



Regional Advisory Council (RAC) Chair Meeting

Dallas Convention Center

November 19, 2006

Financial Management Requirements for Grants

- Cost Principles
- Administrative Requirements
- DSHS Contractor's Financial Procedures Manual
- Contract (General Provisions, Special Provisions)



Uniform Grant Management Standards (UGMS)

<http://www.governor.state.tx.us/divisions/stategrants/guidelines/files/UGMS062004.doc>

- Introduction
- Cost Principles
- State Uniform Administrative Requirements
- State of Texas Single Audit Circular

Local Governments

- **Cost Principles – Office of Management and Budget (OMB) Circular A-87**

http://www.whitehouse.gov/omb/circulars/a087/a87_2004.html

- **Implementation Guide for OMB Circular A-87**

<http://www.hhs.gov/grantsnet/state/asmbc10.pdf>

- **Administrative Requirements – OMB Circular A-102**

http://www.whitehouse.gov/omb/grants/grants_circulars.html

- **45CFR92 Uniform Administrative Requirements for Governmental Entities**

<http://www.access.gpo.gov/nara/cfr/cfr-table-search.html>

Non-profit Organizations

- **Cost Principles – OMB Circular A-122**

http://www.whitehouse.gov/omb/circulars/a122/a122_2004.html

- **Administrative Requirements – OMB Circular A-110**

http://www.whitehouse.gov/omb/grants/grants_circulars.html

- **45CFR74 Uniform Administrative Requirements for Non-profit Organizations**

<http://www.access.gpo.gov/nara/cfr/cfr-table-search.html>

Institutions of Higher Education

- **Cost Principles – OMB Circular A-21**

http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html

- **Administrative Requirements – OMB Circular A-110**

http://www.whitehouse.gov/omb/grants/grants_circulars.html

- **45CFR74 Uniform Administrative Requirements**

<http://www.access.gpo.gov/nara/cfr/cfr-table-search.html>

45CFR74

Uniform Administrative Requirements for Non-profit Organizations

Sec. 74.81 Prohibition against profit.

...no HHS funds may be paid as profit to any recipient even if the recipient is a commercial organization. Profit is any amount in excess of allowable direct and indirect costs.

45CFR92

Administrative Requirements for State and Local Governments

Sec. 92.22 Allowable costs.

(a) Limitation on use of funds. Grant funds may be used only for:

(2) Reasonable fees or profit to cost-type contractors but not any fee or profit (or other increment above allowable costs) to the grantee or subgrantee.

General Principles for Determining Allowable Costs

- Uniform Grant Management Standards
- OMB A-21
- OMB A-87
- OMB A-122

Factors Affecting the Allowability of Costs

- Be necessary and reasonable for performance of the award
- Be allocable to the award (benefits the award)
- Be authorized or not prohibited under State or local laws/regulations
- Conform to any limitations or exclusions set forth in the cost principles
- Be consistent with policies, regulations, procedures (applied uniformly)

Factors Affecting the Allowability of Costs

(continued)

- Be accorded consistent treatment (direct/indirect)
- Be determined in accordance with generally accepted accounting principles
- Not be included as a cost or used to meet cost sharing/match of another federal/state award, except as specifically provided by law
- Be net of applicable credits
- Be adequately documented

Costs Must be Reasonable

- Does not exceed that which would be incurred by a prudent person
- Is generally recognized as ordinary and necessary for the performance of the award
- Sound business practice; arms length bargaining
- Market prices for comparable goods or services

Basic Considerations - Allocable Costs

- Cost of goods/services are chargeable to cost objectives in accordance with relative benefit received
- All activities of the organization, including unallowable activities, receive an appropriate allocation of indirect costs
- Costs allocable to a particular award/cost objective may not be charged to other Federal/state awards to overcome fund deficiencies

Cost Allocation Plan

Cost allocation plan must be submitted to DSHS within 60 days after the effective date of the contract.

- Timekeeping, substitute system
- Direct cost allocation
- Indirect cost allocation
- Allocation among multiple funding sources

Applicable Credits

Refers to receipts/reductions of expenditure-type transactions that offset or reduce expenses.

- Purchase discounts, rebates, allowances, recoveries/indemnities on losses, insurance refunds/rebates, adjustments for overpayments or erroneous charges
- Program income

Applicable credits shall be credited either as a cost reduction or cash refund, as appropriate.

Composition of Cost

- Total Cost = Allowable Direct Costs + Allocable portion of Allowable Indirect Costs – Applicable Credits
- Classification of costs – no universal rule for classifying certain costs as either direct or indirect
- Each item of cost must be treated consistently in like circumstances either as direct or indirect

Direct Costs

Costs that can be identified specifically with a particular final cost objective (DSHS program attachment).

