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FROM THE
NATIONAL
CRIMINAL
JUSTICE
ASSOCIATION



**SUMMARY OF PROCEEDINGS OF THE
U. S. DEPARTMENT OF JUSTICE
REGIONAL FINANCIAL MANAGEMENT
SEMINARS**

June 19-20, 1995, Austin, Texas
July 6-7, 1995, Mobile, Alabama
July 24-25, 1995, Minneapolis, Minnesota
August 8-9, 1995, Portland, Oregon
August 24-25, 1995, Portland, Maine
September 14-15, 1995, Washington, DC
October, 12-13, 1995, Washington, DC

Sponsored by the
Office of the Comptroller,
Office of Justice Programs,
U. S. Department of Justice

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PREFACE

The National Criminal Justice Association (NCJA) is pleased to provide this report, titled "Summary of Proceedings of the U. S. Department of Justice Regional Financial Management Seminars."

Sponsored by the U. S. Department of Justice, Office of Justice Programs' Office of the Comptroller (OC), in cooperation with the NCJA, the seminar series was undertaken to provide instruction in financial management of federal grant-in-aid programs and projects.

Overall, some 373 state and local officials and local recipients of grants and cooperative agreements participated in the seminar series, which consisted of seven regional sessions, each one and one-half-day in length, held in June through October 1995: June 19-20 in Austin, Texas; July 6-7 in Mobile, Ala.; July 24-25 in Minneapolis, Minn.; Aug. 8-9 in Portland, Ore.; Aug. 24-25 in Portland, Maine; Sept. 14-15 in Washington, D.C., and Oct. 12-13 in Washington, D.C.

The NCJA would like to thank Michael C. Lynch, OJP comptroller and Cynthia J. Schwimer, director of the OC Financial Management Division for their support of the project; and Maureen Smythe, OC administrative officer and Stacy C. Worthington, OC management analyst who assisted in the presentation of the seminars. Thanks also is due to Michael Scott, assistant chief of Criminal Law Enforcement, Texas Department of Safety; G. Douglas Miller, chief of the Law Enforcement Planning Section, Alabama Department of Economic and Community Affairs; Ann Jaede, program director in the Office of Strategic and Long Range Planning, Minnesota State Planning Agency; LeRon Howland, superintendent of the Oregon State Police; Alfred Skolfield Jr., commissioner of the Maine Department of Public Safety; and Robert L. Lester, director of the Washington, D. C., Office of Grants Management and Development, for their help with seminar series site selection and logistics.

The work of NCJA Director of Administration Paul E. Lawrence in overseeing the seminar series project also is much appreciated.

Gwen A. Holden
Executive Vice President

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INTRODUCTION

"Summary of Proceedings of the U. S. Department of Justice Regional Financial Management Seminars" summarizes and synthesizes presentations and discussions from seven regional financial management seminars held throughout the United States from June through October 1995.

The seminar series was conducted by the Office of the Comptroller (OC) of the U. S. Department of Justice, Office of Justice Programs (OJP) with the National Criminal Justice Association's (NCJA) assistance. The series was intended to benefit persons responsible for the financial management of formula and/or discretionary grants awarded from federal grant-in-aid programs administered by the OJP's Bureau of Justice Assistance (BJA), Bureau of Justice Statistics (BJS), Office of Juvenile Justice and Delinquency Prevention (OJJDP), Office for Victims of Crime (OVC), National Institute of Justice (NIJ), and the Drug Courts Program office, the Executive Office of Weed and Seed (EOW&S), the Violence Against Women Grants Office (VAWGO), and the Corrections Program Office.

Financial transactions by agencies and organizations administering federally funded programs and projects are subject to numerous federal laws and regulations that are designed to help the federal administering agency track obligations and expenditures of federal dollars and ensure overall program and financial accountability. The OC and the NCJA undertook the regional financial seminar series to provide OJP grant administrators with complete and current instruction in federal funds financial management.

The seminars focused on federal administrative policies, procedures, and processes affecting grants management and funds disbursement and expenditure.

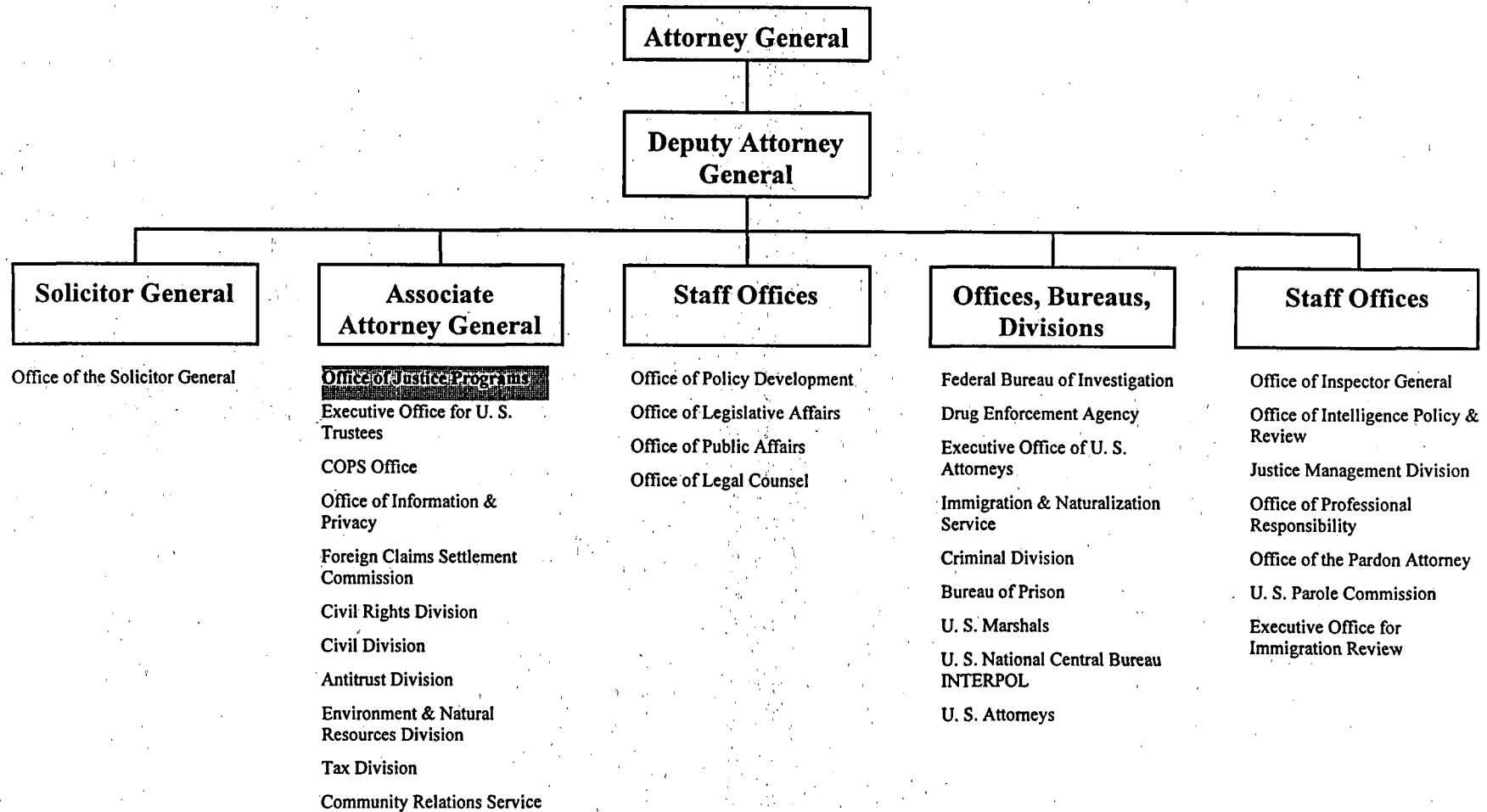
Topics covered included federal requirements and regulations governing the recording and expenditure of project income and forfeited assets, procurement, lobbying, compliance with drug-free workplace provisions, and audits. The OJP financial guide and new federal letter of credit and financial reporting procedures also were addressed.

This *Summary* is an outline of the subjects covered during the seminar series and is prepared in an effort to present as complete an overview as possible of the information provided by OC presenters on the broad range of topics covered during the seminars.

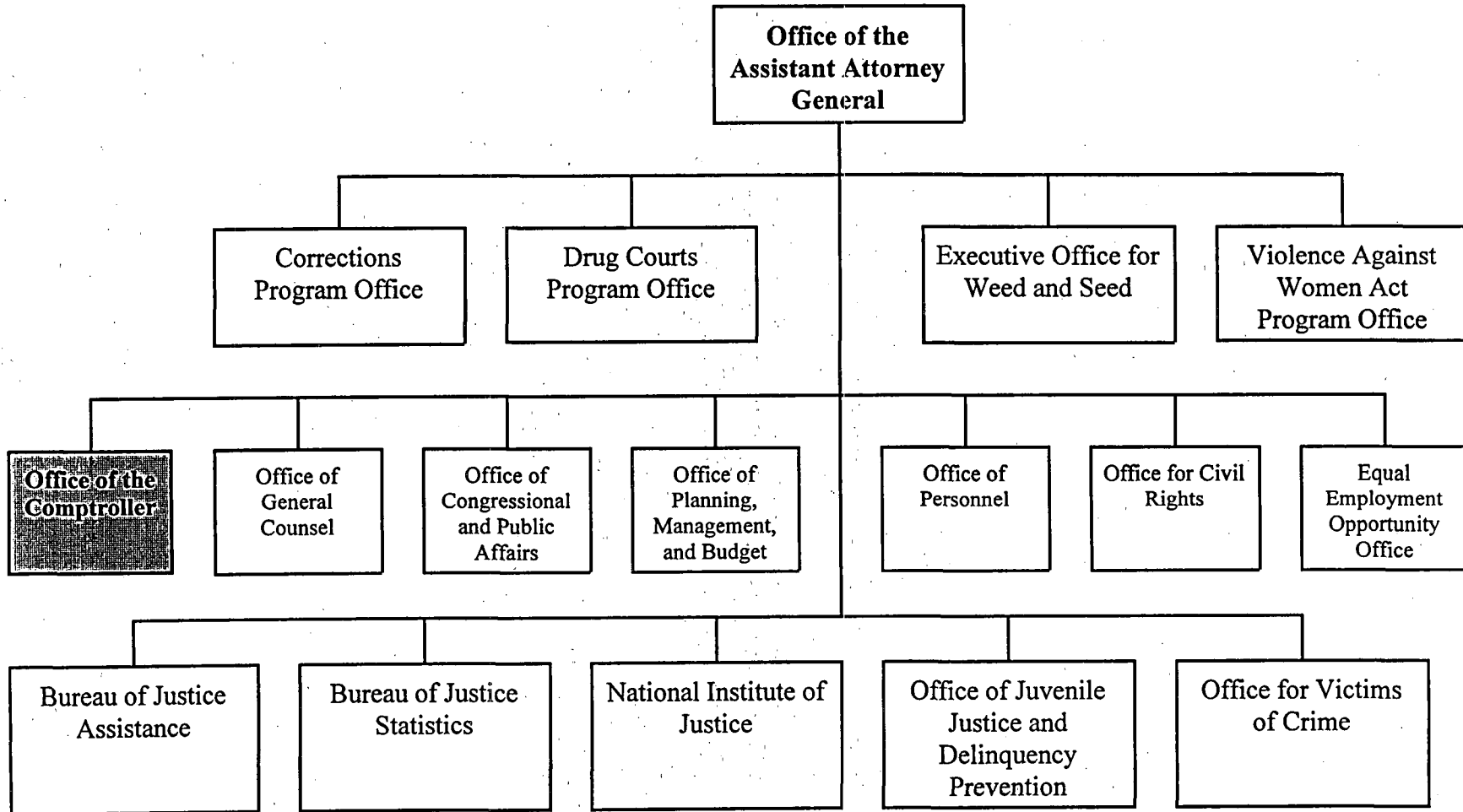
Seminar presentations and discussions have been summarized by general topic and do not appear necessarily in the order in which they were addressed during the seminars.

