Bacon Act when required by Federal program legislation (construction in excess of \$2,000)
 - Copeland Anti-Kickback (construction or repair contracts in excess of \$2,000)
- E. Contract Work Hours and Safety Standards Act (contracts in excess of \$100,000 that involve employment of mechanics or laborers)
- F. Rights to Inventions Made Under a Contract or Agreement
- G. Clean Air Act and Federal Water Pollution Control Act (contracts and subgrants in excess of \$150,000)
- H. Debarment and Suspension
 - Check contractors at www.sam.gov, System for Award Management, click on "Search Records"
- I. Byrd Anti-Lobbying Amendment (contracts in excess of \$100,000)
- J. Procurement of recovered materials (units of government)

45 CFR Appendix II



Subpart D. Post-Federal Award Requirements

§ 200.330 Subrecipient and contractor determinations

A pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor.

Contractor or Subrecipient ?

Contractor

- ☐ Provides goods or services as a normal part of business
- ☐ Generally a for-profit business
- ☐ Provides similar goods or services to many purchasers
- ☐ Operates in a competitive environment
- ☐ Provides ancillary goods or services
- ☐ Not subject to the regulations

Subrecipient

- ☐ Helps carry out the program
- ☐ Generally another NPO
- ☐ Determines eligibility
- ☐ Performance objectives
- ☐ Responsible for program decision-making
- ☐ Must adhere to regulations
- ☐ Funds used to carry out the program rather than providing goods or services

Source: 2 CFR 200.330
45 CFR 75.351



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Subpart D. Post-Federal Award Requirements

§ 200.330 Subrecipient and contractor determinations (cont.)

- (c) Use of judgment in making determination. In determining whether an agreement between a pass-through entity and another non-Federal entity casts the latter as a subrecipient or a contractor, the substance of the relationship is more important than the form of the agreement. All of the characteristics listed above may not be present in all cases

45 CFR 75.351



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Subpart D. Post-Federal Award Requirements

§ 200.331 Requirements for pass-through entities

- (a) List of required information for every subaward, including:
1. Federal Award Identification (13 items required to be disclosed)
 2. All requirements, regulations and terms and conditions of the award
 3. Any additional requirements imposed by the pass-thru entity in order for pass-thru entity to meet its responsibilities to the Federal awarding agency
 4. **NEW** An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient, or a de minimis indirect cost rate of 10% of MTDC
 5. Subrecipient must allow access to records
 6. Terms and conditions of closeout

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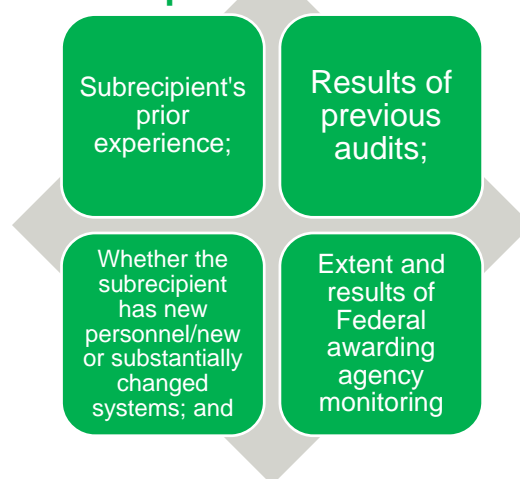
45 CFR 75.352

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Subpart D. Post-Federal Award Requirements

§ 200.331(b)(1-4) Requirements for pass-through entities (cont.)

Evaluate subrecipient's risk of noncompliance:



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45 CFR 75.352

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Subpart D. Post-Federal Award Requirements

§ 200.331 Requirements for pass-through entities (cont.)

- (f) Verify that every subrecipient is audited as required
- (g) Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records
- (h) Consider taking enforcement action against noncompliant subrecipients

45 CFR 75.352



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Subpart D. Post-Federal Award Requirements

§ 200.333 Retention requirements for records

- All records pertinent to an award must be retained for 3 years from the date of submission of the final report
- Must be retained through the resolution of any litigation, claim or audit that has begun before the 3 year period
- Can be extended if notified in writing

45 CFR 75.361



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Subpart D. Post-Federal Award Requirements

§ 200.343 Closeout

- (a) Submit no later than 90 calendar days after the end of the period of performance, all financial, performance and other reports required. Extensions may be approved
- (b) Liquidate all obligations no later than 90 calendar days after the end of the period of performance. May be extended
- (g) **NEW** Awarding agency should complete all closeout actions no later than 1 year after receipt and acceptance of all final reports

45 CFR 75.381



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Subpart E. Cost Principles – General Provisions

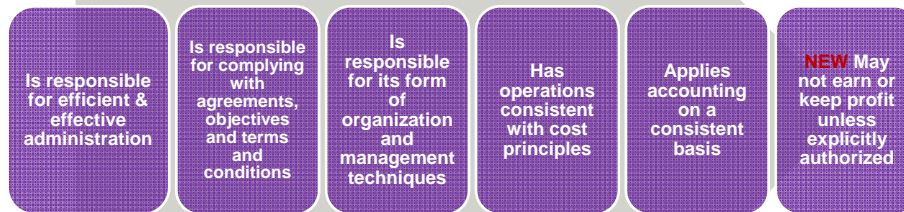


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Subpart E. Cost Principles – General Provisions

§ 200.400 Policy Guide

The non-Federal entity:



45 CFR 75.400

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Subpart E. Cost Principles – General Provisions

§ 200.401 Application

These principles must be used in determining the allowable costs of work performed by the non-Federal entity under federal awards. 45 CFR 75.401

§ 200.402 Composition of costs

The total cost of a Federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits.