Indirect Costs

Costs incurred for a common or joint purpose benefiting more than one cost objective

Costs are not readily identified with a particular final cost objective

Non-profit Organizational Direct Costs

(excerpt from OMB A-122)

The costs of activities performed primarily as a service to members, clients, or the general public when significant and necessary to the organization's mission must be treated as direct costs whether or not allowable and be allocated an equitable share of indirect costs. Some examples of these types of activities include:

Non-profit Organizational Direct Costs

(excerpt from OMB A-122)

- a. Maintenance of membership rolls, subscriptions, publications, and related functions.
- b. Providing services and information to members, legislative or administrative bodies, or the public.
- c. Promotion, lobbying, and other forms of public relations.
- d. Meetings and conferences except those held to conduct the general administration of the organization.
- e. Maintenance, protection, and investment of special funds not used in operation of the organization.
- f. Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans, financial aid, etc.

Support of Salaries and Wages

- Personnel activity reports reflecting the distribution of activity of each employee must be maintained for all staff whose compensation is charged, in whole or in part, directly to awards. In addition, such reports must be maintained for other employees working on indirect cost activities.
- Salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies.

Support of Salaries and Wages

(continued)

Personnel activity reports must meet the following standards:

- Reflect an after-the-fact determination of actual time worked
- Budget estimates or predetermined percentages do not qualify as support for charges to awards
- Must account for the total activity for which employees are compensated
- Must be prepared at least monthly and coincide with one or more pay periods
- Must be signed by employee and supervisor

Support of Salaries and Wages

(continued)

Substitute systems for allocating salaries and wages to Federal *or state* awards may be used in place of activity reports. (UGMS)

These systems are subject to prior approval by DSHS.

Uniform Grant Management Standards (UGMS)

Uniform Administrative Requirements

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_____.20 Standards for financial management systems.
[This section does not apply to procurement contracts.]

(a) A state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as its **subgrantees**, must be sufficient to—

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting
- (2) Accounting records
- (3) Internal control
- (4) Budget control
- (5) Allowable cost
- (6) Source documentation
- (7) Cash management

Standards for Financial Management System

- Financial management system that accurately captures all financial activity related to each DSHS award and provides an audit trail - general ledger, subsidiary ledgers, journals
- Chart of Accounts – unique series of revenue and expense accounts for each DSHS award
- Accounting Records – adequately identify the source and application of funds
- Budget Controls – management report comparing actual expenditures to budget
- Reports – system permits preparation of financial reports, to include reports required under the contract

Standards for Financial Management System

(continued)

Source Documentation

- o Personnel and Fringe Benefits – certifications (OMB A-87 only), personnel activity reports/time sheets
- o Travel – expense report with receipts, travel log with point to point mileage if claiming mileage
- o Equipment – reference contract GP's; \$5,000, controlled assets; inventory
- o Other/Supplies – invoices (not statements)
- o Contractual – executed contract; reference contract GP's for minimum requirements
- o Indirect – indirect cost rate proposal or IDC allocation plan
- o Program Income – receipts, deposits, cash receipts journal

Standards for Financial Management System

(continued)

Cash Management

(excerpt from DSHS Contract General Provisions)

Section 5.01 Prompt Payment. ...Contractor must comply with TEX. GOV'T. CODE, Chapter 2251 regarding its prompt payment obligations to subcontractors.

(excerpt from DSHS Contractor's Financial Procedures Manual)

Section 10.00.01 Time For Payment By Contractor

A contractor that receives reimbursement from DSHS shall pay a vendor or subcontractor the appropriate share of the reimbursement not later than the 10th day after the contractor receives the reimbursement.

Standards for Financial Management System

(continued)

40. Monitoring and reporting program performance.

(excerpt from UGMS, Subpart C)

(a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable *federal and state* requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Standards for Financial Management System Monitoring and Reporting Program Performance.

(Continued)

(excerpt from DSHS Contract General Provisions)

Section 12.13 Contracts with Subrecipient Subcontractors.

Contractor is responsible to DSHS for the performance of any subcontractor. Contractor shall monitor both financial and programmatic performance and maintain pertinent records that shall be available for inspection by DSHS. Contractor shall ensure that subcontractors are fully aware of the requirements placed upon them by state/federal statutes and regulations and under this Contract.



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DSHS Contract Oversight & Support Section

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Contractor's Financial Procedures Manual

E-mail Addresses

Technical Assistance: COSta@dshs.state.tx.us

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