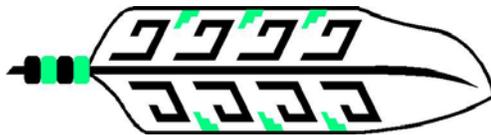


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CHAPTER 7 FINANCIAL MANAGEMENT

A. INTRODUCTION

Finance can be defined as the art and science of managing money. For those who work with government programs, a deeper understanding of financial management principles will allow them to make better financial decisions. All programs benefit when they have a financially knowledgeable staff involved in the day-to-day operations of the program. A knowledgeable staff will make better financial decisions when they are trained to see the total picture than those who do not understand the purpose for daily financial tasks. In financial management, “it’s not just *how* we do the job, but also *why* we do things that is important.”

Program success is often measured by the accomplishment of its goals. Successfully managing the financial resources maximizes the amount and availability of funds to accomplish these goals. These two perspectives are linked together.

A total financial management system is comprised of three major elements or functions.

- 1.) First the budget process. Budgeting is the appropriating of fiscal resources to accomplish program goals and objectives within a single year’s period of time.
- 2.) Second is the accounting of these resources. The purpose for accounting is to identify and report all revenues and expenditures that occur during the current year and reporting this information to all interested parties.
- 3.) Third is auditing. An audit examines the year’s activities to ensure compliance to the regulations regarding what and how money was expended and if there were proper controls in operation to safeguard these assets.

The Finance Department is responsible for the accounting process, or the identification of all monies received and expended during the fiscal year. These receipts and expenditures are compared to the budget, and reported to the Program Director and Tribal Administrators in order for them to make corrective decisions on the delivery of services to meet program goals. The monthly revenue and expenditure reports must be accurate and timely in order to provide the Program Director with the information needed to make decisions. Likewise, granting agencies also require financial reports to evaluate the progress on meeting the outcome expectations of the grant. Therefore, one of the most important outcomes from financial management is the providing of accurate and timely information for decision-making. This is a critical function.

The Corporation for National Service is a strategic partner with Tribal government. They assist the Tribe in providing services that usually could not be provided without the assistance of the grant. However, part of the agreement requires the Tribe to agree to do things that the granting agency wants in order to meet the agency goals and objectives and protect government assets. Therefore, both the Tribe and the Corporation for National Service must work cooperatively in order for each to accomplish its goals and Tribes must be able to meet the financial management requirements.

Financial management is an important part of every successful program and good financial management increases the success of the program. While financial management may focus upon numbers, its outcome results in better services to individual Tribal members.

B. FINANCIAL ASSISTANCE RULES, 45 CFR PART 2541.

The Financial Assistance Rules, 45 CFR Part 2541, established uniform policies and procedures for State and Governmental units for the award and administration of grants and subgrants. The four major subparts are as follows.

1. Subpart A - General
2. Subpart B - Pre-Award Requirements
3. Subpart C - Post-Award Requirements
4. Subpart D - After-The-Grant-Requirements

<p style="text-align: center;">SUMMARY OF APPLICABLE SECTIONS</p>
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<p style="text-align: center;">This is only a summary and should a question arise refer to this complete 45 CFR Part 2541 for the specific regulation.</p>
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PRE-AWARD REQUIREMENT

1. SECTION 2541.100: GRANT APPLICATION

REQUIREMENTS

This section prescribes the forms and instructions to be used in applying for federal financial assistance.

Applicants are not required to submit more than the original and two copies of pre-applications and applications.

For amendments to a previously submitted application only the affected pages need be submitted.

2. SECTION 2541.120: SPECIAL RESTRICTIVE CONDITIONS OF AWARDS

REQUIREMENTS:

Defines under what circumstances a grantee or subgrantee will be considered high-risk: history of unsatisfactory performance, financially unstable, management system that does not meet standards, nonconformance in prior awards, or not otherwise responsible.

Awarding agency will provide a written explanation of conditions and corrective action.