ORGANIZATION CHARTS

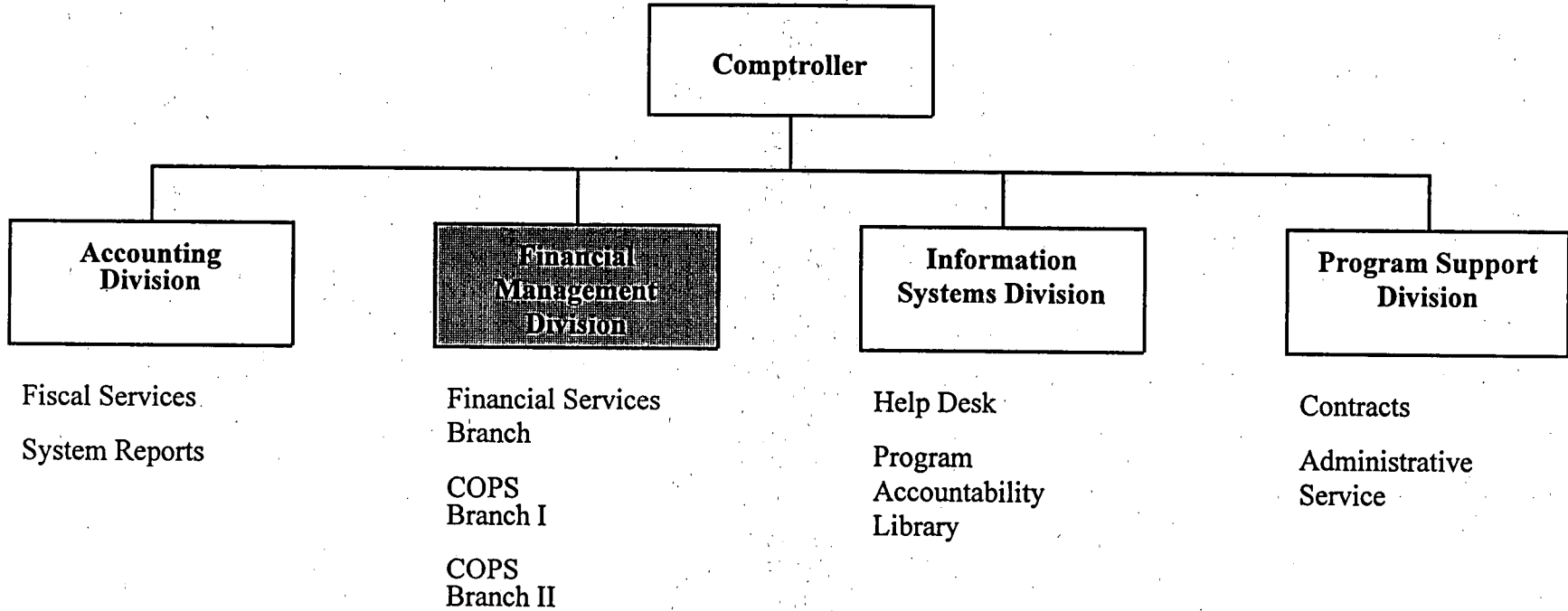
U. S. Department of Justice



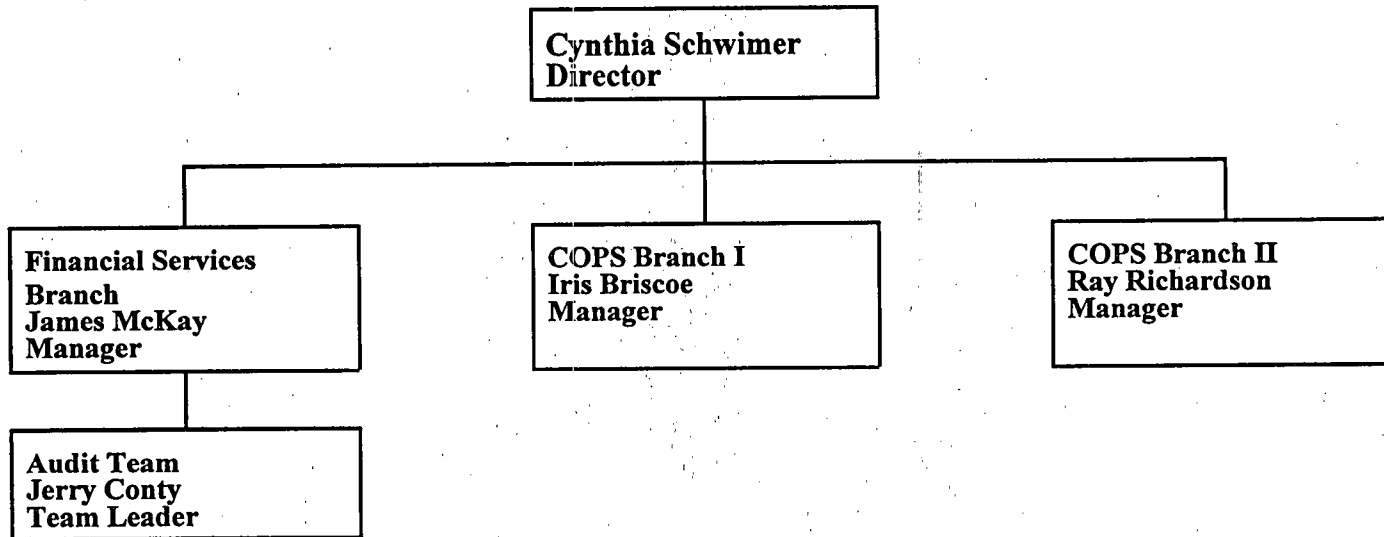
Office of Justice Programs



Office of the Comptroller



Financial Management Division



FUNDING PROCESS

Action	Organization	Explanation
Authorization	Congress	The Congress authorizes a program by passing legislation. The authorization sets the maximum amount a program can receive as well as other criteria for the program, but does not provide funding for the program. For example the "Crime Bill" when passed in 1994 authorized several programs but most of the programs did not receive funding until 1995.
Appropriation	Congress	The Congress, in its budget process, appropriates funds to various programs. The funds appropriated may not necessarily be as high as the amount authorized in the authorizing legislation. Also, it is possible that the Congress may not appropriate any funds to an authorized program. In the appropriation process, the Congress may "earmark" certain funds to designated projects.
Apportionment	Office of Management and Budget	The Office of Management and Budget (OMB) apportions the funds that have been appropriated by the Congress to the various federal agencies.
Allotment	Agency Heads	The agency head allots the funds to the programs that fall under its authority.
Obligation	Delegated Agency Program Officials	The delegated program officials award (obligate) the funds to the various recipients. Block and formula funds are awarded to the states upon submission and approval of a program plan. Discretionary funds are awarded upon approval of submitted grant applications.
Expenditure	Grantee	The grantee expends the funds for the program purposes requesting funds drawn in advance or on an reimbursement basis.
Disbursement	U. S. Treasury	The U. S. Treasury disburses funds upon approval of submitted request for funds.

BUDGET REVIEW CHECKLIST

The following is a budget checklist, which is helpful when preparing budgets for grant applications. The list is broken down by major categories and indicates the areas the budget reviewer will be examining.

I. Personnel

- A. Is the basis for determining each employee's compensation described?
- B. Is each position identified by title?
- C. Are time commitments stated?
- D. Are time commitments reasonable?
- E. Is the amount of each employee's compensation stated?
- F. Is the compensation reasonable?
- G. Are salary increases contemplated during the grant period?
 - 1. Increase over previous grant?
 - 2. COLA?
- H. Are salary increases justified?
- I. Are any personnel costs unallowable?
 - 1. Dual compensation?
 - 2. Legislative/Gubernatorial?
 - 3. Federal Employee?
 - 4. Other?

Comments: The keeping of time and attendance (T&A) records for each employee assigned to the project is critical. T&A should be based on actual time spent on the project or on a time study. A time study should be conducted over one or two time periods to arrive at the average time that an individual is spending on a project. That average time can then be used for charging to the project until another time study is conducted. Time studies should be conducted every three or four months. The T&A report should be signed by the employee and the project director.

II. Fringe Benefits

- A. Is the amount specified as a separate item?
- B. Is each type of benefit indicated separately?
- C. Is the authority for the percentage provided?
- D. Is the percentage reasonable?
- E. Are fringe increases contemplated during the grant period?
 - 1. Increase over previous grant?
 - 2. Built-in COLA?

Comments: Typical fringe benefits include health insurance, life insurance, pension, social security and medicare match, workers' compensation, vacation and sick leave. Fringe benefits can be charged to a project by individual employee based upon actual costs prorated using the percentage of time the employee spends on the project, or based upon an approved fringe benefit rate. Typical fringe benefit rates run from 25 to 35 percent. An approved fringe benefit rate is obtained by submitting a fringe benefit plan to your cognizant agency for its approval, similar to

submitting an indirect cost/benefit plan. Some programs may restrict what may be included in the fringe benefits. For example, certain COPS' programs do not permit uniform allowances to be included in the fringe benefit rate. Additionally, the fringe benefits charge to the project must be related directly to the project. It is not permissible to charge a higher fringe benefit rate to make up for under funding an organization's pension plan in the past.

III. Travel

- A. Is a basis for computation provided (e.g. 5 trips from _____ to _____ at \$120 average costs – \$50 for transportation and with 2 days of per diem @ \$35 each day)?
- B. Is the purpose of requested travel project-related?
- C. Are per diem and transportation costs separately identifiable?
- D. Are per diem and mileage rates allowable?
- E. Are public transportation charges reasonable?
- F. Are rentals, maintenance, or consultant line items included within the category?
- G. Are trainee travel expenses listed separately (indicate number of trainees and unit costs involved)?

Comments: Budgeted travel should be tied to the program narrative. An organization may use its own travel policies if these policies are in writing and are reasonable. Organizations that do not have a written travel policy must follow the federal guidelines. Subgrantees receiving funding through a state agency may be required by that state agency to follow the state's travel policies if those policies are more restrictive than the federal guidelines.

IV. Equipment

- A. Are equipment items specified by units and cost?
- B. Is the requested equipment project-related?
- C. Is the request reasonable?
- D. Are purchases distinguishable from rentals?
- E. Are brand names specified?
- F. Will acceptable procurement procedures be followed?
- G. Is a lease-purchase study appropriate?

