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This newsletter is a resource to answer questions and concerns that arise from fiscal monitoring on-site reviews. The information used to develop each newsletter comes from findings and recommendations that we see consistently arising in monitoring reviews. This communication is to ensure we are proactive in our technical assistance rather than reactive by sharing information so all parties are aware of the circumstance and the position of OHCS.

Welcome to OHCS' first quarterly fiscal monitoring newsletter! Our hope is that this newsletter will become a mechanism to share information and guidance with feedback from the network.

Hot off the press!

OHCS is in the process of recruiting for a Governmental Auditor 2 to assist Monika in her monitoring duties. The individual hired will back-up Monika during on-site visits until relationships form with the network, at which time we will assign agencies between both monitors. We are excited to be able to assist you even more in the future!



October 2018 Fiscal Training Follow-up

OHCS in partnership with CAPO conducted the 3rd Annual Fiscal Training in Salem, OR on October 3, 2018. There were a few items that were raised in the training where OHCS had to conduct additional review prior to providing guidance and position. We have completed our review and will address our position on the use of sponsorships, gift cards, meal costs, miscellaneous supplies, and supporting documentation.

Sponsorships

Sponsorships is addressed in the federal Cost Principles under Contributions and Donations in 200.434. Contributions or donation of cash, property, or services to another entity is unallowable. However, an example of where this could be considered allowable is when

the cost is for a specific good or service to support the community event and is captured in a contractual agreement. The contractual agreement must outline the description of the cost, support/align with the intent of the program, be approved in the OHCS Master Grant Agreement Workplan, and follow internal procurement processes and policies.

Gift Cards

The use of gift cards is not specifically addressed in the Cost Principles. OHCS has based its position on the factors affecting the allowability of costs (200.403).

Cost of gift cards for client use:

Gift cards given to eligible clients for the purpose of purchasing specific items such as gas or groceries is allowable provided that adequate documentation exists to support the expense and there are established policies and procedures in place to address the process. The cost must be allocable and within the guidelines of the program (200.405, OHCS program manuals, OAR, ORS and grant specific CFR's), must adhere to internal controls (200.403, 200.303), and items purchased with the gift card must be supported by adequate documentation.

Cost of gift cards for employees (bonuses, staff rewards, etc):

Any cost of goods or services for personal use by the employees are unallowable regardless of whether the cost is reported as taxable income to the employees (200.445).

Meal Costs

Cost of meals - Staff and attendees from outside the organization

200.432 allows for the cost of meals and refreshments when the event meets the definition of a conference. 200.432 defines a conference as a meeting, retreat, seminar, symposium, workshop, or event whose primary purpose is the dissemination of technical information beyond the non-Federal entity and is necessary and reasonable for successful performance under the Federal award. The conference host must exercise discretion and judgement to ensure costs are appropriate, necessary and managed in a manner which minimizes costs to the award.

Note: The definition of Non-Federal entity means a state, local government, Indian tribe, institution of higher education (IHE), or nonprofit organization that carries out a Federal award as a recipient or subrecipient. Wipfli's interpretation of "beyond the Non-Federal entity" means "outside" not internal which precludes Boards, Commissions or Councils.

Cost of meals - internal staff and oversight bodies of the organization

Based on the information stated in 200.432, costs of meals for staff and oversight bodies of the organization (examples: all staff meetings, board/council meetings) are unallowable unless the cost is part of a conference where the primary purpose is the dissemination of technical information beyond the non-Federal entity and is necessary and reasonable for successful performance under the Federal award.

Cost of Meals - Social Activity

The costs of meals or refreshments associated with entertainment or social purposes are unallowable, except where it might have a programmatic purpose and then must be

authorized in the approved budget or with prior written approval (200.438). See also 200.454 *Memberships, subscriptions, and professional activity costs* and 200.423 *alcoholic beverages*.

Cost of Meals - Travel related

The cost of meals related to travel is specifically addressed in the Cost Principles. 200.474 allows for costs incurred by staff who are in travel status on official business of the organization. Costs must be reasonable, consistent with the organization's travel policy, show that the participation of the individual is necessary to the Federal award, and must be adequately documented. Costs must also meet the *Factors affecting the allowability of costs* in 200.403.

