

# ACCOUNTING FUNDAMENTALS FOR NON-ACCOUNTANTS

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U.S. Environmental Protection Agency  
*Updated January 29, 2014*



# Tribal, U.S. Territories and Insular Areas Administrative and Financial Guidance for Assistance Agreements

## Accounting Fundamentals for Non-Accountants

Grants Management

U.S. Environmental Protection Agency



### ***Who needs to know about basic accounting fundamentals in a Tribal Nation?***

All Tribal Nations need to be able to provide accurate, current, and complete disclosure of finances under federal awards. In order to be successful, Tribal Nations need to have personnel who:

- Have experience in accounting and/or an accounting education.
- Have education or experience with federal assistance agreements and award requirements.
- Are able to prepare and keep accurate and timely assistance agreement records and files.
- Are able to produce financial reports that can be compared with the award work plan and the budget.

In addition there are many others in the Tribal Nation who need to be familiar with, and have a good understanding of the accounting process. These individuals may include:

- Program staff involved in the day-to-day management of grants, especially those who approve expenditures.
- Tribal grants management personnel.
- Tribal leaders and administrators who have oversight responsibilities.
- Finance staff.
- Office staff involved in grants records management and retention.
- Bookkeeping and accounting staff, especially those new in their positions, can benefit by having a better understanding of how their job functions relate to federal grants.

### ***What is the purpose of this module?***

This purpose of this module is to provide an introduction and overview of accounting fundamentals for non-accountants. The module also covers important topics such as communication, internal controls, documentation and recordkeeping, records retention and being prepared for a federal audit.

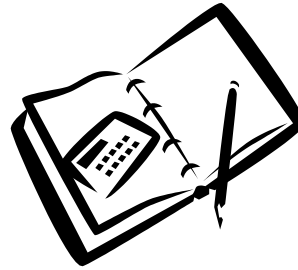


## In This Module

### Accounting Introduction

#### Accounting Fundamentals

- Chart of Accounts
- General Journal
- General Ledger
- Balance Sheet
- Income Statement
- Accounts Payable
- Accounts Receivable
- Payroll
- Receipts
- Disbursements
- Cash vs. Accrual Accounting Methods



## In This Module, Continued

- Cost Share, Matching and In-kind Contributions
- Direct and Indirect Costs
- Accounting and Grants Management
- Communication
- Internal Controls
- Documentation & Recordkeeping
- Records Retention
- Audits





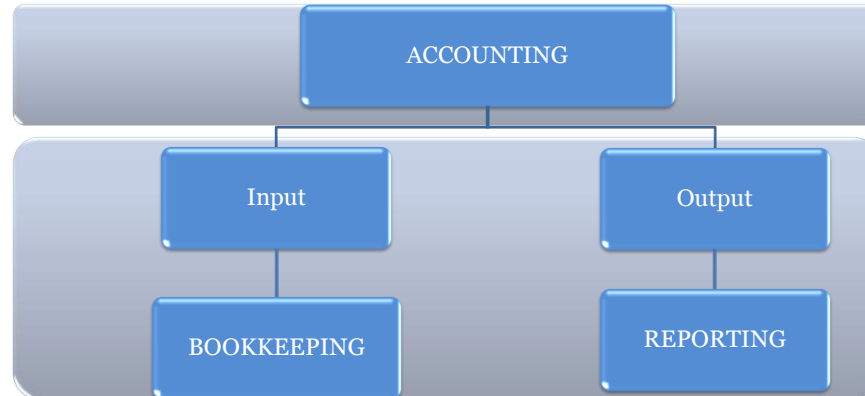
## What is Accounting?

Accounting is the recording of financial data for all receipts, expenditures, assets, liabilities and net worth for the entire Tribal Nation and includes analysis and measurement of this information.

**Accounting information is reported to internal and external decision makers.**



## What's the Difference Between Bookkeeping, Accounting and Recordkeeping?



**Bookkeeping and reporting can be thought of as the input and output of a complete accounting system.**

### *What's the difference between accounting, bookkeeping, and reporting?*

Accounting encompasses the broader responsibilities over developing and maintaining the accounting systems under which bookkeeping functions are performed. Accounting is concerned with the timely and accurate recording of transactions, providing useful management information, and properly reporting such information for various user needs.

Developing and maintaining an accounting system involves setting up and maintaining an appropriate chart of accounts for the organization. Policies and procedures are then developed to provide guidance for all possible financial transactions from source documents (checks, purchase orders, etc.) to journals (payroll journal, cash disbursement journal, invoice register, etc.), to general ledger, (based on the chart of accounts), and ultimately to a variety of reports for all internal and external needs.

Bookkeeping and accounting share two basic goals:

- To keep track of income and expenses, thereby improving the organization's ability to achieve profitability
- To collect the necessary financial information about the organization's business to file required reports.

Bookkeeping refers to the actual transactional entering and recording of data. Examples include, writing checks, processing payroll, making deposits, recording disbursements and recording receipts.

Reporting, (the output of the data generated through various bookkeeping entries), is used for both internal and external purposes. Internal reports are used within the organization by both management and other personnel. Internal reporting can further be divided into financial and non-financial data.



## Policies, Procedures and Processes

**Policy** is a rule or goal, a course of action set by a governing organization.



**Procedure** refers to the actions taken to conform to a rule, a prescribed series of steps taken to achieve the goal, or the way in which policy goals are achieved.



**Process** refers to a formal set of operational tasks performed or procedural steps taken, such as regular duties performed the same way each time.

### *What needs to be in place before the award is received?*

Does your program have the essential systems, policies, procedures, and documentation necessary for compliance with EPA assistance agreement regulations? Establish internal control procedures to ensure your systems can comply with federal grant projects.

**Policy** is a rule or goal, a course of action set by a governing organization. Policies apply to all programs and projects.

**Procedure** refers to the actions taken to conform to a rule, a proscribed series of steps taken to achieve the goal, or the way in which policy goals are achieved. Procedures are usually set by administrative or management personnel to help a department or project function efficiently.

**Process** refers to a formal set of operational tasks performed or procedural steps taken, such as regular duties performed the same way each time. Processes are essential to effective completion of repetitive tasks.

Use the questionnaire to periodically examine the systems, procedures, and controls set up at the organizational level. EPA project officers and grants specialists, along with single auditors and others periodically review for compliance but are in no way a substitute for a sound fiscal system.



## Accounting - Why bother?

- Internal reporting
  - How did we do?
  - Where are we going and how do we get there?
  - Stewardship of resources – financial and other
- External accountability
  - Funders/Stakeholders/Public/Government
  - Stewardship of resources



## Accounting Procedures

Accounting procedures are part of a financial system that consists of:

- Policies,
- Procedures, and
- Documents

supporting the:

- Collecting
- Recording,
- Disbursing, and
- Reporting

...of all the award recipient's financial activity.

### ***What are the required accounting procedures?***

Accounting procedures are the processes a Tribal Nation uses to record all of its financial transactions. Accounting procedures are part of a financial system that consists of policies, procedures, and documents supporting the recording, disbursing, and reporting of the Tribal Nation's financial activity, so that the Tribal Nation's leadership (elected administration), department heads, and the federal government have good information about the financial status of a project.



## Accounting Procedures Manual



- The organization's Accounting Procedures Manual must describe in writing the accounting policies and procedures for all its operations including federally-issued awards.
- Be sure to provide training to your program staff.
- Review the manual and determine the strengths, limitations and inconsistencies.

**If you have an established policy or procedure, auditors and EPA expect you to follow it!**

### *Do we need an accounting manual?*

The Tribal Nation must have an accounting manual. This manual should describe in writing the Tribal Nation's accounting policies and procedures for all its operations including federally-issued awards. For example, a general financial policy might read:

*The following policies and procedures provide a framework and structure as to how the Tribal Nation's financial accounting system will be managed and operated. The objective of this system is to provide management with reasonable, but not absolute assurances that assets are safeguarded against loss from unauthorized use or disposition; that the Tribal Nation is managing its state and federal programs in compliance with laws and regulations; transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The system will also provide management and the Tribal Council the data necessary to maximize the beneficial use of financial resources available.*





A financial accounting system consists of policies, procedures, and documents that support the \_\_\_\_\_ of a Tribal Nation's financial activity.

- A. recording
- B. disbursing
- C. reporting
- D. status
- E. All of the above



## Know the Terminology, Federal Standards & Resources

The screenshot shows the EPA Grants and Debarment website. The main heading is "Grants and Debarment". Below it, there is a search bar and a breadcrumb trail: "You are here: EPA Home » Grants and Debarment » Desk Top Resource » Glossary". The "Glossary" section is active, displaying definitions for several terms:

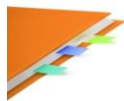
- ACCRUED EXPENDITURES:** The charges incurred by the recipient during a given period requiring the provision of funds for:
  - (a) goods and other tangible property received;
  - (b) services performed by employees, contractors, subrecipients, and other payees, and
  - (c) other amounts becoming owed under programs for which no current services or performance is required (such as annuities, insurance claims, and other benefit payments). (40 CFR Parts 30 & 31)
- ACCRUED INCOME:** The sum of:
  - (a) earnings during a given period from services performed by the recipient and goods and other tangible property delivered to purchasers, and
  - (b) amounts becoming owed to the recipient for which no current services or performance is required by the recipient. (40 CFR Parts 30 & 31)
- ACQUISITION COST OF EQUIPMENT:** The net invoice unit price of the equipment, including the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for the purpose for which it was acquired. Other charges such as the cost of installation, transportation, taxes, duty or protective in transit insurance, shall be included or excluded from the unit acquisition cost in accordance with the recipient's regular accounting practices. (40 CFR Parts 30 & 31)
- ADMINISTRATIVE REQUIREMENTS:** Those matters common to grants in general, such as financial management, kinds and frequency of reports, and retention of records. These are distinguished from programmatic requirements, which concern matters that can be treated only on a program by program or grant by grant basis, such as activities that can be supported by grants under a particular program. (40 CFR Part 31)

<http://www.epa.gov/ogd/recipient/glossary.htm>

Many useful terms are provided in:

- The **Appendix**, which can be found at [http://www.petetribal.org/images/Appendix\\_5.11.12.pdf](http://www.petetribal.org/images/Appendix_5.11.12.pdf).
- EPA's online glossary at <http://www.epa.gov/ogd/recipient/glossary.htm>

If you would like additional examples or explanations, ask your grants specialist. Your grants specialist will be happy to provide individual assistance.



## Accounting Principles

- Generally Accepted Accounting Principles (GAAP)
- The Government Accounting Standards Board (GASB)
- Financial Accounting Standards Board (FSAB)
- Internal Revenue Service (IRS)
- Office of Management & Budget (OMB)

**All recipients of federal funds must follow GAAP guidelines**

### ***Are we required to follow Generally Accepted Accounting Principles (GAAP)?***

All recipients of federal funds must follow GAAP guidelines. **Generally Accepted Accounting Principles (GAAP)** is a term used to refer to the standard framework of guidelines for financial accounting used in any given jurisdiction; generally known as Accounting Standards. GAAP includes the standards, conventions, and rules accountants follow in recording and summarizing transactions, and in the preparation of financial statements. Good internal controls assure that reliable accounting data is generated and is consistent with applicable federal laws and regulations

(GAAP) as well as Tribal Nation policies and procedures. Good internal controls also safeguard assets against theft and unauthorized use, acquisition, or disposal.

- Generally Accepted Accounting Principles (GAAP) [www.fasab.gov/accepted.html](http://www.fasab.gov/accepted.html)

The **Government Accounting Standards Board (GASB)** is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments.

- Government Accounting Standards Board (GASB): <http://www.gasb.org/>



## Accounting Cycle



# Accounting Fundamentals



## Bathtub Analogy

(flow of assets into and out of an organization)

1. Water level at the beginning of the period (month or year) represents the Net Assets of the organization; water flows in through a spigot, increasing net assets – just like revenue.
2. Water flows out through the drain, decreasing net assets – just like expenses of an organization.
3. At the end of the period (month or year), we mark a new water level in the tub.
4. The change in the water line shows how much the net assets have increased or decreased in the period.



*“If we measure the inflows and outflows separately we can better understand what happened and why and thus we can attempt to control the net assets of the organization”*  
 – Helen Knoll, 2/27/09





## Chart of Accounts

- The chart of accounts is the “backbone” of an accounting system and lists all of the accounts in the general ledger.
- Each transaction is coded to an account.

### Chart of Accounts (Example) December 31, 2011

025-1300	Bank checking/savings
025-1800	Accounts Receivable
025-2100	Accounts Payable
025-2200	Salary Payable
025-2300	Salary Benefits payable
025-4000	Income
025-5000	Salary
025-5900	Salary Benefits
025-6000	Contract Labor
025-6100	Printing
025-6320	Supplies
025-6500	Equipment Rental
025-6650	Group Meetings
025-6700	Travel
025-6800	Indirect

### Chart of accounts

#### *What is the chart of accounts?*

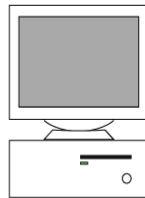
The chart of accounts lists all of the accounts in the general ledger of the Tribal Nation. Each account is identified with an account number and it is used to record and classify financial data including revenue and expenses. The chart of accounts could include EPA projects or “funds”, rent, utilities, and other essential expenses.



## General Journal



- Is the accounting record of transactions
- Is recorded in chronological order



**Please Note:** With computerized **accounting software packages**, other journals such as payroll, cash receipts, cash disbursements, procurement, accounts payable and accounts receivable are often used instead of the general journal.

### General Journal

#### *What should be recorded in the general journal?*

The general journal, also called the Book of Original Entry, is the first place the Tribal Nation records anything affecting their financial well-being. The general journal is the accounting record where transactions are initially recorded in chronological order.

The general journal is a daily log of transactions. It needs to include the following:

- Date the item is being recorded
- Account number and name of the transaction that it affects
- Debit column—the amount that is debited to the account (subtracted from the balance)
- Credit column—the amount that is credited to the account (added to the balance)
- Transaction description—an explanation of why the transaction was recorded into the Tribal Nation's accounting records
- Document reference number—the Tribal Nation's reference code for the kind of transaction being recorded.

For example, when payments are made the reference number can be the Check Number. If a receipt of ordered supplies is recorded, then the vendor's invoice number or a voucher number may be used.



