What are Unallowable Costs and How Can I Avoid Them?

Vera M. Messina, Nikita Baker and Valerie Holm

Office of Federal Assistance Management
Health Resources and Services Administration

8/17/2016
Presenters

• Vera M. Messina – Health Center Branch Chief
  • Division of Grants Management Operations (DGMO), Office of Federal Assistance Management

• Nikita Baker – Grant Reviews Team Lead
  • Special Reviews Branch, Division of Financial Integrity (DFI), Office of Federal Assistance Management

• Valerie Holm – Senior Advisor
  • Division of Financial Integrity (DFI), Office of Federal Assistance Management
Agenda

Tips for Success

• Applicable Statutory, Regulatory, and National Public Policy Requirements
• Funding Restrictions
• Federal Budget Costs Review

Post Award Monitoring and Audits

• Standards for Financial Management Systems
• Internal Controls
• Adequate supporting documentation for budget expenditures
• Division of Financial Integrity Grant Reviews
• Audit Resolution
Tips for Success

To ensure that you are using the funds in accordance to your approved budget and work plan here are some tips to help you:

• Have clear and distinct separation of duties
• Immediately consult with the HRSA Grants Management Specialist and/or Project Officer regarding any anticipated change of budget or unallowable costs
• Ensure that at least two health center employees are making the regular decisions on the use or accounting for funds to minimize the likelihood of errors.
Successful grant management includes sound policies and procedures around:

- Internal Controls
- Segregation of Duties
- General Ledger Account Reconciliation
  - (Cash – monthly)
  - (Grant Program Expense - monthly/quarterly)
  - (All General Ledger – annually)
- Budget Planning
- Personnel and Time & Effort Reporting
- Travel
- Equipment, Inventory and Supplies
- Procurement
Benefits of having a good financial management system:

• Avoid findings for unallowable costs
• Maintain effective control over and accountability for all assets
  o Adequately safeguard those assets
  o Ensure that they are used only for authorized purposes
• Ability to compare actual expenditures or outlays with the approved budget for the award
• Ensure your costs meet Federal cost principles, program regulations, and other requirements as cited in the NoA
Statutory, Regulatory, and National Public Policy Requirements

Available Resources for Proper Financial Management of your Grant:

- FOAs and Non-Competing Continuation Instructions (including HRSA SF-424 Two-Tier Application Guide) hyperlink these too
- Statutory and National Policy Requirements
- 45 CFR Part 75
- Policy Information Notice (PIN) 2013-01 - Health Center Budgeting and Accounting Requirements
In accordance with Statutory and National Public Policy Requirements, the list below provides a list of initiatives and items that are not to be funded or supported with federal funds:

1. Salary Limitation (Section 202)
2. Gun Control (Section 210)
3. Anti-Lobbying (Section 503)
4. Acknowledgment of Federal Funding (Section 505)
5. Restriction on Abortions (Section 506)
6. Exceptions to Restriction on Abortions (Section 507)
7. Ban on Funding Human Embryo Research (Section 508)
8. Limit on Use of Funds for Promotion of Legalization of Controlled Substances (Section 509)
9. Dissemination of False or Misleading Information (Section (515(b))
10. Restriction on Distribution of Sterile Needles (Section 520)
11. Restriction of Pornography on Computer Networks (Section 521)
12. Restriction on Funding ACORN (Section 522)
Federal Budget Costs Review

Budgeted costs must be:

• Allowable
• Allocable
• Reasonable
Federal Budget Costs Review

Allowable Costs Must:

• Be necessary and reasonable for the performance of the Federal award and allocable
• Conform to any limitations or exclusions
• Be consistent with policies and procedures
• Be accorded consistent treatment
Federal Budget Costs Review

Allowable Costs Must:

• Be determined in accordance with generally accepted accounting principles (GAAP)

• Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.