45 CFR 75.402

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Subpart E. Cost Principles – General Provisions

§ 200.403 Factors affecting allowability of costs

- Be necessary and reasonable
- Conform to limitations
- Be consistent with other organization activities
- Be treated consistently
- Be determined in accordance with generally accepted accounting principles, as appropriate
- Not be included as cost or match in any other federally funded program (*current or prior*)
- Be adequately documented

45 CFR 75.403

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Subpart E. Cost Principles – General Provisions

§ 200.404 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.

Guidelines for determining reasonable cost:

- a) Whether the cost is **ordinary and necessary for operation of the organization or the proper and efficient performance of the award**
- b) The restraints imposed by such factors as: **sound business practices, arms length bargaining, federal state and other laws and regulations, and terms and conditions of the Federal award**
- c) **Market prices** for comparable goods or services for the geographic area
- d) Whether the **individuals concerned acted with prudence** in the circumstances
- e) **Significant deviations from the established practices and policies** regarding the incurrence of costs

45 CFR 75.404

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Subpart E. Cost Principles – General Provisions

§ 200.405 Allocable Costs

- (a) A cost is allocable to a particular Federal award or cost objective, if the goods or services involved are chargeable or assignable to that Federal award **in accordance with the relative benefits received**
- (1) Is incurred specifically for the award;
 - (2) Benefits both the award and other work and can be distributed in proportions that may be approximated using reasonable methods and
 - (3) Is necessary to the overall operation of the organization and is assignable in part to the Federal award in accordance with the principles in this subpart

45 CFR 75.405

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Subpart E. Cost Principles – General Provisions

§ 200.405 Allocable Costs (cont.)

- (b) All activities which benefit from the non-Federal entity's indirect cost, **including unallowable activities and donated services**, will receive an appropriate allocation of indirect costs
- (c) Any cost allocable to an Federal award **may not be charged to other Federal awards to overcome fund deficiencies**, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons

45 CFR 75.405

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Subpart E. Cost Principles – General Provisions

§ 200.405 Allocable Costs (cont.)

(d) Direct cost allocation principles

If a cost benefits two or more projects or activities in **proportions that can be easily determined**, the cost should be allocated to the projects based on the proportional benefit

If a cost benefits two or more projects or activities in **proportions that cannot be determined because of the interrelationship** of the work involved, then the costs may be allocated on any reasonable documented basis

45 CFR 75.405

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Subpart E. Cost Principles – General Provisions

§ 200.406 Applicable Credits

(a) Must be credited to the award as cost reduction or refund, depending on the credit

- Examples: purchase discounts, rebates, insurance refunds, etc.



45 CFR 75.406

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Subpart E. Cost Principles – General Provisions

NEW § 200.407 Prior Written Approval

Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. **In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval** of the cost. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required

(a) – (y) list of sections in 2 CFR Part 200 requiring prior approval

45 CFR 75.407



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Subpart E. Cost Principles – Direct and Indirect



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Indirect vs. Direct

There are 2 ways to do cost allocation:

Direct Costing Methods

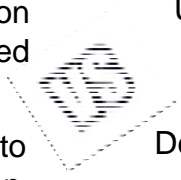
Allocate costs based on relative benefit received

Charge shared costs to programs based on an activity or non-monetary base

Indirect Cost Rate

Used to allocate indirect costs

Device for determining in a reasonable manner the proportion of indirect costs each program should bear; a ratio of indirect costs and a direct cost base



Subpart E. Cost Principles – Direct and Indirect

NEW § 200.412 Classification of costs

There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system.

It is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost.

Subpart E. Cost Principles – Direct

§ 200.413 Direct Costs

(c) **NEW** Salaries of administrative and clerical staff should normally be treated as indirect. Direct charge only if **all** of the following are met:

- (1) Administrative or clerical services are integral to the project,
- (2) Individuals involved can be specifically identified with the project,
- (3) Such costs are explicitly included in the budget or have prior written approval, and
- (4) The costs are not also recovered as indirect.

