

Financial Controls

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Sara Twarek ● Auditor IV



ARIZONA DEPARTMENT
OF HEALTH SERVICES

Health and Wellness for all Arizonans

Learning Objectives

- Understanding the new OMB Guidance [2 CFR Part 200](#)
- Contractor's Responsibilities for Financial Control
- CER Composition
- Based on Federal dollars and the use of Federal funds
- Understanding the FAR requirements for Cost Reimbursement Contracts



OMB

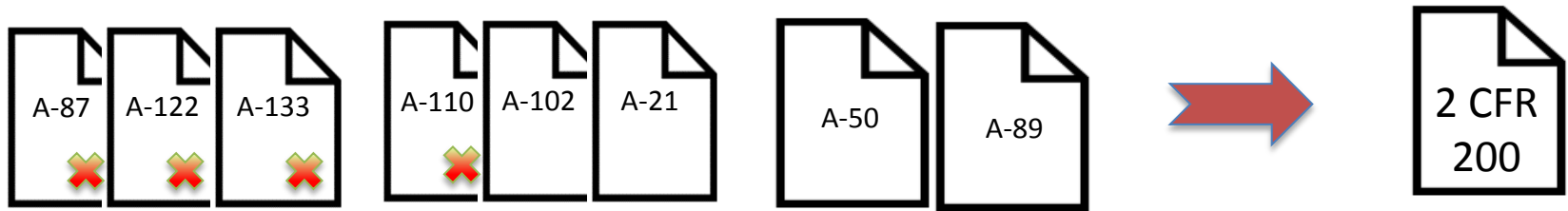
- The Office of Management and Budget
- Business division of the Executive Office of the President of the United States
- Administers the United States federal budget
- Oversees the performance of federal agencies



Uniform Guidance

2 CFR Part 200

- Replaces Existing Circulars



- Effective Date – December 26, 2014



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Uniform Guidance

2 CFR Part 200 Cont.

- A-87 – Cost Principles for Indian Tribes, State and Local Government
- A-122 – Cost Principles Non Profits
- A-133 – Compliance Supplement
- A-110 – Accounting Non Profits
- A-102 – Grants and Cooperative Agreements with State and Local Governments
- A-21 – Cost Principles for Educational Institutions
- A-50 – Audit Follow Up
- A-89 – Catalog of Federal Domestic Assistance



Uniform Guidance

2 CFR Part 200

- Applies to “Non-Federal Entities”
 - Institutions of Higher Education (IHE)
 - States
 - Non-Profits
 - Tribal Nations
 - Potentially → For Profits



Flow of Funds

Federal Awarding Agency



ADHS



Awardee



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Cost Principles

- The ADHS is responsible for **effective** and **efficient** administration of the federal award
- The ADHS must comply with agreements, objectives, terms, and conditions of the federal award
- The ADHS has the primary managerial responsibility



Cost Principles

- Contractors are held to the same guidelines as ADHS
- Contractors are subject to the same Cost Principles as ADHS



Cost Principles

- Composition of cost:
 - The “total cost” of a federal award is the sum of the allowable direct and allocable indirect costs less credits



Cost Principles

- Allowable Costs –
 - Necessary and reasonable for the performance of the Federal Award
 - Consistent with Federal Guidance (2 CFR 200)
 - Consistent with Program and Agency Policy and Procedures
 - Adequately documented



Cost Principles

- Reasonable Costs
 - A cost is reasonable if, in its **nature and 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 cost
 - ➡ Frivolous spending is unreasonable, i.e. Expensive brands in lieu of less expensive brands
 - Bose speakers for a computer, expensive cookware for cooking demos, Storage units when occupancy is being charged to the grant



Cost Principles

- Reasonable Costs
 - Contractors have the fiduciary responsibility in the use of tax payers' money
 - Would you use your own personal money for the expense?



Cost Principles

- “Allocable” Costs
 - Incurred specifically for federal award
 - Benefits both the federal award and other work of the nonfederal entity
 - Distributed proportionally
 - Necessary for overall operation of the federal award
 - Costs must be treated consistently in like circumstances



Cost Principles

- Direct and Indirect Costs :

- § 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. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective.



Cost Principles

- Direct Costs:
 - Can be identified specifically with the production of goods or services
 - Can be specifically designated to a cost objective and directly benefits the award itself
 - Supplies, materials, equipment, labor, etc.