## Document Reference Numbering System

- Recorded in the General Journal
- Identifies transactions
- Needs to be used consistently

Cash Disbursements Journal for FY 20010/2011

DRN	Date	Description	Amount
010021	12/08/2010	Excavation	\$29,600.00
010022	12/16/2010	Gate installation	\$537.84
010023	12/17/2010	Clarifier	\$548.35

### Document reference numbering system

#### *What does a document reference numbering system do?*

A document reference numbering system is designed by a Tribal Nation to identify the transactions that are entered into the general journal. Some systems may use the Transaction, or Transaction Number or ID #. If the document reference number is the Check Number, then every time a check is written, the Check Number is used, rather than a file number or other identifier. Whatever system the Tribal Nation uses, the system should be used consistently.



## SAMPLE General Journal

### December 31, 2010

Trans#	Type	Date	Num	Name	Memo	Account	Debit	Credit
1	check	12/6/2010	ck 92	AA Airlines	J. Doe airline ticket	025-6700 – Travel	700.00	
1	check	12/6/2010	ck 92	AA Airlines	J. Doe airline ticket	025-1300 – Bank		700.00
2	check	12/7/2010	ck93	Qx Rentals	rent for Dec-10	025-6500 – Equip. Rent	1,200.00	
2	check	12/7/2010	ck93	Qx Rentals	rent for Dec-10	025-1300 – Bank		1,200.00
3	check	12/11/2010	ck94	Rest Hotel	J.Doe hotel exp.	025-6700 – Travel	800.00	
3	check	12/11/2010	ck94	Rest Hotel	J.Doe hotel exp.	025-1300 – Bank		800.00
4	wire	12/12/2010	w#25	Bank	Payroll ending 12/12/10	025-5000 – Salary	9,000.00	
4	wire	12/12/2010	w#25	Bank	Payroll ending 12/12/10	025-5900 – Salary Ben.	1,530.00	
4	wire	12/12/2010	w#25	Bank	Payroll ending 12/12/10	025-1300 – Bank		10,530.00
5	check	12/12/2010	ck 95	ABC Supply	parts for project	025-6320 – Supply	2,800.00	
5	check	12/12/2010	ck 95	ABC Supply	parts for project	025-1300 – Bank		2,800.00
6	check	12/13/2010	ck 96	XYZ Hall	start-up meeting	025-6650 – Group meet.	400.00	
6	check	12/13/2010	ck 96	XYZ Hall	start-up meeting	025-1300-Bank.		400.00
7	check	12/15/2010	ck 97	Computer Supp.	Computer supplies	025-6320 – Supplies	1,500.00	
7	check	12/15/2010	ck 97	Computer Supp.	Computer supplies	025-1300 – Bank		1,500.00
8	check	12/16/2010	ck 98	J. Doe	travel per diem	025-6700 – travel	600.00	
8	check	12/16/2010	ck 98	J. Doe	travel per diem	025-1300 – Bank		600.00
9	check	12/20/2010	ck 99	USA construct.	12/01/10-12/17/10	025-6000 – Contract	2,000.00	
9	check	12/20/2010	ck 99	USA construct.	12/01/10-12/17/10	025-1300 – Bank		2,000.00
<b>Total</b>							<b>20,530.00</b>	<b>20,530.00</b>





What does a document reference numbering system do?

- A. Code project ledgers
- B. Enter items into the general journal
- C. Identify transactions
- D. Inventories equipment
- E. All of the above are possible.



**Remember!**

- Make sure journal entries are legible and easy to understand for you and others (especially auditors)
- Retain any supporting documentation for all entries in the journal.



## General Ledger

- Compilation of all accounts that show detailed transactions by account.
- Accounts are listed in account number order in the ledger.
- Journal transactions are posted in the General Ledger by Account number.
- Shows account:
  - Beginning balances
  - Detail of changes
  - Ending balances



### General Ledger

#### *What goes in the general ledger?*

A general ledger contains all asset, liability, and equity accounts for the Tribal Nation. It lists the beginning balance, the detail of changes, and the ending balance in each account. The entire group of accounts, maintained by a Tribal Nation is referred to collectively as the ledger.

#### *What goes in the debit column?*

The debit column must contain the deducted or paid amount that was recorded in the general journal.

#### *What goes in the credit column?*

The credit column must contain the amount added (i.e., deposit, refund, etc.) that was recorded in the general Journal.

#### *What goes in the balance column?*

The balance column reports the result of adding and subtracting from the account. Debit and credit columns must balance equally.



## Posting Reference Number

- Each posting to the General Ledger is given a Posting Reference Number (PRN)
- The PRN identifies the page of general journal or any other journal (such as payroll) on which the transaction is recorded.

**Different systems may have use different identifiers such as “journal,” or “entries.”**

### *What is a posting reference number?*

The posting reference number refers to the page of the general journal that the transactions come from. General journal pages are usually numbered sequentially for the entire year.



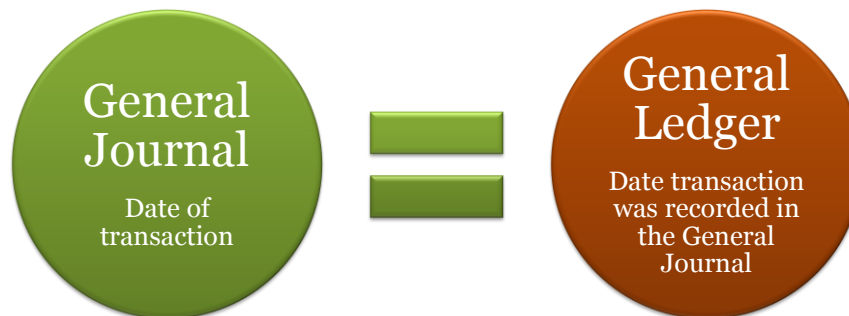
## SAMPLE General Ledger Detail by Account As of December 31, 2010

Type	Date	Num	Name	Memo	Amount	Balance
<b>025-4000 Income</b>						
JE	12/30/2010	je 1	Federal Grant	Dec-10 accrual	-35,000.00	<u>-35,000.00</u>
<b>Total 025-4000 Income</b>					<b>-35,000.00</b>	<b>-35,000.00</b>
<b>025-5000 Salary</b>						
wire	12/12/2010	wire 25	Salaries	pay ending 12/12/10	9,000.00	9,000.00
wire	12/26/2010	wire 26	Salaries	pay ending 12/26/10	8,500.00	17,500.00
JE	12/30/2010	je 2	Salaries	pay accrual 12/31/10	<u>3,000.00</u>	<u>20,500.00</u>
<b>Total 025-5000 Salary</b>					<b>20,500.00</b>	<b>20,500.00</b>
<b>025-5900 Salary Benefits</b>						
Wire	12/12/2010	wire 25	Salaries	pay ending 12/12/10	1,530.00	1,530.00
Wire	12/26/2010	wire 26	Salaries	pay ending 12/26/10	1,440.00	2,970.00
JE	12/30/2010	je 2	Salaries	pay accrual 12/31/10	<u>530.00</u>	<u>3,500.00</u>
<b>Total 025-5900 Salary Benefits</b>					<b>3,500.00</b>	<b>3,500.00</b>
<b>025-6000 Contract Labor</b>						
check	12/20/2010	ck 99	USA Construction	12/01/10-12/17/10	2,000.00	2,000.00
JE	12/30/2010	je 3	USA Construction	12/18/10-12/31/10	<u>3,000.00</u>	<u>5,000.00</u>
<b>Total 025-6000 Contract Labor</b>					<b>5,000.00</b>	<b>5,000.00</b>
<b>025-6320 Supplies</b>						
check	12/12/2010	ck 95	ABC Supply Co.	parts for project	2,800.00	2,800.00
check	12/15/2010	ck 97	Computer Supply Co.	computer supplies	1,500.00	4,300.00
check	12/20/2010	ck 98	Office Supp. Co.	office supplies	<u>500.00</u>	<u>4,800.00</u>
<b>Total 025-6320 Supplies</b>					<b>4,800.00</b>	<b>4,800.00</b>



## Dating Accounting Records

The journal records original date and  
the ledger records data by account.



### *Which date do we put in the ledger?*

The date entered into the general ledger must be the same date that appears in the general journal. The date in the general journal is the date the information is originally recorded in the general journal.



## Why do we need both a general journal and a general ledger?

- A. Cross checking requires the bookkeeper to look at transactions in different ways.
- B. It helps accountants check mathematical accuracy.
- C. The journal records data by date of transaction.
- D. The ledger tracks data by separate accounts.
- E. All of the above





## Balance Sheet

- Snapshot of an organization's financial health.
- Though not recorded in detail, the Balance Sheet shows:
  - Assets
  - Liabilities
  - Equity



### Financial Reporting

#### *What must be reported?*

Accurate, current, and complete disclosure of the financial results of financially-assisted activities must be made in accordance with the financial reporting requirements of the assistance agreement award. The provisions of 40 CFR 31.41 discuss financial reporting requirements in greater detail.

40 CFR Part 31 is provided in the [Appendix](#).

#### *Which financial reports are prepared and when?*

Two financial reports are **produced by a Tribal Nation** from the general ledger accounts on a monthly basis:

1. A balance sheet lists all the assets, things of value, liabilities (payments due to third parties), and fund balance or fund equity.
2. A statement of revenues, expenditures, and changes in fund balance shows:
  - Break-downs in the funds into various revenue streams (e.g., assistance agreements)
  - The budget
  - What has been put against the project funds in specific cost categories (established and set up in the chart of accounts)
  - Balances remaining in funds



## Sample Balance Sheet

<b>BALANCE SHEET SUMMARY</b>	
December 31, 2011	
<b>ASSETS</b>	
<b>Current Assets</b>	
Bank Checking/Savings	50,000.00
Accounts Receivable	<u>40,000.00</u>
<b>Total Current Assets</b>	<b><u>90,000.00</u></b>
<b>TOTAL ASSETS</b>	<b><u>90,000.00</u></b>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Current Liabilities</b>	
Accounts Payable	3,500.00
Salary Payable	3,000.00
Salary Benefits Payable	600.00
Deferred Revenue	<u>1,000.00</u>
<b>Total Current Liabilities</b>	<b><u>8,100.00</u></b>
<b>Equity</b>	<b>81,900.00</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b><u>90,000.00</u></b>

These records must be supported by documents, such as:

- Cancelled checks
- Invoices
- Purchase orders
- Receiving reports
- Time and attendance records
- Contract and subcontract award documents

Not maintaining adequate records increases a Tribal Nation's risk level. Mismanaged accounting may open the Tribal Nation to accusations of fraud and may prevent them from receiving future awards. They may even have to pay back funds that were transferred but not documented.





## Asset Accounts

- **Assets: What the organization OWNS**
  - Permanent – carryover from one year to the next until collected, sold or destroyed, or written off when its useful life has ended
  - Listed in order of liquidity – ease of conversion to cash
- Cash in bank accounts
- Investments (market value)
- Receivables – Grants, pledges, accounts, notes, loans
- Inventory – items held for sale (lower of cost or market)
- Prepaid expenses (future expenses paid in advance)
- Property and equipment – accumulated depreciation
- Refundable deposits



## Liability Accounts

- **Liabilities: What the organization OWES**
  - Permanent – carryover from one year to the next until paid or earned (deferred revenue)
  - Listed in order of age – when is it due?
- Short-term is less than one year vs. Long-term which is more than one year
- Accounts payable (outstanding invoices)
- Accrued expenses (owed by not billed, including payroll)
- Other liabilities (payroll/sales/property taxes)
- Notes and loans payable
- Deferred revenue (income received but not yet earned)



## Fundamental Accounting Equation

Short term Assets – Short term Liabilities = Working Capital

OWNED – OWED = What's Left (Working Capital)

Assets = Liabilities + Net Assets

OWNED = OWED + What's Left

- Measured at a moment in time (Usually Month or Year End)
- Statement of Financial Position (Balance Sheet)



## Working Capital

Current Assets – Current Liabilities = Working Capital

- Low or negative balance could indicate problems meeting obligations
- + Cash in bank accounts
- + Investments: maturing in less than a year
- + Receivables: grants, pledges, accounts, notes, loans
- + Inventory: goods held for sale
- Accounts payable (unpaid bills)
- Accrued expenses (owed but not billed, including payroll)
- Other liabilities (payroll, sales, property taxes)



## Changes in Net Assets

Earning (Revenue) *increases* Net Assets

Using (Expenses) *decreases* Net Assets

Revenues > Expenses *increases* Net Assets

Expenses > Revenues *decreases* Net Assets

**For EPA programs, generally revenues match expenses resulting in little or no net assets.**



## Statement of Activity

- The Statement of Activity, also known as the Income Statement or Profit & Loss (P & L) is another common Financial Report.
- Summary of Revenues & Expenses for a specific period (usually reported monthly, quarterly, yearly)
- Shows
  - Income
  - Expenses
  - Net Income/Loss
- Net Income/Loss for the year flows to the Balance Sheet and either increases or decreases the equity on the Balance Sheet.



## Statement of Activity

### **Revenues = Earning (*increase net assets*)**

- Grants and contributions (all kinds, including government)
- Sales of goods and services
  - Program services
  - Conferences
  - Fees
  - Sales of publications, artifacts, etc.
  - Unrelated business income
- Rents
- Interest, dividends and capital gains



## Statement of Activity

### **Expense = Using resources (*decrease net assets*)**

- Purchase of goods and services
  - Salaries, payroll taxes and benefits
  - Rent, utilities and other facility costs
  - Supplies, phone, postage and delivery
  - Consultant and professional fees
  - Depreciation (allocated over the life of the asset)
  - Other
- Interest expense



## Statement of Activity

**EARNED – USED = Change in net assets**

- For-Profit: Operating statement, Profit & Loss,
- Profit and Loss, Net income or the bottom line
- Monthly: First of this month to end of this month
- Year-to-date: First of the year to the end of this month
- Yearly: First of the year to end of the year
- Temporary accounts: “Closed” at the year end

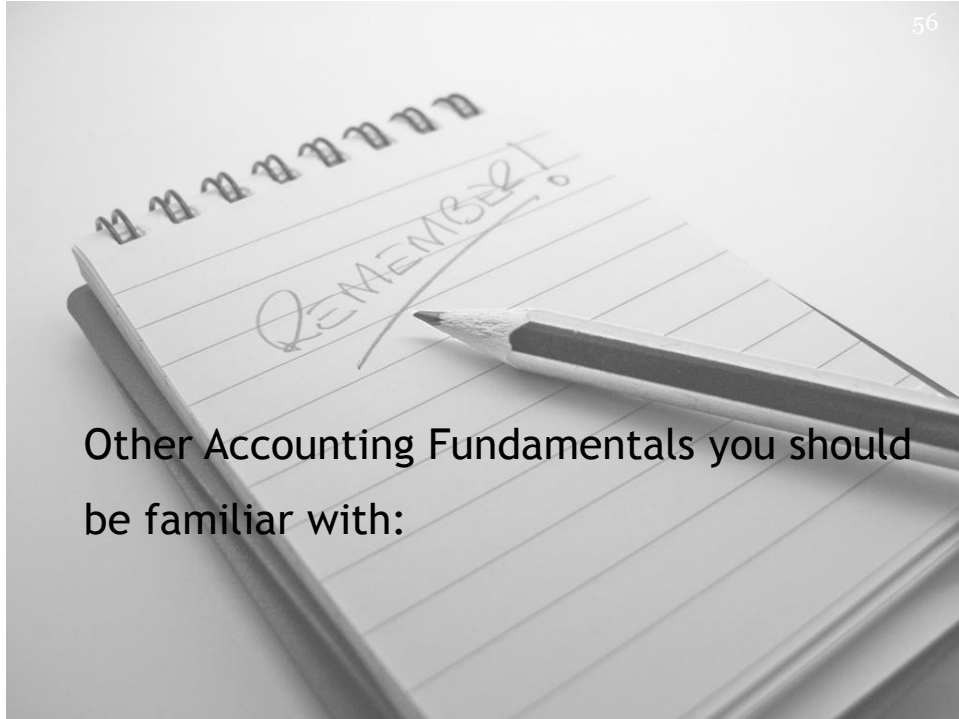
**Fiscal year always starts with zero balances,  
with the exception of multi-year grants.**

Note: When reversing journal entries are used, the beginning balances may be negative. Some Tribes use these when on a cash basis but are accruing year-end expenses.



