

GRANTEE FINANCIAL MANAGEMENT REQUIREMENTS

Purpose

SAMHSA's Financial Advisory Services Officers (FASO) use the 17 management control areas, detailed later, to:

- Complete Financial Capability Reviews (FCR) of new and prospective grantees;
- Provide grantees a guide for ensuring their existing accounting and personnel policies and procedures (P&P) include the necessary controls;
- Ensure grantee Office of Management and Budget (OMB) OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* and HHS Office of Inspector General (OIG) audit report recommendations relating to inadequate P&P, assigned to SAMHSA for resolution, are satisfactorily resolved; and
- Ensure grantees receiving periodic monitoring or fiscal site visits have adequate P&Ps.

Background

The 17 management control areas listed later in this document were developed using:

- 45 Code of Federal Regulations (CFR) Parts 74¹ and 92, *Uniform Administrative Requirements*;
- The HHS Grants Policy Statement;
- OMB Circulars A-87 and A-122 *Cost Principles*; and
- The most common findings disclosed in OMB Circular A-133 audit reports, HHS OIG audit reports, and periodic monitoring and fiscal site visits.

Financial Capability Reviews

FASOs are required to complete FCRs of all new and prospective grantees. To complete the FCRs, FASOs must review either a recent OMB Circular A-133 audit or accounting and personnel P&Ps along with the most recently issued financial statements or IRS

¹Now codified in 2 CFR 215.

Form 990s to determine if grantees' financial management systems are capable of adequately administering Federal awards. If the grantees were not required to have an OMB Circular A-133 audit within the past two years, the FASOs review grantees' P&Ps to ensure they adequately address the 17 management control areas detailed later. If necessary, the FASOs notify grantees, by letter, of deficiencies with their P&Ps. Grantees are provided a reasonable opportunity to strengthen their P&Ps to an acceptable level. However, grantees that are non-responsive, repeatedly submit inadequate P&Ps, or refuse to strengthen their P&Ps may have their SAMHSA grants classified as high risk until adequate P&Ps are submitted. Organizations with high-risk grants have their Payment Management System (PMS) grant accounts restricted, must submit written reimbursement requests to SAMHSA, and obtain prior approval from SAMHSA, for all expenditures before PMS drawdowns can be made .

Audit Recommendations

Most OMB Circular A-133 and HHS OIG audit findings relate to inadequate P&P. To ensure grantees take appropriate corrective action to resolve their audit findings, FASOs use the 17 management control areas detailed later.

Monitoring or Fiscal Site Visits

FASOs also use the 17 management control areas to ensure that SAMHSA grantees required to have periodic monitoring (i.e. – PAIMI) and fiscal site visits due to hotline complaints, allegations, or other indicators of financial issues, have financial management systems capable of adequately administering Federal awards. All 17 management control areas must be adequately addressed in grantees' P&Ps or further actions will be required by grantees. Grantees are provided reasonable opportunities to strengthen their P&Ps to an acceptable level before FASOs recommend that their grants be classified as high risk as described earlier under **Financial Capability Reviews**.

17 Management Control Areas

Grantees must ensure the following management controls are fully addressed in their P&Ps or further actions will be required:

1. **Cash Management** – The P&Ps must require drawdowns* under HHS awards:
 - Be limited to the minimum amounts needed to cover allowable project costs;
 - Be timed in accordance with the actual immediate cash requirements of carrying out the approved project; and

- Not be made to cover future expenditures.

See §§ 22 and 21 of 45 CFR Parts 74 and 92, respectively.

*HHS' PMS permits grantees to drawdown funds in advance for expenditures to be made within the next 72 hours.

2. Annual Audits – The P&Ps must require:

- Audits be performed in accordance with OMB Circular A-133 for fiscal years (FY) with expenditures under Federal awards of \$500,000 or more; and
- Reports on these audits be submitted to the Federal Audit Clearinghouse* (FAC) within the earlier of 30 days after receipt or nine months after the FY's end.

