



FISCAL MANAGEMENT AND OVERSIGHT OF HEAD START GRANTS PART I

**Sandy, Utah
January 22, 2010**



Session Highlights

In this session we will cover:

- Why Understand Fiscal Requirements?
- Grantee Fiscal Oversight- **Who is Responsible?**
- Elements of a Successful Fiscal Program
- **Internal Controls**
- **Policy and Procedures**
- **Allowable Costs**

WHY SHOULD **YOU** UNDERSTAND FISCAL OPERATIONS?

Because it's bigger than Head Start.

The public relies on Head Start to serve its children and families. Weak fiscal management – and worse, fraud, waste and abuse – ruins public perception. It goes beyond compliance.

WHY SHOULD **YOU** UNDERSTAND FISCAL REQUIREMENTS?

The Head Start Act of 2007 calls for greater accountability on the part of governing bodies for fiscal oversight!

A program's **success** in maintaining annual budget and fiscal management data, and conducting annual audits as required under section 647, are two of the five evaluative criteria in determining designation renewal in the Head Start Act of 2007.

Understanding fiscal requirements empowers you and strengthens your oversight.

Fiscal is one of the top cited areas of noncompliance in monitoring.

MONITORING RESULTS RELATED TO FISCAL OVERSIGHT

- Of grantees that had a Triennial, First-Year or Other review in FY 2007-09 YTD:

40.8% of grantees Nationwide had at least one finding identified in the fiscal management protocol section (614 out of 1505)

WHY SHOULD **YOU** UNDERSTAND FISCAL REQUIREMENTS? **BECAUSE IT'S REQUIRED!**

- ▶ Federal and state laws speak very clearly about the role of grantee leadership in fiscal operations.

- Head Start Act (Reauthorization 2007)
- Sarbanes-Oxley (2002)

Two provisions apply to all types of organizations:

- Whistleblower protection
 - » Most fraud is detected by a whistleblower. Empower grantees to develop internal processes to encourage staff reporting of potential fraud.
- Record retention
 - » Keep those records! Sarbanes-Oxley makes it illegal to destroy documents to prevent their use in official proceedings.

- ▶ Beyond doing what's required, grantees must also do what's right.

- Establishment and use of codes of ethics will help ensure that organizations' missions are adhered to in all activities.

STRONG FISCAL OVERSIGHT IS **CRUCIAL** TO HEAD START'S SURVIVAL

- ▶ Strong fiscal operations mean:
 - Fiscal reports are timely, accurate, and understandable.
 - Budgets are crafted to meet the essential needs of the program – e.g. children have diapers and toys!
 - Grantees can be better prepared to face economic challenges.
 - Grantees are better positioned for new, complex funding opportunities (ARRA, EHS expansion).
 - Clean reviews of performance help support a good reputation in the community and can lead to more community involvement.

FISCAL OVERSIGHT- WHO'S RESPONSIBLE?

▶ Grantee

- Governing Body**
- Policy Council**
- Fiscal officer and staff**
- Director**
- Authorized Official Representative (AOR)**

ELEMENTS OF A SUCCESSFUL FISCAL PROGRAM

- ▶ Head Start leadership must ensure strong fiscal operations by:
 - Establishing and maintaining strong internal control system, including segregation of duties
 - Maintain knowledge of the 2007 Head Start Act, regulations, terms and conditions of the award, and OMB Circulars
 - Reporting to governing bodies, that aligns with the required frequency for regulations, fiscal and performance requirements.
 - Ensuring governing body membership includes a **fiscal expert ...**
 - Hiring a **qualified** fiscal officer
 - Knowledge of federal contacts for fiscal and programmatic guidance.

FISCAL OVERSIGHT CHECK UP

- ▶ WHAT ARE THE TERMS AND CONDITIONS OF MY AGENCIES HEAD START GRANT(S)?
- ▶ AM I COMMUNICATING REGULARLY WITH MY **PROGRAM SPECIALIST AND FINANCIAL SPECIALIST**?
- ▶ DO I KNOW THE RELEVANT FISCAL REGULATIONS!!
- ▶ **NEVER GUESS AT AN ANSWER-** ASK FOR GUIDANCE!
- ▶ AM I UP TO DATE ON THE NEWEST FISCAL REGULATIONS?