45 CFR 75.413

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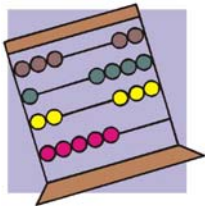
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Cost Allocation Summary

Close counts – you will
never get it right



The goal of cost allocation is fairness. Each
funding source should bear its fair share of
allocated costs

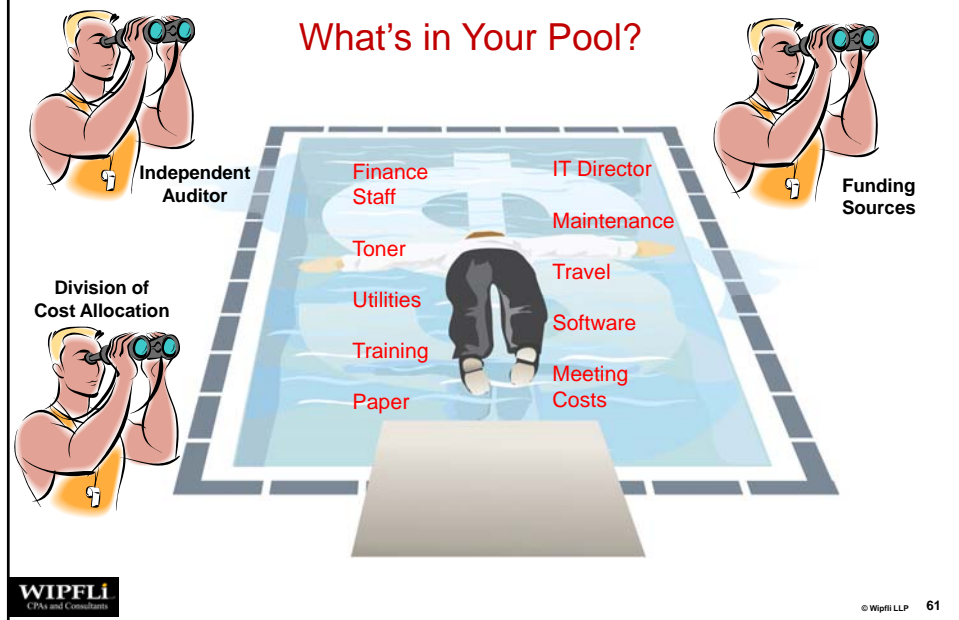


Don't spend \$2 to
allocate \$1

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Indirect Costs



Indirect Cost Rates

General formula:

- Indirect cost pool ÷ Base = ICR

Costs in the indirect cost pool are:

- Allowable, and
- Benefit ALL programs
- NOT in the pool: capital expenditures, losses on awards, unallowable costs, and expenditures that benefit some but not all programs

Subpart E. Cost Principles – Indirect

§ 200.414 Indirect Costs

- (c) Negotiated rate must be accepted by all Federal agencies
- (d) Pass-through entities are subject to the requirements in § 200.331
- (e) Appendix IV Cost allocation plans for nonprofits; Appendix V & VI Cost allocation plans for units of government

45 CFR 75.414

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Subpart E. Cost Principles – Indirect

§ 200.414 Indirect Costs (cont.)

- (f) **NEW** Any non-Federal entity that has never negotiated an IDCR may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely



45 CFR 75.414

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How is a 10% rate different

- A 10% rate is a flat rate charged without regard to actual indirect expenses
- A standard indirect rate is based on actual expenses
- No approval required to obtain a 10% rate
- An entity can lose or potentially make money on a 10% rate
- You do not have to prove costs
- Must be consistently used once elected until the entity chooses to negotiate for a rate

Subpart E. Cost Principles – Indirect

§ 200.414 Indirect Costs (cont.)

- (g) **NEW** Any non-Federal entity that has a current federally negotiated indirect cost rate may apply for a one-time extension of the rate in that agreement for a period of up to 4 years
- Must be approved by a cost negotiator
 - If approved, may not request a rate review until the extension ends
 - At end of extension, must apply for a new rate
 - Subsequent one-time extensions (up to 4 years) are permitted if approved

45 CFR 75.414

Types of Indirect Rates

- ✓ **Predetermined** – Based on estimated costs to be incurred during the rate period (may be longer than 1 year)
- ✓ **Fixed rate with carry-forward** – Based on estimated costs to be incurred during the fiscal year
- ✓ **Provisional rate** – temporary rate issued for use during the fiscal year
- ✓ **Final rate** – based on *actual* allowable costs and applied to the previous year

Indirect Cost Rates

Bases:

- **Modified Total Direct Costs (MTDC)**
 - Total direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel and subawards up to the first \$25,000
 - Excludes equipment, capital expenditures, participant support costs and the portion of each subaward in excess of \$25,000
 - This is the required base for the 10% de minimis rate
- **Direct salaries and wages**
- **Direct salaries, wages and fringe benefits**



Subpart E. Cost Principles – Selected Items of Cost

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Selected Items of Cost Quiz

	Allowable	Prior Written Approval	Unallowable
1. Flowers for a hospitalized employee			
2. Single Audit fees for an organization that expended \$600,000 in Federal funds			
3. Annual membership dues for the Community Action Partnership			
4. 2% per year use allowance on a fully-depreciated building			
5. Cost of fund raising to purchase books for the Head Start program			

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Selected Items of Cost Quiz

	Allowable	Prior Written Approval	Unallowable
6. Hiring a consultant to prepare a proposal for a new federal grant			
7. Alteration of facilities for a specific federal award			
8. Home office workspace for an employee who lives 50 miles from your office			
9. Child care for an employee who travels to attend a conference required for his/her position			
10. Cost of maintaining the vacant home of a relocated employee for up to 1 year			

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Subpart E. Cost Principles – Selected Items of Cost

§ 200.420 Considerations for selected items of cost.