Comments: Equipment included in the budget should not be designated by brand name. This would indicate that a decision has been made on the purchase of equipment without going through proper procurement procedures. If an organization does not have written procurement procedures they should follow the federal procurement procedures discussed later. Leasing should be considered if the equipment is only required for this particular project and would have no further use after the project has ended. Equipment purchased under a grant or co-operative agreement may be kept by an organization after the grant or co-operative agreement ends as long as the equipment continues to be used for overall criminal justice purposes. If at time of disposal, the equipment is less than \$5,000 fair market value, the organization may dispose of it as it sees fit. If the fair market value is more than \$5,000, the organization must contact the funding agency for direction on disposition. OMB Circular A-87, *Cost Principles for State and Local Units of Government* has been revised raising the equipment capitalization threshold from \$500 to \$5,000. An OMB directive also has been issued to agency heads permitting the equipment capitalization threshold to be raised from \$500 to \$5,000 for universities and other non-profit organizations that

fall under Circulars A-21, *Cost Principles for Educational Institutions*, and A-122, *Cost Principles for Non-Profit Organizations* until these circulars are revised. However, an organization may be required to follow its own guidelines for capitalization if more restrictive than the federal guidelines.

V. Supplies

- A. Are supplies listed by major types: Office, Training, Research, Postage?
- B. Are unit costs of monthly estimates provided?
- C. Are amounts reasonable?

VI. Contractual

- A. Is the type of each service to be rendered described?
- B. For individuals:
 - 1. Is an hourly, daily or weekly base rate given?
 - 2. Are base rates:
 - a. allowable?
 - b. justified?
 - c. reasonable?
- C. Are fee/profit estimates:
 - 1. justified?
 - 2. reasonable?
- D. Is the total amount for any contract in excess of \$100,000?
- E. If so, has the applicant indicated that services have been or will be obtained by acceptable procurement procedures?
- F. Is sole source an issue?
- G. Is sole source justification included?

Comments: Federal guidelines have raised the sole source threshold from \$25,000 to \$100,000. Any contract for more than \$100,000 and sole sourced, requires prior approval from the Office of the Comptroller and should follow federal procurement guidelines or the organization's procurement guidelines if more restrictive. Sole source justification can be included in the grant application. If the grant application is approved without any special conditions relating to the sole source, then the sole source is considered approved. See the section on Procurement for further discussion of sole source and prior approval requirements. The threshold for the daily rate for an individual has been raised from \$150 a day to \$250 a day. Any daily rate over \$250 a day requires prior approval of the awarding office.

VII. Other

- A. Are items listed by major type – space rental, printing, duplicating, phone, maintenance, security, etc.?
- B. Are dollar bases given for all line item amounts?
 - 1. Are space rental square footage and cost per square foot given?
 - 2. Are local and long distance phone cost estimates shown separately?
- C. Does space rental involve a rental-purchase or a lease with option to buy?

- D. Are all requested costs:
1. justified?
 2. reasonable?
 3. allowable?

Comments: If an organization owns the building housing the project, rent cannot be charged to the project. However, the cost of ownership such as maintenance, depreciation, insurance, and property taxes may be charge to the project. Meeting room costs may be included under "other." It is not permitted to direct charge coffee and donuts to a grant. An exception to this restriction may occur when there is a specific purposed identified in the grant for providing refreshments to a particular group as might be under some juvenile justice activities. Costs for working breakfasts are not permitted. Costs for working luncheons can be included if justification can be provided, such as lack of adequate facilities to handle the group and a proven need to keep the group intact during lunch.

VIII. Indirect Costs

- A. Is the basis for the request a current rate approved by a federal agency?
1. If so,
 - a. Is a copy of the approved rate agreement enclosed?
 - b. Is the approving agency and the date of approval indicated?
 2. If not,
 - a. Is the rate consistent with requirements?
 - b. Is the requested amount justified by the applicant?
- B. Does the request for indirect costs duplicate direct costs?

Comments: An organization should have an approved indirect cost rate from its cognizant federal agency to receive indirect costs. States may have an approved "state-wide cost allocation plan" (SWCAP) that allocates all central services costs to each agency in the state. SWCAPs are approved by the U. S. Department of Health and Human Services. Costs included as indirect costs must be of benefit to the project. See further discussion on indirect costs in the next section.

ESTABLISHING AN INDIRECT COST RATE

It is better for a grantee to charge as many costs as possible directly to the project. However, there may be costs that cannot easily be allocated directly to a project requiring the establishment of an indirect cost rate.

Indirect cost rates are obtained by submitting an indirect cost plan to the cognizant federal agency. The indirect cost plan should include individual items and their costs to be included in the indirect costs and the basis on which the indirect costs are to be applied.

Items included in the indirect cost plan must be of benefit to the project. Typical items that might be included in the indirect costs plan are:

1. Salaries or partial salaries of the organization's executive director and other administrative support personnel
2. Fringe benefits applicable to the above salaries
3. Travel
4. Equipment depreciation
5. Rental expense
6. Audit
7. Telephone
8. Maintenance

The basis for the calculation of the indirect cost rate normally is total salaries and fringes or total direct costs of an organization. The rate is determined by dividing the total of the indirect costs by the total salary and fringes (other than those included in the indirect costs) of the organization, or by the total direct costs of all activities of the organization. There is no such thing as a high or low indirect cost rate. Rates may range from 20 to 80 percent, or higher, depending on the basis for calculating the indirect cost rate, the sophistication of the organization's accounting system in allocating costs directly to projects, and the items included in the indirect costs plan.

A grantee should be aware of the pitfalls of using an indirect cost rate. Typically, upon approval of the submitted indirect cost plan, an organization is assigned a provisional indirect cost rate. At the end of the organization's accounting period, an audit is performed and the actual indirect cost rate determined. If the actual indirect cost rate for the period is higher than the provisional rate, the organization has failed to collect enough funds from the grants to cover the indirect costs. If a grant is still active, it is very unlikely that the awarding agency will award additional funds to cover the higher indirect cost rate. However, if there is enough flexibility in the budget for the grant, the grantee may be able to reallocate its budget to cover the short fall. If a grant has ended during the period and all funds were expended, it is again unlikely that the funding agency will award additional funds. If a grant has ended and there was remaining funds that were deobligated, the funding agency might consider reobligating funds to cover the higher indirect costs.

Conversely, if the actual indirect cost rate for the period was less than the provisional indirect cost rate, the grantee has collected too much money under the grants for indirect costs. For active grants, it may be possible to reallocate the budget to use those funds for other project activities. If the grants have ended, the excess funds collected for indirect costs must be returned to the Office of the Comptroller.

The actual rate for the period determined by the audit typically becomes the basis for the provisional rate for the following period.

In either of the above cases, an organization must have an outside source of funding to cover funds that may have to be returned. Therefore, if an organization is 100 percent dependent on federal grant funding, it should allocate all expenses directly to the grants and not use an indirect cost rate.

Other types of indirect cost rates that may be approved are a fixed rate or a fixed rate with a carry-forward provision. If an organization has no fluctuation in its indirect cost rate, it may be awarded a fixed indirect cost rate. A fixed rate is not subject to audit or adjustment at the end of the period. If an organization has an ongoing relationship with the federal funding agency, it might be awarded a fixed rate with carry-forward provision, where the over or under amount determined at the end of the period is carried forward and used to adjust the indirect cost rate for the next period.

PAYMENT OF GRANT FUNDS

Grantees should draw down funds on a regular basis to meet their immediate needs to avoid having excess cash on hand. Grantees should consider the length of time it takes to receive funds via the different methods available for drawdowns. There are three methods by which a grantee may request and receive funds for grants it has been awarded.

1. LOCES
2. Vendor Express
3. Treasury Check

LOCES

LOCES is an automated system that permits the grantee to dial up the OJP directly via modem and request funds for a drawdown. Funds are transferred electronically to the grantee's bank by the U. S. Treasury within one to two workdays. Software to access LOCES can be obtained from the OJP. Call (202) 307-6232, the LOCES help line for additional information. This is the preferred method of payment by OJP and grantees.

Vendor Express

Grantees can request drawdowns by submitting the H-3 form, Request for Advance or Reimbursement, to OJP. The request is mailed to the OJP, the OJP reviews and approves the request forwards the approval to the Treasury, and the Treasury electronically transfers the funds electronically to the grantee's bank. The length of time from mailing the request to receiving the funds in the bank account is about five workdays.

Treasury Check

This process is similar to Vendor Express, except rather than transferring the funds electronically to the grantee's bank, the Treasury issues a check. This process, considering the length of time to mail the H-3 request and the length of time to mail the treasury check, could be longer than two weeks.

Interest Earned on Federal Funds

Grantees are required to draw down funds for their immediate needs and should never have a large amount of federal funds on hand. Interest earned on federal funds up to a maximum of \$250 for a calendar year can be kept by the grantee. Interest earned in excess of \$250 for a calendar year must be returned to the U. S. Department of Health and Human Services. Interest income is not considered program income.

Cash Management Improvement Act

The Cash Management Improvement Act (CMIA) of 1990 requires states to return interest earned on federal funds to the federal government. To fall under the CMIA, a state must enter into an agreement with the Treasury. The CMIA is implemented at the overall state level, not at each agency level. Under CMIA, a state that spends its own funds without drawing down federal funds cannot earn interest on

federal funds due. Because federal funds are available for drawing down, the state cannot delay its request for a drawdown with the expectation of earning interest.

QUARTERLY FINANCIAL REPORTING, SF-269

At the end of each calendar quarter – March, June, September, and December – the OJP sends partially completed SF-269 turnaround documents to grantees for each active grant. Until recently, these were mailed to each grantee but are now being sent by mail and fax. The forms indicate the grant and the reporting periods and show what has been reported previously.

Due Date

Financial reports are due 45 days after the end of the calendar quarter and must be submitted for each quarter the grant is active. Final financial reports are due 90 days after the end of the grant. Reports are due for all active grants whether the grantee received a turnaround document from the OJP or not.

Completing the Form

The grantee completes the current information and totals the lines on the document according to the instructions provided. The SF-269 is a cumulative report. If there were errors on previously submitted reports, the previous reports should not be corrected. The grantee should include the corrections from previous reports in the current reporting period.

The report is a list of expenditures at the implementing level. Awards to subgrantees or advances to subgrantees are not considered expenditures. Subgrantees should report back to the granting agency their expenditure amounts, which are then included in the financial report. For formula and block funds, states should report the amount of pass-through in block 12A and the amount subgranted in block 12B. Below is a general description of what should be entered in each block on the SF-269.

Block 6 - Final Report	Check "Yes" if the final report for the grant.
Block 7 - Basis	Check "Cash" or "Accrual" method of accounting.
Line 10a.- Total Outlays	Enter the total expenditures for the period, as well as federal and matching funds.
Line 10b - Recipient share of outlays	Enter the total recipient share of expenditures (match).
Line 10c - Federal share of outlays	Subtract line 10b from line 10a to arrive at the federal share of total expenditures.
Line 10d - Total unliquidated obligations	Enter the total of unpaid obligations. If reporting on a cash basis, this should be zero.
Line 10e - Recipient share of unliquidated obligations	Enter the matching share of the unpaid obligations reported on line 10d.
Line 10f - Federal share of unliquidated obligations	Subtract line 10e from line 10d.

Line 10g - Total Federal share (sum of lines c and f)	Add line 10c and line 10f. (This amount cannot exceed the total authorized funds shown on line 10h.)
Line 10h - Total Federal funds authorized for this funding period	This line will already be completed on the turnaround document and indicates the amount of the federal award.
Line 10i - Unobligated balance of Federal funds (Line h minus line g)	Subtract line 10g from line 10h.
Block 11a - Indirect Expense, Type of Rate	Enter an "X" in the appropriate type of indirect cost rate, if indirect expenses are applicable to this grant.
Block 11b - Rate	Enter the indirect rate percentage.
Block 11c - Base	Enter the base amount that the indirect expenses is based on for the reporting period (i.e., enter the total of salary and fringes for the reporting period if that is the basis for the indirect expenses).
Block 11d - Total Amount	Enter the total amount of indirect expenses for the reporting period (should be block 10b times block 10c).
Block 11e - Federal Share	Enter the federal share of the indirect expenses.
Block 12a - Block/Formula pass through	For block and formula grants, enter the amount passed-through to locals.
Block 12b - Federal Funds Subgranted	Enter the amount of federal funds that have been subgranted.
Block 12c - Program Income: Forfeit	Enter the cumulative federal share of program income due to forfeited assets.
Block 12d - Program Income: Other	Enter the cumulative federal share of program income from sources other than forfeited assets.
Block 12e - Program Income: Expended	Enter the cumulative amount of all program income expended under this grant.
Block 12f - Program Income: Unexpended	Enter the balance of program income (block 12c plus block 12d minus block 12e).