KEY HEAD START FISCAL ELEMENTS

- ▶ INTERNAL CONTROLS
- ▶ POLICY AND PROCEDURES
- ▶ ALLOWABLE COSTS, COST ALLOCATION, AND ADMINISTRATIVE COSTS
- ▶ NON-FEDERAL SHARE
- ▶ REPORTING

Internal Controls

WHAT YOU MUST KNOW AND WHY



Internal Control Systems

- Promote compliance with laws, regulations and grant requirements
- Ensure proper recording of and accounting for transactions
- Control assets and records to protect against loss, theft or misuse
- Maintain reliability of financial reporting
- Support adherence to the agency's policies and procedures
- Ensure appropriate oversight by the agency's governing body/tribal council
- Increase effectiveness and efficiency of operations

**Definition of internal controls for Federal programs found in OMB A-133.105(p)*

Internal Controls- Why So Important?

- ▶ To ensure the proper use of funds
 - Safeguards assets to prevent illegal or unauthorized transactions or acts
- ▶ Provide reliable financial information, allowing managers and governing bodies to make more informed programmatic decisions
- ▶ Increase efficiency of operations and maximize use of limited resources
- ▶ Internal Controls keep staff safe and reduce ambiguity about roles and responsibilities
- ▶ Protects grantees' most important assets – the children.

Internal Controls

▶ Regulatory Review:

– 1301.13 – grantees must

(a) Safeguard assets

(b) Have accurate and reliable accounting data

(c) Promote operational efficiency through their internal control system

– Upon request of federal officer, grantees must provide a certificate prepared by an auditor attesting to the above – delegates, too!

– Additional Internal Control regulations Parts 74.21 and 92.20

Internal Controls

▶ Regulatory Review (cont.):

– 1304.50(g)(2)

(g) Governing body responsibilities.

(2) Grantee and delegate agencies must ensure that appropriate internal controls are established and implemented to safeguard Federal funds in accordance with 45 CFR 1301.13.

Internal Controls

- ▶ ***Cash receipts.***

To ensure that all cash intended for the organization is received, promptly deposited, properly recorded, reconciled, and kept under adequate security.

- ▶ ***Cash disbursements.***

To ensure that cash is disbursed only upon proper authorization of management, and for valid business purposes, and that all disbursements are properly recorded.

- ▶ ***Petty cash.***

To ensure that petty cash and other working funds are disbursed only for proper purposes, are adequately safeguarded, and are properly recorded.

Internal Controls

- ▶ **Payroll.**

To ensure that payroll disbursements are made only upon proper authorization to bona fide employees, are properly recorded, and that related legal requirements (such as payroll tax deposits) are met.

- ▶ **Grants**

To ensure that all grants are received and properly recorded, and that compliance with the terms of any related restrictions are adequately monitored.

- ▶ **Fixed assets.**

To ensure that fixed assets are acquired and disposed of only upon proper authorization, are adequately safeguarded, and are properly recorded.

OTHER REQUIREMENTS OF INTERNAL CONTROLS

▶ OMB A-110 Subpart C – Post-Award Requirements

– Recipients' financial management systems shall provide for the following:

- (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program.
- (2) Records that identify adequately the source and application of funds for federally-sponsored activities.
- (3) Effective control over and accountability for all funds, property and other assets.
- (4) Comparison of outlays with budget amounts for each award.
- (5) Written procedures to minimize the time elapsing between the transfer of funds.
- (6) Assuring reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.
- (7) Accounting records including cost accounting records that are supported by source documents.

Policies and Procedures

DOCUMENTING INTERNAL CONTROL SYSTEMS



FINANCIAL MANAGEMENT SYSTEMS MUST INCLUDE:

– 45 CFR 74.21(b) and 92.20(b)

- Financial reporting--Accurate, current, and complete disclosure of the financial results of financially assisted activities...
- Accounting records--Maintain adequate records...
- Internal control--Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets...
- Budget control--Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant...
- Allowable cost.
- Source documentation.
- Cash management--Minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees...

What Should an Accounting Manual Contain?

- ▶ Lines of Authority (e.g. signatory or approval)
- ▶ Policy/Procedure
- ▶ Forms
- ▶ Computer Applications
- ▶ Grant Compliance
- ▶ Chart of Accounts
- ▶ User Manual (e.g., by program)
- ▶ Cost Allocation

Regulations

- ▶ **45 CFR 74.21(b)(6)** -- Written procedures for determining the *reasonableness, allocability* and *allowability* of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.
 - What is the agency's internal process for determining control over transactions (e.g., determining allocability and allowability of cost)?
 - How are costs allocated within the agency?

Regulations (cont.)

- ▶ **45 CFR 92.20(a)**: Accounting procedures must:
 - **45 CFR 92.20(a)(1)** -- Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - **45 CFR 92.20(a)(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.