## Sample Income Statement

<b>Project Statement</b>	
December 31, 2011	
<b>Ordinary Income/Expense</b>	
<b>Income</b>	
Income	40,000.00
<b>Total Income</b>	<b><u>40,000.00</u></b>
<b>Expense</b>	
Personnel	20,500.00
Fringe Benefits	3,500.00
Travel	5,000.00
Equipment	4,800.00
Supplies	1,200.00
Contractual	400.00
Construction	800.00
Other	1,300.00
Indirect	<u>2,500.00</u>
<b>Total Expense</b>	<b><u>40,000.00</u></b>
<b>Net Income</b>	<b><u>00.00</u></b>



Other Accounting Fundamentals you should be familiar with:



## Accounts Payable

Accounts payables result when goods or services are not paid for immediately at the time they are provided or delivered.

- An important subsidiary ledger of the accounting system.
- Unlike long-term loans, accounts payables are short-term obligations usually paid within 30 days.
- Invoices should be checked with purchase orders prior to entering them into the ledger.
- When entering invoices – be descriptive and add any terms, i.e., “3% 10/Net 30,” and indicate what was purchased.



## Accounts Receivable

Accounts receivables are funds due from customers (Grantor, employees, i.e., travel and payroll advances) for goods and/or services that have been provided by the organization but not yet paid.

- Accounts Receivables are considered an asset on the balance sheet.
- A subsidiary ledger is used to track receivables.
- Receivables should only be booked when proper documentation has been received.
- Be sure to maintain adequate source documentation.



## Payroll

- Payroll is the process of paying employees of the organization for time worked during a specified period, which can be weekly, bi-weekly or monthly.
- Employees are paid on an hourly or salaried basis, depending on the type of position and level of responsibility.



## Payroll

- Based on the US Department of Labor's Fair Labor Standards Act, employees who are categorized as exempt are executive, administrative or professional employees who receive an annual salary.
- Generally, non exempt employees are paid on an hourly basis and are subject to wage and hourly laws such as overtime pay.



## Payroll

The following information should appear on an employee's time sheet:

- Employee's name
- Pay period
- Date of each day worked in the pay period
- Time in and out for each day worked (Track activity/program)
- Total overtime hours worked in the pay period
- Total other hours (sick time, vacation, holidays, etc.)
- Budget code (Track hours worked each day by budget code)
- Signature of employee
- Signature of supervisor




**This information is not only required by DOL, it is also checked by auditors.**





## Payroll

### Hours Worked and Documented on Timesheet

		
100% 40 hrs EPA	20% 8 hrs EPA	50% 20 hrs PPG
	30% 12 hrs NSF	10% 4 hrs EPA
		90% 36 hrs Tribal
Semi-Annual Reporting	Timesheets	Timesheets

## Payroll

### *How do we record payroll expenses?*

For payroll expenses charged to awards, Tribal Nations follow the documentation rules included in OMB Circular A-87. If an employee worked on only one assistance agreement and not on any other projects, then the charges for the employee's salary or wages, or a percentage thereof, can be claimed.

The employee must submit periodic certification that work was done solely for the award and during the award period. These certifications are prepared at least semi-annually and are signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

If the employee worked on more than one federal award, semiannual certifications cannot be used. Instead, the employee must prepare time sheets identifying the actual hours worked on each project. The time sheets must identify the project and the hours worked on each project. Or if a portion of the employee's time is to be counted toward required nonfederal match, then timesheets may be required depending on the grantee's accounting system for tracking match.

The total hours recorded on the time sheet must represent the total hours for which the employee worked and was paid. To be allowable, labor costs must be based on accurate time sheets reflecting the actual activities of all employees.

If an employee worked more hours than paid or compensated, then the employee's gross pay must be allocated based on the hours worked.



# Timesheets

Use timesheets NOT estimates.  
Record actual hours worked.

Example Tribe Environmental Protection Program																																							
Employee:																																							
ID No.:																																							
Department:																																							
Primary Program:																																							
Pay Period:																																							
Beginning Date: 11/09/08 (input beginning date)																																							
Ending Date: 11/22/08																																							
Program/Activity	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Hours	Payroll Allocation %																							
198 WQ															48	67%																							
Jr Publication		5	8	8	6	8				5					48	25%																							
Clare					2							8	8		0	0%																							
Publicities															0	0%																							
Non-federal activity 1		3								3					6	8%																							
Non-federal activity 2															0	0%																							
Indirect activity															0	0%																							
<b>Total Program</b>	0	8	8	8	8	8	0	0	8	8	8	8	8	0	72	100%																							
Annual															0																								
Sick									8						8																								
Comp															0																								
Holiday															0																								
Admin															0																								
School Att.															0																								
LWOP															0																								
<table border="1"> <thead> <tr> <th></th> <th>Annual</th> <th>Sick</th> <th>Comp</th> </tr> </thead> <tbody> <tr> <td>Begin Balance</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Hours Earned</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Hours Available</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Hours Used</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Ending Balance</td> <td>0</td> <td>0</td> <td>0</td> </tr> </tbody> </table>															Annual	Sick	Comp	Begin Balance				Hours Earned				Hours Available	0	0	0	Hours Used				Ending Balance	0	0	0	Identify that the time distribution presented above is true and accurate accounting of (contingent/employee) worked during this payment. Employee _____ Date _____ Supervisor _____ Date _____	
	Annual	Sick	Comp																																				
Begin Balance																																							
Hours Earned																																							
Hours Available	0	0	0																																				
Hours Used																																							
Ending Balance	0	0	0																																				

Budget estimates or other distribution percentages determined before or after the services are performed do not qualify as source documentation for charges to federal awards, but they may be used for interim accounting purposes, provided that:

- The Tribal Nation's system for establishing the estimates produces reasonable approximations of the activity actually performed.
- When using time and effort certifications rather than time sheets:
  - Comparisons of actual costs to budgeted distributions are made quarterly and based on the monthly activity reports.
  - Costs charged to federal awards (i.e., to reflect adjustments made as a result of the activity actually performed) may be recorded annually, if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent of the overall budget.
  - Budget estimates or other distribution percentages are revised as necessary, at least quarterly, to reflect changed circumstances (e.g., employee's time begins to be allocated to more than one funding source, or employee had to take leave without pay unexpectedly).

EPA recommends a revised budget be filed with the EPA Project Officer when budget changes are necessary.



## Cash Flow Projection

Internal analysis to be prepared and updated by finance staff

Account	May	June	July	August
Revenue and receivable				
- Grants	\$100k		\$75k	
- Notes			\$125k	
- Other Receivables				\$10k
New grants/gifts expected		\$25k		\$75k
Other income/receipts	\$10k			
Payroll, taxes & benefits				
Monthly expenses	\$30k	\$30k	\$30k	\$30k
Payments on	\$20k	\$20k	\$20k	\$20k
-Receivables			\$10k	
-Other debt			\$5k	
- Other payments/expenses	\$85k			\$5k
Increase (decrease)	\$(25k)	\$(25k)	\$135k	\$30k
Cash-beginning of month	\$100k	\$75k	\$50k	\$185k
Cash-end of month	\$75k	\$50k	\$185k	\$215k

Make sure you deposit the money in the bank as soon as possible and get it recorded in the general ledger!



## Receipts

- Money received for donations, memberships, admissions, sales of goods, and all other revenue streams of the organization are considered receipts.
- Receipts can be in the form of cash, check, charge card, or electronic payment methods such as Automated Clearing House (ACH) or Automated Standard Application for Payment (ASAP).



## Receipts

- Regardless of method of payment, all receipts must be documented and recorded in an organized and timely manner.
- In other words – get the money in the bank as soon as possible and get it recorded to the general ledger!



## Disbursements

Disbursements are funds paid out by an organization for:

- Purchases of goods and services
- Indirect costs
- Refunds to customers
- Petty Cash
- Employee reimbursement



## Disbursements

- Disbursements are usually made either by check, electronic transfer, or if available, a tribal credit card.
- An organization may have more than one checking account available for use, but most will assign one specific account for “operational” use.
- Recommend having a separate account for each major cost center.
- In the case of indirect costs, transfers to other funds is needed.
- The organization will need to establish who on staff is authorized to initiate and authorize expenditures on its behalf.



## Accrual Accounting Method

The accrual method of accounting is recommended by EPA.

- Income is counted when the underlying grant eligible expenditures are made.
- Expenses are counted when the goods or services are received or incurred.



### Accounting Processes

#### *Which accounting system is recommended?*

There are two types of accounting methods cash and accrual. The recipient needs to choose either the cash or accrual accounting method and use it throughout the award period. It is important to understand the basics of the two principal methods of keeping track of income and expenses cash

and accrual basis accounting. These methods differ only in the timing of transactions, including sales and purchases, when they are credited or debited to your accounts.

The **accrual method or accrual basis accounting** is the more commonly used method of accounting. Under the accrual method, transactions are counted when the order is made, the item is delivered, or the services occur, regardless of when the money for them (receivables) is actually received or paid. In other words, income is counted when the sale occurs, and expenses are counted when the goods or services are received. You don't have to wait until you see the money, or actually pay money out of your checking account, to record a transaction.

## Cash Accounting Method

The cash method of accounting is accepted when used consistently throughout the award period.

- Income is not counted until cash (or a check) is actually received.
- Expenses are not counted until they are actually paid.



Under the **cash method or cash basis accounting**, income is not counted until cash (or a check) is actually received, and expenses are not counted until they are actually paid.

The method you use is your decision although accrual is generally the accepted system for nonprofit organizations. EPA highly recommends the accrual basis of accounting.

Note: Entities often account for activity on a cash basis during the year and adjust to an accrual basis at year end for external reporting purposes.



## Cash vs. Accrual Comparison

### Cash Basis

### Accrual Basis

#### REVENUE

Recorded when received/  
deposited

Recognized when earned

#### EXPENSE

Recorded when paid/disbursed

Recognized when incurred

**There are two accepted grant accounting methods: cash basis or accrual basis. Choose one method and be consistent!**



## Which accounting method does EPA recommend?

- A. Accrual basis
- B. Assets and liabilities
- C. Cash basis
- D. Fund basis
- E. None of the above







## Cost Share and Matching

The portion of allowable project costs that a recipient contributes toward completing its project. Common to tribal grants is a 20% cost share/match of a federal award.

# 20% cost share/match

**Federal Share    Recipient Match**

**\$10,000**

**\$2,000**

**Check the Terms and Conditions to make sure the match percent is not a calculation against total project costs.**

### Cost Sharing, Matching, and In-kind Contributions

#### *How do we account for cost sharing, matching, and in-kind contributions?*

**Cost Share** is defined as the portion of allowable project costs that a recipient contributes toward completing its project - costs not borne by the Federal Government (40 CFR Part 31.24). **In-kind services** can also be added to an assistance award by the recipient. Some examples of a recipient's **in-kind contribution** to an award are: volunteer hours, personnel hours, equipment, supplies and so on. Recipients' may choose to meet their cost share or match requirements through in-kind contributions.



## Cost Share and Matching (continued)

**Mandatory** – when stated in the Catalog of Federal Domestic Assistance (CFDA) program listing

**Voluntary** – negotiated in the agreement and required after signing the award

**Cost Share and Match** are essentially the same (and are often used interchangeably), and it can be mandatory or voluntary. It is **mandatory** when the statute or program requires it (usually stated in the CFDA). It's usually required in the form of a percentage of the total project costs ("matching" the federal costs...so if it's 50% cost share/match, it would be 50% of the total project cost and would match the federal share dollar for dollar). **Voluntary** cost share is exactly what it sounds like the - the recipient volunteers to provide it even when it is not required by the program. But once they do volunteer it and sign the award agreement, they are required to provide it - they've made a commitment, voluntary or not. Both mandatory match and voluntary match can occur in the same grant. This happens when the applicant chooses to provide more match than is required.



## In-Kind Contributions

- Non-monetary contributions with a quantifiable value, such as donations of :
  - Time and effort = actual/market value
  - Goods or services = market value
  - Supplies or equipment = market value
- Third-party – contributed by someone other than the recipient or EPA

**In-kind** contributions and services can be used as match if not from a federal agency. It is a non-monetary contribution that can be quantified monetarily in some way (see the explanation below). Third-party in-kind just means it is an in-kind contribution coming from someone other than the recipient or grantor. This may be a partner or someone with whom they are collaborating. When EPA provides in-kind services (e.g., lab services, office space, etc.), they cannot be used as match because they count as part of the federal government's contribution.

## Document Worth

- Cost sharing, matching, and in-kind contributions are gifts or donations of time, goods, and/or services made toward the project by the Tribal Nation or other benefactors.
- Track and account for all funding in the same way, including market value of donations.
- Contact your EPA Project Officer if you think your organization may qualify for a cost share waiver.