Electronic Filing of the SF-269

Those grantees on the LOCES system for drawdowns also can file their quarterly SF-269s electronically. The grantee needs to obtain a separate password for the SF-269 electronic filing from the OJP. Contact the OJP help desk at (202) 307-6232 for more information.

After completing the information on the screen for the SF-269 report, the grantee must submit the report to OJP by printing the report using the OJP printer option. If you do not "print" the report with this option, it has not been submitted to the OJP even though you have completed all of the information on the screen.

Common Errors on Completing the SF-269

1. Not reporting actual expenditures but disbursements from the federal funding source. The report should reflect the actual funds that have been expended at the implementing level. This has no relationship to the amount of federal funds that the grantee has drawn down.
2. Not reporting cumulative program income. All entries made for program income in block 12C through 12F of the SF-269 should be cumulative for the grant, not just for the current period.
3. Check "cash" and report "obligations." If you have checked "cash" as the basis for your reporting, then you should not be reporting obligations. Under a cash accounting system, obligations are not recorded.
4. Program Income Unexpended. Program income unexpended in block 12F should be calculated as follows: block 12C plus block 12D minus block 12E equals block 12F.
5. Incorrect math. Be sure to check you math thoroughly. If you file the SF-269 electronically, the math will be performed for you automatically, eliminating any mathematical errors.
6. Reporting pass-through in total outlays. Total outlays should reflect total expenditures at the implementing level, not the amount passed-through or awarded to the subgrantees.

FINANCIAL STATUS REPORT

(Short Form)

(Follow instructions on the back)

1. Federal Agency and Organizational Element to which Report is Submitted U.S. Dept. of Justice Office of Justice Programs		2. Federal Grant or Other Identifying Number Assigned By Federal Agency		OMB Approval No. 0348-0039	Page of of pages
3. Recipient Organization (Name and complete address, including ZIP code)					
4. Employer Identification Number		5. Recipient Account Number or Identifying Number		6. Final Report <input type="checkbox"/> Yes <input type="checkbox"/> No	
7. Basis <input type="checkbox"/> Cash <input type="checkbox"/> Accrual					
8. Funding/Grant Period(See Instructions) From: (Month, Day, Year)		To: (Month, Day, Year)		9. Period Covered by this Report From: (Month, Day, Year)	
To: (Month, Day, Year)		To: (Month, Day, Year)			
10. Transactions:		I Previously Reported	II This Period	III Cumulative	
a. Total outlays					
b. Recipient share of outlays					
c. Federal share of outlays					
d. Total unliquidated obligations					
e. Recipient share of unliquidated obligations					
f. Federal share of unliquidated obligations					
g. Total Federal share (Sum of lines c and f)					
h. Total Federal funds authorized for this funding period					
i. Unobligated balance of Federal funds (Line h minus line g)					
11. Indirect Expense	a. Type of Rate(Place "X" in appropriate box)				
	<input type="checkbox"/> Provisional <input type="checkbox"/> Predetermined <input type="checkbox"/> Final <input type="checkbox"/> Fixed				
b. Rate	c. Base	d. Total Amount		e. Federal Share	
12. Remarks: attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation.					
A. Block/Formula passthrough \$ B. Federal Funds Subgranted \$		PROGRAM INCOME: C. Forfeit \$ D. Other \$		E. Expended \$ F. Unexpended \$	
13. Certification: I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents.					
Typed or Printed Name and Title			Telephone (Area code, number and extension) () -		
Signature of Authorized Certifying Official			Date Report Submitted		

Previous Editions not Usable

Standard Form 269A (REV 4-88)
 Prescribed by OMB Circulars A-102 and A-110

POST AWARD REQUIREMENTS

Commingling of Funds

Grantees are not required to physically separate funds received from various sources of the federal government. However, the grantee's accounting system must be able to account for the receipt and expenditure of funds for each award separately.

States may not commingle funds from different block and formula awards into one award to a subgrantee.

Match

The type of match required by a block or formula program is stipulated in the legislation authorizing the program. Discretionary or categorical grants generally do not require match except for COPS' grants where the match requirement generally is 75/25.. There are basically two types of match.

- Cash match, also referred to as hard match, is cash spent for project related costs. Cash match is subject to the same guidelines as federal funds for allowability.
- In-kind match, also referred to as soft match, is the value of services or goods donated to the project and is subject to the same guidelines as federal funds for allowability.

Matching must be provided on a project-by-project basis. Any deviation from this must be approved by the awarding agency.

Using Federal Funds for Match

Using federal funds for match is permitted only if the authorizing legislation for the federal funds permits it. Examples of federal funds that can be used for match are funds from the Housing and Community Development Act of 1974, the Appalachian Regional Development Act, and the Equitable Sharing Program.

Using Program Income for Match

Program income derived from seized assets and forfeitures may be used as match. Program income from other sources also can be used for match but grantees should be aware of the problems that may occur in doing so. For example, if a grantee puts on a training program as part of the project, charges a registration fee for the training, and uses the projected income from that registration fee for match, the grantee is responsible for providing that amount of match. If the grantee fails to collect the projected amount from the registration fee, the grantee still is held responsible for the amount of match stipulated in the grant and must come up with the shortfall from other sources.

Timing of Matching Contributions

Matching funds do not have to be expended in proportion to federal funds as the project progresses. However, the full matching amount must be obligated and expended by the end of the project expenditure period.

Matching Requirements

BJA Formula Grants	Seventy-five percent federal funds, 25 percent cash match
Crime Act Grants	The programs authorized by the 1994 Crime Act – violence against women, drug courts, corrections (boot camps), etc. – require a 75 percent federal funds, 25 percent cash match.
JJ Formula Grants	Juvenile justice action grants do not require match. Administrative money requires 50/50 cash match. Construction grants require 50/50 cash match.
JJ Title V Grants	Of the total, 66 $\frac{2}{3}$ percent federal funds, 33 $\frac{1}{3}$ cash or in-kind match
Police Hiring Supplement (PHS)	Must be cash match
Office for Victims of Crime	Assistance grants – 80 percent federal, 20 percent cash or in-kind match; compensation grants – no match required. However, the amount of federal funds that a state receives for compensation is dependent upon the expenditure of state funds for compensation two fiscal years prior to the award.

Administrative Funds

Administrative funds for administering a program are provided by the legislation authorizing the program. All programs do not have administrative funds provided.

BJA Formula Funds	Up to 10 percent of the total block grant to a state can be used by the state for administering the Edward R. Byrne Memorial State and Local Law Enforcement Assistance program. The administrative funds must be matched in accordance with the matching requirements for the formula funds.
JJ Formula Funds	Up to 10 percent of the total block funds provided to a grant under the Juvenile Justice and Delinquency Prevention Act can be used for administrative purposes. Unlike the JJ formula funds, which require no match, the administrative funds must be matched on a 50/50 basis.

Victim Assistance Grants Victim Compensation Grants	Five percent of the funds provided to a state for the victims assistance program under the Victims of Crime Act (VOCA) can be used to administer that program.
Violence Against Women	Five percent of the funds can be used for administrative purposes. Each state received \$426,000 under the violence against women program of which it can use \$25,000 off the top to comply with the program, and \$22,000 for administrative purposes. The \$25,000 and the \$22,000 are not subject to match. Any monies not utilized to comply with the program or for administrative purposes must go back into the program.

Pass-Through

The Byrne Memorial and the Juvenile Justice formula grant programs require that a certain percentage of the funding be passed through to local jurisdictions. The Victims of Crime Act does not require a pass-through.

Byrne Memorial Formula Program

- Variable pass-throughs to local units of government are required based on the amount of expenditures for law enforcement at the local level versus the amount of expenditures for law enforcement at the state level. The calculation is based upon data collected by the U. S. Department of Commerce's Bureau of the Census.
- Grants to non-profits can be made out of the state's share.

Juvenile Justice Formula Program

- Of the formula grant, 66 $\frac{2}{3}$ percent must be passed-through to local units of government
- If a local unit of government doesn't apply for funding, grants can be made to nonprofits and count toward the pass-through requirement.

Pass-Through Waivers

Generally, the pass-through requirement cannot be waived. However, the administrator of the OJJDP has the authority to waive the pass-through requirement for juvenile justice funds. Such waivers are rare.

If the state runs a project that benefits the locals, and the locals waive their rights to the funding, the funding for that project can be considered pass-through. For example, if the state runs a project that provides training to individuals from local units of government, the state can have the attendees sign a waiver indicating that the cost of the training can be used toward meeting the pass-through requirement.

Supplanting

Supplanting is the deliberate reduction of state or local expenditure because of the existence of a federal grant and is not permitted. A general reduction of funding may not necessarily indicate a supplanting issue. The overall reason for the reductions in funding must be examined.

Obligation/Expenditure Periods

Funds authorized under the Byrne Memorial program and the Juvenile Justice and Delinquency Prevention Act are designated as "no-year money." That is, there is no time limit on the expenditure of the funds. However, the (OJP) sets three-year time limits on the expenditure of block and formula funds under these acts. Any unexpended funds at the end of the three years are deobligated. Under the Victims of Crime Act, grant funds have a life of two years. At the end of two years, any unexpended funds are deobligated and revert back to the U. S. Treasury.

Block and Formula Grant Obligation Period

Block and formula grants awarded to a state have a three year obligation period. For example, grants awarded Oct. 1, 1994 would have an obligation period of Oct. 1, 1994, through Sept. 30, 1997. Any funds not properly obligated at the implementing level by the end date of the project must be returned to the granting agency. An award of funds to a subgrantee is not considered an obligation for this purpose.

Expenditure Period

Grantees have 90 days after the end of the obligation period to expend funds that have been properly obligated. For example, the end of the expenditure period for a grant with an obligation period ending Sept. 30, 1997, would be Dec. 31, 1997. Any funds not expended by the end of the expenditure period must be returned to the granting agency.

Extensions

The obligation period of block and formula grants may be extended by notifying in writing the program office 60 days prior to the end of the award. Generally, only one extension of the obligation period will be granted for up to 12 months. Retroactive extension requests after the end of the obligation period will not be considered. An extension of the obligation period automatically extends the expenditure period.

A grantee may request in writing an extension of the expenditure period without extending the obligation period. The extension of the expenditure period extends the time allowed to fully expend funds that were properly obligated by the end of the obligation period.

Discretionary/Categorical Grants

Discretionary/ categorical grants are generally awarded with grant periods up to 12 or 18 months. As with block and formula grants, all funds must be properly obligated by the end date of the award and the grantee has 90 days after the end date to expend funds properly obligated. Requested extensions of the obligation period should be submitted in writing to the program office 30 days prior to the end date of the award. With proper justification, it is possible to have more than one extension for a discretionary grant.