Regulations (cont.)

- ▶ **45 CFR 74.27** and **45 CFR 92.22(b)**: The allowability of costs incurred is determined in accordance to provisions of:
 - **2 CFR 230: Nonprofit organizations.**
 - **2 CFR 225: State and local governments**
 - **2 CFR 220: Educational institutions**

Regulations (cont.)

- ▶ **45 CFR 74.28 and 45 CFR 92.23:** Period of availability of funds:
 - Accounting procedures must ensure the award is charged for allowable costs resulting from obligations incurred during the funding period only.
- ▶ **45 CFR 92.21(b) & 45 CFR 74.21(b)(5) -- Cash management:** Basic standard methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee.
 - How are drawdowns scheduled?
 - How are drawdowns controlled?
 - Can PMS 272 forms be reconciled?

Definition of Internal Control Systems

- ▶ Internal control measures must be specified in the accounting procedures and designed to ensure:
 - Effectiveness and efficiency of operations
 - Control of assets and records of the organization to protect against loss, theft or misuse
 - Compliance with applicable laws and regulations
- ▶ Accounting procedures must be designed to ensure:
 - Appropriate oversight by the agency's governing body
 - Adherence to the agency's policies and procedures
 - Reliability of financial reporting

Documentation of Internal Control System Within Policies and Procedures

- ▶ Separation of duties (e.g., design)
- ▶ Documentation requirements
- ▶ Authorization flow
- ▶ Control systems
- ▶ Reconciliations of bank and balance sheet accounts
- ▶ Processes such as journal entries, posting and internal reporting of financial information

INTERNAL CONTROLS: BASICS OF SEGREGATION OF DUTIES

- ▶ Within a sequence of operations for a specific procedure (e.g., cash disbursement) no financial transaction is handled by one person, for example:
 - Operating employees' duties should be segregated from accounting employees' duties
 - All employees involved should have clearly defined roles
 - Proofs, checks, sign offs and other security measures should be used

SEGREGATION OF DUTIES- WHAT IF WE ARE A SMALL ORGANIZATION?

- ▶ Segregation of duties in small organizations:
 - Small organizations may have difficulties segregating employee duties due to small staff size
 - Such organizations should carefully develop internal control techniques and procedures with the advice of their financial council and/or auditor

SEGREGATION OF DUTIES.....REMEMBER

- ▶ Having internal controls -- including segregation of duties—even for small organizations – IS REQUIRED.

- ▶ Knowing if they are being implemented is also REQUIRED.

Other Required Fiscal Related Policies and Procedures

- ▶ **45 CFR 74.42** --Codes of conduct: The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts
- ▶ **Other:**
 - Procurement
 - Property

Allowable Costs



Reasonable Allocable
Allowable

And Remember...

- ▶ When referring to “costs,” this includes both Federal and **non-Federal costs**.
- ▶ **Both types of costs** must be reasonable, allocable and allowable.

Policy Question

- ▶ Can grant monies be used for things to boost employee moral such as:
 - Bowling?
 - A fun activity for staff that does not involve alcohol?
 - Rental of a room for a staff party?
 - A physical activity promoting positive health?

Answer to Policy Question

- ▶ Grant funds may be allowable if the activity was provided in accordance with the agency's established practice of contributing to employee working conditions, morale, health or employee relations.
 - For example, if a grantee has an annual plan that specifies an annual event that would be convened for the purpose of team building, building employee morale or supporting a health related activity, then the cost would be allowable.
 - Any activity that is held outside of the grantee's customary practices is not considered an allowable cost.

- ▶ Grantees should use caution in planning activities beyond the program requirements given the current budget constraints. Grantees are required to ensure costs are reasonable, necessary, and in accord with the terms and conditions of the award.

Employee Morale, Health, and Welfare Costs

- ▶ **2CFR 230 Appendix B, 13 (a-b)**
- ▶ **2CFR 220, Appendix A, 16.a**
- ▶ **2CFR 225, Appendix B, 13.a **48 CFR, Subpart 31.205-13**

Let's Start at the Very Beginning

Begin by reviewing ...