Cost sharing, matching, and in-kind contributions are gifts or donations of time, goods, and/or services made toward the project by the Tribal Nation or other benefactors. These contributions must be tracked and accounted for in the same manner as EPA funding. Accounting for third party in-kind contributions provides an accurate record of the true cost of the project.

For example:

- Supplies donated by a third party need to be kept in a separate file with:
  - A signed form from the third party
  - Description of the contribution and how the supplies were used
  - A copy of the invoice from the third party, if possible
- Supplies should be valued at market value when reporting the contribution and cannot be paid for with *any* federal funds.
- Time donated by the Tribal Nation need to:
  - Be recorded by the employee
  - Explain how much time was donated on the project
  - Contain the employee's signature
  - State that time and effort recorded were spent on the project
- This time cannot be paid for with *any* federal funds.

Your organization may request a waiver of the cost share requirement, if the cost share will impose an undue hardship. Check with your EPA project officer to see if your organization should request a waiver.

How to account for and report cost sharing, matching, and in-kind contributions is explained in the following documents provided in the [Appendix](#).

- 40 CFR 31.24
- 2 CFR Part 225, Appendix B, section 12 the OMB Circular A-87





## Direct versus Indirect Costs

- Develop a Cost Policy Statement for classifying costs as direct or indirect.
  - Direct costs can be readily assigned to a particular project.
  - Indirect costs are those that cannot be readily assigned to a particular project.

### Direct vs. Indirect Costs

2 CFR Part 225, OMB Circular A-87 makes clear that for classifying costs under every accounting system as direct or indirect, there is no universal rule. For this reason, it is very important for a Tribal Nation to develop a Cost Policy Statement for classifying costs as direct or indirect. For example, an indirect cost policy statement might read:

*It shall be the responsibility of the Finance Officer, working in consultation with the General Manager, to monitor indirect cost recoveries and to ensure that indirect (i.e., central administrative) costs are fully recovered in each fiscal year. All federal, state, private, and tribal sources of funding shall be required to contribute the required prorated share of costs per the federally negotiated indirect cost rate. No agreement for any grant, contract or other funding source that becomes available to the Tribal Nation but which does not allow for the full recovery of indirect shall be entered into or accepted by the Tribal Nation until a source of any projected indirect shortfall has clearly been identified and obligated. Within the limits of any budgetary authority established by the Tribal Council, the Finance Officer shall propose, and the General Manager approve such reprogramming or budget modifications as may be necessary to accomplish this objective.*

Developing a Cost Policy Statement will greatly reduce, but not necessarily eliminate, any future disagreements over the allowability of costs, whether they are direct or indirect.

The basic difference between direct and indirect cost is how easily a cost can be identified and assigned with a high degree of accuracy to a particular project.

- Direct costs can be readily assigned to a particular project.
- Indirect costs are those that cannot be readily assigned to a particular project.

Regulations permit minor direct cost items to be treated as indirect costs for practicality, as long as all such items receive consistent treatment.



## Direct Costs

Examples of direct costs include:

- Personnel
- Supplies
- Equipment
- Travel

Only when directly involved in or needed to meet the award project objectives.

### Direct Costs

Direct costs are costs that can be identified specifically for accomplishing the work under the award. Examples of direct costs include:

- Compensation of employees for the time devoted to the performance of the award
- Cost of materials acquired, consumed, or expended specifically for the purpose of the award
- Equipment used specifically to perform the work under the award
- Travel expenses incurred specifically to carry out the award



## Which project expenses are usually categorized as indirect costs?

- A. Environmental impact measuring devices
- B. Water, power, and communication bills  
(Unless used for a dedicated project funded facility)
- C. Employee compensation
- D. Travel to work sites
- E. All of the above



## Indirect Costs

- Indirect costs are:
  - Not readily identifiable with a particular project or program
  - Necessary to success of the award project
- An indirect cost rate is:
  - Negotiated in advance of the assistance agreement \*
  - You can only charge indirect costs if you have an approved indirect cost rate.\*
  - Applied consistently to all grant programs

*\* EPA Interim Guidance Option: Tribes without an approved IDC may use a flat 10% IDC of salaries & wages while in process of negotiation.*

### Indirect Costs

Indirect costs are negotiated in advance. Indirect costs are the costs incurred by a Tribal Nation that are not readily identifiable with a particular project or program but are nevertheless necessary to the Tribal Nation's operation and the performance of its programs.

Types of costs that are usually treated as indirect costs include:

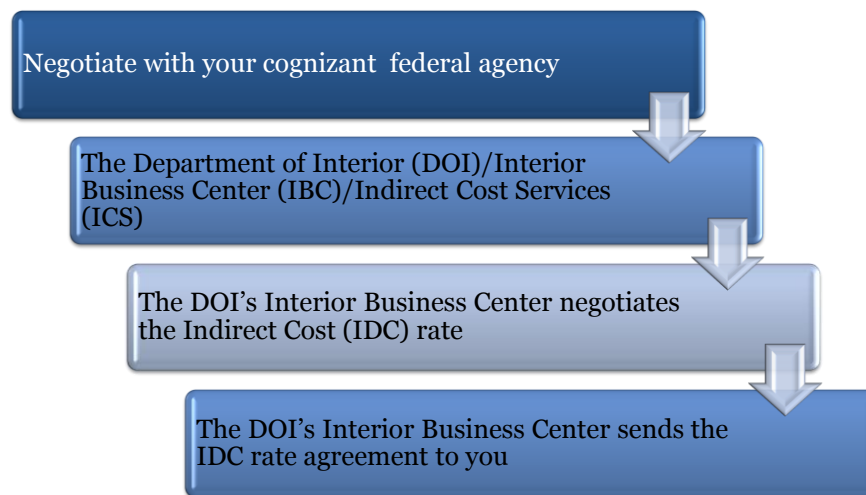
- Operating and maintaining facilities
  - Electricity
  - Rent
  - Phone service
- Depreciation
- Administrative salaries
  - Secretary for travel



In theory, all such costs might be charged directly. When it is not practical to charge them directly, costs are grouped into a common pool and distributed to the organization's programs through a cost allocation process.

An indirect cost rate is applied to each assistance agreement award. Assistance agreements are charged for an item directly or indirectly, but not through both methods. Charging with both methods is called double charging and is not allowed.

## Indirect Cost (IDC) Rate



Department of the Interior/Indirect Cost Services is the Federal cognizant agency designated by OMB to negotiate indirect cost rates for all Indian Tribal Governments and their component units regardless of funding.

EPA's Office of Grants and Debarment is planning to issue a Grants Policy Issuance (GPI) that provides a more flexible approach to Tribal indirect cost rate funding. To ensure Tribes are provided adequate indirect cost funding as soon as possible, EPA is implementing the options under the draft policy until a final version is issued. The current version of the GPU identifies three additional options for Tribes to claim indirect costs, including using:

1. Fixed/carry forward rates less than 3 years old
2. Current provisional/final indirect cost rates approved for us in an existing DOI grant, or
3. A flat rate of 10% of salaries and wages.

For more information check with your EPA project officer and/or grants specialist!



Which project expenses are usually categorized as direct costs?

- A. Payments on office and warehouse space
- B. Maintenance staff
- C. The Tribal Council receptionist's salary and benefits
- D. Travel to a conference for the grant project
- E. All of the above





## Accounting and Grant Awards

- Grant awards are made to organizations
- Grantees must be in compliance with organizational policies and procedures as well as federal requirements
- Organizational requirements **may be more** restrictive than federal requirements and **can not be less** restrictive than federal requirements.



## Grants Management

### Hierarchy of Grant Requirements

- Program Laws (Statutes)
- Cross-Cutting Laws (Assurances, Compliance, Executive Orders)
- Code of Federal Regulations (Administrative Rules)
- Office of Management and Budget Circulars and Compliance Supplement
- EPA's Office of Grants and Debarment

**Internal controls should be based on this hierarchy, and structured and implemented to ensure proper financial reporting and effective and efficient operations.**



## Accounting and Grants Management

Accepting an award agreement means the recipient agrees to comply with:

- Title 40 CFR Part 31.22 – Administrative Requirements
- OMB Circular A-87 – Cost Principles codified in Title 2 CFR Part 225
- OMB Circular A – 133 (When the recipient spends \$500,000 or more in federal funds in a fiscal year.)

All documents are available to the public upon request.

### ***Which financial rules are we agreeing to follow when we get an award?***

When the Tribal Nation accepts a federal assistance award they agree to follow the accounting and financial standards established in the federal regulations 40 CFR Part 31.22 (Administrative Requirements), OMB Circular A-87 found in 2 CFR Part 225 (Cost Principles) and OMB Circular A-133 (When the recipient spends \$500,000 or more in federal funds in a fiscal year).

EPA, the Inspector General, the Comptroller of the United States, or any other duly authorized representative has the right to timely and unrestricted access to any books, documents, papers, or other records of the Tribal Nation that are pertinent to the awards. They have the right to conduct audits, examinations, and take excerpts, transcripts, and copies of such documents. This right also includes timely and reasonable access to Tribal personnel for the purposes of interviews and discussions related to such documents.



## Spending Grant Funds

- Comply with internal and external regulations, policies and procedures.
- Consider “audit readiness” for every transaction.
- Review expenditures versus budget on a regular basis.
- No supplanting or cost-shifting.



## Cost Shifting is *not* Allowed

EPA Grant		GGP Grant	
Supplies Budget	\$5,000	Supplies Budget	\$15,000
\$1,500 ea. x 4 computers =	\$6,000	\$1,500 ea. x 2 computers =	\$3,000
2 personnel use computers \$1,500 x 2 computers =	\$3,000	4 personnel use computers \$1,500 x 4 computers =	\$6,000
Allocable	\$3,000	Allocable	\$6,000
Not allocable	\$3,000	Not allocable	\$0
<b>Need</b>	<b>\$3,000</b>	Balance Remaining	\$3,000



Under the principles of OMB Circular A-87, Attachment A any cost allocable to a specific EPA award may not be charged to other federal awards. Using the same charges on different awards is prohibited practice and is unallowable. Such a practice constitutes unallowable cost shifting\*.

For instance, cost overruns under an award that has no more funds available may not be charged to another award or placed in indirect cost pools. The cost overrun would have to be funded by unrestricted Tribal funds.

Just because an expense is allowable under the OMB cost principles does not mean they are allocable to the grant award.

For example, you purchase four computers. They are charged to the budget under the supply line, which is an allowable cost. Only two employees are supporting the grant. Costs for the two additional computers are not allowable, because they are not allocable to the grant.

\*Cost shifting between budgets for different grants is not allowed unless negotiated with EPA. Allocability is about justification. The project manager is responsible for oversight, keeping cost allocations accurate. If the project needs it, then document – justify those reasons in writing.

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Accounting and Grants Management

U.S. Environmental  
Protection Agency

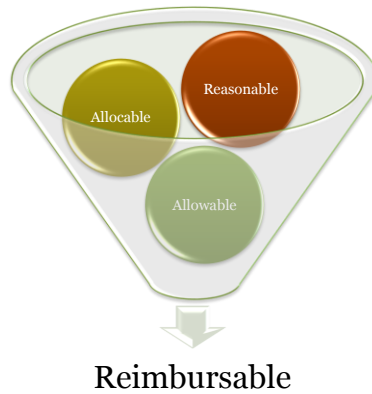


## Government Grants

- OMB Circular A-133 single audit is required when the total *expenditures* of Federal Funds  $\geq$  \$500k in your accounting years (calendar or fiscal: just be consistent).
  - You may receive *Federal funds* from other sources, including State, County or another NPO – without ever applying for a Federal grant!
  - The funding source *should* notify you that you are a “sub-recipient” of Federal funds, and that you may be subject to an audit under OMB Circular A-133.
  - The cost of an OMB Circular A-133 single audit is an allowable cost and may be expensed to a federal award, prorated between multiple grants, or covered by indirect costs. The cost of an audit should be charged to Federal awards in accordance with all cost standards, including a proper allocation of costs under OMB Circular A-87.
- Additional audit procedures, reports and audit fees are required if your Federal expenditures  $\geq$  \$500k in one year.



## Comply with Federal Cost Principles



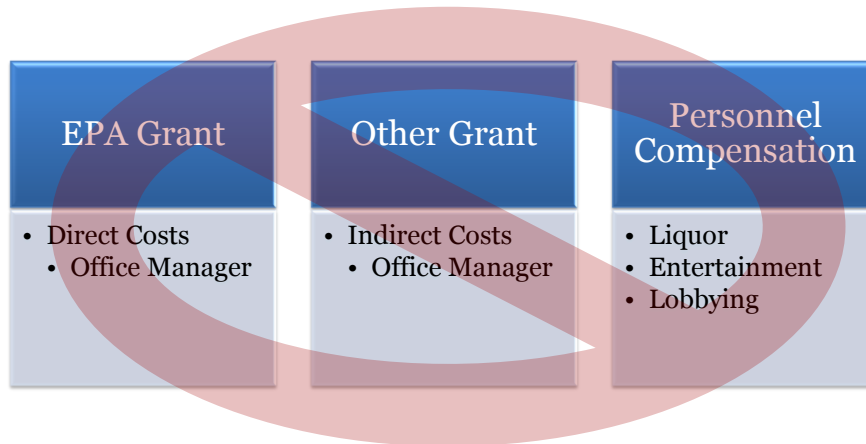
Written policies and procedures are necessary to ensure that costs are reasonable, allocable, and allowable.

### ***Why do we need to have written policies and procedures?***

Written policies and procedures are necessary to ensure that costs are reasonable, allocable, and allowable. OMB Circular A-87 Cost Principles, and EPA “terms and conditions” require all costs (including cost share or matching costs) claimed under an award to be reasonable, allocable, and allowable.



## Unallowable Costs



**Costs must be given consistent treatment!**

### ***Unallowable***

Unallowable costs are personnel compensations rather than costs needed to fulfill the terms of the award. Claims developed under approved cost allocation plans will be based on allowable costs as identified in OMB Circular 87-A. Where unallowable costs have been claimed and reimbursed, they will be refunded to the program that reimbursed the unallowable cost using one of the following methods:

- cash refund
- offset to a subsequent claim
- credits to the amounts charged to individual awards

Unallowable costs include liquor, entertainment, contributions, and donations, costs related to criminal or civil proceedings, lobbying, items for personal use, and contingencies except for self-insurance reserves, pension plan reserves, and post-retirement health, and other benefit reserves. The cost of governing, fundraising, pre-award costs, investment management, idle facilities, advertising, interest, and bad debts, fines, and penalties have many restrictions.