Program Income

Program income is income earned due to the existence of a grant. Examples of program income are registration fees charged for attending a meeting, seminar, or training session; or assets obtained through seizure and forfeiture as a direct result of grant activity. Interest income is not considered project income. Project income must be:

- used to supplement the project activities, or
- used to reduce the federal share of the project, or
- returned to the federal government.

The expenditure of program income is subject to the same requirements as federal funds. Program income can be used as match, but the grantee should be aware that if the expected amount of program income used for match is not generated, the grantee is responsible for the difference between the amount earned and the amount budgeted for the project.

Grant Adjustments

Over the period of a project it may be necessary to adjust the original award. Some of the reasons for grant adjustments are as follows:

budget adjustment	Grantees are permitted to reallocate funds in the various categories of their grant up to 10 percent of the total award, cumulative, without prior approval. If it is necessary to move more than 10 percent of the total grant between budget categories, the grantee must receive prior approval from the program office and will be given a grant adjustment reflecting the new budget for the project.
change in scope	Any change in the scope of the project must be approved by the program office.
change in project period	A request to extend the end date of the project must be submitted to the program office for approval. Extension requests for the end date of block or formula grants should be submitted to the program office 60 days prior to the end date of the award. Extension requests for the end date of discretionary or categorical grants should be submitted 30 days prior to the end date of the award.
retire special conditions	Grant adjustments are used to retire special conditions that may be placed on the award by the program office.
change in project director	If the designated project director or other key personnel for a project changes, the program office should be notified and a grant adjustment issued noting the change. Likewise, a change in the

project monitor at the program office will be conveyed to the grantee by a grant adjustment.

prior approval costs

Items requiring prior approval must be reported to the program office. Examples of items requiring prior approval are individual contractor fees exceeding \$250 per day, sole source justifications on items exceeding \$100,000, and purchases of ADP equipment exceeding \$100,000.

deobligate/reobligate

A grant adjustment will be issued to deobligate remaining funds in a grant or reobligate funds in a grant if necessary.

Progress Reporting

The requirements for submitting a progress report for each calendar quarter have been changed. Progress reports are now due every six months rather than quarterly. The first progress report for a grant is due 30 days after the first full calendar quarter of the grant. Subsequent reports are due every six months thereafter. The final progress report is due 90 days after the end of the grant.

For active grants, the next progress report is due six months after the last quarterly report submitted.

M7100 HIGHLIGHTS

The OJP guideline manual, *Financial and Administrative Guide*, M7100, is being revised and will be published in early 1996. All current recipients of federal funds from agencies of the OJP will receive a copy of the revised guide. The following are some of the highlights of the revisions to the M7100 *Financial and Administrative Guide*.

1. Procurement Threshold
The threshold for prior approval on sole source procurement has been raised to \$100,000.
2. Definition of Equipment
The equipment cost threshold for capitalization of equipment has been raised to \$5,000.
3. New Format
The financial guide has been rearranged in a new format for easier reference.
4. CFDA Numbers
The Catalog of Federal Domestic Assistance (CFDA) numbers have been included for all programs
5. Program Descriptions
Descriptions of the legislative authorities for all programs are provided.
6. Definitions Chapter
A definition chapter has been added.
7. Consultant Rate Prior Approval
The threshold for prior approval of the individual consultant rate has been raised from \$150 per day to \$250 per day.
8. Advance Payment Clarification For Small Awards
The criteria for quarterly advance payments for small awards have been clarified.
9. Interest on Financing
Interest on financing the acquisition of property is now an allowable cost.
10. Organization Charts
Organization charts of the agencies under the OJP will be added to the guide.
11. Interest on Advance
The threshold for keeping interest earned on the advance of federal funds has been raised to \$250 per fiscal year.
12. Interest Refund to DHHS
Interest earned on the advance of federal funds in excess of \$250 is to be returned to the Department of Health and Human Services.
13. Disposition of Equipment Based on FMV
Equipment with a fair market value (FMV) of less than \$5,000 can be retained, sold, or otherwise disposed of with no further obligation to the awarding agency.

14. **Transfer of Title Based on FMV** The title for equipment with a fair market value of less than \$5,000 is transferred to the recipient.

15. **Requirement to Use INS Employment Eligibility Form** The requirement to complete the INS employment eligibility form for all employees has been added to the guidelines.

SUMMARY OF OMB CIRCULARS

OMB circulars pertaining to the management of grant programs fall into three general categories: administrative requirements, cost principles, and audit requirements. A summary of these circulars is listed below. Further details on OMB Circulars A-87, A-128, and A-133 are presented in following sections.

Administrative Requirements

The two administrative requirement circulars establish uniform administrative requirements for federal grants and agreements such as the use of the standard forms (i.e., SF-269), grants vs. cooperative agreements, and reporting requirements. The circulars are as follows:

OMB Circular A-102	<i>Grants and Cooperative Agreements with State and Local Governments</i>
OMB Circular A-110	<i>Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations</i>

Cost Principles

The three cost principles circulars establish principles and standards for determining costs for federal awards, contracts, and other agreements. The circulars are as follows:

OMB Circular A-21	<i>Cost Principles for Educational Institutions</i>
OMB Circular A-87	<i>Cost Principles for State, Local and Indian Tribal Governments</i>
OMB Circular A-122	<i>Cost Principles for Nonprofit Organizations</i>

Audit Requirements

The two audit requirement circulars establish the audit requirements and define federal responsibilities for implementing and monitoring such requirements. The circulars are as follows:

OMB Circular A-128	<i>Audits of State and Local Governments</i>
OMB Circular A-133	<i>Audits of Institutions of Higher Education and Other Nonprofit Institutions</i>

**OMB CIRCULAR A-87
COST PRINCIPLES FOR STATES AND LOCAL UNITS OF GOVERNMENT**

The OMB's Circular A-87, *Cost Principles for States and Local Units of Government*, establishes the principles and standards for determining costs for federal awards to states and local units of government. State and local recipients of federal awards should become thoroughly familiar with the provisions of the circular.

Major Provisions

The major provisions of the circular requires that a cost be:

- Allowable – The cost must be allowable as defined by the circular.
- Necessary to the performance of a project – The cost also must be necessary for the efficient performance and administration of the project.
- Reasonable – The cost must be reasonable.
- Allocable to the project consistently treated – The allocation of the cost to the project must be consistently treated throughout the project period.
- Permissible under state and federal laws and regulations – The cost must be permissible under both state and federal laws and regulations.
- Must not result in a profit – The cost must not result in a profit for the recipient of the federal award.
- Claimed against only one award – A cost can only be claimed against one federal award.

The circular further defines what is generally considered a direct cost and an indirect cost. Direct costs are identified specifically with an activity of the project and generally include:

- salaries and wages (including holidays, sick leave, etc.) – direct labor costs;
- other employee fringe benefits allocable to direct labor employees;
- consultant services contracted to accomplish specific grant/contract objectives;
- travel of direct labor employees; and
- materials/supplies purchased directly for use on a specific grant/contract.

Indirect costs are not readily identifiable with a particular grant or contract and generally include:

- maintenance of buildings,

- telephone expenses,
- travel and supplies,
- depreciation, and
- rental expenses.

In addition, concerning indirect costs, Circular A-87 provides for:

- provisional indirect costs rates – adjusted to actual (retroactive adjustment);
- predetermined rates – (not normally subject to adjustment); and
- fixed rates (with roll or carry forward) – adjusted in future period.

Circular A-87 also implements the cognizant agency concept. The cognizant agency is the federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under the circular on behalf of all federal agencies.

The circular does not:

- supersede limitations imposed by law – i.e., does not override limitations that are imposed by the legislation authorizing the program;
- dictate the extent of federal funds – i.e., does not guarantee that federal funds will be available for the program;
- provide additional federal funds for indirect costs – i.e., does not provide that additional funds will be available to cover indirect costs that may exceed the budget of the project due to a higher actual rate;
- dictate how a government should use funds – i.e., only the legislation dictates for what purposes the federal funds may be used; and
- relieve state and local governments of stewardship responsibilities for federal funds – states and local units of government are responsible for insuring that all laws, regulations, guidelines, etc. governing the use of the federal funds are followed.

May 17, 1995, Revision to Circular A-87

Revisions to OMB Circular A-87 were published on May 17, 1995. Ten key provisions of that revision are as follows:

1. **Format Change** – The format of the circular has been reorganized in the following five attachments:
 - a. General Principles
 - b. Items of Cost
 - c. State-Wide Cost Allocation Plans (SWCAP)
 - d. Other Allocation Plans
 - e. Indirect Cost Proposals

Instead of having separate sections on allowable and unallowable costs, there is now one section on cost items and what is allowable and unallowable are indicated under each cost item.

2. **Automated Data Processing** – The circular has been revised to allow the costs of software development to be expensed in the period incurred rather than amortized.
3. **Interest Allowability** – The revision allows interest on debt incurred for the following to be allowable charges to federal awards:
 - equipment and buildings acquisitions
 - building construction
 - fabrication
 - reconstruction
 - remodeling

The above applies to buildings completed on or after Oct. 1, 1980 and applies to equipment in service.

Note: This provision was extended to nonprofit organizations through a notice published in the *Federal Register* Oct. 6, 1995. However, for nonprofits, the provisions are not retroactive and apply only to debt arrangements entered into after Sept. 29, 1995, the effective date of the notice.

4. **State and Local Sales Taxes** – State taxes are unallowable if the government assesses taxes upon itself or disproportionately to federal programs. Example: unallowable taxes: levy taxes as a result of federal funding; allowable: user taxes, such as, gasoline taxes. This provision becomes effective for fiscal years beginning on or after Jan. 1, 1998.
5. **Time and Effort Reporting** – The circular further defines what is required for time and effort reporting.
 - Requires after-the-fact certification of effort
 - Allows charging programs based on estimates

- Requires quarterly adjustments to actual time
 - Allows adjustments when variance reaches 10 percent
 - Allows adjustment made through future drawdowns
6. Depreciation – The revised circular states that depreciation should be based upon the cost of the asset and encourages straight-line depreciation, not accelerated.
 7. Cost Allocation Plans – The circular requires that cost allocation plans must include:
 - Financial statements of internal service funds
 - Financial statements of self-insured funds. Purpose: To assess whether funds are accumulating excess retained earnings through overcharges
 - Certifications that plan does not include unallowable costs
 8. Internal Service Funds – The revised circular allows costs necessary to maintain a 60-day working capital reserve. This is consistent with current practice.
 9. Capital Expenditures – The circular allows expenditures under \$5,000 to be expensed. Note: An OMB memorandum dated June 29, 1995, allows the \$5,000 threshold for capital expenditures for nonprofit organizations.
 10. Post-Employment Benefits – The circular allows costs for post-employment benefits if costs are funded in accordance with actuarial requirements and in accordance with general accepted accounting practices.