- Cost principles apply to direct and indirect costs
- Failure to mention a particular cost does not imply allowable or unallowable. Its treatment should be based on that of similar items
- When there is a discrepancy between the principles in 2 CFR Part 200 and the provisions of a specific Federal award, **the award governs**

45 CFR 75.420

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Subpart E. Cost Principles – Selected Items of Cost

§ 200.430 Compensation – personal services

- (a) Compensation includes all remuneration paid currently or accrued and may not be limited to salaries and wages. Allowable if:
- (1) Reasonable for the services rendered
 - (2) Adheres to entity's written policies
 - (3) Is supported by documentation based on these principles

45 CFR 75.430



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Subpart E. Cost Principles – Selected Items of Cost

§ 200.430 Compensation – personal services (cont.)

- (b) Must be reasonable – consistent with that paid for similar work, or comparable to that paid for similar work in the community
- (d) Allowable compensation for certain employees is subject to a ceiling in accordance with statute
- (f) Incentive pay for cost reduction, efficient performance, suggestion awards, etc. allowable if an agreement was in place before the work was performed

45 CFR 75.430



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Subpart E. Cost Principles – Selected Items of Cost

§ 200.430 Compensation – personal services (cont.)

(i) **NEW** Standards for Documentation of Personnel Services

(1) Records accurately reflect work performed

- (i) Supported by a system of internal controls that assures charges are accurate, allowable and properly allocated
- (ii) Part of official records of the entity
- (iii) Reflect total activity
- (iv) Include Federal and non-Federal activities

45 CFR 75.430



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Subpart E. Cost Principles – Selected Items of Cost

§ 200.430 Compensation – personal services (cont.)

(i) **NEW** Standards for Documentation of Personnel Services

(1) Records accurately reflect work performed

- (v.) Comply with accounting policies
- (vii) Support distribution to two or more activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

45 CFR 75.430



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Subpart E. Cost Principles – Selected Items of Cost

§ 200.430 Compensation – personal services

- (i) **NEW** Standards for Documentation of Personnel Services
 - (1) Records accurately reflect work performed (cont.)
 - (viii) Budget estimates alone cannot be used as support for charges but may be used for interim accounting purposes
 - (A) Must be reasonable approximations
 - (B) Significant changes must be entered in a timely manner
 - (C) Internal control system includes review of after-the-fact charges and adjustments made so the final amount charged is accurate, allowable and properly allocated 45 CFR 75.430



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Subpart E. Cost Principles – Selected Items of Cost

§ 200.430 Compensation – personal services

- (i) **NEW** Standards for Documentation of Personnel Services (cont.)
 - (2) If records meet these standards, no additional documentation required
 - (3) Must comply with Dept. of Labor requirements for non-exempt
 - (4) Salaries and wages of employees used for in-kind must meet same requirements
 - (6) Cognizant agencies encouraged to approve alternative methods based on outcomes



45 CFR 75.430

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Subpart E. Cost Principles – Selected Items of Cost

§ 200.430 Compensation – personal services

- (i) **NEW** Standards for Documentation of Personnel Services (cont.)
 - (7) Approved blended funding – may use a performance-based measure. Must be approved by all funding sources
 - Examples of performance-based measures: child or client counts
 - (8) Entities who cannot meet these standards may be required by the Federal government to maintain personnel activity reports (PARs)

45 CFR 75.430



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Subpart E. Cost Principles – Selected Items of Cost

§ 200.430 Compensation – personal services (cont.)

“While many non-Federal entities may still find that existing procedures in place such as personal activity reports and similar documentation are the best method for them to meet the internal control requirements, **this final guidance does not specifically require them.**”

The focus in this final guidance on overall internal controls mitigates the risk that a non-Federal entity or their auditor will focus solely on prescribed procedures such as reports, certifications, or certification time periods which alone may be ineffective in assuring full accountability.”

Source: Comments to the Regulations



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Subpart E. Cost Principles – Selected Items of Cost

NEW § 200.433 Contingency provisions

- (b) May be budgeted for foreseeable events (construction cost, IT systems)
- (c) Payments to contingency reserves are unallowable (cannot draw funds unless you have incurred an actual expense for an event you have budgeted)

45 CFR 75.433



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Subpart E. Cost Principles – Selected Items of Cost

§ 200.437 Employee health and welfare costs

- (a) Costs in accordance with documented policies for improvement of working conditions, employer-employee relations, health and performance are allowable
 - **NEW** Costs for improvement of morale specifically excluded



45 CFR 75.437



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Subpart E. Cost Principles – Selected Items of Cost

§ 200.453 Materials and supplies costs, including computing devices

- (a) Costs for materials and supplies necessary to carry out an award are allowable
- (c) NEW** Charging computing devices as direct costs is allowable for devices that are essential and allocable, but not solely dedicated to the performance of the award



45 CFR 75.453

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Subpart E. Cost Principles – Selected Items of Cost

NEW § 200.460 Proposal costs

Proposal costs are the costs of preparing bids, proposals, or applications on potential Federal and non-Federal awards or projects.

Costs incurred in the current year of both successful and unsuccessful proposals **normally should be treated as indirect (F&A) costs** and allocated currently to all activities.

No proposal costs of past accounting periods will be allocable to the current period.

