

IL-NET National Training and Technical Assistance Center for Independent Living



Independent Living Research Utilization

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>> Slide 2

Administrative Requirements and Cost Principles for SILCs as Sub-Grantees

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August 13, 2020

Evaluation Survey & Presenter Contact Information

Your feedback on this webinar is important to us. At the end of the presentation you will have the opportunity to complete a brief evaluation survey.

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What You Will Learn

- How to have good internal controls that will protect your assets and your reputation.
- How you can monitor to be sure that your controls are appropriate and working.
- How the DSE may audit the finances of the SILC as a sub recipient and how to be prepared for those audits.

Key Definitions

- Nonfederal entity. That is your council, whether or not you are incorporated as a non-profit. Applies to organizations that receive federal funding but aren't part of the federal government.
- Sub-grantee. If you receive Part B funds, you are a sub-grantee of the Designated State Entity which receives the direct grant.
- Modified total direct costs. These are a select group, but not all of your total direct costs (expenditures).
- Indirect costs. These are any costs that benefit all of your programs similarly, and smaller cost categories where direct assignment produces more effort than benefit.

Environmental Risk for Nonprofits

- Software changes including software as a service-cloud-based program.
- Who uses cloud-based programs? For what?
- Personal identifiable information needs to be protected.
- Outsourcing certain functions such as financial reporting, fundraising, and investing may help, but it is important to review service agreements to clarify responsibilities, establish timelines including response times, and to verify that the providers' controls are appropriate.
- How can an organization check the quality of a service provider?
SOC 1* reports?

*SOC 1 – Service Organization Control Report – is an auditor's report that a service provider's service system, and controls over that system, are suitably designed

Environmental Risk for Nonprofits, cont'd.

- COVID-19 presents an unprecedented risk for all of us.
- Most of us have been working remotely or unable to work.
- New strategies are required for internal control. They start with communications and training.
- Provide guidance about having a good workspace and a routine.
- Make sure that critical software is available to staff.
 - Consider collaboration software like Microsoft Teams.
 - Be sure software is accessible.
- Many good “return to work” procedures are available online.
- Follow nonprofit leadership organizations like techsoup.org as they provide training, tools, and guidance for working remotely (and sometimes free stuff).

The Updated Fiscal Procedures Manual

- The Fiscal Procedures Manual can help with many of these requirements. It has been updated recently and is found at <https://www.ilru.org/il-net-sample-fiscal-policies-and-procedures-handbook>.
- Use it as a starting point in evaluating your current policies or for developing new policies. While it was developed for the CILs, most applies to the SILC as well.
- Virtually all the policy and procedures areas that ACL requires are addressed in this manual.
- It is extremely important that you customize each of the policies for your own organization. The DSE expects you to adhere to your policies, even if they aren't required. If you aren't compliant with your own policies, you may be cited for that!
- Federal funding requires compliance with regulations and also internal controls over your compliance. Your policies will be evidence of your controls over compliance.

Review of the Fiscal Procedures Manual

- The manual talks about internal controls. There are very specific procedures for access to records, segregation of responsibilities, receipts, disbursements, payroll, drawdowns, and expense allocation.
- You need to adopt your version of these internal controls to secure your assets, preserve your confidential information, protect your reputation, and have and prove you have controls over compliance.
- Your policies should be very specific regarding how the duties related to fiscal procedures are assigned between staff and board/council members.
- How much financial management the DSE conducts, and how much the SILC implements, depends on your situation. Your policies should specifically describe each role.

What Can Go Wrong in Nonprofits?

To understand the value of internal controls we must understand how things can “go wrong.” The point is to prevent improper transactions, which can include any of the following:

- Refunds can be generated and diverted by overpaying a bill or paying it twice.
- Kickbacks—a personal payment to an employee for purchasing from or contracting with a particular vendor or contractor.
- Check signatures can be forged and improper payments made. Banks aren't great about verifying signatures.

What Can Go Wrong in Nonprofits? cont'd.

- Phony invoices can be generated and submitted for payment.
- Credit cards can be used for improper charges, and credits can be improperly issued.
- Supply purchases can include personal items that are left in someone's trunk while the rest of the order is brought in, unless someone checks the items against receipt.

What Can Go Wrong in Nonprofits? cont'd. 2

- Either the payee or the amount is altered after a check is signed.
- Bank liability for improper checks diminishes when reconciliations are not timely.
- If a check forgery is not reported to the bank, the bank has reduced liability on subsequent forged checks. That increases your liability.
- Mobile banking fraud is becoming more common. Mobile devices must be secure.

Internal Controls: Access to Records

- Consider access to write checks. If your SILC writes its own checks, it is best that the person who can set up a check to print is the only one who can access the check forms. Lock forms so that no signer can access the forms, take a check out of the stack and write/sign their own.
- Consider information entered into the accounting software. While an executive director or council treasurer should be able to review transactions, they should not be able to alter the payee, amount, or information about allocation for a check that has been cut.
- The person who prepares checks should not also mail them. If checks are returned the payee or amount might be changed.