Selected Items of Cost

The following selected items of allowable/unallowable costs contained in Attachment B of the revised OMB Circular A-87 may be of interest:

- | | |
|---------------|---|
| p. 3, no. 4 | Costs of alcoholic beverages are unallowable. |
| p. 3, #5 | The costs of audits are allowable. |
| p. 4, #7 | Losses arising from uncollectible accounts and other claims are not allowable. |
| p. 5-6 | Costs allowable and unallowable under fringe benefits are defined. |
| p. 8 | Severance pay is allowable if an acceptable established policy exists. |
| p. 10 | Value of donated services allowable to meet cost sharing or matching requirements. |
| p. 11, no. 12 | Contributions to a contingency reserve is an unallowable cost. |
| p. 11 no. 13 | Contributions and donations to others is an unallowable cost. |
| p. 13, no. 17 | Employee morale, health, and welfare costs are allowable. |
| p. 14, no. 18 | Entertainment costs are unallowable. |
| p. 14, no. 19 | Threshold for capitalizing equipment has been raised to \$5,000. |
| p. 15, no. 20 | Costs of fines and penalties are unallowable |
| p. 15, no. 21 | Costs of fund raising and investment management are unallowable. |
| p. 16, no. 23 | General government expenses unallowable, i.e., salaries and expenses of the office of the governor, state legislatures, or similar governmental bodies. |
| p. 21, no. 27 | Lobbying costs are unallowable. |

- p. 21, no. 30 Costs of memberships, subscriptions, and professional activities are allowable if they benefit the project.
- p. 22, no. 34 Costs of preparing proposals for potential federal awards are allowable – these should generally be treated as indirect costs.
- p. 23, no. 38 Rental costs are allowable, however, rental costs under less-than-arms-length leases are not allowable but costs of maintenance and operations are allowable.
- p. 23, no. 39 Costs of taxes that a government unit is legally required to pay are allowable.
- p. 24, no. 40 Costs of training provided for employee development is allowable.
- p. 25, no. 42 Unrecoverable costs under one agreement are unallowable under other award agreements.

AUDITS

The OMB Circulars governing audit requirements are A-128 for states and local units of government and A-133 for nonprofit organizations.

Audit Thresholds

The Single Audit Act of 1984 established uniform requirements for audits of federal financial assistance provided to state and local units of governments. The provisions of that act have been incorporated into A-128 and A-133. The single audit thresholds that were established are as follows:

\$100K or More	A recipient of \$100,000 in total federal financial assistance is required to have a financial and compliance audit in accordance with A-128 or A-133.
Between \$25K & \$100K	A recipient of between \$25,000 and \$100,000 in total federal financial assistance is required to have a financial and compliance audit in accordance with A-128 or A-133, or an audit in accordance with federal laws and regulations governing the programs they participate in.
Less than \$25K	A recipient of less than \$25,000 of total federal financial assistance is exempt from the audit requirements.

States can make a determination whether they will have a statewide, department-wide, or agency-wide audit. Nonprofit organizations are permitted under Circular A-133 to have an audit every two years upon approval from the federal cognizant agency. However, the OJP does not encourage two-year audits for nonprofits.

Grantees and subgrantees are required to have an audit in accordance with the appropriate OMB circular. States are responsible for resolution of the audits of their subgrantees.

Audit reports are due 13 months after the close of the period being audited.

Audit Report

In addition to the requisite financial statements that comprise an audit, the audit report should include the following:

- A statement that the audit was made in accordance with generally accepted government auditing standards.
- A positive and negative assurance statement on those items of compliance that were tested and those items that were not tested, respectively, based upon the applicable laws, regulations, terms, and conditions governing the federal awards. Positive assurance consists of a statement by the auditors that the tested items were in compliance with applicable laws and regulations. Negative assurance is a statement that nothing came to

the auditors' attention as a result of their specified procedures that caused them to believe the untested items were not in compliance with applicable laws and regulations.

- A report on the study and evaluation of internal accounting controls.

Resolution of Audit Reports

Recipients of direct funding from federal agencies should submit their audit reports to their cognizant federal agency and provide copies of the report to all federal agencies from which they receive funding. Subgrantees under the formula or block grant programs should submit their audit reports to their funding state agency.

The following is a checklist of steps that should be taken to resolve an audit report.

- Establish a working file for the audit report.
- Review and analyze the audit report.
- If there are findings, a letter should be generated to the audited recipient. This letter should include a request for a corrective action plan (CAP).
- The CAP should include:
 - ▶ A description of each finding;
 - ▶ Specific steps to be taken to implement the recommendation;
 - ▶ Timetable for performance of each corrective action;
 - ▶ A description of monitoring to be performed to ensure implementation of the CAP.
- The recipient should generate a response to the CAP letter within a specified time frame, usually 30 calendar days from the letter.
- Analyze the response and follow up on the action taken.

Top 10 Audit Findings

Experience has shown that the top 10 audit findings are as follows:

1. **Untimely submission of reports** – Progress and financial reports are not submitted when due.
2. **Commingling of funds** – The recipient's accounting system is unable to accurately identify the receipt and expenditure of funds to the proper award.
3. **Lack of documentation** – The recipient does not have adequate invoices or other documentation to back up the expenditure of funds.

4. Excess cash on hand – The recipient is not managing its drawdown of funds to coincide with expenditures to avoid having excess federal funds on hand.
5. Inadequate monitoring of subgrantees – The recipient is failing to monitor its subgrantees to ensure that they are expending their funds in compliance with all federal laws and regulations.
6. Unallowable costs – The recipient has expended federal funds on cost items that are unallowable under Circular A-87, *Cost Principles for States and Local Units of Government*, or Circular A-122, *Cost Principles for Nonprofit Organizations*, whichever is applicable.
7. Inadequate time and effort records – The recipient has failed to keep adequate time and effort records documenting the time that its employees have worked on the activities related to the projects.
8. Inappropriate changes – The recipient has made budget changes and/or changes in the scope of the project without requesting prior approval from its program office.
9. Inaccurate reports – The financial status reports submitted do not agree with the financial records of the organization. The recipient's request for payments does not correlate with its need for funds.
10. Conflicts of interest – The recipient has conflicts of interest or the appearance of conflicts of interest in its procurement procedures or other management of the federal funds.

**PROPOSED CHANGES TO
SINGLE AUDIT ACT
AND OMB CIRCULAR A-133**

Legislation is pending before the Congress that will revise the Single Audit Act of 1984. Additionally, changes to OMB Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions* have been proposed. Below is a comparison of the proposed changes to the Single Audit Act and OMB Circular A-133.

Single Audit Act Proposal	Circular A-133 Proposal
Coverage: Nonfederal entities, including non-profit organizations and universities.	Eventually would cover all nonfederal entities, including state and local government.
Applies to nonfederal entities that spend \$300,000 or more in federal awards in any fiscal year	Applies to nonfederal entities that receive \$300,000 or more in awards in a year.
Codifies rule that 50 percent of any entity's total federal expenditures be audited	Codifies 50 percent rule but establishes a 25 percent threshold for "low risk" auditees.
Major program defined partly by dollar amount – nine-tier threshold retained, but top tier changed to exempt more programs in very large states.	Major program defined partly by dollar amount – three (3) percent of total federal expenditures or \$300,000, whichever is greater.
Major program defined partly by risk-based criteria to be established by the OMB.	Risk-based criteria included for determining whether a smaller dollar value program is "high risk" and must be audited as a major program.
Report submission deadline shortened to nine months	Same.
Eliminates provisions on transaction testing and reporting of all findings of noncompliance.	Known questioned costs of \$10,000 or less would not be reported.
Three principal auditing requirements deal with financial statements, internal controls, and compliance.	Same, but more detail given.
Auditor required to include in single audit report a summary of determinations.	Audit reporting package would include management's certification and new summary schedule of prior audit findings.

GOVERNMENT-WIDE COMMON RULES

OMB Circulars vs. Common Rules

OMB circulars are signed by the director of the OMB and circulated to each federal agency. Each agency implements the circulars via their regulations. The implementation of the circular may vary from agency to agency.

Common rules are signed by the head of each federal agency, who indicates that he or she will implement the common rule uniformly.

The Common Rules

There are four government-wide common rules for the administration of grants. They are:

Grants Management Common Rule for State and Local Governments (A-102 Common Rule)

The grants management common rule, titled *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* implements the provisions that are contained in OMB Circular A-102. This common rule is applicable to state and local units of government.

Debarment and Suspension

The debarment and suspension common rule requires that grantees receiving federal funds sign a certification that they have not been nor will they do business with individuals of any organization that has been disbarred or suspended from doing business with the federal government.

This common rule applies to state and local units of government and to nonprofit organizations that receive more than \$25,000 in federal funds per award. However, recipients of entitlement funds (formula and block funds) need not submit a signed certification. The requirement to certify is also passed to the lower-tier subrecipients of federal awards.

Some of the reasons that an organization, or an individual, may be debarred or suspended from doing business with the federal government are embezzlement, conviction of a federal crime, violation of the drug-free workplace certification, or performing government work with a firm that has been debarred, suspended, or denied federal benefits through a court action. The length of debarment is normally three years.

To determine if an individual or organization has been disbarred or suspended, the recipient of the federal funds should check the *List of Parties Excluded from Federal Procurement or Nonprocurement Programs*. This monthly publication can be obtained through subscription by contacting the Government Printing Office in Washington, D.C., tel.: (202) 783-3238 and ordering stock no. 722-002-00000-8. It is also possible to leave a message on the FTS answering service at (202) 786-0688. Those recipients with access to a modem can contact the GSA data base directly at (404) 331-7205. Modem should be set to full-duplex, even parity, 7 data bits, 1 stop bit. The login procedure is "L DEBAR." This is an all caps system.

Drug-Free Workplace Common Rule

The drug-free workplace common rule requires that recipients of federal funds maintain a drug-free workplace. In signing the certification, the recipient is certifying that it will inform employees of the drug-free workplace policy, establish a drug-free awareness program, inform employees of the penalties that may be imposed for drug abuse violations in the workplace, and inform employees of the availability of counseling and rehabilitation services available.

The common rule applies to all direct recipients of federal funds, state and local units of government and nonprofit organizations. Subrecipients of federal funds are exempt from the certification except those subrecipients that are state agencies. A state can provide a drug-free workplace certification statewide signed by the governor, for a specific group of agencies signed by the governor, or on an agency-by-agency basis.

Lobbying Common Rule

The lobbying common rule requires that recipients certify that they will not use federal funds for lobbying purposes, will report all "reportable lobbying activity," and will pass the lobbying certification requirement to their subrecipients that receive more than \$100,000.

The common rule applies to all state and local units of government and all nonprofit organizations that receive more than \$100,000 of federal funding in a grant or cooperative agreement. Native American tribes and tribal organizations are exempt from the requirement.

"Reportable lobbying activity" is the hiring of a paid lobbyist or the hiring of an individual on a part-time basis for the purpose of influencing or attempting to influence a federal employee or the Congress to make an award to the organization. "Reportable lobbying activity" must be reported on standard form LLL. All forms LLL must be sent the federal agency.

Summary

The following summarizes the requirements of the three common rules requiring certification.

Debarment and Suspension	Who is covered? Direct recipients and subrecipients. However, subcontractors receiving \$100,000 or less are exempt from the certification requirement.
	Exemption: Direct recipients of an award required by statute (BJA, OVC, OJJDP formula/block awards) are not required to submit a certification.
Drug-Free Workplace	Who is covered? Direct recipients and subrecipients that are state agencies.
	Exemptions: Subrecipients other than state agencies

Lobbying	Who is covered? Direct and subrecipients that receive more than \$100,000 in funding.
	Exemptions: Native American tribes and tribal organizations

Electronic Access to Circulars and Common Rules

Some of the OMB Circulars and Common Rules can be accessed on the Internet by using the following addresses:

- FedWorld.gov
- Gopher.financenet.gov
 - ▶ Documents, Publications, Standards
 - ▶ Central Agencies
 - ▶ OMB Circulars

The exact manner in which these can be accessed will depend on the Internet interface and capability of each user. Persons who have a "Web Browser" such as NetScape or Mosaic can access the data in the following manner:

URL: <http://www.financenet.gov> This will access financenet home page

Select the following:

Resources
 Federal Control Agencies
 OMB
 Federal Financial Documents

At present OMB Circulars A-87, A-102, and A-110 are available.