POST-AWARD REQUIREMENT

3. SECTION 2541.200: FINANCIAL MANAGEMENT STANDARDS

REQUIREMENTS:

Financial management systems must meet the following minimum standards:

- Provide for accurate, current, and complete disclosure of all financial activities.
- Maintain records that identify the source and application of funds.
- Maintain effective control and accountability for all grant cash, property, and other assets.
- Compare actual expenditures with budgeted amounts on a periodic basis.
- Determine allowable costs by OMB cost principles, program regulations, and grant agreement.
- Have accounting records supported by source documentation.
- Have procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the subgrantee.
- An agency may review the adequacy of the financial management system as part of a pre-award review.

4. SECTION 2541.210: PAYMENT

REQUIREMENTS:

All methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the subgrantee.

The methods that can be used are:

- Advances (for grantees and subgrantees if they meet standards.)
- Reimbursements (when requirements are not met or for construction contracts.)
- Working capital advances (if a subgrantee cannot meet the criteria for advance payments.)

Recipients must also expend program income, refunds, and audit recoveries before requesting additional federal cash payments.

Payments cannot be withheld unless:

- Recipient has failed to comply with grant award conditions.
- Recipient is indebted to the United States.

Recipients are encouraged to use minority owned banks.

- The use of a separate bank account can be required through Federal-State agreement.
- The grantee/subgrantee may keep up to \$100 interest for administrative expenses.

5. SECTION 2541.240: MATCHING OR COST SHARING

REQUIREMENTS:

Tribes will comply with the Office of Management and Budget Circular A-87.

6. SECTION 2541.230: PERIOD OF AVAILABILITY OF FUNDS

REQUIREMENTS:

Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations during the funding period, unless carry over of unobligated balances is permitted.

A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

7. SECTION 2541.240: MATCHING OR COST SHARING

REQUIREMENTS:

All contributions, including cash and in-kind, shall be accepted as part of recipient's cost sharing or matching if they:

- are verifiable through records,
- are not counted for other federal programs,
- are necessary for the completion of the project,
- are allowable under the cost principles,
- are not paid by other federal funds (unless approved by statute),
- are provided for in the approved budget, and
- conform to other provisions of the financial management circulars.

8. SECTION 2541.250: PROGRAM INCOME

REQUIREMENTS:

Program income is gross income generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period.

The methods for treatment of program income include:

- Addition
- Deduction
- Cost Sharing or Matching

Unless authorized by Federal regulations or the grant agreement, program income will be treated as gross program income. Unless authorized, program income shall be deducted from the total allowable costs.

There are no Federal requirements governing the disposition of program income earned after the end of the award period unless the regulations or agreement states differently.

9. SECTION 2541.260: NON-FEDERAL AUDIT

REQUIREMENTS:

State and local governments will be subject to the audit requirements in OMB A-133 Audits of State and Local Governments.

10. SECTION 2541.300: BUDGET AND PROJECT REVISIONS

REQUIREMENTS:

Recipients are permitted to rebudget within the approved direct cost budget to meet unanticipated requirements and make very limited program changes.

The applicable cost principles which require prior approval shall apply.

Prior approval is required based on specific clauses within the grant agreement and in the following instances where

- A revision would result in the need for additional funds;
- Cumulative transfers would exceed 10% of the total budget if the grant is over \$100,000;
- Funds allotted for training were transferred;
- There is a revision in the scope of objectives;
- There is a need to extend the period of availability of funds;
- There is a change in key persons who are central to the purpose of the project;
- There is a need for additional funding;
- Grantee contracts out any of the key activities central to the purpose of the award.

Requests for prior approval will be in the same format as used in the application. The approval must be in writing.

11. SECTION 2541.310: REAL PROPERTY AND EQUIPMENT

REQUIREMENTS:

Real property means land and structures.

- Title to real property will vest with the grantee or subgrantee.
- The awarding agency will provide instructions for disposition of real property when it is no longer needed.
- Equipment is defined as tangible, nonexpendable personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.
- Title to equipment acquired under a grant or subgrant will vest with the grantee or recipient unless specified.
- Equipment shall be used for the program or project it was acquired. The equipment may be used for other Federally supported projects if it does not interfere with the project for which it was originally acquired.
- If replacement equipment is needed the equipment to be replaced may be used as a trade-in.
- The property management requirements include the following:
 - Property records must include a description, serial number, source, title, cost, acquisition date, percent of Federal participation, location, use, condition, and ultimate disposition.
 - Physical inventory must be done at least every two years.
 - A control system to ensure safeguards against loss, damage, or theft.
 - Adequate maintenance procedures.
 - Proper sales procedures. Items with a fair market value (F.M.V.) of \$5,000 or less that are no longer needed can be disposed of with no further obligations. Items over \$5,000 F.M.V. require the awarding agency to receive its fair share.