- Financial Assistance Award
 - Includes grants terms and conditions
- Grants Policy Statement
- Requirements

Cost Principles

BE FAMILIAR WITH REQUIREMENTS THAT APPLY TO **YOUR** ORGANIZATION

- ▶ Educational Institution
 - Cost Principles for Educational Institutions
2 CFR 220

- ▶ Government Organization (including LEA)
 - Cost Principles for State, Local and Indian Tribal Governments
2 CFR 225

- ▶ Non-Profit Organization
 - Cost Principles for Non-Profit Organizations
2 CFR 230

Allowability

Policy Question

- ▶ Is there something in the Federal Regulations or in the OMB Circular concerning paying for services performed in one year with monies from another year? For example if the union negotiates contracts for staff and makes the salaries retroactive to two years back, can the two years be paid with monies from the current year grant?

Answer to Policy Question

- ▶ Federal grant funds may only be used for costs incurred during the funding period as specified in the Notice of Award.
- ▶ The only time money from a prior funding period can be used in a subsequent funding period is through the approval of a formal carryover of funds where prior funding period monies must be used to complete unfinished project activities in the current funding period. However, in the example provided, the activities had already been completed (staff services performed), so a carryover of funds would be unallowable.
 - Grants Policy Statement, II-26; 45 CFR 74.28; 45 CFR 74.2; 45 CFR 92.23; 45 CFR 92.3

The Basics of Allowability

- ▶ Cost categories and allowability are covered in the FAA.
- ▶ Allowable costs must be:
 - Reasonable and necessary;
 - Allocable to the award; and
 - Given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances.
- ▶ Additionally, they must fit within any limitations in the cost principles.
- ▶ Costs offered as non-Federal share must meet the same standards of allowability.

Monitoring Findings Related to Allowability

Top Cited Issues Related to Allowability in FY 2007-2009 (YTD)

1. Costs NOT allowable, allocable and reasonable
2. Non-Federal share NOT allowable
3. Salaries and other forms of compensation NOT allowable

Requirements Associated with Allowability

Requirements: Allowability

Cost Principles for Educational Institutions

- ▶ Factors affecting allowability

- 2 CFR 220, Appendix A(C)(2)

- To be allowable, costs must:

- Be reasonable;

- Be allocable to sponsored agreements under the principles and methods provided herein;

- Be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and

- Conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

Requirements: Allowability

Cost Principles for State, Local, and Indian Tribal Governments

► Factors affecting allowability

– 2 CFR 225, Appendix A(C)(1)(a)-(j)

– To be allowable, costs must:

Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

Be allocable to Federal awards under the provisions of 2 CFR part 225.

Be authorized or not prohibited under State or local laws or regulations.

Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

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

Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.

Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

Be the net of all applicable credits.

Be adequately documented.

Requirements: Allowability

Cost Principles for Non-Profit Organizations

▶ Factors affecting allowability

- 2 CFR 230, Appendix A(A)(2)(a)-(g)

- To be allowable, costs must:

 - Be reasonable for the performance of the award and be allocable thereto under these principles.

 - Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.

 - Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization.

 - Be accorded consistent treatment.

 - Be determined in accordance with generally accepted accounting principles (GAAP).

 - Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.

 - Be adequately documented.

Requirements: Allowability

Cost Principles for Educational Institutions

▶ Reasonableness of Costs

- 2 CFR 220, Appendix A(C)(3)

- Major consideration involved in the determination of the reasonableness:

 - Whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement;

 - The restraints or requirements imposed by such factors as arm's-length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions;

 - Whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Federal Government, and the public at large; and

 - The extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.

Requirements: Allowability

Cost Principles for State, Local and Indian Tribal Governments

▶ Reasonableness of Costs

- 2 CFR 225, Appendix A(C)(2)

- In determining the reasonableness of a given cost, consideration shall be given to:

 - Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

 - The restraints or requirements imposed by such factors as: Sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.

 - Market prices for comparable goods or services.

 - Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.

 - Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

Requirements: Allowability

Cost Principles for Non-Profit Organizations

▶ Reasonableness of Costs

- 230, Appendix A(A)(3)(a)-(d)

- In determining the reasonableness of a given cost, consideration shall be given to:

Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.

The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and requirements, and terms and conditions of the award.

Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government.

Significant deviations from the established practices of the organization, which may unjustifiably increase the award, costs.

Guidance: Allowability

- ✓ **Audits do not always pick up on unallowed costs.**
 - Single audits test a fairly small number of transactions, especially where the Head Start program is a small piece of a big agency. The single audit would not be a good control for the detection of unallowable costs.
- ✓ **Allocable, Reasonable, Allowable.**
- ✓ **Know which requirements fit your organization.**
- ✓ **Reasonableness – stay out of the newspaper.**
- ✓ **Become familiar with what is allowed so you are not surprised later.**

QUESTIONS?