ORDER OF PRECEDENCE

The following is the order of precedence in resolving any conflicts relating to the management of federal grants.

1. **Legislation** – The legislation passed by the Congress is the highest authority in the management of grants.
2. **Federal Agency Regulations** – The regulations of the awarding federal agency represents the second highest authority.
3. **Terms and Conditions of the Award** – The terms and conditions of the award imposed by the awarding program office represents the third highest authority.
4. **Federal Agency Policies** – The policies of the awarding federal agency represents the fourth highest authority.

CATALOG OF FEDERAL DOMESTIC ASSISTANCE

The Catalog of Federal Domestic Assistance (CFDA) is the government's guide to federal assistance programs. It contains a comprehensive listing of 1,390 programs from 52 federal agencies. The catalog contains four indexes, listed by agency, function, subject, and applicant eligibility, that assist the user in quickly locating potential federal assistance programs.

The catalog is published each June with a December supplement and can be obtained through subscription. It also is available on CD-ROM and on disk for DOS or Macintosh, and also can be accessed electronically via modem.

For more information contact:

Federal Domestic Assistance Catalog Staff
300 7th Street, SW, Room 101
Washington, DC 20407
Tel.: (202) 708-5126

PROCUREMENT PROCEDURES

Under many grants, the grantee may use the federal funds to subcontract for the purchase of equipment and/or materials or for contractual assistance in areas where it does not have expertise. These contracting procedures must, at a minimum, conform to federal guidelines.

The Office of the Comptroller, OJP, has prepared a manual, titled "Procurement Procedures" to aid recipients and subrecipients in contracting.

Basis for Procurement Manual

"Procurement Procedures" is based on the mandated procedures in OMB Circulars. The circulars are A-102, the common rule issued in 1988 for state and local governments, and A-110 for nonprofit organizations, universities, and hospitals.

For state and local units of government that have their own regulations, the manual supplements those procedures and clarifies situations that must be addressed in the contracting process. OMB Circular A-102 states that if the state or local procedures offer more efficient protection for the federal dollar they should be used. If not, the federal procedures should be used.

Nonprofits organizations without written contracting procedures may find the manual useful.

The following is an outline of the highlights of the procurement manual. Refer to the manual for further details and check lists that will aid in the procurement procedure.

Chapter 1 – Evolution of Contract Requirements

Any contractual requirements should be envisioned in the application. Front-end planning is very important as grantee contracting is serious business and extremely complicated. The grantee should study the regulations and analyze the situation, and if necessary, ask for guidance from their granting agency.

Chapter 2 – The Procurement Package

The procurement package will vary with local procedures and depending on the type of procurement. Details are covered in the following chapters. In general, the procurement package should contain:

- requisition
- statement of work (negotiated procurement)
- design specification (competitive sealed bid)
- evaluation criteria (negotiated procurement)
- sole-source justification (noncompetitive justification)
- all required concurrences

Some things that should be considered in preparing for a procurement are:

Funding Availability	Are there funds available for the procurement in the grant?
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Market Survey	Has a market survey been conducted to determine potential bidders?
Responsibility Delegation	Has responsibility for the various procurement procedures been established?
Procurement Method	Has the proper procurement method been determined? These various procurement methods are covered in Chapter IV of the manual.
Statements of Work	Has the statement of work been written if a negotiated procurement?
Proposed Evaluation Criteria	Has the evaluation criteria been established if a negotiated procurement?
Evaluation Board Appointment	Has the evaluation board been established to review the responses for a negotiated procurement?

Chapter 3 – Competition

Both the common rule A-102 and OMB Circular A-110 require competition on contract awards. To ensure that proper competition is available, bidders lists should be continually updated. Prequalification before placing on a bidders list is frowned upon by the federal government. Acceptance of a bid by the awarding agency should not be subject to prequalification.

Advertising of contract requirements in newspapers and other media is another important way of ensuring competition.

Local preference laws relative to contract awards involving federal dollars also are frowned upon by the federal government.

The use of option clauses is recommended whenever possible. Option clauses give the contractor the unilateral authority to purchase more of the same product or service at an indicated price. Awarding agencies must exercise the option at a stated time and if funding is not available, the option is not exercised.

Chapter 4 – Methods of Procurement

Chapter 4 of the manual lists the various methods of procurement, each of which is covered in more detail in the following chapters. These methods are:

- interdepartmental transfer of funds (Chapter 5),
- small purchases (Chapter 6),

- competitive sealed bidding (Chapter 7), and
- negotiation (Chapter 8).

Chapter 5 – Interdepartmental Transfer of Funds

Interdepartmental transfer of funds normally applies to state and local government or large multidivisional nonprofit organizations. This method is not included in the regulations as a procurement method, however, it may be considered a way to satisfy contractual requirements. This method can be used when the capability to satisfy the requirement is available in-house, or an incumbent contractor is already performing and satisfying a similar requirement.

The advantages of an interdepartmental transfer of funds for procurement are that it is quicker and no full-blown competition is required. The disadvantages are that for work performed in-house, no recourse for substandard work is available as in contractual arrangements, and full-blown competition might have led to a better price.

Chapter 6 – Small Purchases

The federal threshold for small purchases is anything under \$100,000. States and local units of governments have their own thresholds, which are normally \$5,000 or less.

Rather than a contract, a purchase order is awarded for small purchases. The purchase order is much simpler than a contract, normally has just a few boilerplate clauses, and requires only a one-party signature.

The procurement procedure is usually accomplished through telephone solicitations or informal written quotations and is not advertised. The best vendor is selected and a purchase order is sent to the vendor. The awarding agency accepts delivery, the vendor bills the agency, and the agency pays.

An alternative method is a blanket purchase order. A blanket purchase order is like a "charge account" and is usually established with a vendor to accommodate frequent recurring types of purchases. There must be some discipline established to control the authority to purchase, such as an approved requisition, and oversight authority should be exercised to avoid abuse.

An imprest fund or "petty cash" is another method for handling small purchases. An imprest fund creates problems in that strict accountability must be maintained, a cashier must be available to access the fund, and if the cashier leaves, the combination on the safe must be changed.

It is impermissible to split the requirements of a contract so that the monetary value is below the small purchase threshold to use a purchase order as opposed to a contract.

Chapter 7 – Competitive Sealed Bidding

Competitive sealed bidding is the preferred method of procurement. However, it can only be used when the grantee can describe exactly what he or she wants, i.e., there are no unknowns or contingencies; there is a likelihood that competition is available; there is ample time to issue the invitation for bid (IFB) and hold a public bid opening; and across-the-table negotiations are unnecessary.

Competitive sealed bidding requires the development of a detailed design specification of what is required. The requirement is advertised and the IFB issued. At a set date, the sealed bids are publicly opened.

The award goes to the lowest bidder after two tests are applied.

1. Test of responsiveness – no deviation from the IFB/specifications is allowed. If the bidder has deviated the bidder is declared unresponsive.
2. Test of responsibility – is the bidder a regular dealer and does the bidder have the financial capability, facilities, engineering, etc. to fulfill the contract.

The major drawback of competitive sealed bidding is a lack of flexibility. If a bidder meets all of the requirements of the IFB, is the lowest bidder, and passes the above two tests, the bidder must be awarded the contract.

An alternative is a two-step competitive sealed bid. In a two-step process step one is the issuance of a technical proposal where contractors state how their equipment and capability will satisfy the requirement. No prices are submitted. The government evaluates the responses to the technical proposals and those contractors evaluated in the affirmative are invited to submit a bid. The contract is awarded to the lowest bidder.

Chapter 8 – Negotiation

The negotiation method of procurement is used when competitive sealed bid criteria cannot be met. It is used when a grantee cannot describe exactly what the grantee wants and it is necessary to hold across-the-table discussions.

Rather than an invitation for bid (IFB), a request for proposal (RFP) is prepared. The response to a RFP that is received is an “offer” as opposed to a “bid” in response to an IFB. The RFP contains a “statement of work” narratively describing the requirements and outlining parameters in general terms. Criteria for evaluating the response also must be developed and explained in the RFP. As with the IFB, the requirement must be advertised and the RFP issued.

An committee must be appointed to evaluate the proposals received based on the established evaluation criteria. Each proposal is scored based upon the evaluation criteria and a cost and price analysis is performed. A competitive range of scores is established to select offerors with whom negotiations will be conducted. Across-the-table discussions are held with the offerors who fall in the competitive range, a selection is made, the contract is formulated, and the contract is awarded. The award in this case does not necessarily go to the low offeror but to the offeror that most completely fulfills the evaluation criteria.

Chapter 9 – Sole-Source Contracting

Sole source contracting is an exception to the “competitive requirement” for procurement and can only be used under certain conditions. These conditions are:

- the item or service is available only from a single source,

- there is a true public exigency or emergency,
- after competitive solicitation, competition is considered inadequate.

When considering sole-source contracting the following issues should be considered.

- Adequacy of the bidders list – Is the bidders list current?
- Are the desired time frames realistic: – Has adequate time been permitted to allow prospective bidders to respond to the IFB or RFP? Are the time frames for completing the contract realistic?
- Did any market survey conducted indicate a lack of competitive sources?

Approval of the federal awarding agency is required for all sole-source contracts of more than \$100,000. A checklist provided in this chapter identifies the criteria for justifying sole-source contracting.

Chapter 10 – Contract Provisions

A contract normally will have the following items included.

- Cover page – including contract number, fund citations, signatures by both parties
- Schedule – administrative details relating to the contract, milestones, due dates, etc.
- Design specification or statement of work
- General provisions – mandatory and special clauses

General provisions clauses required in a contract under OMB Circular A-102, Common Rule, are:

Disputes	Stipulates the contractor's recourse if he has a problem and provides levels of arbitration to resolve disputes
Reporting	States the applicable reporting requirements affecting contractual activity to comply with the requirements of the award
Patents	Any discovery or invention that arises during the course of the contract must be reported to the awarding agency.
Rights in Data and Copyrights	This clause delineates the rights of the awarding agency and the contractor regarding use, duplication, and disclosure of data. Contractors are permitted to copyright data produced under a contract but the awarding agency retains the rights to reproduce and distribute the data.

Examination of Records	This clause specifies the access rights of the recipient, the subrecipient, the federal agency, and the comptroller general of the United States to any books, documents, papers, and records of the contractor.
Clean Air and Water Acts	Contract awards of more than \$100,000 must comply with the Clean Air and Water acts.
Equal Employment Opportunity	Contract awards of more than \$10,000 must contain clauses that the contractor shall not discriminate against any applicant or employee because of race, color, religion, or national origin.
Termination	<p>Only the awarding agency has the right to terminate the contract. There are two types of termination.</p> <ol style="list-style-type: none"> 1. Termination for convenience – The contract is terminated because of reasons known to the grantee, i.e., program changes, changes in state of the art, insufficient funding, etc. The contractor is not in violation of any of the contract terms or conditions. 2. Termination for cause – The contract is terminated because actions of the contractor, i.e., failure to perform, financial difficulty, slipped schedules, etc.

Chapter 11 – Contract Type Selection

The type of procurement instrument used is determined by the awarding agency but must be appropriate for the particular procurement and for promoting the best interest of the program involved. See the chart at the end of this chapter in the manual for a summarization the various types of contracts.