Miscellaneous Supplies

Miscellaneous supplies (including but not limited to: bottled water, coffee, creamer, utensils, paper supplies, small appliances, employee meals) outside of normal office supplies is not specifically addressed in the Cost Principles. 200.437 *Employee Health and Welfare Costs* states that (a) costs incurred in accordance with the non-federal entity's documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable. OHCS agrees to allow the purchase of miscellaneous supplies for staff use with OHCS funds if all of the following conditions are met by the subrecipient:

- Subrecipient has a written, adopted policy that clearly addresses the following:
 - Defines which costs will be allowed to be purchased with all funds;
 - Provides rationale for how the costs improve working conditions, employer-employee relations, employee health, or employee performance;
 - Addresses how costs will be equitably apportioned to all activities/funding sources (and must be documented in the cost allocation plan);
 - Demonstrate how the *Factors affecting the allowability of costs* (200.403) has been applied and all Basic Considerations (200.402-411) have been met;
 - Address unallowable costs, including but not limited to: cash or cash equivalent benefits (200.431), costs of entertainment (social activities 200.438), alcoholic beverages (200.423), and membership costs of any social, dining, or country club (200.454); and
 - As a best practice, consider applying a budget threshold for each type of cost and the basis for how this threshold was determined to be reasonable (i.e. low cost analysis).
- Accounting system must clearly indicate and track the expense; and
- Purchase is consistent with the subrecipients established procurement policy.

If OHCS determines that all conditions of this guidance have not been met, costs will be deemed unallowable.

Supporting Documentation

Records must adequately identify the source and application of funds; contain authorizations

and be supported by source documentation (200.302(3), 200.403(g) and MGA, Exhibit B.17). This may include, but is not limited to: invoices, contracts, vouchers, receipts, cancelled checks, lease agreements, timesheets, travel authorization forms, or personnel activity report.

Request for Reimbursement must include documentation that identify the source and application of funds including a revenue/expenditure report from the subrecipients accounting system that documents the specific period in which the expenditure occurred and must clearly indicate whether or not the request is for reimbursement or advance (projected) of funds. Funds specifically budgeted and/or received for one project may not be used to support another. Where a subrecipient's accounting system cannot comply with this requirement, the subrecipient shall establish a system to provide adequate fund accountability for each source of funds it has been awarded.

Lack of Documentation:

Regulations, both the MGA and Basic Considerations of Costs in the Uniform Guidance, require that costs be documented and supported (receipts, invoices, etc.). Through discussion of all factors, OHCS concluded a cost would be considered allowable if the cost had a documented purpose, was approved by management, and it was addressed in established policy and procedure as well as meeting all other factors affecting the allowability of costs for the program (200.403-405, OHCS Program Manuals, OAR, ORS, and grant specific CFR's). Best practice would be to provide a reasonable threshold in established policy for when costs are required to be supported by documentation. Example: OHCS set a threshold in policy that requires all costs of \$20 or more must be supported by a receipt.

Wipfli guidance: Policy should be in place to address the issue on lost documentation and how it will be documented in file.

What is the difference between a Single Audit and a Financial Compliance Review?

Single Audit is an organization-wide review of financial statements and federal awards of a Non-federal entity that expends \$750,000 or more in federal funds in one year. It is intended to determine if statements are presented in accordance with generally accepted accounting principles (GAAP), whether the Non-federal entity has adequate internal controls in place, and compliance with Federal statutes, regulations and the terms and conditions of Federal awards that may have a direct and material effect on each of its major programs.

OHCS financial compliance reviews are completed to ensure that the subaward is used for authorized purposes, is in compliance with State and Federal statutes, regulations, and the terms and conditions of the subaward and the Master Grant Agreement (MGA). Financial federal compliance reviews include all OHCS grants (state and federal) passed through to the subgrantee through the MGA process.

The two intersect when financial compliance requirements have a direct and material effect on financial statement amounts (questioned costs identified result in an adjustment to contract or grant revenues earned).

Have a question? Is there a specific subject you would like us to highlight in future newsletters? If so, please submit your feedback/questions/suggestions to **OHCS.Monitoring@oregon.gov**.

Coming up in future quarterly newsletters:

- State Monitoring Process
- Cost Allocation Plans
- Procurement
- Examples of allowed/disallowed costs as related to 200.437

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