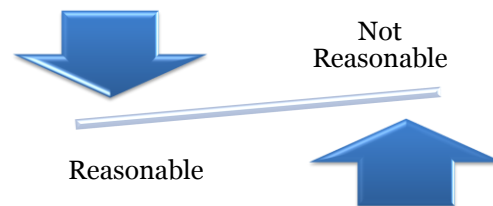
Also, costs may not be assigned as direct costs if any other cost incurred for the same purpose in like circumstances has been allocated to an award as an indirect cost. Supplanting and cost-shifting are unallowable practices.





## Reasonable Costs

A cost is reasonable if it does not exceed what a prudent person would pay, under the circumstances prevailing at the time the decision was made to incur the cost.



### ***Reasonable***

**A cost is reasonable if it does not exceed what a prudent person would pay, under the circumstances prevailing at the time the decision was made to incur the cost.** In other words, the most expensive item should not be purchased or used unless there are other compelling reasons (such as it is more accurate, reliable, or manufactured to be integrated as part of a system) when an item of equivalent quality is available at lower costs. If the same item can do the job just as well as a more expensive item, the less expensive item should be purchased.



## Tests for Allowable Costs

For costs to be allowable, they must:

- Be in accordance with the grant agreement
- Comply with cost principles in OMB Circular A-87 including Attachment A and B
- Adhere to Generally Accepted Accounting Principles (GAAP)
- Include all applicable credits
- Be completely documented

### ***Allowable***

Tests of allowability require that the cost:

- Conform to any limitations or exclusions set forth in the Cost Principles found in 2 CFR part 225, OMB Circular A-87, or in the “terms and conditions” of the federal award, or other Tribal regulations.
- Be consistent with policies, procedures, and regulations that apply uniformly to both federal awards and other Tribal government units.
- Be given consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost, for the same purpose within the Tribal Nation, under like circumstances, has been allocated as an indirect cost.
- Be determined in accordance with generally accepted accounting principles (GAAP), except as otherwise provided for in 2 CFR, Part 225 (OMB Circular A-87).
- Include all applicable credits, such as discounts given by an equipment manufacturer.
- Be adequately documented.

Moving funds from one budget category to another within a single grant is usually acceptable if the total movement over the life of the grant does not exceed ten percent (10%) of the total budget for that category.



## Allocable Costs

A cost is allocable to a specific cost objective in an award if the goods or services purchased are required and budgeted for that project.



In the budget



Required for the project

### ***Allocable***

**A cost is allocable to a specific cost objective in an award if the goods or services purchased are required and budgeted for that project.** Allocation methodologies are the ways in which a Tribal Nation determines which costs to assign to which objective. Allocation methodologies for costs, such as space rental, should be in writing and should be revised as they change. Allocation methodologies must be adequately documented in a Tribal Nation's policies and procedures.

Under the principles of OMB Circular A-87 any cost allocable to a specific EPA award may not be charged to other federal awards. Using the same charges on different awards is prohibited practice and is unallowable. Such a practice constitutes unallowable cost shifting.

For instance, cost overruns under an award that has no more funds available may not be charged to another award or placed in indirect cost pools. The cost overrun would have to be funded by unrestricted Tribal funds.

Just because an expense is allowable under the OMB cost principles does not mean they are allocable to the grant award.

For example, you purchase four computers. They are charged to the budget under the supply line, which is an allowable cost. Only two employees are supporting the grant. Costs for the two additional computers are not allowable, because they are not allocable to the grant.

Cost shifting between budgets for different grants is not allowed unless negotiated.

### ***Which expenditures do we report?***

Tribal Nations must report and provide for comparison of outlays or grant project expenditures, with budget amounts for each project/award. Timely and accurate "budget versus expenditure" reports prepared by the Tribal Nation's finance staff are often the basis for program decisions. They are the source of information for Standard Form 425, Federal Financial Reports, submitted to EPA.

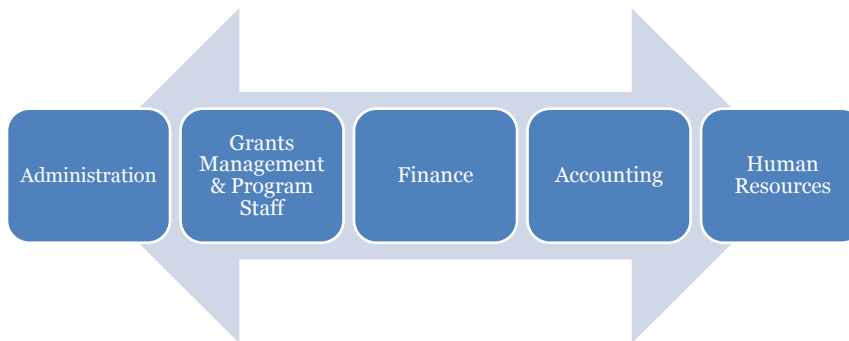
EPA often asks that financial information be related to performance or productivity information. The financial department should ask the department that is responsible for a specific project to provide this information at the time that it is requesting to expend funds. Some environmental programs require each cost to match an objective in the work plan. Financial information must be monitored and included in the records.





## Communication

Good internal communication up front and ongoing will reduce potential problems later on.



## Internal and External Communication

### Internal

- Ensure that departmental staff in Accounting, Finance, Administration, Human Resources, Grants Management and Project staff are all informed
- Accurate information is provided to those who need it so timely reconciliations and/or reviews can be conducted and appropriate action taken.

### External

- Cultivate relationships with EPA staff
- Ensure Prime contractors are aware of their responsibilities
- Ensure Sub-recipients and Sub-grantees are aware of their responsibilities



## Communication with EPA



- Communication takes place:
  - Over the phone:
    - Write a summary of the conversation.
  - Via email:
    - Print the conversation.
  - Through U.S. Mail:
    - Copy the letter or memo.
- Save communications in the program or project files!
- Incorporate communication into written progress reports.

### ***Why should we contact EPA representatives when we encounter a problem?***

Contacting the appropriate EPA representative shows the Tribal Nation is effectively monitoring the award and managing its programs. It also demonstrates that the Tribal Nation has identified a problem and is willing to address it or wants EPA to make the necessary changes.

During work on the award, both the Tribal Nation and EPA will encounter issues that need to be resolved. Working together they can address these issues and ensure progress is made according to the project, budget, and work plan.

To eliminate confusion or misunderstandings, here are a few tips:

- If communication takes place over the telephone, summarize what was said in writing and save it in your project files.
- If communication occurs through email, print the conversation and save it in your project files.
- If you receive correspondence via U.S. Mail, save it in your project files.

Information transmitted between EPA and the Tribal Nation should be documented in writing and incorporated into written progress reports. It is important that a recipient begin organizing documents and records from the very beginning of the project.



## How often should we communicate with our EPA Project Officer?

- A. Daily
- B. Weekly
- C. Monthly, or more frequently if needed
- D. Semi-annually
- E. Annually





## Common Reasons for Compliance Problems:

Lack of internal controls, including:

- Rules and responsibilities of organizational staff not clearly defined or understood
- Outdated or nonexistent policies and procedures
- Inadequate staff training and education
- Inadequate management systems in place
- Inadequate resources
- Ineffective internal communication
- Absence of a strategy for transition consistency
- Little or no understanding of internal accounting policies and procedures

A Tribe may have Accounting Policies and Procedures that do not adequately reach the program staff that initiate and manage the grant funds. This can and does result in audit findings.



## Internal Controls

- Ensure funds are:
  - Protected from:
    - Waste
    - Fraud
    - Abuse
    - Mismanagement
  - Managed by accurate and reliable accounting practices and personnel
  - Managed in a way that complies with all applicable laws and regulations







## Examples of Internal Controls

- Signatures
- Duplication of services
- Audits
- Training
- Oversight
- Authorization
- Trip reports
- Copies of Invoices
- Monthly reconciliation of program records
- Inventory
- Follow-up emails
- Tagging of equipment and supplies
- Regular meetings
- Date and initial stamps
- Checks and balances
- Monthly review of general ledger

**Establish a policy for effective communication and transition consistency!**

### Internal Controls

#### *What should an internal control policy include?*

Internal control policies should be written for all financial functions performed by and for the Tribal Nation. For example, a general policy statement controlling internal communications might read:

##### **Policy**

*To promote a professional working environment for staff and the Tribal Council, it is the policy of the Tribal Nation to maintain and respect proper “chain-of-command” in terms of staff to staff and staff to Tribal Council communications.*

##### **Procedure**

*This means that all direct communications with the Tribal Council should generally be made by staff through the General Manager (GM), Chief of Staff, or Administrator.*

*The exception to this may be those communications between the Financial Officer (FO) and the Tribal Council Chair, Chief, Governor, or the Tribal Council as a whole sitting in an official meeting, where the FO has been delegated certain duties and responsibilities that require such direct communications, or where the Tribal Council has asked to speak with, or receive reports from other particular staff at official meetings.*

*Individual Tribal Council members other than the Chair, Chief, or Governor should refrain from direct communications with staff. Where the Tribal Council members other than the Chair, Chief, or Governor has a need to communicate to staff directly such communications should be made through the General Manager, Chief of Staff, or Administrator where possible, or where not possible or practical, the General Manager or Chief of Staff should be informed of such communications after the fact. This policy is intended to apply to substantive, business related communications and not merely incidental conversations or communications on a personal level.*

Internal controls ensure consistency, continuity during transitions, and training of new staff. These benefits to the system are known as “desk procedures”.



## Accounting Training for Project Directors & Key staff is an Effective Internal Control

- Don't assume your project director understands the accounting process
- Some project directors have excellent subject matter expertise but are often unfamiliar with the accounting process
- Training project directors can help to reduce your organizations risk of audit findings!



## Accounting Training for Project Directors & Key Staff Should Consist of:

- An overview of the grants management process
- A review of the organization's accounting policies and procedures
- An explanation of the difference between a direct and indirect cost
- If your organization has one, an explanation of the Indirect Cost Rate, including what it is and what the purpose of is
- Stressing the importance of ensuring that all grant expenditures they approve are allocable, allowable and reasonable
- Stressing the importance that all grant expenditures and back-up documentation are "audit ready"





## Benefits of Monthly Meetings between Accounting Staff and Project Directors & Key Staff



- Allows for a frequent in-depth review of actual expenses versus the budget
- Provides for an analysis of the balances in the Object Class Categories
- Allows you to determine earlier on in the project if funds need to be moved from one object class category to another
- Will help to identify expenses that are coded to the wrong budget
- Will help to avoid excess expenditures
- Will help to ensure you are “audit ready”
- Provides checks and balances for the accounting process and is an effective internal control



## Budget vs. Actual

<b>BUDGET vs. ACTUAL</b>				
<b>November 31, 2012</b>				
		<b>Budget</b>	<b>Actual</b>	<b>Remaining</b>
<b>Income</b>				
	Income	<u>45,000.00</u>	<u>40,000.00</u>	<u>5,000.00</u>
<b>Total Income</b>		<b><u>45,000.00</u></b>	<b><u>40,000.00</u></b>	<b><u>5,000.00</u></b>
<b>Expense</b>				
	Personnel	22,000.00	20,500.00	1,500.00
	Fringe Benefits	3,700.00	3,500.00	200.00
	Travel	7,000.00	5,000.00	2,000.00
	Equipment	5,000.00	4,800.00	200.00
	Supplies	1,200.00	1,200.00	0.00
	Contractual	600.00	400.00	200.00
	Construction	900.00	800.00	100.00
	Other	1,900.00	1,300.00	600.00
	Indirect	<u>2,700.00</u>	<u>2,500.00</u>	<u>200.00</u>
<b>Total Expense</b>		<b><u>45,000.00</u></b>	<b><u>40,000.00</u></b>	<b><u>5,000.00</u></b>
<b>Net Income</b>		<b><u>00.00</u></b>	<b><u>00.00</u></b>	<b><u>00.00</u></b>

### Sample Comparison of Budget and Actual Expenses



## Encourage Monthly Meetings between the Project Director and Key Project Staff



- Review the percentage of time each staff person is assigned to the grant project and how much time they are actually spending on the grant
- Review the deliverables and timetable for accomplishing tasks for each staff person and is the budget still accurate for each task
- If there is any travel under the grant project, ensure staff are familiar with your Tribal Nation's travel policies
- Come prepared! Have an Agenda and encourage questions!



### What is the value of providing accounting training to grant project directors & Key Staff?

- Training ensures that project directors & key staff understand the accounting process
- Training helps in avoiding excess or inappropriate expenditures
- Training helps in reducing possible audit findings
- Training is an effective internal control
- All of the above



### What is the value of having regular meetings of the grant project director and project staff?

- Ensures project staff know they are written into the project and what percentage of time
- Provides staff with a comprehensive understanding of the entire project
- Helps to ensure a more seamless transition of staff should staff turnover occur during the project
- Training is an effective internal control
- All of the above





## Effective Communication is an Important Internal Control

### Internal Communication

- Keeps the Tribal Council and staff informed
- Helps to assess progress
- Ensures stewardship of resources



### External Communication

- Keeps funding agencies, stakeholders and the general public informed



Who is responsible for implementing internal controls to safeguard resources ensuring accuracy, reliability, and compliance?

- A. EPA headquarters
- B. EPA regional officials
- C. The Tribal Nation / Recipient
- D. The award project manager
- E. All of the above





## Documentation and Recordkeeping

- Each grant must have its own file(s).
- Consider color-coded paper folders.
- Keep electronic copies.
- File must be safe from theft, fire, and water damage.



### *What kinds of documentation should you have in your files?*

Files should include:

- a. A copy of the assistance agreement and the award letter
- b. The grants management calendar and tracking chart
- c. Work plan and budget detail
- d. Notes and communications

Keep all documentation in a separate file. Though grant documentation is legally the property of the Tribal Nation, it should be kept in its own file – preferably in the same labeled and color coded folders as the files kept at the regional office – so records are easily available to project auditors for review.

EPA regional directors highly recommend files match the files held at the regional office. Files should be:

- Color coded
- Kept in both paper and electronic format
- Safely secured

Files should be kept in a fire-proof cabinet. Grant recipients are held accountable even when files are lost due to natural phenomenon like fire, flood, and human error.

It is a good idea to backup electronic files regularly to store them in an out-of-office location, just in case something happens to the originals. Paper files should be copied and kept in two different locations, just in case.



## Save all Records

Write policies  
and procedures  
on records  
management and  
retention.

### Records Management and Retention

#### *Do we need policies and procedures on records management and retention?*

Tribal Nations need written policies and procedures that address the types of files and documentation required for records management. A good filing system ensures adequate documentation. Each assistance agreement award must have its own documentation kept separate from other awards and grants.