When the DSE conducts all these functions, their policies apply.

Internal Controls: Segregation of Responsibilities

- The person(s) who approves the expense and signs the checks is not the person who can write the checks.
- No one should sign a check to themselves. A board or council member should sign checks to the Executive Director.
- When new vendors or employees are added, someone should review those records. You can set up an alert to the Accountant, Executive Director and/or board treasurer when a new employee or vendor is added in your software, or review a printed summary periodically.
- The person who views checks and reconciles the accounts should be different from the person who has access to write/change information in the check. (A review of check images compared to the check register information will reveal changes in payee or amount).

Rule of thumb – two people see each transaction. A council member oversees what the ED does, the DSE oversees what the council does, etc.

Internal Controls: Record Keeping Including Payroll

Your SILC has specific policies for approving and paying an expense. Some elements include:

- Do you use a requisition or check request process? Who are the parties and how do you assure two people see everything?
- If you feel an expense might be questioned, record your rationales for allowability in the check record.
- How are expenses compared to the budget/financial plan of the SILC for consistency?
- How do you report to the Council as they oversee your organization?
- If you have more than one funding source, how are time and effort recorded after the fact to properly allocate payroll expenses?

Internal Controls: Expense Allocation

- If you have more than one funding source, how are expenses allocated to the proper source or cost objective?
- You must record your allocation and apply the same allocation process consistently.
- If the DSE is issuing the checks or reimbursing you, they still need to see the allocation process and know what portion of the expense is related to the Part B or Innovation and Expansion (I&E) funds and what is charged elsewhere.

Internal Control Related to Federal Funding

- When it comes to internal controls, whether agency wide or specifically related to a grant or contract, **if you didn't document it, you didn't do it.**
- This is true for establishing a proper control environment, performing risk assessment, establishing control activities, communicating your procedures, policies and control activities, and monitoring.
- Auditors performing compliance audits are required to look at your controls over compliance and it is what you can expect from the DSE and other funder auditors.

Strategies to Improve Banking Security

Falsified checks and bank account hijacks can be reduced with technology countermeasures, such as—

- Secure checks.
- Positive pay (provide your bank with information about checks you have issued for matching).
- Reverse positive pay (review incoming checks before they are processed).
- Use a secure font and insert asterisks above the payee name to prohibit adding another name
- Your bank should be pleased to assist you with improving banking security. Talk to your bank contact about talking to a security specialist and what would be appropriate for your organization.

Cybersecurity Challenges and Resources

- What do cyber criminals want? Money from your accounts, ransom (money), credit card numbers, Social Security numbers (that they can sell for money).
- How badly do they want these things? They are willing to spend their entire lives trying to trick you and steal from you – all day every day.
- How can you reduce cybersecurity hacks by 90%?
- Consider these links for guidance to reduce cybersecurity attacks.
 - https://www.youtube.com/playlist?list=PLmvQaMcWlqbtQp81nL_g63NlOqzRRkTds 45 second closed-captioned tips for security. (This is one in a series.)
 - <https://inspiredelearning.com/resource/security-awareness-tip-day/> Short tips of the day.

Questions & Discussion

Specific Controls Over Compliance

Specific controls over cash management might include:

- Review of the contract to determine the drawdown method, and assess the process for documenting fund requests, or
- Developing a reporting system to identify any lapses between drawdowns and disbursement.

Specific period of performance controls could include:

- Review of contracts to identify the specific period of performance and any unique requirements about pre-award spending, extensions, and repayment of unused amounts.

Unallowable Costs

45 CFR §75.420 and the following sections identify costs that are unallowable or subject to special requirements including—

- alcoholic beverages
- certain entertainment
- interest on loans and lines of credit
- fines and penalties
- lobbying

These unallowable costs cannot be charged to federal grants.

Allowable and Unallowable Costs

Legal defense and other legal costs

- Legal defense costs are generally unallowable if the litigation is initiated by any governmental entity under the false claims act (intended to prevent defrauding the government), or
- by a current or former employee who has submitted a whistleblower complaint of reprisal (retaliation), or
- if the claim relates to a violation or failure to comply, and it results in a criminal conviction or a civil penalty or finding of misconduct, or an order to take corrective action, or debarment or suspension of the nonfederal entity.

Allowable and Unallowable Costs, cont'd.

Memberships subscriptions and professional activity costs

- Although the costs of membership in and subscriptions of professional and technical organizations are generally allowable, memberships in country clubs and similar organizations are unallowable.
- Costs for membership in lobbying organizations are also unallowable.
- For memberships in IL organizations that also lobby, it is the organization's responsibility to assure that their funds do not support lobbying.
 - It is the DSE, or indirectly the SILC or Part B CIL's, responsibility to assure that funds are not being used to support lobbying.