• Be adequately documented
Federal Budget Costs Review

Allocable Costs Must:

• Be incurred specifically for the Federal award
• Benefit both the Federal award and other work of the non-Federal entity and be distributed in proportions that may be approximated using reasonable methods
• Be necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award
Federal Budget Costs Review

Health Center Funds are Allocable if:

• All proposed expenditures directly relate to and support in-scope activities

• The scope of project defines the approved service sites, services, providers, service area(s) and target population which are supported (wholly or in part) under the total budget
Federal Budget Costs Review

Reasonable Costs Must:

• Be generally recognized as ordinary and necessary for operations and performance
• Restraints or requirements are in place
• Must be comparable to market prices for goods or services
• Indicate that individuals acted with prudence for the circumstances
• Must not significantly deviate from established practices and policies
### Personnel Costs:

**Example:**

<table>
<thead>
<tr>
<th>Name</th>
<th>Position Title</th>
<th>% of FTE</th>
<th>Annual Salary</th>
<th>Amount Requested</th>
</tr>
</thead>
<tbody>
<tr>
<td>J. Smith</td>
<td>Chief Executive Officer</td>
<td>50</td>
<td>185,100*</td>
<td>$92,550</td>
</tr>
<tr>
<td>R. Doe</td>
<td>Nurse Practitioner</td>
<td>100</td>
<td>$75,950</td>
<td>$75,950</td>
</tr>
<tr>
<td>D. Jones</td>
<td>Data/AP Specialist</td>
<td>25</td>
<td>$33,000</td>
<td>$8,250</td>
</tr>
</tbody>
</table>

*Actual Annual Salary = $255,000
Fringe Benefits Must:
• Include components of the fringe benefit rate for items such as health insurance, taxes, unemployment insurance, life insurance, retirement plan, tuition reimbursement

• Be directly proportional to the portion of personnel costs allocated for the grant

• Be adjusted proportionally if an individual’s base salary exceeds the legislative salary cap (i.e., $185,100)
Travel Expenses Include:

• Transportation, lodging, subsistence, and related items incurred by employees

• Transporting patients to the site where services are being provided, including costs of public or private transportation (i.e. fare cards, vouchers)
Equipment Expenses Include:

Tangible personal property (including information technology systems)

- With a useful life of more than one year and
- A per-unit acquisition cost of $5,000 or one that equals, or exceeds the lesser of the established capitalization level by the non-Federal entity for financial statement purposes

Examples:
- Medical or scientific equipment (i.e. x-ray machine)
- Automobiles, vans, trucks
- Computer servers
- Furniture
- Electronic Health Records software and systems
Federal Budget Costs Review

Supplies Expenses Include:

• Personal property other than equipment, intangible property, and debt instruments

• The category of “supplies” includes items that could be considered equipment, but do not meet the threshold definition

• Examples:
  • Medical – Consumable items (gloves, syringes)
  • Medical – Tangible items (stethoscopes, blood pressure monitors, scales, electronic thermometers)
  • Office supplies (paper, pencils, pens, toner)
  • Instructional materials (brochures, guides)
  • Technology support (peripherals, flash drive)
  • Computers, laptops, personal printers, fax machines, telephones
Other Considerations* Include:

- Audit costs
- Board meeting expenses (except food)
- Communication (phones, postage)
- Facilities costs – rent, utilities
- Insurance
- Licenses (professional)
- Marketing, promotional
  - Must be allocable to HRSA sponsored services – not solely organization
- Printing costs
- Patient travel
- Publications, subscriptions
- Software (EHR/EMR, licenses, installation)
- Training, registration fees, meetings

*Costs not covered by the other budget categories
Federal Budget Costs Review

Contractual Obligations Include:

• Written binding agreements for goods or services
• Patient care (sub-recipients, medical services)
• Non-patient care
  • Consultants, professional services
  • Equipment maintenance
  • Facilities – leases, janitorial, maintenance
Federal Budget Costs Review

Line Item Budget Must Include:

• For equipment, major supply items and other individually identifiable items:
  • Item name and description
  • Number and cost per unit
• For other supplies (e.g. office, medical):
  • Total or cost per participant/month
• For travel:
  • Transportation costs, per diem, registration and other costs per person per trip
Examples of Unallowable Costs Include:

- Bad debt
- Conference Costs
- Contingency Funds (Miscellaneous Funds)
- Donations and Contributions
- Entertainment
  - Costs incurred for amusement, diversion, and social activities and any associated costs
  - Generally speaking, entertainment costs are unallowable. Check with your Grants Management Specialist if you have questions.
- Fundraising costs
- Fines, penalties
Examples of Unallowable Costs Include:

- Honoraria (except as a payment for services rendered, such as a speaker’s fee under a conference grant)
- Interest on borrowed capital or the use of the non-Federal entity's own funds
- Financing costs (including interest) to acquire, construct, or replace capital assets are allowable subject to conditions in §75.449
- Lobbying
- Meals (generally unallowable)
- Promotional Items
  - items and memorabilia (e.g., pencils, cups, t-shirts, cookbooks, bags, etc.), gifts, and souvenirs designed to promote the recipient’s organization are unallowable as advertising/public relations costs
Standards for Financial Management Systems