Federally owned equipment requires a recipient to submit an annual inventory listing. When the equipment is no longer needed a subgrantee will request disposition instructions from the Federal agency.

12. SECTION 2541.330: SUPPLIES

REQUIREMENTS:

Title to supplies acquired under an award will vest with the recipient.

If there is a residual inventory of unused supplies exceeding \$5,000 in total fair market value upon termination or completion of the award and if the supplies are not needed for any other federally sponsored programs the recipient shall compensate the awarding agency for its share.

13. SECTION 2541.260: PROCUREMENT

REQUIREMENTS:

Grantees must meet the following standards:

- There must be a contract administration system.
- There must be a written code of standards of conduct governing the grantee or subgrantee's employees.
- Procedures that avoid the purchase of unnecessary or duplicative items.
- Grantees are encouraged to enter into State and locate inter-governmental agreements for purchasing common goods and services.
- Grantees are encouraged to use Federal excess and surplus property.
- Procedures to ensure awards are only to responsible contractors.
- Records that detail the significant history of a procurement.
- Grantees must settle all contractual and administrative issues arising out of a procurement.
- Grantees will have protest procedures.

All procurement transactions will be conducted in a manner providing full and open competition. There must be written selection procedures. Also, the solicitation must include a clear and accurate description of the service or material being procured. The approved methods of procurement are:

- Small purchase procedures for services and goods that will not cost more than \$25,000 in the aggregate.
- Sealed bids (formal advertising).
- Competitive proposals.
- Non-competitive proposals may only be used when the item is available from one source, emergency situations, the awarding agency authorizes, or competition is determined inadequate. Pre-award review may be required above \$25,000.

Grantees are to give preference to minority firms, women's business enterprises, and labor surplus area firms.

There must be a cost or price analysis in connection with every procurement action.

Grantees must make available proposed procurement technical specifications upon request by the awarding agency.

The bonding requirements of a recipient will be accepted if the awarding agency's interest is adequately protected. If not, there are specific requirements described in 45 CFR Part 92.

14. SECTION 2541.400: PERFORMANCE REPORTS

REQUIREMENTS:

Performance reports shall not be required more frequently than quarterly or, less frequently than annually.

Periodically report progress in meeting program objectives. This must include comparison of accomplishments with planned objectives.

Quarterly and semi-annual reports will be due 30 days after the reporting period. Annual and final reports will be due 90 days after expiration date.

15. SECTION 2541.410: FINANCIAL REPORTING

REQUIREMENTS:

Reports, as required in the terms and conditions of the award, will be submitted on one or more of the following forms:

- SF 269 or SF 269A - Financial Status Report
- SF 270 - Request for Advance or Reimbursement
- SF 272 - Federal Cash Transaction Report

The report will not be required more frequently than quarterly and must be submitted 30 days after the report period or 90 days for a final report.

16. SECTION 2541.420: RECORDS RETENTION

REQUIREMENTS:

Grantee and subgrantees must retain records for three years after submitting the final expenditure report.

Records must be maintained until completion of action on all litigation, claims, negotiation, or audit. For property and equipment the retention period starts upon disposition.

AFTER THE GRANT REQUIREMENT

17. SECTION 2541.500: CLOSE-OUT

REQUIREMENTS:

The Federal agency will require the following final reports:

- Standard Form 269 - Financial Status Report
- Standard Form 270 - Request for Advance or Reimbursement, if applicable
- Final performance or progress report

The recipient will submit an invention disclosure, if applicable.

The recipient will submit a Federally-owned property report.

Cost and cash adjustments will be made as appropriate.