45 CFR 75.460

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Subpart E. Cost Principles – Selected Items of Cost

§ 200.465 Rental costs of real property and equipment

- (a) Rental costs are allowable to the extent that rates are reasonable. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available



45 CFR 75.465

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Subpart E. Cost Principles – Selected Items of Cost

§ 200.465 Rental costs of real property and equipment (cont.)

- (b) Rental costs under "sale and lease back" arrangements are allowable only up to the amount that would be allowed had the organization continued to own the property
- (c) Rental costs under "less-than-arm's-length" leases are allowable only up to the amount that would be allowed had title to the property vested in the organization

A less-than-arm's-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other

45 CFR 75.465

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Subpart E. Cost Principles – Selected Items of Cost

§ 200.465(4) Rental costs of real property and equipment (cont.)

Family members include one party with any of the following relationships to another party:

- (i) Spouse, and parents thereof;
- (ii) Children, and spouses thereof;
- (iii) Parents, and spouses thereof;
- (iv) Siblings, and spouses thereof;
- (v) Grandparents and grandchildren, and spouses thereof;
- (vi) **NEW** Domestic partners and parents thereof, including domestic partners of any individual in 2 through 5 of this definition; and
- (vii) **NEW** Any individual related by blood or affinity whose close association with the employee is the equivalent of a family relationship

45 CFR 75.465

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Subpart E. Cost Principles – Selected Items of Cost

§ 200.474 Travel costs

(a) Costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied consistently

(b) NEW Documentation must justify:

- (1) Participation is necessary for the federal award; and
- (2) Costs are reasonable and consistent with entity policy



45 CFR 75.474

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Subpart E. Cost Principles – Selected Items of Cost

§ 200.474 Travel costs (cont.)

- (c) (1) **NEW** Temporary dependent care costs resulting from travel to conferences are allowable provided that:
- (i) Costs are a direct result of travel;
 - (ii) Costs are consistent with the travel policy; and
 - (iii) Costs are temporary during the travel period

45 CFR 75.474



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Subpart F. Audit Requirements



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Subpart F. Audit Requirements

§ 200.501 Audit Requirements

(a) Audit required.

A non-Federal entity that expends \$750,000 (**NEW**) or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit



45 CFR 75.501

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Subpart F. Audit Requirements

Auditees

§ 200.508 Auditee Responsibilities

- (a) Procure or otherwise arrange for the audit required by this Part and ensure it is properly performed and submitted when due
- (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards
- (c) Promptly follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan
- (d) Provide the auditor with access to personnel, accounts, books, records, supporting documentation, and other information as needed for the auditor to perform the audit

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45 CFR 75.508

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Subpart F. Audit Requirements

Auditees

§ 200.510 Financial Statements

- (6) **NEW** Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the non-Federal entity elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs

45 CFR 75.510

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Subpart F. Audit Requirements

Auditors

§ 200.516 Audit Findings

- (2) Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards related to a major program
- (3) Known or likely known questioned costs that are greater than \$25,000 (**NEW**) for a type of compliance requirement for a major program
- (4) Known questioned costs that are greater than \$25,000 (**NEW**) for a Federal program which is not audited as a major program, if the auditor becomes aware of questioned costs for such a program

45 CFR 75.516

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Subpart F. Audit Requirements

Auditors

§ 200.516 Audit Findings (cont.)

- (5) The circumstances concerning why the auditor's report on compliance for each major program is other than an unmodified opinion
- (6) Known or likely (**NEW**) fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards
- (7) Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding



45 CFR 75.516

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Subpart F. Audit Requirements

§ 200.521 Management Decision

General

- (a) The management decision must clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action
- (d) Time requirements. The Federal awarding agency or pass-through entity responsible for issuing a management decision must do so within 6 months of acceptance of the audit report by the FAC. The auditee must initiate and proceed with corrective action as rapidly as possible and corrective action should begin no later than upon receipt of the audit report



45 CFR 75.521

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Fraud Concerns

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ACFE's 2016 Report to the Nation

**THE STAGGERING
COST OF FRAUD**

CFES ESTIMATE THE TYPICAL ORGANIZATION
LOSES 5% OF ANNUAL REVENUES TO FRAUD



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ACFE's 2016 Report to the Nation