Thorough documentation describes the activities conducted under an assistance agreement. Documentation shows how activities are properly carried out, in accordance with a Tribal Nation's leadership and EPA/federal requirements.

Basic files needed for managing EPA assistance agreement awards include:

- The original application and certifications including the work plan and budget
- Initial award and amendment documents
- Request and/or approvals for scope/budget changes
- Financial status reports (FSR) Standard Form 269 (SF 269), if applicable
- General ledger detailing revenues, expenditures, assets, and liabilities
- Support documents for expenditures

Basic files needed for managing EPA assistance agreement awards also include:

- Equipment files and usage logs
- Payment requests
- Progress reports
- Contracts/subawards
- Correspondence (letters, emails, and notes taken during phone conversations)

The following Records Management guidelines are provided in the **Appendix**:

- 40 CFR 31.30(a)(b)(c) address request for and approvals of scope and/or budget changes.
- 40 CFR 31.41(b) address financial status reports and reimbursement requests.
- 40 CFR 31.20(a)(2) address payment requests backed up by financial records.
- 40 CFR 31.40(b) address progress reports.
- 40 CFR 31.37 refer to contracts and subgrants.



## Documentation



Folders in the grants management file include **anything with a signature**, such as:

- Narrative
- Budget
- Budget modifications
- Communications with EPA officials
- Partnerships with sub-awardees and contractors
- Progress reports
- Financial status reports
- Closeout

Keep records safe. Don't rely on forensic accounting to recreate files. Backup all paper copies with electronic versions and store backup files in an off-site location. In the eyes of federal agencies, "if you don't have documentation, then it never happened."

EPA recommends you email a summary of your understanding after a face-to-face or phone conversation. This way both parties have a record of what was discussed and any decisions that were made. If there is any misunderstanding, it can be remedied immediately. It won't have time to become a bigger problem.

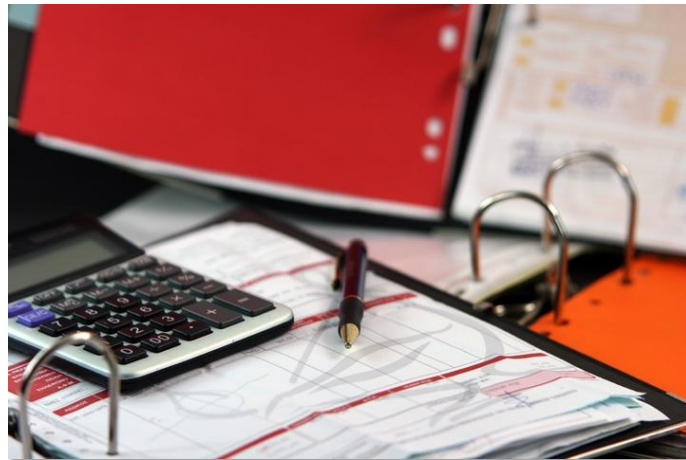


## Remember!

- Every expenditure approved should have appropriate back-up documentation
- Every expenditure approved should be “audit-ready”



## Document All Expenditures



### *How should we document expenditures?*

Expenses to programs must be properly documented, which includes justification that the expense is allowable. The following check list may be attached to purchase orders or check requests to explain why the purchase was made. Auditors and regulators look for the following justification.

### Sample Checklist

- Reasonable:** Is the use of program dollars reasonable?
- Necessary:** Is it necessary in performing the requirements of the program?
- Allowable:** Is the use of program dollars allowable?
- Allowable within the scope of the project proposed:** Is it within the scope of the program project as proposed to EPA?
- Clear business purpose:** Is there a clear business purpose? It is evident to a third party that the purchase is not for personal use.
- Budgeted:** Is the purchase properly budgeted for?
- Funding available:** Is there funding still available in the budget? If a budget revision needs to be done in accordance with the program regulations, the Project Officer has been contacted.
- Coded:** Is the purchase order or check request properly coded with the correct fund, program, year, and account codes?
- Approved:** Has the purchase order or check request been properly approved by supervisors?
- Conflict of interest:** Do any of the supervisors have a conflict of interest in making this purchase? Do any of the supervisors have a personal relationship or stand to gain personally by making this purchase?
- Allowable under CFR Part 255 (OMB A-87):** Is the purchase allowable under OMB A-87?
- Processed within deadlines:** Have you followed policy and allowed enough time for the paperwork to be processed within established deadlines?
- Policy followed:** Each check request and purchase order must be documented to stand on its own as to what, where, why, when, and how the funding was used.
- Documented:** If you do not think it would be clear to an outside third party, such as an auditor, then please take a moment and document the reasons for the purchase. Remember, at the end of the year or two years from now, you might not be here to explain the purchase.
- Comfortable:** Would you be comfortable with making this purchase if it was reported on the front page of the daily newspaper with photos of you?



## Source Documentation

Describe the basic facts of a transaction such as:

- Date
- Justification of the Purpose
- Amount
- Budget code
- Justification of the cost allocation

Examples include:

- Cancelled checks
- Paid bills
- Payroll
- Time and attendance records
- Contracts
- Subaward documents
- Purchase Orders
- Payable Vouchers

### Critical Components of Allowable Costs

#### *Which documents do we need?*

Source documents provide the basic evidence needed to support accounting transactions. Examples of source documents include cancelled checks, paid bills, payroll, time and attendance records, contracts, and subaward documents. Accounting records, journal entries and financial records must all be supported by source documentation. They describe the basic facts of a transaction such as its date, purpose, and amount.

The reason why source documentation is so important for a Tribal Nation is that if a Nation cannot provide source documentation (e.g., journal, ledger, receipts, purchase orders, etc.) for all expenditures under their assistance agreements, costs may be deemed unallowable.



## Source Documentation Required for:

- Travel:
  - Authorizations
  - Vouchers
  - Trip Reports
- Procurement of services
- Purchase of materials
- Cost Sharing
- Evidence that proper procurement steps were taken
- Valuation of donated:
  - Services
  - Supplies
  - Equipment (or equipment use)
- Conferences

**Remember: In the eyes of the federal government, if you don't have the documentation, it never happened.**

A Tribal Nation should keep source documentation to support claims costs on the following:

- Payroll
- Travel authorizations
- Travel vouchers
- Purchases for material and services
- Cost sharing
- Valuation of donated services
- Valuation of donated supplies and equipment (or equipment use)
- Conferences

## Remember!

- Read award before signing it
- Document...Document...Document.
- Make sure costs are reasonable, allowable and allocated properly.
- Follow proper procurement procedures.

### Important Things To Remember

- Read your award document before signing it!
  - ✓ Your award document outlines all the activities and requirements that you will be held responsible for. When you sign the award document, you are agreeing to **ALL** of the terms and conditions in the document.
- Always Document!
  - ✓ When auditors look through your file and do not see any form of documentation, they will assume that EPA has not approved any of the actions you have taken.
  - ✓ Documentation includes all communications, memos, e-mails, etc.
- Make sure that the costs are allowable!
  - ✓ EPA will not pay for *any* type of cost. If an auditor finds unallowable costs were paid through this grant, **you will have to return the money**. Examples of unallowable costs include alcohol, lobbying, and paying off bad debts.
  - ✓ You can check to see if costs are unallowable at:  
<http://www.whitehouse.gov/omb/circulars/a087/a087-all.html>.
- Always follow proper procurement procedures!





## The Onset of Records Retention

- Maintain all records
- Records retention begins when the final Federal Financial Report (FFR) SF-425 is submitted to the Las Vegas Finance Center.



### *When does retention begin?*

For most programs, the records retention requirement begins after the Tribal Nation submits to EPA the Final Expenditure Report (EPA Form SF 268) and the Financial Status Report (EPA Form SF 269) and receives a closeout letter from EPA. The EPA regional office sends the closeout letter after the regional EPA project officer determines the closeout process is complete.

***The date on the EPA regional office closeout letter is the official award end date.***

For reimbursement programs, records retention requirements start with the final payment request, either the Request for Advance of Reimbursement (EPA Form SF 270) or the Outlay Report and Request for Reimbursement for Construction Programs (EPA Form SF 271).

If litigation, claim, negotiation, audit, or other action involving the record stated before the end of the retention period is still in progress, Tribal Nations must keep records until either the completion of the action and resolution of all issues which arose from the action, or until the end of the established retention period, whichever is later. If an audit is underway prior to closeout, all issues must be resolved before closeout can take place.

Formal closeout can occur only when both the Tribal Nation and EPA are satisfied:

- With the final product
- That all eligible costs have been accepted
- That all repayments have been received
- That all “terms and conditions” contained in the assistance agreement have been met

The timing of closeout depends primarily on the type of agreement. Closeout of most assistance agreement awards begin when the project period has expired and final paperwork is submitted and approved by EPA. Ninety days prior to the project expiration date, the EPA partner may send a “reminder letter” to the Tribal Nation regarding closeout requirements.



## Access to Records

- Timely and reasonable access for:
  - Documents
  - Personnel
- Must be granted to:
  - U.S. Government
  - Tribal Nation
- Throughout the grant period and the records retention period



### *Who has the right to access our Tribal Nation's award records?*

EPA, the Inspector General, the Comptroller of the United States, or any other duly authorized representative has the right to timely and unrestricted access to any books, documents, papers, or other records of the Tribal Nation that are pertinent to the awards. They have the right to conduct audits, examinations, and take excerpts, transcripts, and copies of such documents. This right also includes timely and reasonable access to Tribal personnel for the purposes of interviews and discussions related to such documents. The rights of access in this paragraph are not limited to the required retention period but shall last as long as records are retained.

Likewise, the grant recipient has the right to access EPA records and personnel regarding the award.

Post award reviews may be done at any time during the three-year post-award period. Post award reviews may include accessing records, interviews with personnel, and other tasks performed during the award period.

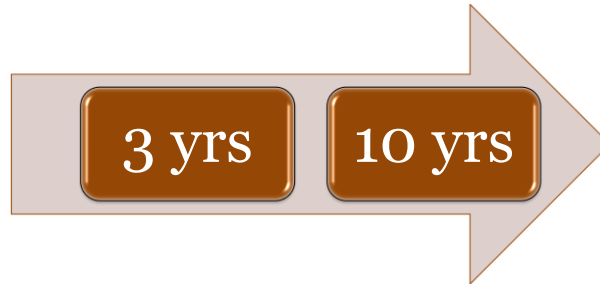
***Do NOT dispose of records until the full post award phase has passed.***





## Records Retention

- Records are retained for at least three years.
  - Retention may be required for up to ten years.



### ***How long should assistance agreement award records be kept on file?***

Records should be retained for at least three years. Check the “terms and conditions” of your award document for the records retention period that applies to your grant.



## How long must EPA assistance agreement records be kept on file?

- A. 1-2 years
- B. 3-5 years
- C. Indefinitely
- D. It varies, usually 3-10 years. Check with your Project Officer
- E. As long as you think it is necessary





## What types of Audits are there?

### Internal Audits

EPA programs and projects



### External Audits

Grantee programs and projects

- Administrative systems
- Financial systems
- Personnel
- Accounting records
- Internal Controls
- Financial Statements
- Compliance

## Auditing Assistance Agreements

### EPA Audits

#### *How does EPA monitor assistance agreement awards?*

EPA is authorized to audit EPA financially-assisted activities of any recipient organization, including Tribal Nations. However, it is federal policy to place maximum reliance on a recipient's own audits like the OMB A-133 single audit (discussed below in this section), if it is carried out in accordance with applicable federal audit standards.

Auditing is described in detail here so that you will be prepared should your Tribal Nation be selected for EPA auditing. EPA audits both internal and external programs. Audits ensure compliance with regulations and keep systems operating efficiently. Audits are required by law; they should not be viewed as a form of punishment or discipline.

***Everyone gets audited at one time or another; it is part of the system.***



## Internal Audits

Audits help to ensure compliance with regulations and keep systems operating efficiently.



### Internal Audits

The EPA Office of Inspector General (OIG) audits EPA programs and their award recipients to assure that EPA follows all the required rules and regulations in carrying out awards.

Internal audits are evaluations that examine the programs or operations of federal agencies. Tribal Nations may be expected as part of an internal audit to provide information about the performance of a federal agency that is not already included in the annual financial reports. Internal audits are a good business practice but only provide limited assurance of compliance, not total assurance.

The Office of the Inspector General Hotline number is 1.888.546.8740 for all non-government locations outside the Washington, D.C. metropolitan local calling area and 202.260.4977 for those inside the area.



## External Audits

- Audits help to ensure proper use of taxpayer money.



- External audits are conducted by:

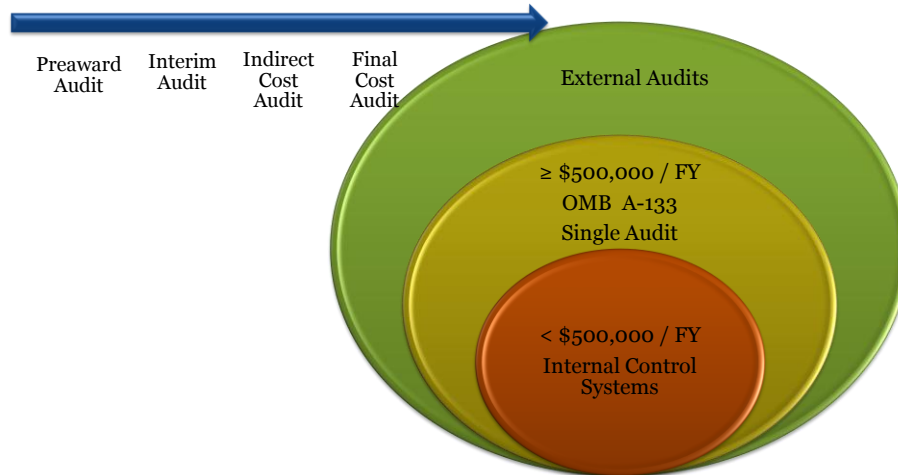
- The award recipient's independent auditor
- EPA Office of Inspector General (OIG)
- EPA Administrative Reviews
- Government Accountability Office (GAO)

### External Audits

EPA Program Offices require external audits of assistance agreements because grantees must demonstrate that they are properly monitoring taxpayer money. External, in this instance, means not directly controlled by EPA. These are the audits that a grantee performs on its own financial systems.