C. COST PRINCIPLES

45 C.F.R. Part 2541 requires grant recipients to follow the OMB cost principles for State and Governmental units contained in OMB A-87 which set forth the principles for determining the allowable costs of programs under grants, contracts, and cooperative agreements with the federal government.

The cost principles address four major areas:

1. Basic Guidelines for Costs
2. Cost Allocation Plan
3. Indirect Cost
4. Allowability for selected costs

1. BASIC GUIDELINES FOR COSTS

- Costs are allowable if they are necessary and reasonable not prohibited under state or local laws, conform to laws and regulations, given consistent treatment, comply with generally accepted accounting principles, and are not included as a cost under other federal programs.
- Allocable costs assigned must be in proportion to the benefits received, cannot be shifted to overcome deficiencies in other programs, must be supported by a cost allocation plan.
- Applicable credits are to be used to reduce expenditures applicable to a given grant.
- The total cost of a grant program is comprised of the allowable direct and allowable indirect costs less applicable credits.

2. COST ALLOCATION PLAN

Cost allocation plans are addressed in OMB A-87. Costs incurred by a Tribe in connection with programs are eligible charges against grants and contracts, whether incurred by the program itself or another program which provided supportive services to the program, provided the costs are necessary for the efficient conduct of the grant or contract.

The cost principles are the federal regulations which must be followed to insure that federally assisted programs incur costs in a manner in which each program pays its fair share of costs recognized under these principles, except where restricted by law.

Costs can be shared within the same funding source as well as between funding sources depending on the specific requirements of each funding source.

Allocation of Costs. The Tribal Finance Department is responsible for the development and implementation of cost allocation plans. The Tribal procedure for the development of a cost allocation is typically:

3. INDIRECT COSTS

Indirect costs are those incurred for a common purpose benefiting more than one program and not readily assignable to the program specifically benefited. All indirect costs must be negotiated with a cognizant agency. The cognizant agency is the federal agency responsible for negotiating and approving indirect cost rates on behalf of all federal agencies.

An indirect cost rate is the rate between total indirect expenses of the Agency and some direct cost base. This includes either direct salaries and wages or total direct costs exclusive of capital expenditures. The rules for indirect costs are delineated below:

- Indirect costs are shared costs, to be distributed by an indirect cost rate, that must be grouped into one or more equitable cost pools to determine appropriate rate(s).
- A formal indirect cost proposal must be submitted and approved. Once approval is granted, charges can then be distributed by means of an indirect cost rate.
- Application of indirect cost rates must be supported by formal accounting records available for auditing.
- Indirect costs (or administrative costs) are no different than direct costs in that they have to be allowable under the federal government cost principles.

In theory, all costs might be charged directly; practical difficulties, however, preclude such an approach. Therefore, they are usually grouped into a common pool(s) and distributed to those activities benefited through a cost allocation process.

4. ALLOWABILITY OF SELECTED COSTS

The chart on the following pages are a quick reference to specific items of cost and identify if the cost is allowable, allowable with approval of grantor agency, or unallowable.

OMB COST PRINCIPLES - Selected Items of Cost

Cost Category	A-87 State & Local Governments (Proposed Revision)	Allowable	Allowable With Approval	Not Allowable
Accounting	X	X		
Advertising - Specific Purchases	X	X		
Advisory Council	X	X		
Alcoholic Beverages				X
Audit Services	X	X		
Automatic data processing	X		X	
Bad Debts	X			X
Bid and proposal costs (reserved)				
Bonding Costs	X	X		
Budgeting	X	X		
Building lease and management	X	X		
Communication costs	X	X		
Compensation for personal services	X	X		
Contingency provisions	X			X
Contributions	X			X
Defense and Prosecution Read Allowability	X			
Depreciation of use allowance	X	X		
Disbursing services	X	X		
Donations				X
Employee morale, health and welfare costs and credits	X	X		
Entertainment costs	X			X