Standards Include:

• Ability to identify, in its accounts, all federal awards received and expended
• Ability to provide accurate, current, and complete financial results of each federal award
• Ability to provide records that adequately identify the source and application of funds for federally-funded activities
Standards for Financial Management Systems

Standards Include:

• Ability to maintain effective control over, and accountability for, all funds, property, and other assets

• Ability to provide for comparison of expenditures with budget amounts for each federal award

• Written procedures maintained and in place to implement the requirements of payment

• Written procedures maintained and in place to determine the allowability of costs
Internal Controls

- Know and adhere to the standards in 45 CFR 75 and laws and conditions associated with each federal award received

- Establish and maintain written policies

- Have appropriate segregation of duties

- Maintain stringent controls on cash

- Maintain support for expenditures
Supporting Documentation

Adequate supporting documentation requirements:

- Costs should have clear connection to the grant.
- Costs incurred should support only items listed in the approved grant budget and applicable solely to the specific grant award.
- Costs incurred that benefit more than one award or other work, or is necessary for overall operation of the organization and assignable in part to the award, must be allocated using a reasonable method.
- Costs expended must not exceed total approved budgeted amounts.
- Dates on invoices, payroll documents, receipts and other support should fall within the grant period and match accounting records.
Supporting Documentation

Examples:

• Timesheets, paystubs, and other payroll documentation
• Receipt of purchase
• Copies of cancelled checks showing the amounts actually paid
• Sub-grantee agreements or contracts showing terms, conditions and cost of the services/goods
• Invoices showing vendor, date, amount paid, and details of items/services purchased
• Mileage logs including starting point, ending point, total miles and date
• Travel logs including reason for travel, airline receipts, hotel bills, etc. (must meet regulatory and internal organizational procedure requirements)
Audits

Types of Audits DFI Manages:

• Single Audits (formerly OMB A-133)
• Office of Inspector General, Office of Audit Services (OIG/OAS)
• Contractor Audits
• Grant Review
  • Conducted by the Division of Financial Integrity
  • Requested by Program/HRSA Management; or Hotline referral
Grant Reviews

The grant review process includes:

• Initiating the review and requesting information
• Conducting the review, including evaluating supporting documentation
• Drafting the review report
  • Includes findings, unallowable costs
• Providing findings, including any unallowable costs, to DFI Audit Resolution
• DFI Audit Resolution will determine if unallowable costs should be refunded
Audit Resolution

Audit Findings

• An audit finding is an instance of non-compliance with laws, regulations or provisions of grant agreements identified by the auditor during an audit

Audit Resolution Process

• HRSA has 6 months to ensure corrective action has been taken
• Work directly with non-federal entity
• Once corrective action has been accepted, close out audit
• Mitigating Risk
Audit Resolution

Non-monetary

• Procedural or programmatic concerns
• May result in a corrective action plan

Monetary Findings

• May result in request for refund of grant funds relating to non-compliance, i.e. unallowable costs on grant
• HRSA stakeholder involvement (Project Officer, Grants Management Specialist, Senior Management, etc.)
• Must be supported by documentation
Audit Resolution

HRSA’s Second Most Prevalent Finding is Unallowable Costs

• Lobbying
• Entertainment
• Alcohol
• Lack of Supporting Documentation
Key Points

• Financial oversight is key

• Grantees should have adequate policies and procedures for fiscal oversight

• Use the approved budget as your guide

• Be compliant, and follow the rules of the FOA and NoA
Key Points

• Think Allowable, Allocable & Reasonable

• Your goal is to avoid questionable costs and audits

• When in doubt, consult your HRSA Grants Management Specialist or Project Officer
Additional Resources

• **PART 75—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards**

• **HHS Grants Policy Statement**

• **HRSA Manage Your Grant**
Questions and Contact Information

Vera M. Messina
Email: emessina@hrsa.gov
Phone: 301-845-0882

Nikita Baker
Email: nbaker@hrsa.gov
Phone: 206-615-2639

Valerie Holm
Email: vholm@hrsa.gov
Phone: 301-443-8642

Find HRSA on the Web, Twitter, and Facebook!