FINANCIAL MANAGEMENT REQUIREMENTS

FOR AWARD RECIPIENTS

Purpose

HRSA's Division of Financial Integrity (DFI) uses 5 management control areas, detailed below, to:

- Complete Financial Management Reviews (FMR) of grant recipients (recipients) that expend less than $750,000 a year in federal awards and are exempt from federal audit requirements, and targeted recipients that may have single audits but were determined by HRSA as being at risk of having inadequate financial management systems or financial instability;

- Provide recipients with a guide to ensure their existing financial management and personnel policies and procedures (P&P) include the necessary controls that conform to the prescribed standards in 45 CFR 75;

- Ensure recipient compliance with single audit requirements and audit recommendations relating to inadequate P&P; and

- Ensure recipients that receive periodic monitoring or site visits have adequate P&Ps.

Background

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

FMRs are performed to determine a recipient's capability for financial stewardship of federal funds. Reviews are performed either before an award is made (pre-award), or within a reasonable time afterward to ensure effective control and accountability of funds. Recipient responsibilities are outlined in 45 Code of Federal Regulations (CFR) §75.302.

The 5 management control areas listed within this document were developed using:

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

5 Management Control Areas

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

1. **Cash Management –** The recipients must maintain written P&Ps to minimize the time elapsing between the transfer of funds from the Payment Management System (PMS) and the disbursement of those funds by the recipient.[1] The written P&Ps must reference the process for drawdowns from PMS under HHS awards, and:

    a. Be limited to the minimum amounts needed to cover allowable project costs;

    b. Be timed in accordance with the actual immediate cash requirements of carrying out the approved project; and

    c. Not be made to cover future expenditures.

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

2. **Accounting System –** The P&Ps must include a detailed description of the accounting system(s), including:

    a. The ability to report revenue and expenditures separately by federal program;

    b. Identification in its chart of accounts of all federal awards received and expended and under which federal program; and

    c. The process of maintaining records pertaining to the source and application of receipts and disbursements, federal awards, authorizations, obligations, unobligated balances, assets, expenditures, and income and interest, which must be supported by source documentation.

   See 45 CFR §75.302.

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

    a. Documentation be maintained to support all disbursements and describe how;

    b. Disbursements be pre-approved and indicate by whom for both small and large dollar purchases;

    c. Expenditures be reasonable and explain how this should be accomplished (bids, quotes, etc.);

    d. Blank checks be safeguarded and define how;

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

e. Segregation of duties over creation of vendor accounts/making payments via Electronic Fund Transfer methods and define how; and

f. The dollar threshold for determining signatures on checks and designated organization officials authorized to sign checks.

See 45 CFR §75.327.

4. **Timekeeping –** The P&Ps must:

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

   b. Describe that the distribution of salary and wages charged to federal awards be based on records that accurately reflect the work performed and include the total activity for which employees were compensated;

   c. Provide reasonable assurance that the charges are accurate, allowable, and properly allocated (i.e., through use of personnel activity reports that reflect actual employee activity, certified as accurate by the employee and supervisor familiar with the employee's activities); and

   d. Non-profit organizations cannot charge salary and wages to federal awards based on budget estimates. However, States, Local or Indian Tribal Governments may allocate salary and wages charges to federal awards based on budget estimates, other distribution percentages, or use a substitute system if certain conditions are met in 45 CFR §75.430.

See 45 CFR §75.303 and §75.430.

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

   a. To be allowable under a federal award, costs must be reasonable, allocable, and adequately documented;

   b. A cost is reasonable if it does not exceed what a prudent person would incur under similar circumstances;

   c. A cost is allocable to a federal award to the extent the goods or services benefited the program; and

   d. A cost is adequately documented if it is supported by accounting records and source documentation such as purchase orders, vouchers, invoices, payroll allocation reports, payroll summaries, personnel activity reports or timesheets, etc.

See 45 CFR §75.403 – 75.405.