OMB COST PRINCIPLES - Selected Items of Cost

Cost Category	A-87 State & Local Governments (Proposed Revision)	Allowable	Allowable With Approval	Not Allowable
Equipment and other capital expenditures	X		X	
Fines and penalties	X			
Fringe benefits	X	X		
General government expenses	X			X
Goods/services for personal use				X
Housing and personal living expenses				X
Lobbying	X			X
Idle facilities and idle capacity	X		X	
Independent research and development (reserved)				
Insurance and indemnification	X	X		
Interest, fund-raising, and investment management costs - read the regulations	X			X
Labor relations costs		X		
Legal expenses	X	X		
Losses on other awards	X			X
Maintenance and repair costs	X	X		
Materials and supplies	X	X		
Meetings, conferences	X	X		
Memberships, subscriptions and professional activity costs	X	X		
Motor pools	X	X		
Organization costs			X	
Overtime, extra pay, shift and multi-shift premiums	X	X		

OMB COST PRINCIPLES - Selected Items of Cost

Cost Category	A-87 State & Local Governments (Proposed Revision)	Allowable	Allowable With Approval	Not Allowable
Page charges in professional journals		X		
Participant support costs			X	
Patent costs		X		
Payroll preparation	X	X		
Pension plans	X	X		
Personnel administration	X	X		
Plant security costs		X		
Pre-award costs	X		X	
Professional costs	X	X		
Profit and losses on disposition of depreciable property or other capital assets	X	X		
Proposal costs	X		X	
Publication and printing costs	X	X		
Rearrangement and alteration costs	X		X	
Reconversion costs	X	X		
Recruiting costs		X		
Relocation costs – subject to limitations		X		
Rental costs	X	X		
Royalties and other costs for use of patents and copyrights		X		
Severance pay	X	X		
Specialized service facilities		X		
Taxes	X	X		
Termination costs		X		
Training and education costs	X	X		
Transportation costs	X	X		
Travel costs	X	X		
Trustee Travel and Subsistence		X		
Under recovery	X			X

D. AUDIT

Audits provide a thorough analysis of the documentation used to prepare financial data and are used by Certified Public Accountants (CPAs) to prepare an opinion on the financial data's reliability. The federal government requires an audit to obtain independent assurance on the completeness and credibility of the financial information of governmental units and organizations.

Recipients of federal grant awards over \$300,000 from all federal agencies are required to have an audit by an independent Certified Public Accountant. The government audit requirements are contained in OMB A-133. The OMB Circulars establish the audit requirements and define the federal responsibility for implementing and monitoring the requirements. The audit determines:

- If the Tribe's financial statements present its and the program's financial position fairly;
- If the Tribe has the internal control structure to ensure that the program is managing the award in accordance with the applicable federal laws and regulations; and
- That the program has complied with the applicable laws and regulations that may have a direct and material effect on the program's financial statement.

The audit is simply an evaluation of the financial management of the government/department/ organization. It informs administration on how the financial resources are being managed. It also informs funding sources on the management of the resources.

E. BUDGET DEVELOPMENT AND MANAGEMENT

The budget is the dollar expression of the project being proposed. It is an estimate of the expenses that you anticipate. It is important to work with the Tribal Finance Department in preparing the budget. The budget management process should be integrated into the overall program planning and management. Detailed below are the steps in the budget management process:

1. Determine needs of the community being served.
 2. Set program goals and objectives
 3. Determine the strategy for accomplishing objectives.
 4. Translate the strategy to dollars and prepare a budget.
 5. Setup budget control procedures.
 6. Accumulate monthly expenditures.
 7. Compare budgeted amounts to actual expenditures and make the appropriate adjustments.
-

In developing the budget for a Learn and Serve program a logical process to follow would be:

1. Determine the staffing requirements to complete all the activities in the project work plan.
2. Calculate the cost of fringe benefits.
3. Determine the costs needed for program operations which could include but are not limited to the following:
 - Staff positions
 - Space
 - Telephone
 - Supplies
 - Equipment
 - Travel
 - Training and education
 - Printing/Xerox
 - Postage
 - Vehicle Operation

It is very important to identify each type of cost that will be necessary to operate the program. After each of the costs have been identified review the OMB cost principles to ensure that the costs are allowable or allowable with prior approval.