## Grantee Audits



Examples of grantee (external) audits include:

- Pre-award audits are reviews conducted to evaluate prospective cost or pricing data.
- OMB Circular A-133 single audits are financial and compliance audits that conform to OMB Circular A-133 requirements.
  - The OMB Circular A-133 single audit is mandated by statutory law. It *must* be complete and *cannot* be waived.
  - The cost of an OMB A-133 single audit is an allowable cost. Applicants should generally include audit costs in their indirect cost rate (or financial and administrative cost pool).
- Indirect cost audits the assignment of indirect costs to funding sources. The same rate should apply to each source. They ensure only allowable costs are included in the indirect costs allocated to federal agencies.
- Interim and final cost audits are reviews conducted to assess the allowability of costs claimed under the assistance agreement or contract. They ensure compliance with the applicable requirements and award conditions.

Requests for an audit are made by EPA on Form 5700-29 the Assistance Audit Request form. The project officer submits the form directly to the appropriate Divisional Office of the Assistant Inspector General of Audits (DIGA), but to the extent possible the project officer should coordinate requests for audits with the grants management official.



External audits are used to test the effectiveness of a grant recipient's:

- A. Financial operations
- B. Operating procedures
- C. Program results
- D. Resource management
- E. All of the above



Who may conduct audits of EPA award programs?

- A. EPA's Inspector General's Office (OIG)
- B. Government Accountability Office (GAO)
- C. The Tribal Nation receiving the award
- D. EPA Audit Contractors
- E. All of the above





### ***What audit is absolutely required of all recipients with a total of \$500,000 or more annually in federal awards?***

The Office of Management and Budget establishes consistent and uniform audit requirements and defines federal responsibilities for implementing and monitoring such requirements for states, local governments, Tribes, and other non-profit organizations receiving federal funds.

An OMB A-133 single audit is required whenever a Tribal Nation expends **\$500,000** or more of federal funds per accounting year. The accounting year can be either a calendar or fiscal year, whichever a Nation has chosen as their accounting year.

Audits made in accordance with OMB Circular A-133 can replace any financial audit required under individual federal awards. To the extent OMB A-133 single audits meet a federal agency's needs; the agency should rely upon and use these audits.

OMB A-133 single audit do not limit the authority of federal agencies, including the EPA Inspector General or the Government Accountability Office, to conduct or arrange for additional audits. Any additional audits are to be planned and performed in such a way as to build upon work performed by other auditors.

To have a successful OMB A-133 single audit, a Tribal Nation must have all the financial and administrative systems in place to produce the required financial statements to be submitted to personnel performing the audit.

Auditors can examine all records related to expenditures, such as:

- Source documents
- Payroll



- Time and effort sheets

Auditors may interview employees.

Make sure the budget matches the list of expenditures.

OMB Circular A-133 is provided in the [Appendix](#).



### When is an OMB A-133 single audit required?

- Every accounting year regardless of how much your organization spends
- When a grant recipient has spent \$100K or more in federal funds per accounting year
- When a grant recipient has spent \$250K or more in federal funds per accounting year
- When a grant recipient has spent \$500K or more in federal funds per accounting year
- OMB A-133 Single Audits are never required



## A Successful Audit

For a successful audit, you **MUST**:

- Have a financial management system that tracks **all** costs expended.
- Complete all procurement transactions, or have on file a sole-source justification.
- Perform a cost or price analysis on **every** procurement transaction and keep in your file.
- Have the following internal policies on file:
  - Time Sheets
  - Procurement Policy
  - Personnel Policy
  - Codes of Conduct
  - Travel Policy
  - DBE Utilization

### *How should we prepare for an audit?*

To have a successful OMB A-133 single audit, a Tribal Nation must have all the financial and administrative systems in place to produce the required financial statements to be submitted to personnel performing the audit.

**Audits may be performed before, during, or after the completion of a project.** The project file should be maintained in audit ready status at all times.

Audits made in accordance with OMB Circular A-133 can replace any financial audit required under individual federal awards. To the extent OMB A-133 single audits meet a federal agency's needs; the agency should rely upon and use these audits.

Auditors can examine all records related to expenditures, such as:

- Source documents
- Payroll
- Time and effort sheets
- Interviews with employees

***Make sure the budget matches the list of expenditures.***

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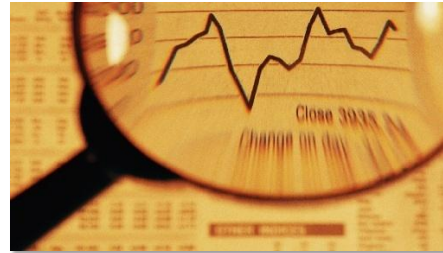
Audits

U.S. Environmental  
Protection Agency



## Up-to-Date Audits

- Tribal Nations must have a current audit.
- Ensure “internal controls” are in place and operating.
- Play it safe; hire a professional auditor.



### ***How current must our audit be?***

Tribal Nations must have a current audit. Audits should be conducted on a yearly basis. Methods that a Tribal Nation may use to make sure their internal controls are in place and operating:

- Employ someone within the Tribal Nation to perform a cursory audit function and report directly to Tribal leaders.
- Employ an external auditor to perform review functions that are more extensive than just a review of the books and records.



## Preparing for an Audit

- Compliance with federal regulations is reviewed by auditors.
- EPA auditors may use the *Agency Administrative and Financial Onsite Review Questionnaires*.
  - Recipients should be able to implement each of the processes listed on the questionnaire, or explain why they are not necessary.



## Preparing for an Audit continued..

Before an external auditor ever contacts you:

- Don't expect much advance notice.
- Maintain complete and accurate records.
- Perform internal audits and reviews as part of your internal controls system
- Conduct internal performance and fiscal reviews.
- Make sure any sub-recipients understand they are subject to an audit also.
- Check out the Federal Audit Clearinghouse website at: <http://harvester.census.gov/sac> for additional audit information and resources.
- Check out the OMB website at [www.omb.gov/circulars](http://www.omb.gov/circulars) and scroll down to OMB Circular A-133 and its compliance supplements



## The Audit

- Stay calm
- Your goal: a clean audit report with minimal findings.
- Clarify what the auditor needs ahead of time – be responsive and accurate to what is requested
- Call counsel if needed.
- Designate one person to serve as the audit team leader



## Audit Team Leader Responsibilities

- Coordinates all communication and paper flow
- Oversees copying production
- Coordinates all interviews
- Coordinates entrance and exit conferences
- Assigns appropriate space to the auditor(s)



### When are audits conducted?

- A. Before the award period begins
- B. During the award period
- C. After the award period
- D. After closeout but before retention ends
- E. All of the above



## Audit Expenses

- The cost of an OMB Circular A-133 single audit is an allowable cost.
- The cost should be allocated in accordance with the guidelines in OMB Circular A-87. All activities/programs that benefit from the audit should be allocated a proper share of the audit costs.

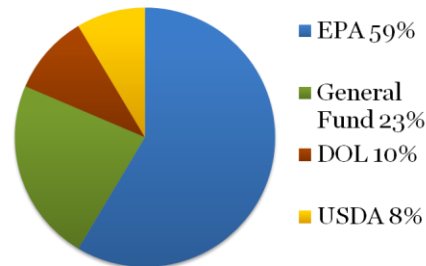
### ***Are audit expenses reimbursable?***

The cost of a single audit is an allowable cost; however, an EPA grant cannot cover the full cost of an audit, unless the project is 100% funded by EPA funds. If the Tribal Nation receives other sources of funding, then the cost of audit must be allocated fairly and equitably between funding sources. The cost of an audit should be prorated to all federal funds, not just EPA funds. Applicants should either include audit costs in their indirect cost rate or, if the cost is not included in the indirect cost rate, as a direct cost to the assistance agreement.



## Allocation of Audit Expense

- Determine the percentage of money received by the Tribal Nation from each federal agency.
- Allocate the cost of an audit fairly and equitably between funding sources.
  - Include in the negotiated Indirect Cost Rate



EPA is not the only federal agency granting money; therefore, the GAP grant, for example, should not be paying for the total cost of the audit. The GAP grant should only pay for a portion of the cost. One way to allocate this cost is to determine the percentage of money received from each federal agency and to share the costs proportionally.

**Include the cost of a yearly OMB Circular A-133 single audit in your calculated indirect cost rate.** This method insures the money is available when you need it.

View the OMB Circular A-133 at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>, or download a copy at <http://www.whitehouse.gov/omb/circulars/a133/a133.pdf>. This document is also provided in the **Appendix**.



### How do we pay for auditing?

- A. EPA award funds
- B. Other grant funds
- C. In-kind donations
- D. Tribal Nation's general budget
- E. All of the above



## Audit Reports

- Provide a copy of the findings section
- Prepare a corrective action plan
- Explain corrective actions
- Fix any problems

### ***What needs to be reported after an OMB A-133 single audit?***

You need to explain corrective actions and provide a copy of the findings section of an OMB A-133 single audit if there were any findings, material weaknesses, or reportable conditions identified. The Tribal Nation is responsible for follow-up and corrective action on all audit findings. The Tribal Nation needs to prepare a corrective action plan for all current year audit findings. If you have any questions, please contact your EPA regional audit coordinator.

Following is the current standard headquarters' administrative condition for grant awards:

*In accordance with OMB Circular A-133, which implements the single Audit Act, the recipient hereby agrees to obtain a single audit from an independent auditor if it expends \$500,000 or more in total Federal funds in any fiscal year. Within nine months after the end of a recipient's fiscal year or 30 days after receiving the report from the auditor, the recipient shall submit a copy of the SF-SAC and a Single Audit Report Package.*

***For fiscal periods 2008 and beyond the recipient MUST submit a copy of the SF-SAC and a Single Audit Report Package, using the Federal Audit Clearinghouse's Internet Data Entry System. Complete information on how to accomplish the 2008 and beyond Single Audit Submissions you will need to visit the Federal Audit Clearinghouse Web site: <http://harvester.census.gov/fac/>***



# References

## Financial Accounting Standards Board

- [www.fasb.org](http://www.fasb.org)
- Select “pronouncements” on the homepage
- No. 116, No. 117, No. 124 and No. 136

## Internal Revenue Service

- [www.irs.gov](http://www.irs.gov) – [www.irs.gov/ec](http://www.irs.gov/ec) - [www.stayexempt.org](http://www.stayexempt.org)
  - Pub 557 – Tax-Exempt Status For Your Organization
  - Form 1023 and Instructions – Application for Recognition of Exemption
  - Forms 990, 990EZ, 990T and Instructions – Annual Information Returns
  - Form 990 Schedules A and B and instructions
  - Pub 15/Circular E – Employers Tax Guide

## Office of Management and Budget

- [www.whitehouse.gov/omb/circulars](http://www.whitehouse.gov/omb/circulars) (Reference supplements contain useful information)
  - A-87 – Cost Principles for Governments (including Tribes)
  - A – 122 – Cost Principles for Non-Profits
  - A-133 – Audits of Governments and Non-Profits



# Questions? Contact:

## Laurice Jones

U.S. Environmental Protection  
Agency  
Office of Grants and Debarment  
1200 Pennsylvania Avenue, N.W.  
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Washington, DC 20460  
202-564-0223  
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## Elizabeth January

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11 Technology Drive  
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[january.elizabeth@epa.gov](mailto:january.elizabeth@epa.gov)

Forms available for download at <http://www.epa.gov/ogd/forms/forms.htm>





## EPA Administrative and Financial Onsite Review Questionnaire

### I. Organization Policies and Procedures

#### A. General Information / Policies and Procedures.

Many of these questions have “Yes” or “No” answers. For “Yes” answers, please provide the specific reference to your policies and procedures. Please explain all “No” and “Not Applicable” answers.

Thank you in advance for completing this questionnaire.

Note: 40 CFR 31 and OMB Circular A-87 (codified as Title 2 CFR 225) references apply to States, Local Governments, and Indian Tribes.

1.	Who or which office(s) in your organization is/are responsible for reviewing, approving, and signing applications, awards, and amendments?	
2.	Who or which office(s) in your organization is/are responsible for monitoring and overseeing assistance agreements once received from EPA?	
3.	Do you have a current Organizational Chart? Show or explain any non-profit or for profit organization and/or entities your affiliated with.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
4.	How does your organization keep up-to-date on federal regulations, legal decisions, OMB Circulars, etc.?	
5.	Does your organization have provisions for seeking written prior approvals for specific revisions, from the awarding agency under certain conditions? (40 CFR 31.30)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
6.	The Code of Federal Regulations (40) and OMB Circulars require organizations receiving federal assistance agreements to have written policies and procedures for the following areas. (40 CFR 31.20 and 31.21) Do your policies and procedures address the items described below?	
a.	Personnel, including qualifications for each position, duties and responsibilities, salary ranges, EEO, annual performance appraisals, types and levels of fringe benefits, and standards of conduct governing duties and responsibilities including disciplinary actions for not adhering to the standards, for employees engaged in the award and administration of contracts. (OMB A 87 / 2 CFR Part 225, Appendix B, section 8)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

b.	Time reporting, tracked to each project; (OMB A 87 / 2 CFR Part 225, Appendix B, Section 8.h)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

c.	Redistributions (Chargeback's); (i.e., other organizational department costs; written, established rates required)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

d.	Payroll processing and internal controls; (OMB A 87 / 2CFR Part 225, Appendix B, Section 8.h)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

e.	Overtime (if allowed); (OMB A-87 / 2CFR Part 225, Appendix B, section 8)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

f.	Vacation and Sick Leave (if offered by your organization); (OMB A 87 / 2 CFR Part 225, Appendix B, section 8.d)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

g.	Compensatory time (if allowed).	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

h.	Equipment and property purchases including cost and price analysis, purchase, use of, inventory and disposition of at the end of the project; (40 CFR 31.31, 31.32 & 31.36(f))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

(A cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability when you do not have other proposals to compare costs against. A price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices, and similar indicators, together with discounts.)

i.	Electronic Funds Transfers (EFT) drawdowns from EPA's accounts. Does your policy address who is authorized to request payment from the federal government, what procedures are used to verify that the request are accurate, and when drawdown of funds will occur etc.; (40 CFR31.20(b)(7) and 31.21)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

j.	Receipt and deposit of advanced payments (40 CFR 31.21 (c)&(e))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

k.	Records retention. (40 CFR 31.42)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

l.	Travel, authorizations, vouchering after the trip and, if required, trip reporting; (OMB A 87 / 2CFR Part 225, Appendix B, section 43)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

m.	Procurement Standards for supplies, expendable property, equipment, real property, and services. Standards for contracting, purchasing, consultant agreements, sub-awards or grants (if applicable, especially for monitoring sub grantees) and other types of awards that transfer federal funds outside of your organization; (40 CFR 31.36, 40 CFR 31.37 and 31.40(a))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

n.	Provisions for utilizing Small Businesses, Minority Owned Firms, Women's Business Enterprises, and Labor Surplus Area Firms (where possible) (40 CFR Part 33)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

o.	Program income. Is it identified, authorized, accounted for, and are limitations placed on its use; (40 CFR 31.25)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

p.	Cost sharing, matching, and In-Kind contributions. Is it identified, accounted for and reported; (40 CFR 31.24 and OMB A 87 / 2CFR Part 225, Appendix B, section 12)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

7. Do you have the following documents for each grant award:

a.	Original application and certifications; (SF 424, 424A, et al.)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

b.	Work plans and/or statement of work;	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

c.	Initial award and all amendment documents;	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

d.	Request for and approvals of scope and/or budget changes; (40 CFR 31.30 (a),(b) & (c))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

e.	Financial Status Reports and reimbursement requests, if applicable; (40 CFR 31.41(b))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
f.	Payment requests backed up by financial records to support the request; (40 CFR 31.20(a)(2))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
g.	Progress reports; (40 CFR 31.40(b))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
h.	Contracts / Subgrants; (40 CFR 31.37)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
i.	Purchases; (40 CFR 31.32 for equipment, 40 CFR 31.33 for supplies)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
j.	Consultant agreements; (40 CFR 31.36(j))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
k.	Correspondence and approvals, including emails to and from EPA officials.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

**II. Accounting and Financial Management**

Many of these questions have “Yes” and “No” answers. For “Yes” answers, please provide the specific reference to your policies and procedures. Please explain all “No” and “Not Applicable” answers.