See §§ 200 and 320 of OMB Circular A-133

*Grantees must submit audit reports and Standard Form SACs to the FAC electronically at <http://harvester.census.gov/fac/collect/ddeindex.html>.

3. Accounting System – The P&Ps must include a detailed description of the accounting system, including:

- Its ability to report revenue and expenditures separately by Federal program;
- Its chart of accounts;
- Receipts; and
- Disbursements.

4. Bank Statements – The P&Ps must:

- Prohibit the individual reconciling the bank statements from opening them;
- Require bank statements be opened and reviewed by a grantee official that is not authorized to sign checks (i.e. – treasurer, president, etc.), but familiar with its financial activities;
- Require bank statements be reconciled in a timely manner by someone not authorized to sign checks;
- Require the reconciliation be approved by a grantee official outside the payment process but familiar with the financial activities; and

- Define timely (i.e. – within 14 days, etc.).
5. **Disbursements/Procurement** – The P&Ps must require:
- Documentation be maintained to support all disbursements and describe how;
 - Blank checks be safeguarded and define how;
 - Disbursements be pre-approved and indicate by whom for both small and large dollar purchases;
 - Expenditures be reasonable and explain how this should be accomplished (bids, quotes, etc.); and
 - Two signatures on all checks over \$1,000 and designate the organization officials authorized to sign checks.
6. **Matching or Cost Sharing** – The P&Ps must include the requirement that matching or cost sharing contributions (including cash and third party in-kind) be:
- Verifiable from the recipient's records;
 - Not included as contributions for any other federally-assisted project or program;
 - Necessary and reasonable for proper and efficient accomplishment of the project or program objectives;
 - Not paid by the Federal Government under another award (except where authorized by Federal statute to be used for cost sharing or matching); and
 - Allowable and provided for in the approved budget.

See §§ 23 and 24 of 45 CFR Parts 74 and 92, respectively.

7. **Consultants and Contractors** – The P&Ps must:
- Describe the nature and scope of services that may be outsourced;
 - Require in-house capabilities be evaluated before obtaining external assistance;
 - Describe the selection process;

- Describe the method for ensuring all procurement transactions are conducted in a manner to provide full and open competition to the maximum extent practical;

To ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft grant applications, or contract specifications, requirements, statements of work, invitations for bids and/or requests for proposals, shall be excluded from competing for such procurements.

- Describe the method for ensuring costs and fees are reasonable; and
- Require that, prior to selecting a new consultant or contractor, the GSA Excluded Parties List System at <https://www.epls.gov/> and the HHS OIG List of Excluded Individuals/Entities at <http://exclusions.oig.hhs.gov/> be checked to ensure the individual or entity is not prohibited from receiving Federal funds.

See §§ 43 and 36(c) of 45 CFR Parts 74 and 92, respectively.

8. Expenditure Analysis – The P&Ps must describe how:

- Actual and budgeted expenditures are to be analyzed; and
- Significant variances between actual and budgeted expenditures are resolved to ensure total costs do not exceed the amounts budgeted for the grant period.

See §§ 21 and 20 of 45 CFR Parts 74 and 92, respectively.

9. Indirect Costs – The P&Ps must either describe:

- Existing or planned indirect cost rates and the type of rate used as well as both the content of pooled expenses and the type of allocation base used; or
- If all costs are charged direct, the method used to allocate costs benefiting multiple cost objectives to each cost objective.

See Attachment A §§ F & C of OMB Circulars A-87 and A-122, respectively

10. Credit Cards – The P&Ps must:

- Describe how credit card use is controlled;
- Require all expenditures be pre-approved;

- Limit individual amounts and types of expenditures that may be incurred;
- Prohibit personal expenditures; and
- Require all receipts be submitted for review and comparison with credit card statements.

11. Timekeeping – The P&Ps must require:

- The distribution of salary and wages charged to Federal awards be based on actual employee activity as reflected in personnel activity reports (timesheets), prepared after-the-fact, that include the total activity for which employees were compensated; and
- Timesheets be certified as accurate by either the employee or a supervisor familiar with the employee's activities.

