

FINANCIAL MANAGEMENT REQUIREMENTS

FOR AWARD RECIPIENTS

Purpose

HRSA's Division of Financial Integrity (DFI) uses the 18 management control areas, detailed below, to:

- Complete Financial Management Reviews (FMR) of grant recipients (recipients) that expend less than \$750,000 a year in federal awards and are exempt from federal audit requirements, and targeted recipients that may have single audits but were identified by HRSA as being at risk of having inadequate financial management systems or financial instability;
- Provide recipients with a guide to ensure their existing accounting and personnel policies and procedures (P&P) include the necessary controls that conform to the prescribed standards in 45 CFR 75;
- Ensure recipient compliance with single audit requirements and audit recommendations relating to inadequate P&P; and
- Ensure recipients that receive periodic monitoring or site visits have adequate P&Ps.

Background

DFI performs financial assessments of all recipients receiving awards. For those that do not have single audits, DFI relies on audited financial statements or IRS Form 990s to assess the recipients' financial strength. Risk is further mitigated for those recipients by reviewing their financial and personnel policies and procedures, in addition to audited financial statements or IRS Form 990s.

FMRs are performed to determine a recipient's capability for financial stewardship of federal funds and whether their existing policies and procedures need strengthening to ensure effective control and accountability of federal funds. Recipient responsibilities for financial management are outlined in 45 Code of Federal Regulations (CFR) §75.302.

The 18 management control areas listed within this document were developed using:

- 45 CFR 75 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards*;
- The HHS Grants Policy Statement; and
- The most common findings disclosed in single audit reports, HHS Office of Inspector General reports, site visit monitoring, and DFI grant reviews.

18 Management Control Areas

Recipients must ensure the following management controls are fully addressed in their P&Ps:

1. **Cash Management** – The recipients must maintain written P&Ps to minimize the time elapsing between the transfer of funds from the Payment Management System (PMS) and the disbursement of those funds by the recipient.¹ The written P&Ps must reference the process for drawdowns from PMS under HHS awards, and:
 - a. Be limited to the minimum amounts needed to cover allowable project costs;
 - b. Be timed in accordance with the actual immediate cash requirements of carrying out the approved project; and
 - c. Not be made to cover future expenditures.

See 45 CFR §75.302(b)(6) and §75.305, and HHS Grants Policy Statement, page I-37.

2. **Annual Audits** – The P&Ps must require:
 - a. The preparation of the Schedule of Expenditures of Federal Awards (SEFA) and subsequently determining if an audit is required to be performed in accordance with the Single Audit Act for fiscal years (FY) with expenditures under federal awards of \$750,000 or more;
 - b. Selecting and engaging an audit firm to conduct the annual audit; and
 - c. Reports on these audits be submitted to the Federal Audit Clearinghouse (FAC)² within the earlier of 30 days after receipt or nine months after the FY's end.

See 45 CFR §75.501.

3. **Accounting System** – The P&Ps must include a detailed description of the accounting system(s), including:
 - a. The ability to report revenue and expenditures separately by federal program;
 - b. Identification in its chart of accounts of all federal awards received and expended and under which federal program; and
 - c. The process of maintaining records pertaining to the source and application of receipts and disbursements, federal awards, authorizations, obligations, unobligated

¹ Federal funds advanced to the recipient should be fully disbursed (checks written, signed, and issued to the payees) by the close of business the next work day after receipt of the funds.

² Recipients must submit audit reports and appropriate forms to the FAC electronically at <https://harvester.census.gov/facides/account/login.aspx>

balances, assets, expenditures, and income and interest, which must be supported by source documentation.

See 45 CFR §75.302.

4. **Bank Statements** - The P&Ps must:

- a. Prohibit the individual reconciling the bank statements from opening them;
- b. Require bank statements be opened and reviewed by a recipient official that is not authorized to sign checks (i.e. – treasurer, president, etc.), but who is familiar with its financial activities;
- c. Require bank statements be reconciled in a timely manner by someone not authorized to sign checks;
- d. Require the reconciliation be approved by a recipient official outside the payment process but familiar with the financial activities; and
- e. Define timely (i.e. – within 14 days, etc.).

If adequate segregation of duties is not possible due to limited staffing, the recipient must document the key bank reconciliation controls that are in place and personnel responsible in the process.

See 45 CFR §75.303.

5. **Disbursements/Procurement** – The P&Ps must require:

- a. Documentation be maintained to support all disbursements and describe how;
- b. Disbursements be pre-approved and indicate by whom for both small and large dollar purchases;
- c. Expenditures be reasonable and explain how this should be accomplished (bids, quotes, etc.);
- d. Blank checks be safeguarded and define how;
- e. Segregation of duties over creation of vendor accounts/making payments via Electronic Fund Transfer methods and define how; and
- f. The dollar threshold for determining signatures on checks and designated organization officials authorized to sign checks.

See 45 CFR §75.327.

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:
 - a. Verifiable from the recipient's records;
 - b. Not included as contributions for any other federally-assisted project or program;
 - c. Necessary and reasonable for proper and efficient accomplishment of the project or program objectives;
 - d. Not paid by the federal government under another award (except where authorized by federal statute to be used for cost sharing or matching); and
 - e. Allowable and provided for in the approved budget.

See 45 CFR §75.306.