*A. Accounting*

1.	Does your organization have an accounting manual? (40 CFR 31.20) The CFR requires certain accounting practices / procedures addressed in the questions below to be written.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
2.	Does your organization’s accounting and financial management system(s) follow Generally Accepted Accounting Principles (GAAP)? (OMB A 87 / 2CFR Part 225, Appendix B, section 8)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

3.	Does your organization's accounting and financial management system(s) provide accurate, current and complete disclosure of the financial results of each federally-sponsored project or program (i.e. each award is accounted for separately) (40 CFR 31.20(b)(1)), and produce financial reports in accordance with the requirements of 40 CFR 31.41?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
4.	Does your organization's financial management system(s) provide records that adequately identify the source and application of funds for federally-sponsored activities, such as authorizations, obligations, unliquidated obligations, assets, outlays, income, and interest? (40 CFR 31.20,.21 &.22)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
5.	Does your organization's accounting and financial management system(s) provide accurate, current and complete disclosure of the financial results of each federally-sponsored project or program (i.e. each award is accounted for separately) (40 CFR 31.20(b)(1)), and produce financial reports in accordance with the requirements of 40 CFR 31.41?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
6.	Does your organization have written policies and procedures to ensure that costs are reasonable, allocable, and allowable? (40 CFR 31.20 (b)(5); OMB Circular A-87 / 2CFR Part 225, Appendix A, Section C)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
7.	Does your organization monitor allowable costs to ensure they are charged to the grant within the specified period? (40 CFR 31.23)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
8.	Does your financial management system(s) report and provide for a comparison of outlays or grant project expenditures, with budget amounts for each grant project/award or have the capability to do so? (40 CFR 31.20(b)(4))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
9.	Does your organization have budgetary controls to preclude incurring excess expenditures? (40 CFR 31.20(b)(4))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
10.	Does your accounting system have provisions for reviewing and monitoring project budgets and program plans, and reporting and rectifying deviations that may occur in them? (40 CFR 31.20(b)(4) and 31.30)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

11.	Do you have a current audit? (40 CFR 31.26)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

12.	If your organization expended more than \$500,000 of Federal funds in the most recent fiscal year, did you obtain an audit in accordance with OMB Circular A-133? (40 CFR 31.26(a))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

13.	If your organization had an OMB A-133 Single Audit performed, were there any findings, material weaknesses, or reportable conditions identified? If there were, briefly explain or provide a copy of the findings section and your corrective actions taken.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

14.	If your organization requests reimbursement for indirect costs under the grant award, does your organization have an approved indirect cost rate? (OMB Circular A-87 / 2CFR Part 225, Appendix E)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

15.	Does your organization have written procedures for drawing grant funds and issuing payments? (40 CFR 31.20(b)(7) and 31.21 (b) and (c)) Note: Payment requests should be restricted to immediate needs, i.e. drawing down funds 3 to 5 working days in advance of disbursements.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

16.	What type of accounting and financial management system(s) does your organization use? Name of automated system(s)?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

17.	Are accounting records supported by source documentation? (40 CFR 31.20(b) (6))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

**B. Personnel / Timekeeping**

(Reference: OMB Circular A-97 / 2 CFR Part 225, Appendix B, section 8)

Many of these questions have “Yes” or “No” answers. For “Yes” answers, please provide the specific reference to your policies and procedures. Please explain all “No” and “Not Applicable” answers.

1.	Does your organization have written payroll policies and procedures?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

2.	Do your employees record: actual hours worked directly on all projects, indirect or administrative time not charged directly to a project, and leave taken?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

3.	For those employees required to work away from the office, are actual hours worked documented?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

4.	Do payroll registers and reports match up with costs for each employee whose compensation is charged to an assistance agreement?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

5.	Are timesheets required to be signed by the individual or supervisor?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

*C. Personnel / Payroll*

Many of these questions have “Yes” or “No” answers. For “Yes” answers, please provide the specific reference to your policies and procedures. Please explain all “No” and “Not Applicable” answers.

Does your organization’s written policies and procedures provide for the following controls for the payroll function?

1.	Does the policy provide adequate separation of duties?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

2.	Are salaries and wage rates established, authorized, and approved in your organization to ensure equity?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

3.	Does your payroll process ensure that all deductions from employee’s salaries are authorized by the employee, and proper?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

4.	How are payrolls distributed?	<input type="checkbox"/> EFT <input type="checkbox"/> Manual Checks <input type="checkbox"/> Both

5.	If checks are distributed manually, are there sufficient controls to ensure that payroll checks are distributed to the correct employee?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

*D. Travel (Ref: OMB Circular A-87/ 2 CFR 225, Appendix B, section 43)*

Many of these questions have “Yes” or “No” answers. For “Yes” answers, please provide the specific reference to your policies and procedures. Please explain all “No” and “Not Applicable” answers.

1.	Does your organization have written travel policies and procedures?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A



2.	Are internal controls in place to ensure that employees follow your organization's travel policy, i.e. levels of review prior to authorizing payment and that the travel was associated with the specific grant project?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

3.	Are internal controls in place to ensure that travel and time reporting support the employee's activities while on travel?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

4.	Do the policies and procedures include provisions to ensure that travel costs are allowable, allocable, and reasonable?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

*E. Matching, Cost Sharing, In-Kind Contributions and Program Income*

40 CFR 31.24 (a) to (e) provides criteria on the acceptability, purpose, and types of contributions made in relation to cost sharing or matching purposes, and the support for such. 40 CFR 30.24 and 31.25 addresses the accounting for Program Income related to federally funded projects.

Many of the questions below have "Yes" or "No" answers. For "Yes" answers, please provide the specific reference to your policies and procedures. Please explain all "No" and "Not Applicable" answers.

1.	Does your organization currently have any Matching, Cost Sharing and/or In-Kind costs included in any active awards or anticipate any of these types of costs in the foreseeable future? No ____ (Skip this entire section) Yes ____ (Please complete the rest of this section.)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

2.	Do any of the matching costs come from another federal grant(s)? (If Yes, it must be authorized in the terms and conditions of the assistance agreement)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

3.	Are these costs identified in the approved grant project budget?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

4.	Does your organization track, record, report and verify these costs?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

5.	Are all matching costs verifiable from accounting records and valued according to applicable OMB Circular cost principles?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

OMB Circular A-87 / 2CFR Part 225, Appendix B, paragraphs 8 & 12

6.	Has any program income been used to satisfy the recipient's contribution for any current award or added to the funds committed for the project?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

7.	Is there a term and condition in the award that permits the use of program income for match requirements or for adding it to the funds committed to the project?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

8.	If there is no term and condition, has the program income been deducted from the total allowable project cost?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

*F. Procurement / Contracts / Subagreements*

Many of these questions have "Yes" or "No" answers. For "Yes" answers, please provide the specific reference to your policies and procedures. Please explain all "No" and "Not Applicable" answers.

1.	Does your organization have written procurement policies and procedures?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

2.	Has your organization awarded contracts or subagreements under any of the award agreements being reviewed? (Agreements refer to subgrant(s). Subgrant(s) mean an award of financial assistance in the form of money, or property in lieu of money, made under a grant by a grantee to an eligible subgrantee, subrecipient or by a subrecipient to a lower tier subrecipient. This includes financial assistance when provided by contractual legal agreement, but does not include procurement purchases of goods and services.) (40 CFR 31.3)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

3. Were contracts awarded in accordance with your organization's contracting policy and does this policy comply with 40 CFR Part 30.40 to 30.48 or Part 31.36 & .37, as described below:

a.	Contains a written code of conduct that addresses conflict of interests and disciplinary actions. (40 CFR 31.36(b)(3))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

b.	Provides for competing transactions in a free and open manner. (40 CFR 31.36(c))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

c.	Provides for a review to avoid unnecessary purchases, a review of lease vs. purchase alternatives (when appropriate), conducting solicitations with a clear scope of work and bidder requirements, conserving natural resources, and utilizing small, MBE and WBE firms when possible. (40 CFR 31.36(c)(3))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
d.	Requires performing and documenting a cost analysis for sole source procurements. (A cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability when you do not have other proposals to compare costs against.) (40 CFR 31.36(f))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
e.	Requires performing and documenting a price analysis for competitive bidding and small purchase procurement actions. (A price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices, and similar indicia, together with discounts.) (40 CFR 31.36(f))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
f.	Requires documenting the basis for all procurement selections, justifying a lack of competition and basis for award cost and price. (40 CFR 31.36 (b)(9))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
g.	Provides for the Grantor's pre-award review of the procurement when the award or contract modification exceeds \$100,000, is not competed, or only one bid is received. (40 CFR 31.36(g)(2))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
h.	Discusses purchase/agreement /contract cost thresholds (small purchases vs. major procurements) and personnel required to approve procurements.	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
i.	Have provisions that no contract or sub award will be entered into with parties that are debarred, suspended, or excluded from Federal assistance programs. ( 40 CFR 31.35)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
4.	Do any of your organization's contracts for grant projects exceed the Federal Small Purchases threshold, (\$100,000)?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

5.	If Yes, did EPA request to review the contract prior to award? (40 CFR 31.36(g)(2))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
6.	If Yes, did EPA provide written comments?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
7.	Does your organization use a pre-qualified list of persons, firms, or products to acquire goods and services?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
8.	Did your organization follow its procurement policies to place and update vendors on the list?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
9.	Has your organization established an affirmative procurement system for recycled materials and compliance with environmental statutes? (40 CFR 31.13)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
10.	Does your organization have internal control processes to ensure that only required goods and services are acquired in quantities needed? (40 CFR 31.36(b)(4))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
11.	Does your organization have internal control processes to ensure that only acceptable goods and services are paid for by the accounting/finance department? (40 CFR 31.20(b)(5))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
12.	Does your organization have guidelines for documenting its contract files?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
13.	Has your organization awarded contracts to consultants under current assistance agreements?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
14.	Are internal controls for consulting agreements in place to ensure that your organization does not charge EPA assistance agreements more than the authorized direct salary cap? (40 CFR 31.36(j))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

15.	Do your consulting agreements specify the services to be provided, engagement duration, reporting requirements, work location, and pay rates including base rate, fringe benefits, and overhead?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

*G. Small Businesses, Minority Owned Firms, Women' Business Enterprises and Labor Surplus Area Firms (where applicable). (40 CFR Part 33)*

For "Yes" answers, please provide the specific reference to your policies and procedures. Please explain all "No" and "Not Applicable" answers.

1.	Does your organization submit timely reports (MBE/WBE Reports) to EPA, on business activities with these types of firms?	<input type="checkbox"/> Yes, date of the last submittal to EPA _____ Date <input type="checkbox"/> No, please explain.

*H. Property Management (40 CFR 31.31 & 40 CFR 31.32)*

Many of these questions have "Yes" or "No" answers. For "Yes" answers, please provide the specific reference to your policies and procedures. Please explain all "No" and "Not Applicable" answers.

1.	Does your organization have written property management policies and procedures?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

2.	Has your organization purchased capital equipment on any of its active assistance agreements? Yes ___ (Please complete this section.) No ___ (Go to Section I.)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

Equipment, under Federal Guidelines, is equipment that is considered tangible items with a useful life greater than one year and greater than \$5,000 in value. Grantees may have limits that are different than the Federal Guidelines. That is acceptable as long as the limits are not greater than the Federal Guidelines.

3.	Does your organization have an inventory control system? (40 CFR 31.32)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

4.	Does your organization maintain property records that identify equipment purchased, either entirely or partially, with Federal funds? (40 CFR 31.32(d))	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

5.	Does your organization perform a property inventory at least every two years? Date of last inventory _____	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

6.	Does your organization maintain records of property dispositions?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

*I. Internal Controls*

Many of these questions have “Yes” or “No” answers. For “Yes” answers, please provide the specific reference to your policies and procedures. Please explain all “No” and “Not Applicable” answers.

1.	Does your organization have policies and procedures to ensure compliance with the cash management requirements in 40 CFR 31.20((b)(3)?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

a.	Does your organization have an internal auditor, audit staff or someone on the Board of Directors that provides for an independent review of the accounting and financial management process, cash receipts and payments, and safeguarding of assets?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

2.	Does your organization have policies and procedure to ensure compliance with closing out assistance awards after the performance and budget periods? (40 CFR 31.50)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

3. Does your organization have a process in place to ensure compliance with the Programmatic Term and Conditions in the following areas:

A.	Submitting programmatic progress reports;	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

B.	Establishing and obtaining approval of a Quality Action Plan, if required;	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

C.	Establishing a process to track, monitor, and report on Environmental Results?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

The annual public reporting and recordkeeping burden for this collection of information is estimated to average 30 hours per respondent. If you wish to comment on the Agency’s need for this information, the accuracy of the provided burden estimates, and any suggested methods for minimizing respondent burden, including the use of automated collection techniques, send them to US EPA, Collections Strategies Division (2822T), 1200 Pennsylvania Ave. NW, Washington, DC 20460.

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