Non-profit organizations cannot charge salary and wages to Federal awards based on budget estimates. However, States, Local or Indian Tribal Governments may allocate salary and wages charges to Federal awards based on budget estimates, other distribution percentages, or use a substitute system if certain conditions are met in §§ 8.h(5) and 8.h(6) of OMB Circular A-87.

See Attachment B of §§ 8.h & 8.m. of OMB Circulars A-87 and A-122, respectively.

12. Travel – The P&Ps must:

- Require travel other than local mileage be pre-approved;
- Require all travel be reasonable and describe how this is determined;
- Limit mileage, meals and incidentals, and lodging charged to Federal programs to the rates published in the Federal Travel Regulations, unless otherwise justified;
- Limit airfare to coach and car rental to mid-sized, unless otherwise justified; and
- Reimburse travel costs based on expenditures reports or the like listing each cost individually along with original receipts.

13. Property Control – The P&Ps must require:

- Property records be maintained that include a description, cost, purchase date, source of funding, location, and condition of each property item;

- Periodic physical inventories be taken and reconciled to the property records no less frequently than every other year;
- Property purchased with Government funds be tagged; and
- Property be safeguarded to prevent loss or theft and describe how.

See §§ 34 & 32 of 45 CFR Parts 74 & 92, respectively.

14. Conflict of Interest – Grantees must establish P&Ps to prevent employees, consultants, members of governing bodies, and others involved in grant-supported activities from using their positions for purposes that are, or give the appearance of being, motivated by a desire for private financial gain for themselves or others, such as those with whom they have family, business, or other ties. The P&Ps must:

- Address the conditions under which outside activities, relationships, or financial interests are proper or improper;
- Provide for advance notification of outside activities, relationships, or financial interests to a responsible organizational official;
- Include a process for notification and review by the responsible official of potential or actual violations of the standards; and
- Specify the nature of penalties that may be imposed for violations.

See § 42 of 45 CFR Part 74 and pg. II-7 of the HHS Grants Policy Statement.

15. Drug Free Workplace – The P&Ps must include the following:

- The unlawful manufacture, distribution, dispensing, possession, or use of controlled substances is prohibited in the workplace;
- Employees must notify management, as a condition of employment, in writing within five calendar days, if they are convicted of violating a criminal drug statute;
- Appropriate personnel action must be taken, within 30 calendar days, against any employee convicted of violating a criminal drug statute up to and including termination, or require the employee to participate satisfactorily in a Federal, State, Local, or Law Enforcement approved drug abuse assistance or rehabilitation program; and

- Federal agencies must be notified in writing, within 10 calendar days, if any employee engaged in the performance of an award is convicted of violating a criminal drug statute.

See §§ 205 & 225 of 45 CFR Part 82, *Governmentwide Requirements for Drug-Free Workplace*.

16. Allowability of Costs – The P&Ps must address the allowability of costs as follows:

- To be allowable under a Federal award, costs must be reasonable, allocable, and adequately documented;
- A cost is reasonable if it does not exceed what a prudent person would incur under similar circumstances;
- A cost is allocable to a Federal award to the extent the goods or services benefited the program; and
- A cost is adequately documented if it is supported by accounting records and source documentation such as purchase orders, vouchers, invoices, payroll allocation reports, payroll summaries, timesheets, etc.

See §§ 21 and 20 of 45 CFR Parts 74 and 92, respectively, and Attachment B §§ C and A of OMB Circulars A-87 and A-122, respectively.

17. Program Income – The P&Ps must limit the use of program income relating to projects financed with Federal funds to one or more of the following:

- Furthering the eligible project or program objectives;
- Financing the non-Federal share of the project or program; or
- Deducting it from the total Federal share of project or program allowable costs.

See §§ 24 and 25 of 45 CFR Parts 74 and 92, respectively.