4. Calculate the federal share of the total operating costs which is a maximum of 90% for year one, 80% for year two, 70% for year three, and 50% for years four and on of the total operating costs and the Tribal share of the operating costs.
5. Develop the budget narrative. The budget narrative should include sufficient information to justify the costs. Examples of the information that could be included in the budget narrative are:
 - Wages and Salaries. List all full and part-time staff in the proposed project, the number of hours and percentage of time they will work on the project, and the rate per hour.
 - Fringe Benefits. List all the fringe benefits your employees will be receiving, and the dollar cost of these benefits. Some fringe benefits are mandatory; the Tribal Finance Department will be able to help with the numbers.

a. Consultants & Contract Services

In this section you include consultants and services you contract. An example might be a consultant to perform an evaluation of the project.

b. Space Costs

In this section list all of the facilities you will be using. Rent must be comparable to prevailing rents in the geographic area in which you are located. In addition the actual rent, you should also include the cost of utilities, maintenance services and renovations, if they are absolutely essential to your program.

c. Rental, Lease or Purchase of Equipment

List all the equipment to be purchased, that will be used in the proposed program.

d. Consumable Supplies

This means supplies such as paper clips, paper, pens, pencils, etc. If you have any unusual needs for supplies – perhaps you are making a workroom available for community persons – then put in a separate figure for that.

e. Travel

Divide the section up into local and out-of-town travel. Do not put in any big lump-sum which will require interpretation or raise a question at the funding source. List the trips, the purpose of the trips and the estimated cost for each trip.

f. Telephone

Put in the number of instruments you will need times the expected monthly cost per instrument. Justify any extensive out-of-town calling that you will have to do.

g. Other Costs.

List each of the other costs necessary for performing the project and how the amount budgeted was determined.

At the end of the budget narrative include a chart that indicates the source and estimated amount of the match. An example would be space costs. The source would be the Tribe is providing 1,500 square feet of office space at a cost of \$5 per square foot.

The next important function of budget management is to review the approved budget to the actual expenditures on a periodic basis. Most programs review the expenditures against the budgeted amounts monthly. If a revision is necessary the earlier that a program makes the correction the smoother the project will flow.

F. IN KIND DOCUMENTATION

In-kind contributions to the program are considered matching funds and need to be documented and tracked per budget line item. Programs should utilize an in-kind donation form that captures this information. For example, if a trainer who normally charges \$100 for a 2 hour training, donates his time to conduct the training, this should be documented as in-kind match. You can use the example attached. The form should capture the date, time, fee, donor signature, type of service/contribution, and what line item it corresponds to in the budget. The original copy of the in-kind form should be maintained in the finance office with a copy in the program files. Check with your finance department to see how they would like you to document and file completed in-kind forms. Following is a step-by-step process for documenting in-kind goods and services. In addition, a sample in-kind contribution form for services and a sample in-kind contribution form for goods follow.

Program staff record the following information for in-kind services:

- Date service provided.
- A description of the service provided.
- The time the donor began the service.
- The time the donor finished donating time.
- The per hour value of the service provided.
- The total value of the donated time.
- Initial each day that time was donated to the program.
- Has the donor sign the in-kind services form.
- Submits the completed form to whoever maintains the budget.

Program staff record the following information for in-kind goods:

- Date item donated to the Program.
- A description of the item donated.
- The fair market value of the item donated.
- Secures the signature of the individual donating the goods.
- Submits the forms to the tribe on a monthly basis.

The program director: reviews all in-kind donation forms; verifies the dollar value of in-kind goods and services; and submits the originals to the finance department where they enter the dollar value of the in-kind goods and services receipts into the appropriate accounting records.

ADDITIONAL INFORMATION

- All in-kind goods and services must come from a source that is not supported with federal dollars unless specifically allowable under the funding source legislation.
- The allowable in-kind goods and services that can be used to meet a required match must fall within the allowable budget line items for the Program receiving the goods and services.
- The Learn and Serve America program will maintain a copy of the source documentation for all in-kind goods and services.

SAMPLE FORMS

Form 1

**LEARN AND SERVE AMERICA PROGRAM
IN-KIND GOODS**

DATE	ITEM DONATED	TOTAL VALUE

I certify that the above items were donated to the Learn and Serve America Program

Typed/Printed Name

Date

Donor Signature

Program Director Signature