Fixed Price

A fixed-price contract is the best type of contract if it fits. With a fixed-price contract the risk lies with the contractor. By its very nature, contracts awarded under competitive sealed bidding are fixed-price. Fixed price contracts can be used when:

- it is possible to finitely describe the requirement,
- across-the-table discussions normally are not necessary, and
- there is adequate competition available.

There are other types of fixed-price contracts possible. (See the summary chart at the end of the chapter.) They are:

fixed price with economic price adjustment,

fixed price incentive with incentive based on cost, delivery, or performance.

Cost Reimbursement

Cost-reimbursement contracts provide for contractors to be reimbursed for their actual expenditures and eliminate some of the contractor risks. The contractor's accounting system must be able to segregate the costs to the contract, and the contractor cannot be reimbursed more often than bi-weekly. A ceiling is placed on the estimated cost of the contract, although additional dollars can be added under certain conditions.

Type of cost-reimbursement contracts are (see summary chart at end of this chapter in the manual for further details):

Cost Plus Fixed Fee	The fee is established on the front end and is fixed (does not fluctuate with the dollars).
Cost, No Fee	The contractor is reimbursed for costs only.
Cost Sharing	The recipient shares the cost with the contractor.
Cost Plus Incentive	The fee is based upon incentives such as cost, delivery, or performance.
Time and Materials	The hourly rates are specified in the contract. Materials are reimbursed at cost. The number of person-hours must be negotiated for each task. Contract also must have a ceiling.
Labor Hour	Same as time and materials, but labor costs only.

Letter Contract

A letter contract is a letter commitment for the contractor to start work prior to the award of the contract and is incorporated into the final contract.

Chapter 12 – Code of Conduct

OMB Circulars A-102 and A-110 require that recipients and subrecipients maintain a written code of standards and conduct governing the performance of their employees engaged in the awarding and administration of contracts.

Conflicts of interest, or the appearance thereof, must be avoided. No employee, officer, or agent of the awarding agency shall participate with the selection, award, or administration of a contract if there is a conflict of interest, real or apparent, involved. Such conflicts arise when the employee, officer, or agent;

or any member of his/her family; or his/her partner; or any organization which employs, or is about to employ, has a financial or other interest in the firm being evaluated or selected for an award.

Therefore, the awarding agency personnel should:

- be familiar with the agency's published guidelines,
- take no gifts or gratuities,
- avoid the appearance of a conflict of interest at all times,
- ensure that proposal evaluators or members of their immediate family do not own stock in firms being evaluated, and
- refer any conflicts or interest problems to upper management or legal counsel as appropriate.

Individuals or organizations participating in the development of the design specifications or the statement of work are not permitted to submit proposals as this also would be a conflict of interest.

Chapter 13 – Cost and Price Analysis

A price and cost analysis should be made in connection with every procurement action.

Price analysis is a comparison of the bottom-line price of the offeror to determine if the price appears fair and reasonable. This is accomplished by comparing the price to other contractors and trade publications.

Cost analysis involves the analysis of each of the individual items of costs, such as direct labor, fringe benefits, overhead, etc. Problems can arise in cost analysis when different accounting systems are used by contractors. For instance, comparisons of overhead or indirect costs are difficult because one contractor may charge a certain expense item to overhead, whereas another might process the expense item as a direct charge to the contract.

In performing price and cost analysis, federal fee limitations must be considered. Recipients can use the following as benchmarks in negotiating fees on contracts.

Cost plus fixed fee contracts	up to 10 percent
Research and development contracts	up to 15 percent
Architect engineering contracts	up to six percent

Chapter 14 – Protests

Recipients and subrecipients are responsible for the settlement of all contractual and administrative issues arising from procurements. The federal awarding agency would only be involved in very rare occasions.

Protests can arise before or after an award. Issues that might initiate a protest are:

- proposal evaluation activity
- disputes (differences of opinion)
- conflicts of interest

Protests should be submitted in writing to the awarding agency. The awarding agency should follow local procedures for resolution of a protest. The awarding agency's upper management and legal counsel should be used in resolution as appropriate.

Chapter 15 – Contracting with Small and Minority Firms, Women's Business Enterprises, and Labor Surplus Area Firms

Recipients and subrecipients should take all necessary steps to assure that the following firms are used when possible:

- small business firms – designated by the Small Business Administration
- minority business firms – 51 percent minority owned/operated
- women's business enterprises – small businesses that are at least 51 percent owned by women
- labor surplus area firms – firms geographically located in distressed labor surplus areas designated by the Secretary of Labor

To support these programs the recipient should take the following actions:

- place those firms on the bidders list;
- ensure that solicitations are mailed to those firms;
- allocate requirements in smaller amounts, when feasible, to permit maximum participation; and
- establish delivery requirements, when feasible, for compatibility with capability of those firms.

Chapter 16 – Contract Administration

Contract administration refers to the activity after the awarding of the contract and is important to assure that the recipient gets what was contracted for to support the federal program. The following are the major elements of contract administration.

- Delegation – Responsibility for the various elements of contract administration should be delegated by management to designated personnel selected for their technical and administration capability to administer the contract.
- Inspection and Acceptance – Deliverables should be inspected before official acceptance to ensure that contract requirements have been met.
- Progress Reports – Under cost reimbursement contracts, progress reports are normally required by the statement of work. These reports should be reviewed to ensure that contract delivery milestones are being met. There should be a compatibility between the dollar reimbursement and the progress of the contract.
- Invoice Processing – Invoices should be processed as expeditiously as possible.
- Property Administration – Title to any property purchased by the contractor with federal funds remains with the awarding agency. Normally property is not purchased under contracts. It is assumed the contractor has the necessary equipment to perform the contract. Where special equipment is needed just for the purposes of the contract it is generally better to lease the equipment for the duration of the contract.
- Consent to Subcontract – The awarding agency should establish procedures to review and give prior consent for subcontracts awarded by the prime contractors. Monetary consent levels may be established at the discretion of the awarding agency. Prime contractors should follow the procurement procedures in OMB Circulars A-102 and A-110.
- Contract Closeout – Close out procedures should include:
 - ▶ funds reconciliation – deobligate any remaining funds,
 - ▶ appropriate disposition of government property,
 - ▶ assurance that all contractor bills have been paid,
 - ▶ documentation that all deliverables have been received,
 - ▶ assurance that there are no outstanding legal actions against the contractor,
 - ▶ assurance that all reimbursed costs are allowable, and
 - ▶ issuance of a final bilateral amendment to the contract.

Chapter 17 – Other Considerations

Lease vs. Purchase

Before entering into a lease arrangement for equipment, a lease-purchase analysis should be performed to determine the economic feasibility. The analysis should reflect a comparison of forecasted costs for both the outright purchase and a leasing arrangement, including the “cost of money.” Leasing

arrangements should allow a certain amount of the lease price to be applied to the purchase of the equipment.

Documentation

Contract files should be established to provide an audit trail. Records should include, but are not necessarily limited to, the following: the rationale for the method of procurement, selection of the contract type, contractor selection or rejection, and the basis for the contract price.

MONITORING

Recipients of federal funds are responsible for the financial monitoring of their subrecipients. The Office of the Comptroller, OJP, is responsible for the financial monitoring of direct recipients of federal funds. Financial monitoring is not an audit but a review to identify and correct problems that may arise in the implementation of a project before they become an audit problem.

Why Monitor?

Some of the objectives of monitoring are:

- to ensure compliance with all federal guidelines, regulations, OMB circulars, etc.;
- to ensure the recipient is fulfilling the terms and conditions of the award;
- to detect problems and provide technical assistance; and
- to ensure that the recipient is properly accounting for the expenditures of federal funds.

Types of Monitoring

While on-site monitoring normally is thought of when discussing monitoring, it is not necessary to on-site monitor 100 percent of the projects.

Basically three types of monitoring can be performed.

1. Desk review – a review of all financial and progress reports that have been submitted, audit reports, and correspondence.
2. Telephone monitoring – direct contact with the recipient by telephone to ask questions and check on the progress of the project.
3. On-site monitoring – an actual visit to the project site to physically check the subrecipients' financial records and review the progress of the project.

Preparing for an On-Site Monitoring Visit

Before leaving for an on-site monitoring visit, a monitor should prepare for the visit. Preparation should include:

- a review of the grant file, including the following documents:
 - ▶ grant application
 - ▶ award document
 - ▶ special conditions
 - ▶ award adjustments
 - ▶ financial and progress reports

- ▶ audit reports and audit findings
- ▶ correspondence
- a review of monitoring reports from any previous monitoring visits
- creation of a check list of items that must be examined and questions that must be asked;
- contacting the recipient and scheduling the review to ensure that the files and individuals that should be seen are available;
- getting directions to the site;
- confirming the schedule visit by letter, informing the recipient of the purpose of the visit; and
- contacting the recipient one or two days before the schedule visit to reconfirm.

The On-Site Monitoring Visit

After arriving on site, the first thing that should be done is an entrance conference with the director of the organization. At the entrance conference the monitor should review the purpose of the monitoring visit, indicate who he or she would like to meet with, and what documents he or she would like to review.

Some of the items that a monitor should be reviewing are listed below.

- Accounting system – Are they able to classify receipts and expenditures by grant?
- Cash management – Does the subrecipient have idle cash (excess cash on hand), what is the timing of drawdowns?
- Check issuance procedure – Is there a review and approval process for making payments? Are there proper signatures on the checks? Do the cancel checks agree with the invoices?
- Internal monthly reporting system – Is there a monthly reporting system to report on expenditures and receipts by grant?
- Preparation of SF-269 Financial Report – Do the quarterly financial reports agree with their internal accounting system?
- Are the costs charged to the grants allowable costs?
- Are all costs properly documented?

Additionally, the monitor should examine expenditures under each budget category.

Personnel

- Are there time and attendance records?
 - ▶ Are hours worked indicated by project?
 - ▶ Are there employee and supervisor signatures?
 - ▶ Are the individuals working on the project the individuals budgeted in the grant?
 - ▶ Do the salaries being paid agree with the approved grant budget?
- What are the subrecipient hiring procedures?
- Does the subrecipient have job descriptions?
- Are the fringe benefits being allocated properly to the projects?

Travel

- Is there a procedure for approving travel?
- Is the travel justified within the scope of the grant?
- Is there an established travel reimbursement policy? Is it reasonable?
- If no travel reimbursement policy exists, does the subrecipient follow the federal or state travel policy?
- Are travel costs paid only for the individuals assigned to the project?

Contractual

- Are there written procurement procedures?
- Have all procurements followed proper procurement procedures?
- Is there a written contract with the contractor?
- Is the contractual amount reasonable?
- Does the subrecipient have the proper invoices from the contractors?
- Are contractors paid in a timely manner?
- Has the subrecipient received the proper products specified by the contracts?

Equipment

- Has the subrecipient purchased equipment with grant funds?
- Was the equipment necessary for the project?
- Were proper procurement procedures followed?
- Is the equipment physically present?
- Is the equipment being used for the purpose for which it was purchased?
- Is there an inventory system in place?

Rent

- Is there a rental agreement?
- Are rental charges being allocated properly to the grants?
- Are the individuals assigned to the grant physically occupying the space allocated to the project?
- Is there a conflict of interest – less than an arms-length transaction?

After completing a review an exit conference should be held with the same individuals that were present at the entrance conference. In the exit conference, the monitor should discuss the findings, both positive and negative.

Upon returning to the office the monitor should write a monitoring visit report. The monitor may want to write both an internal and external report. The external report should be sent back to the grantee with any findings and expected corrective actions indicated. The monitor should follow up with the grantee on the implementation of corrective action.