Cost Principles

- Indirect Costs

- Cannot be tied directly to the production of goods or services
- Price of maintaining a particular entity as a whole
- Shared cost pool
- Entity's overhead expenses
- Utilities, advertising, administration, etc.
- Subject to guidelines and limitations



Contractor's Responsibility

- Follow OMB guidelines
- Follow contract & grant guidelines
- Follow policy and procedure requirements
 - Both agency and program
- Properly track expenses
 - No comingling funds
 - Keep receipt or source documentation



Documentation

- The OMB requires that contractors keep sufficient documentation in support of expenses incurred for any purchases
 - Receipts
 - Travel claims
 - Purchase orders
 - Invoices



What is Appropriate Documentation?

- **Itemized** Receipt
 - Bank statements will not suffice
 - An itemized receipt is crucial for determining allowable vs. unallowable costs
 - Receipts & invoices have dates and detailed descriptions of purchases. Statements and ledgers generally do not
- Travel claims
 - Must list the employee traveling, reason for travel, date, and employee & supervisor signatures
- POs



SAAM

- [State of Arizona Accounting Manual](#)
- GAO's (General Accounting Office) for development and maintenance of a “uniform accounting system so designed as to ensure compliance with all legal and constitutional requirements...”.
- Arizona Revised Statute – Chapter 35 & 41



SAAM Cont.

- All state agencies and their subrecipients are required to comply with the accounting policies and procedures outlined in SAAM
- It is intended be a learning tool and reference manual for all state agencies and their subrecipients



Records Retention

- In accordance with SAAM, records must be kept for a period of **5 years**
- This includes all records applicable to the contract
 - Payroll records, receipt documentation, indirect cost proposals, etc.



Comingling Accounts

- ADHS requires contractors to maintain separate ledger accounts for each contract
- Separate ledger accounts allows for easy 'upkeep' of the contract
- Allow for smooth tracking of program revenue and expenses
- Provides an audit trail for program management or audit personnel



Procurement Guidelines

- Types of Contracts
 - State Procurement Contracts
 - Intergovernmental Agencies
 - Interstate Agencies
 - Grants
- Types of Source Selection
 - Request for Grant Application
 - Solicitations for Bids, Quotes, Information
 - Reverse Auctions
 - Informal Bids and Low Dollar Purchases



Procurement Contracts

- Items in a Contract
 - Terms and Conditions
 - Scope of Work
 - Background
 - Deliverables
 - Objectives
 - Timelines
 - State Provided Items
 - Requirements
 - Notices
 - Quantity, Price and Funding



Procurement Reform

- Procurement Code and State Laws
 - Simplify and clarify procurement practices
 - Provide safeguards and good stewardship of public funds
 - Foster competition and public confidence by endorsing fair, consistent and equitable supplier treatment
 - Maximizing purchasing value and using State and Federal funds appropriately
 - Encourage confidence with a transparent process
 - Provides structure, foundation and direction to ADHS on the purchasing process
 - Flexibility permits each State Agency to write Policies and Procedures to work within the business



Procurement Best Practices

- Read and understand your contract
 - Binding by both parties
- Contract Compliance and Monitoring
- Vendor Performance through Contract Reviews and Site Visits
- Mutually Beneficial Relationships



FAR

- FAR – Federal Acquisition Regulation
- The FAR System governs the acquisition process in which agencies acquire (i.e., purchase or lease) goods and services by contract



FAR 52.216(b)(1)

- Those recorded costs that, at the time of the request for reimbursement, the Contractor has paid by cash, check, or other form of actual payment for items or services purchased directly for the contract
- Per the FAR, accruals are unallowable expenses in a cost reimbursement contract.
- All costs must be earned before they are paid



In-Kind Contribution

- The fair market value of non-cash contributions (i.e., property or services) that—
 - (a) Benefit a federally assisted project or program; and
 - (b) Are contributed by non-Federal third parties, without charge, to a non-Federal entity under a Federal award



CER Line Items

- Personnel Services
- ERE
- Travel Expense
- Other Operating Expenses
- Indirect Expenses
- Professional and Outside Services
- Occupancy



