



# April – Sept 2019

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.

## *In this newsletter we will cover:*

- **Overview of OHCS Monitoring Process**
- **Direct Cost Allocation**

## **Overview of the OHCS Fiscal Monitoring Process**

Annual fiscal monitoring is required by State and Federal regulations, Program Requirements, State Plan and the Master Grant Agreement. Monitoring ensures that the subawards are used for authorized and intended purposes, in compliance with state and federal regulations, and the terms and conditions of the subaward. There are 22 agencies monitored by OHCS. The following outlines the Fiscal Monitoring Process:

Step 1: Fiscal Monitor analyzes the timeframe for each monitoring visit and completes an on-site monitoring schedule for the fiscal year. The schedule is emailed to the Executive and Fiscal Directors as early as possible in the calendar year for the next fiscal monitoring period which starts July 1, through June 30 of each year. Monitoring covers the prior fiscal year. Although scheduling conflicts may occur, it is important to communicate with OHCS any requested changes to the schedule as early as possible. Not all change requests can be accommodated.

Step 2: A confirmation letter is sent as early as possible, but not less than 30 days prior to the scheduled on-site review. It includes: (1) tentative site visit agenda; (2) list of requested documents to be received by OHCS at least 2 weeks prior to the scheduled review; (3) organizational questionnaire; (4) segregation of duties

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form; (4) non-expendable equipment list (optional); (5) staff change form (optional); and (6) report template - summary of items tested.

Step 3: A desk review is completed once preliminary documents are received. Samples are selected and sent to the subgrantee for the on-site review at least one week prior to the scheduled visit.

Step 4: The on-site review occurs typically lasting from 2-4 days. Ideally any follow up occurs (missing documentation etc.) within one week after on-site review.

Step 5: Within 60 days a draft report is sent from OHCS to the subgrantee for review. The draft allows the agency the opportunity to determine accuracy, provide additional supporting documentation and/or provide a corrective action plan to address any required actions noted in the report.

Step 6: The final monitoring report incorporates any necessary corrections and the response to the draft report and is sent to the Executive Director, Finance Director and Board Chair.

## Direct Cost Allocation

OHCS' role is not to approve a cost allocation method but to determine that it is reasonable, consistently applied, supported by appropriate documentation, and allocable to the award(s). This guidance applies to both State and Federal grants. Prior to allocating a cost, the cost must meet the Basic Considerations of Costs in the Cost Principles (§200.402-411).

The Master Grant Agreement (MGA), Exhibit C., Section 10.f., requires that subgrantees develop and maintain a policy that describes all direct and indirect methods of cost allocation practiced. Policies should describe the method of allocation and a general description of the costs included in each type of allocation.

Methods of Allocation:

**1. Direct Allocation Method for Shared Administrative Costs** (also referred to as Indirect Costs).

Description: Costs incurred for a common or joint purpose benefitting more than one cost objective, not readily assignable to the cost objectives specifically

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benefitted, without effort disproportionate to the results achieved (§200.056). These are costs that are “organization-wide and shared across all programs.

Examples: Salaries for administrative staff (Executive Director, Finance Department), Office Supplies and Equipment, Depreciation, Facilities Maintenance and Repairs.

Basic Criteria:

- a. §200.405(c) – the cost allocable under the cost principles may not be charged to other Federal awards to overcome fund deficiencies or avoid restrictions. Example: LIHEAP WX admin is overspent and this programs share of indirect costs is moved to CSBG admin. This is not allowable (see also 45 CFR 96.88). CSBG (or other Federal grants) cannot be used to cover a deficiency of funding in another federal program (§75.405(c).
- b. All grants/activities (including fundraising activities) must receive their fair share of the admin (indirect) allocation regardless of limitations imposed by the grant. The difference must be covered by unrestricted funds (§200.405 as well as guidance from CAPLAW and Community Action Partnership). Unrestricted funds would be non-Federal funds that aren't otherwise specifically restricted by statute, administrative rule, contract, or program manual.
- c. The combination of direct and indirect administrative costs cannot exceed the limits set by the funding source.
- d. The base must be established in accordance with reasonable criteria and be supported by current data (OMB Compliance Supplement and §200.405).
- e. The cost is accorded consistent treatment (§200.403(d)). A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

**2. Direct Allocation Method for Direct Costs** that benefit more than one Cost Objective.

Description: Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. If a cost benefits more than one cost objective (function, activity, contract, award, program) it is considered a shared cost that must follow the principles for direct cost allocation (§200.405(d)).

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\*Note: the primary difference between no. 1 and no. 2 is that costs in no. 2 can be attributed to a cost objective (program or activity).

Examples: Office Supplies, Equipment, Car Insurance, Training, Space, and Travel.

Basic Criteria:

- a. §200.405(c) – the cost allocable under the cost principles may not be charged to other Federal awards to overcome fund deficiencies or avoid restrictions. However, a cost may be shifted if allowable under 2 or more awards, in accordance with regulations.
- b. The base must be established in accordance with reasonable criteria and be supported by current data (OMB Compliance Supplement and §200.405).
- c. If a cost solely benefits one award, it should be charged to that award in its entirety (§200.405).
- d. If a cost item (such as new computers for the entire office) is going to be charged to one grant, this should be indicated in the OHCS approved budget/workplan. MGA, Exhibit B.
- e. The cost is accorded consistent treatment (§200.403(d)). A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

§200.405(d) "Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the **proportional benefit**. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the **interrelationship** of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis..."

**Proportional Benefit:**

- ✓ If the proportional benefit can be determined, there must be documentation to support the determined proportion of the benefit provided.
- ✓ Allocations should be reviewed routinely

**Interrelationship of Programs:**

- ✓ When the proportional benefit cannot be determined, the cost must be estimated using a reasonable base that is consistently applied.



Common acceptable allocation bases	Examples of supporting documentation
% of staff time or total payroll cost per program	Time studies/time sheets/labor distribution report
Overall FTE	Documentation that supports # of FTE per Dept.
% of square feet used by the program	Floor diagrams
% of # of financial transactions per program	Report from the accounting system
% based on number of clients served	Spreadsheet tracking # of clients served by program
Actual rate of usage	Report reflecting postage or copier use (i.e. # of copies) by Dept.

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](mailto:OHCS.Monitoring@oregon.gov).

Coming up in future quarterly newsletters:

- Procurement
- Examples of allowed/disallowed costs as related to 200.437
- Remedies for non-compliance

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