Questions & Discussion

Cost Allocation Methods

- Remember there are several cost allocation methods including:
 - Approved federal indirect cost rate
 - 10% De minimis indirect cost rate
 - Direct allocation
 - A cost allocation plan may be allowed by the DSE.
- While it is allowable to charge all shared costs directly, this typically cannot be clearly shown, so it is not recommended if you have more than one funding source.

Documenting Travel Expenses

- There are policies that cover types of travel, preapproval, reimbursements, and per diem allowances.
- Travel reimbursement is an area that is sometimes subject to abuse and an area that ACL/OILP will most likely look at during their audits.
- Senior staff is subject to the same documentation and review requirements as other staff. This is sometimes accomplished by review by a board member.
- When credit cards are used for travel expenses, the original receipt is required for documentation. The credit card bill does not contain sufficient information to document.

Procurement Procedures

- Procurements — the Fiscal Procedures Manual has a sample purchasing policy that is up to date, including the new thresholds for micro purchases and small purchases.
- Objectives of the procurement policy include:
 1. Limiting purchases to necessary items.
 2. Minimizing the possibility of theft or misuse.
 3. Controlling costs while ensuring quality.
 4. Complying with federal, HHS and other regulations.
 5. Properly allocating the cost of items purchased.

Procurement Procedures — Purchase Thresholds

- Procurements — the policy identifies purchase thresholds, including:
 - Micro purchases not exceeding \$10,000. When practicable, distributes among qualified suppliers.
 - Small purchases between \$10,000 and \$250,000, referred to as the Simplified Acquisition Threshold. Price or rate quotations must be obtained from an adequate number of qualified sources. How would you do that?
 - Equipment purchases or building improvement costs in excess of \$5,000 require prior approval from ACL/OILP.
 - If your policies are more restrictive you must follow your policy.
 - If the DSE has a lower threshold you must follow that.

Annual Filings

- The SILCs that are 501(c)3 organizations are generally responsible to file form 990 or form 990 EZ. These are due 4 ½ months after your year-end and there are significant penalties for late filing.
- Extensions are possible.
- You may also have a filing with your Charities Bureau.

SILCs are a Subrecipient of the DSE

Subrecipients

- Determine who will receive federal assistance
- Are responsible for programmatic decision-making
- Are responsible for federal program objectives
- Must adhere to federal award requirements
- Carry out the program

Contractors

- Provide goods and/or services based on a procurement relationship
- Normally provide similar goods or services to other purchasers
- Operate in a competitive environment
- Are not subject to compliance requirements of the federal award

Subrecipient Monitoring by the DSE from 45 CFR §75.352

Pass-through agency must provide the subrecipient with:

- the federal award, name, and CFDA number
- the federal awarding agency,
- the current federal award amount being passed through,
- the cumulative federal award amounts being passed through,
- the date of the award,
- the timeframe for performing services,
- your agency's contact person,
- your ID number, and
- the indirect cost rate (their rate if they have an approved indirect cost rate or use the de minimis 10% rate).

Subrecipient Risk Assessment

- The grantee (DSE) may withhold funds if there are issues, until evidence of acceptable performance is received.
- The grantee may consider additional monitoring and more detailed reporting.
- If issues are identified, the grantee may require training, consider on-site reviews of agreed-upon procedures, or audits of aspects of the program.
- If you receive Part B or I&E funds, you are a subrecipient of the Designated State Entity (DSE), and they may consider on-site reviews or other audits of your organization.

Subrecipient Risk Assessment, cont'd.

- The DSE may assess the risk of subrecipient not complying with all requirements (based on prior experience with the subrecipient, or results of previous audits, or results of federal monitoring).
- The DSE may monitor subrecipients for performance and compliance (review reports of services they have provided, review audit reports, compare actual accomplishment to objectives).
- Monitoring could include things such as calculation of whether per unit costs are as expected, obtaining information about cost overruns, failure to meet goals, delays, etc.

Information Needed from the Subrecipient

The subrecipient entity must provide:

- Confirmation of their indirect cost rate if they have one, or their election of the 10% de minimis rate.
- Access to records and financial statements.
- The extent of procedures performed will depend on the subrecipient. If they have a federal compliance audit, request and review that to reduce other monitoring.
- If they are a smaller organization with limited federal funding experience, monitoring and up front training should be much more thorough.

These are Complex Requirements

- The good news is that SILCs' financial operations are relatively straightforward and uncomplicated.
- This automatically reduces risk and the need for many of these monitoring procedures.
- This will make your policies simpler to develop and implement.

Final Questions

Any final questions?

Directly following the webinar, you will see a short evaluation survey to complete on your screen. We appreciate your feedback!

https://usu.co1.qualtrics.com/jfe/form/SV_3eHZnJfvmCi5Vsh

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The IL-NET is supported by grant numbers 90ILTA0001 and 90ISTA0001 from the U.S. Administration for Community Living, Department of Health and Human Services, Washington, D.C. 20201. Grantees undertaking projects under government sponsorship are encouraged to express freely their findings and conclusions. Points of view or opinions do not, therefore, necessarily represent official Administration for Community Living policy.