CER Submission

- It is expected that CER's are timely, complete and accurate
- If these conditions are not met, it may delay reimbursement
- CERs are due 21 days after the end of the prior month to the Program Manager
- ADHS then has 30 days to pay



Personnel Services

- Payroll Expense
 - Documentation includes – electronic or manual records depicting the wages and salaries
 - Certification of hours worked
 - All timekeeping systems should have a certification statement, showing that the employee, upon submission of the time card, certifies that the hours worked are true and accurate.
 - The certification will have the signature of the employee and manager approving the timecard
 - Check stubs can be used as documentation
 - Electronic timekeeping records are preferred
 - Kronos or other payroll service documentation



ERE

- Employer Related Expense
 - Health insurance
 - FICA
 - Worker's Compensation
 - Retirement
 - Other employer paid deductions
- Electronic or manual records will have to show employer paid expenses for ERE
- Pay stubs will work for documentation



Other Operating Expense

Included, but not limited to:

- Program supplies
- Software
- Equipment
- Incentives
- Directly related to grant operation

- Documentation includes **Itemized** Receipts



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Travel

- Expenses incurred while traveling for the contract
- Must have **appropriate travel claims**
 - Date, reason for travel, employee traveling, employee signature, supervisor signature, hotel receipt
 - Mileage reports will have the beginning and ending odometer reading



Travel Cont.

- Contractors are subject to ADHS and State Travel Guidelines
- Contractors must keep receipt documentation of travel expenses
- In the event of an audit, ADHS must verify travel expenses
 - Restaurant receipts will show food purchases only
 - Alcohol purchases at lunch/dinner are not allowable per ADHS guidelines



Travel Rates

- Contractors must follow travel policy in accordance with [ADHS' travel policy](#) and SAAM policy.
- Exception – the state rate for lodging can be exceeded if staying at a hotel where your conference is being held
- Mileage - \$0.445 a mile



Indirect Expense

- Cannot be tied directly to the production of goods or services
- Price of maintaining a particular entity as a whole
- Shared cost pool
- Entity's overhead expenses
- Utilities, advertising, administration, etc.
- Must be able to show how the amount claimed is derived; **cannot divide the budget by 12**
 - Spreadsheet showing the methodology for the division of costs from the overall cost-base so that a percentage calculation can be determined for the amount billed.



Allocation Process

- Allowable direct costs that can be identified to more than one program are prorated individually as a direct cost using a base most appropriate to the particular cost
- All other allowable general and administrative costs that benefit all programs use a base for equitable distribution



Occupancy (If Applicable)

- Contract's portion of the building space
(handled in much the same manner as indirect costs)
 - If an office space is rented, there must be a method of appropriation (square footage, use of time, etc.) in writing
 - Utilities
 - Occupancy expenses must be allocated to each grant using square footage space or other reasonable allocation methodology



Allocating Occupancy Cost

- If a building is used by multiple grants or contracts, contractors must allocated costs accordingly
- The building expenses (rent, utilities, pest control, internet, etc.) must be allocated to each contract
 - If you have an office that is used by four contracts equally, you would allocate $\frac{1}{4}$ of the occupancy expenses to each contract



Professional and Outside Services

- Professional development services
- Fees and expenses with professional consultants
- Documentation will include receipts and invoices
- Documentation that shows progress and rendered services



Asset Management

- Assets –something an entity has acquired or purchased that has monetary value.
- Capital Assets – Tangible or intangible asset used in operations having a useful life of **more than one year and \$5000 or more**
 - Land, buildings, equipment, intellectual property (software)
 - Capital assets must be tagged, reported to ADHS, and tracked.



Assets Cont.

- When assets are purchased they are property of ADHS, not the contractor
- All assets >\$250 have to be tracked, tagged with an ADHS asset tag, and reported
- At the completion of the contract, assets **must be returned** to ADHS → i.e. laptops



Common Audit Findings

- Payroll Irregularities – 30%
- Failure to meet Contract/Grant requirements – 15%
- Indirect Costs -8%
- Unauthorized/Unallowable purchases – 8%
- Budget Irregularities – 8%
- Poor support documentation – 5%
- Funds not maintained in a separate account/ledger – 4%
- Occupancy Irregularities – 1%



Questions?



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THANK YOU

Sara Twarek, Auditor IV

sara.twarek@azdhs.gov | 602-542-8678

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