Figure 78: Frequency of Schemes Based on Perpetrator's Department

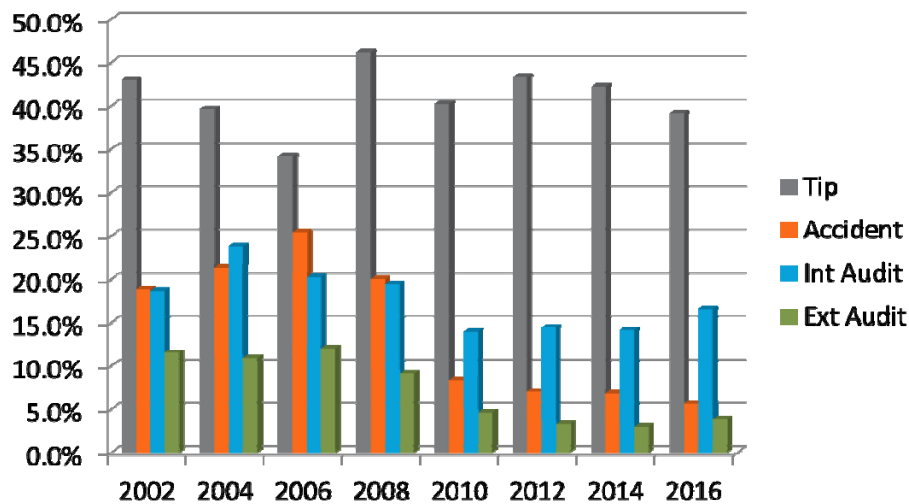


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Fraud Detection by Source

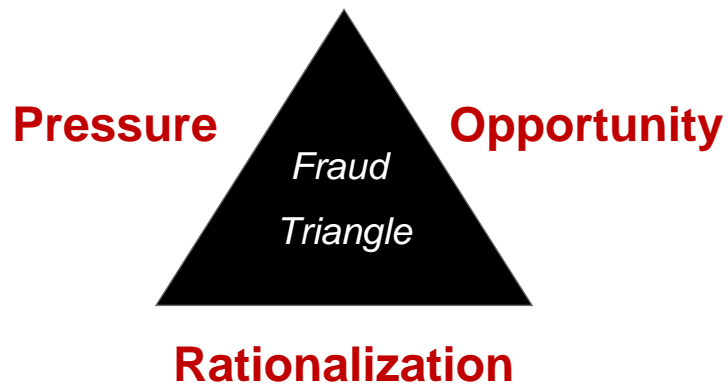


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www.acfe.com/RTTN/

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Where Are Fraud Risks?



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Specific Control Areas

- Segregation of Duties
- Payroll Related Controls
- Credit Card Policies & Procedures
- Information Technology
- Reconciliation of Significant Accounts

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Segregation of Duties: Cash Receipts

The goal is to segregate as many duties as possible; especially the recording of revenue, receipt of funds, and maintenance of accounts.

When one person controls all three of these functions, the potential for fraud increases



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Segregation of Duties: Cash Disbursements

Common cash disbursement fraud schemes

- Billing schemes - internal and external
 - Improper payments to legitimate vendors
 - Purchasing item for personal use from vendors
 - Credit card abuse
 - Creating duplicate/additional payments to vendor
 - Payments to fictitious vendors
- Misclassifying personal expenditures
- Check tampering



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Segregation of Duties: Cash Disbursements

Check Tampering – alteration to an Agency's checks. Usually done by an employee who has the responsibility for, or ability to, record or post payments in the accounting records.

Types:

- Forgery
- Altering payees or amounts
- Creating duplicate or phony checks



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Segregation of Duties: Cash Disbursements

Common purchasing fraud schemes

- Undisclosed conflicts of interest
- Kickbacks from vendors



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Payroll Related Controls

Common payroll fraud schemes

- Ghost employees
- Overstatement of hours worked
- Overstatement of pay rates



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Credit Card Policies and Related Controls

Implementing appropriate controls on company credit cards



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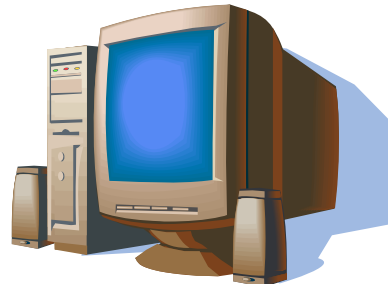
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Information Technology Related Controls

The most important element of information technology is the security plan.

It should address:

- Physical access
- Controls over access to data
- Data input controls
- Software controls
- Protection of hardware
- Disaster recovery



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Information Technology Related Controls

Physical Access

- If possible the server should be in a separate room
- Access should be restricted to authorized personnel
- Room should be locked at all times



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Information Technology Related Controls

Software controls

- Document all changes in software
- Review and authorize all requested changes to software
- Restrict access to software



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Information Technology Related Controls

Protection of Hardware

- Communicate the risks of off-site use of laptops
- Require that data stored on a laptop be backed up prior to taking off-site
- Permanently mark laptops as property of the Agency

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Information Technology Related Controls

Disaster Recovery

Key Elements

- Identification of the applications that are necessary in order to keep the organization operating
- Storage of program files and software
- Data files backed up on a regular basis
- Off-site storage of data backup files



Fiscal Monitoring, Red Flags and Audit Essentials

How to review financial statements

Any CAP

Comparative Statement of Financial Position
December 31, 2014 and 2015

	2014	2015
Current assets:		
Cash and cash equivalents	\$ 1,021,837	\$ 351,018
Grants receivable	671,605	1,054,138
Prepaid expenses and other assets	66,079	52,326
Total current assets	1,759,521	1,457,482
Property and equipment, net	247,898	326,421
TOTAL ASSETS	\$ 2,007,419	\$ 1,783,903
Current liabilities:		
Line of credit	0	134,789
Accounts payable	240,419	450,789
Accrued payroll and related expenses	248,246	168,067
Accrued vacation	87,393	82,800
Grant funds received in advance	83,278	57,431
Total current liabilities	659,336	893,876
Long-term liabilities:		
Notes payable	213,018	198,444
Total liabilities	872,354	1,092,320
Net assets:		
Unrestricted	500,818	256,565
Temporarily restricted	634,247	435,018
Total net assets	1,135,065	691,583
TOTAL LIABILITIES AND NET ASSETS	\$ 2,007,419	\$ 1,783,903

Anything
wrong in this
picture?