7. **Consultants and Contractors** – The P&Ps must:
 - a. Describe the nature and scope of services that may be outsourced;
 - b. Require in-house capabilities be evaluated before obtaining external assistance;
 - c. Describe the selection process;
 - d. Describe the method for ensuring all procurement transactions are conducted in a manner, which provides full and open competition to the maximum extent practical;
 - (1) 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, will be excluded from competing for such procurements.
 - e. Describe the method for ensuring costs and fees are reasonable; and
 - f. Require that, prior to selecting a new consultant or contractor, the Excluded Parties List System, within the System for Award Management (SAM) at <https://www.sam.gov/portal/public/SAM/>, be checked to ensure the individual or recipient is not prohibited from receiving federal funds.

See 45 CFR §75.327 and 45 CFR §75.335.

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

- a. The ability to compare expenditures with budget amounts for each award to ensure total costs do not exceed the amounts budgeted for the grant period; and
- b. The manner in which significant variances between actual and budgeted expenditures are resolved and documented.

See 45 CFR §75.302.

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

- a. 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;
- b. If all costs are direct, the method used to allocate costs benefiting multiple cost objectives to each cost objective;
- c. How and when the rate proposal is prepared, submitted and personnel responsible; and
- d. The approval process of indirect cost rate reimbursement, matching or cost sharing.

See 45 CFR §75.414.

10. Credit Cards – The P&Ps must:

- a. Describe how credit card use is controlled;
- b. List personnel and purchasing agents authorized to have and use credit cards;
- c. Require all expenditures be pre-approved;
- d. Limit individual amounts and types of expenditures that may be incurred;
- e. Prohibit personal expenditures; and
- f. Require receipt submission for review and comparison with credit card statements.

See 45 CFR §75.303.

11. Timekeeping – The P&Ps must:

- a. Describe timekeeping controls and plans to monitor compliance with federal statutes, regulations, and the terms and condition of the federal award;
- b. Describe 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

- c. State that Timesheets must be certified as accurate by either the employee or a supervisor familiar with the employee's activities.
- d. 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 45 CFR §75.430.

See 45 CFR §75.303 and §75.430.

12. Travel – The P&Ps must:

- a. Describe programmatic requirements for travel (i.e. budget for travel, restrictions for travel on specific programs);
- b. Require travel other than local mileage be pre-approved by a recipient approving official;
- c. Require all travel be reasonable and describe how this is determined;
- d. Limit mileage, meals and incidentals, and lodging charged to federal programs to the rates published in the Federal Travel Regulations, unless otherwise justified;
- e. Limit airfare to coach and car rental to mid-sized, unless otherwise justified; and
- f. Reimburse travel costs based on expenditures reports or the like listing each cost individually along with original receipts.

See 45 CFR §75.474.

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

- a. Property records be maintained that include a description, cost, purchase date, source of funding, location, and condition of each property item;
- b. Periodic physical inventories be taken and reconciled to the property records no less frequently than every other year;
- c. Property purchased with Government funds be tagged;
- d. Property be safeguarded to prevent loss or theft and describe how; and

- e. Disposition requirements for property obtained with federal funds.

See 45 CFR §75.320 and §75.439.

14. Conflict of Interest – Recipients 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:

- a. Address the conditions under which outside activities, relationships, or financial interests are proper or improper;
- b. Provide for advance notification of outside activities, relationships, or financial interests to a responsible organizational official;
- c. Include a process for notification and review by the responsible official of potential or actual violations of the standards;
- d. Specify the nature of penalties that may be imposed for violations;
- e. If a recipient conducts activities supported by grant funding through subrecipients (including subawards under 45 CFR §75.351), the recipient must take reasonable steps to ensure that these organizations or individuals also comply with this conflict of interest policy and notify the recipient receiving federal assistance directly from the awarding federal agency of any actual or perceived conflicts of interest; and
- f. Address disclosure in writing of any potential conflict of interest to the respective federal awarding agency or pass-through entity.

See 45 CFR §75.112 and 45 CFR §75.327(c)(1); HRSA Federal Financial Assistance Conflict of Interest Policy, November 16, 2017; and HHS Grants Policy Statement, page II-7.

15. Mandatory disclosures – The P&Ps must:

- a. Include a process to disclose, in a timely manner, in writing to HHS all violations of federal criminal law, involving fraud, bribery, and gratuity violations potentially affecting the award.
- b. If applicable, address all other standard terms in the NOA (i.e., Civil Rights Act of 1964 (Title VI), human trafficking, etc.).

See 45 CFR §75.113, 45 CFR §75.300, and HHS Grants Policy Statement, pages II-8 and II-23.

16. Limitation on Use of HRSA Funds – P&Ps must:

- a. Incorporate Legislative Mandates that limit the use of funds on HRSA grants and cooperative agreements. HRSA's Policy Bulletin provides the statutory provisions that must be incorporated. See Legislative Mandates section within HRSA's Manage Your Grant web page at <https://www.hrsa.gov/grants/manage/index.html>.
- b. Require an annual review of HRSA's Legislative Mandates to incorporate any updates to the P&Ps.

17. Allowability of Costs – The P&Ps must address the allowability of costs per the specific program or source such as the Funding Opportunity Announcement:

- a. To be allowable under a federal award, costs must be reasonable, allocable, and adequately documented;
- b. A cost is reasonable if it does not exceed what a prudent person would incur under similar circumstances;
- c. A cost is allocable to a federal award to the extent the goods or services benefited the program; and
- d. 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 45 CFR §75.403 – 75.405.

18. Program Income – The P&Ps must:

- a. Limit the use of program income relating to projects financed with federal funds to one or more of the following:
 - (1) Furthering the eligible project or program objectives;
 - (2) Financing the non-federal share of the project or program; or
 - (3) Deducting it from the total federal share of project or program allowable costs.
- b. Detail how the program income is calculated and under what conditions the program income is to be used.

See 45 CFR §75.307.