

## GRANTEE FINANCIAL MANAGEMENT REQUIREMENTS

Federal regulations (45 CFR Part 74 and 45 CFR Part 92) provide standards for financial management systems of grantee organizations. To determine whether grantees have financial management systems that conform to those standards, SAMHSA's Financial Advisory Services Officers (FASO) perform Financial Capability Reviews (FCR) of new or prospective grantees. Based on a recent report on an audit performed in accordance with OMB Circular A-133, or a combination of financial statements together with accounting and personnel policies & procedures (P&P), the FASO will make a determination of the organization's ability to adequately administer Federal awards. If needed, the FASO will request the grantee take necessary corrective action to conform with the financial management standards.

**Please note SAMHSA will generally not withhold an award pending completion of the FCR; however, if information for the FCR is not received as requested, or if significant financial or management system weaknesses exist, the organization will be classified as high risk until all the conditions have been satisfactorily resolved.**

High risk grantees' Payment Management System (PMS) accounts will be restricted. For grantees with restricted PMS accounts, written requests are required to be submitted to SAMHSA for approval before drawdowns can be made from PMS.

In preparation for the FCR, FASO will request grantee organizations submit either an audit report in accordance with OMB Circular A-133, or the combination of recent financial statements and P&Ps. If P&Ps are requested, grantees should ensure the following financial and management controls, as applicable, are incorporated **prior to submission**:

1. **Cash Management** – The P&Ps should require that drawdowns\* under U.S. Department of Health and Human Services (DHHS) 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.

For reference, see Section 22 of 45 Code of Federal Regulations (CFR) Part 74 or Section 21 of 45 CFR Part 92, *Uniform Administrative Requirements*.

\*Please note that USDHHS' Payment Management System permits grantees to drawdown funds in advance for expenditures to be made within the next 72 hours.

2. **Annual Audits** – The P&Ps should require:

- ✓ Audits be performed in accordance with the Circular 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 within the earlier of 30 days after receipt or nine months after the FY's end.

For reference, see Sections 200 and 320 of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

3. **Accounting System** – The P&Ps should include a description of the accounting system including:

- ✓ Its ability to differentiate revenue and expenditures by Federal program as well as other programs;
- ✓ Its chart of accounts
- ✓ Receipts; and
- ✓ Disbursements.

4. **Bank Statements** - The P&Ps should require bank statements be reconciled in a timely manner by someone not authorized to sign checks. Please note that timely should be defined (i.e. – within 14 days, etc.).

5. **Disbursements/Procurement** – The P&Ps should 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** – If applicable, the P&Ps should 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.

For reference and further details on matching or cost sharing, see Section 23 of 45 CFR Part 74, and Section 24 of 45 CFR Part 92. Also see Part I-24 of the *HHS Grants Policy Statement*, issued October 1, 2006.

7. **Consultants and Subcontracts** – If applicable, the P&Ps should:

- ✓ 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; and
- ✓ Describe the method for ensuring costs and fees are reasonable.

8. **Expenditure Analysis** – The P&Ps should 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.

9. **Indirect Costs** – If applicable, the P&Ps should describe:

- ✓ Any existing or planned indirect cost rates;
- ✓ The type of rate used as well as both the content of pooled expenses and the type of allocation base used; and
- ✓ If all costs are charged direct, the P&Ps should describe the method used to allocate costs to cost objectives.

10. **Credit Cards** - The P&Ps should:

- ✓ 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 should require:

- ✓ Salaries and wages charged to Federal awards be based on the actual time employees worked on the Federal awards and be supported by timesheets that separately report the total time worked on each project and leave; and
- ✓ Timesheets be certified as accurate by either the employee or a supervisor familiar with the employee's activities.

Salaries and wages charged to Federal awards cannot be based on budgets or estimates.

For reference, see Attachment B of Section 8.h & 8.m. of OMB Circulars A-87 and A-122, *Cost Principles*, respectively.

12. **Travel** - The P&Ps should:

- ✓ Require travel expenses be reasonable and necessary;
- ✓ Require all travel be pre-approved;
- ✓ Limit mileage, meals and incidentals, and lodging charged to Federal programs to the rates published in the Federal Travel Regulations;
- ✓ Limit airfare to coach and car rental to mid-sized; and
- ✓ Reimburse travel costs based on travel vouchers, expenditures reports or the like listing each cost individually along with original receipts.

13. **Property Control** – The P&Ps should 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 (every other year at a minimum);
- ✓ Property purchased with Government funds be tagged; and

- ✓ Property be safeguarded to prevent loss or theft.

14. **Conflict of Interest** – The P&Ps should:

- ✓ Prohibit both the appearance and existence of conflict of interest situations for employees, officials, and agents of the organization;
- ✓ Provide examples of conflict of interest situations; and
- ✓ Define the code of conduct for conflict of interest situations.

For reference and further details, see Section 42 of 45 CFR Part 74 and Part II-7 of the *HHS Grants Policy Statement*.

15. **Drug Free Workplace** – The P&Ps should 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.

For reference, see Sections 205 & 225 of 45 CFR Part 82, *Governmentwide Requirements for Drug-Free Workplace*.

16. **Allowability of Costs** – The P&Ps should 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 if the goods or services benefited the project.

- ✓ A cost is adequately documented if it is supported by accounting records and source documentation such as purchase orders, vouchers, invoices, etc.

For reference, see Attachment A Sections C and A of OMB Circulars A-87 and A-122, respectively.

17. **Program Income** - The P&Ps should 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; and/or
- ✓ Deducting it from the total Federal share of project or program allowable costs.

For reference and further details, see Section 24 of 45 CFR Part 74 or Section 25 of 45 CFR Part 92.