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How to review financial statements

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Comparative Statement of Financial Position
December 31, 2014 and 2015

	2014	2015	Change	Percent	Notes
Current assets:					
Cash and cash equivalents	\$ 1,021,837	\$ 351,018	(670,819)	-65.6%	Primarily from current year loss and increase in grants receivable
Grants receivable	671,605	1,054,138	382,533	57.0%	State is behind on reimbursing for WIC
Prepaid expenses and other assets	66,079	52,326	(13,753)	-20.8%	
Total current assets	1,759,521	1,457,482			
Property and equipment, net	247,898	326,421	78,523	31.7%	
TOTAL ASSETS	\$ 2,007,419	\$ 1,783,903			
Current liabilities:					
Line of credit	0	134,789	134,789	N/A	Needed for cash flow
Accounts payable	240,419	450,789	210,370	87.5%	Held off on paying WIC vendors
Accrued payroll and related expenses	248,246	168,067	(80,179)	-32.3%	The previous year included an extra 6 days to accrue
Accrued vacation	87,393	82,800	(4,593)	-5.3%	
Grant funds received in advance	83,278	57,431	(25,847)	-31.0%	
Total current liabilities	659,336	893,876			
Long-term liabilities:					
Notes payable	213,018	198,444	(14,574)	-6.8%	
Total liabilities	872,354	1,092,320			
Net assets:					
Unrestricted	500,818	256,565	(244,253)	-48.8%	Due to depreciation and overspending on two grants
Temporarily restricted	634,247	435,018	(199,229)	-31.4%	Net assets used for restricted purposes
Total net assets	1,135,065	691,583			
TOTAL LIABILITIES AND NET ASSETS	\$ 2,007,419	\$ 1,783,903			

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How to review financial statements

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Comparative Statement of Activities

	December 2014	YTD December 2014	December 2015	YTD December 2015	YTD Change	YTD Percent	Notes
Revenue:							
Grant revenue	\$ 894,051	\$ 10,728,611	\$ 932,923	\$ 10,534,864	(193,747)	-1.8%	
Program/other income	18,614	223,373	19,424	442,746	219,373	98.2%	\$200,000 donation from a rich person
In-kind contributions	26,566	318,795	27,721	154,591	(164,204)	-51.5%	Loss of donated space at XYZ site
Total revenue and support	939,231	11,270,779	980,068	11,132,201	(138,578)		
Expenses:							
Salaries and wages	260,815	3,129,778	272,155	3,345,079	215,301	6.9%	
Fringe benefits	79,933	959,191	83,408	1,105,194	146,003	15.2%	14% spike in health insurance costs
Contracted services/consultants	22,067	264,808	23,027	209,738	(55,070)	-20.8%	
Day care provider payments	54,135	649,618	56,489	754,295	104,677	16.1%	
Energy assistance	235,681	2,628,177	245,928	3,033,728	205,551	7.3%	Additional funds awarded
Weatherization contracts	124,772	1,497,269	130,197	1,513,554	16,285	1.1%	
Food	8,702	104,418	9,080	163,279	58,861	56.4%	
Insurance	1,845	22,134	1,925	33,127	10,993	49.7%	
Occupancy	21,666	259,986	22,607	409,246	149,260	57.4%	Cost related to additional space from building expansion
Supplies	39,701	476,407	41,427	384,909	(91,498)	-19.2%	
Depreciation expense	10,326	123,915	10,775	147,895	23,980	19.4%	
Other	27,481	329,766	28,675	321,048	(8,718)	-2.6%	
In-kind	26,566	318,795	27,721	154,591	(164,204)	-51.5%	Loss of donated space at XYZ site
Total expenses	913,690	10,964,262	953,414	11,575,683	611,421	5.6%	
Change in net assets	25,541	306,517	26,654	(443,482)	(749,999)	-244.7%	

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How to review financial statements

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Combining Statement of Revenues and Expenses Year Ended December 31, 2015

	Corporate/ Unrestricted	Performance Based 1	Fundraising	Grant Property and Equipment	Program 1	Program 2	Program 3	Program 4	Total
Revenues:									
Grant Revenue	-	380,416	-	-	5,565,358	1,127,759	3,000,000	6,018	10,079,551
Contributions	165,461	-	35,118	-	-	53,373	-	-	253,952
Miscellaneous	31,289	-	-	-	-	2,301	-	-	33,590
In-kind revenue	-	-	-	-	1,000,000	-	-	-	1,000,000
Transfers	(200,000)	-	-	-	-	-	200,000	-	-
Total revenues	(3,250)	380,416	35,118	-	6,565,358	1,183,433	3,200,000	6,018	11,367,093
Expenses:									
Salaries	40,358	156,374	8,552	-	3,135,786	730,158	50,596	-	4,121,824
Fringe Benefits	21,658	86,789	1,034	-	1,798,140	432,048	13,837	-	2,353,506
Consultants/Contractual	-	136,087	-	-	58,723	285	5,730	-	200,825
Supplies	60	35,016	-	-	1,683	1,039	11,511	-	49,309
Travel and Training	136	-	75	-	1,247	1,212	491	-	3,161
Occupancy	-	-	-	-	263,967	7,164	55,555	-	326,686
Equipment Rental/Maintenance	-	4,894	-	(160,000)	96,503	-	7,158	-	(51,445)
Communications	-	1,598	-	-	53,274	2,593	642	-	58,107
Client assistance	6,138	-	-	-	-	-	2,908,690	6,018	2,920,846
Other	981	2,024	11,358	30,000	156,035	8,934	145,790	-	355,122
In-kind expense	-	-	-	-	1,000,000	-	-	-	1,000,000
Total expenses	69,331	422,782	21,019	(130,000)	6,565,358	1,183,433	3,200,000	6,018	11,337,941
Revenues over expenditures	(72,581)	(42,366)	14,099	130,000	-	-	-	-	29,152

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How did this organization do financially?

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How to review financial statements

September 30, 2015

NOTE: Organization has a December 31, 2015 year-end.

	Grant Period	Grant Award	Spent to Date	Percent of Award Period Completed	Percent of Grant Spent
LIHEAP	1/1/15 - 12/31/15	3,500,000	3,200,000	75%	91%
Weatherization	4/1/15 - 3/31/16	1,200,000	325,000	50%	27%
Section 8	1/1/15 - 12/31/15	800,000	600,000	75%	75%
Head Start	11/1/14 - 10/31/15	2,500,000	1,800,000	92%	72%
WIA	7/1/15 - 6/30/16	200,000	100,000	25%	50%

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Cashflow

Statement of cashflows presented in your audit allows you to see where your cash is coming from or being used:

Operations

Investing

Financing

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Statement of Cash Flows

NPO Client, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Changes in net assets	(\$ 344,683)	\$ 601,403
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	120,578	122,703
Writedown of inventory to market	73,305	0
Bad debt expense	11,878	0
Equity (gain) loss on partnerships	(33,771)	23
Loss on disposition of property and equipment	0	3,654
Realized and unrealized loss (gain) on investments	122,218	(68,359)
Changes in operating assets and liabilities:		
Grants receivable	74,122	4,970
Accounts receivable	(64,675)	(151,567)
Prepaid expenses	(19,271)	9,002
Housing inventory	244,620	(244,620)
Accounts payable	(13,053)	(74,658)
Accrued payroll and related expenses	2,903	56,641
Accrued interest expense	(636)	(590)
Grant funds received in advance	(19,462)	(259,492)
Net cash provided by (used in) operating activities	154,073	(890)

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Statement of Cash Flows

Cash flows from investing activities:		
Property and equipment expenditures	(74,525)	(244,205)
Proceeds from sale of houses	0	364,604
Proceeds from sale of investments	27,800	57,885
Purchase of investments	(26,419)	(25,356)
Issuance of note receivable	0	(162,000)
Withdrawals from debt service fund	8,209	41,586
Deposits to debt service fund	(6,377)	(2,011)
Net cash (used in) provided by investing activities	(71,312)	30,503
Cash flows from financing activities:		
Principal payments on notes payable	(9,952)	(276,576)
Principal payments on capital lease obligation	(70,000)	(65,000)
Net cash used in financing activities	(79,952)	(341,576)
Changes in cash and cash equivalents	2,809	(311,963)
Cash and cash equivalents at beginning	1,094,960	1,406,923
Cash and cash equivalents at end	\$ 1,097,769	\$ 1,094,960
Supplemental schedule of other cash activities:		
Capital lease interest paid and expensed	\$ 154,151	\$ 158,911
Notes payable interest paid and expensed	4,408	5,131

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Unfunded Liabilities

What other things should you be looking at?

- Do you have large unfunded liabilities?
 - Sick time accrual
 - Vacation accrual
 - Deferred revenue

Net Assets and/or Reserves

RULE OF THUMB: Available unrestricted net assets should be equal to **5-10%** of annual revenue

Organization's 2017 Revenue: **\$17,644,944**

Organization's 2017 Unrestricted Net Assets:
\$175,713

Recommended balance should be between
\$882,250 and \$1,764,500

Net Assets and/or Reserves

RULE OF THUMB: Available unrestricted net assets should be equal to **5-10%** of annual revenue

Organization's 2017 Revenue excluding in kind: **\$4.9 Million**

Organization's 2017 Unrestricted Net Assets: **\$290,016**

Recommended balance should be between **\$245,000 and \$490,000**



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Net Assets and/or Reserves

RULE OF THUMB: Available unrestricted net assets should be equal to **5-10%** of annual revenue

NPO'S 2017 Revenue: **\$19.2 Million**

NPO'S 2017 Unrestricted Net Assets are **\$2,801,987** less property and equipment of \$2,118,395 and loans receivable of \$503,629 equal an available net assets balance of **\$179,963**

Recommended balance should be between **\$960,000 and \$1,920,000**



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How to review financial statements

Other items to note:

- Findings in the your program
- Findings in the financial statement preparation opinion
- Repeat findings



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Thank You!



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