

Financial Management Updates & Program Reminders Affecting VCA

Understanding Regulation 2CFR200

MH Miles Company CPA PC

- Niche Certified Public Accounting Firm, headquartered in Decatur, GA
- Specialize In Governmental Compliance
- **NUTRITION, TRANSPORTATION, EDUCATION**
- **NURTRITION**
 - State Agencies
 - Monitoring & Program Outreach
 - Investigations
 - Audits / Agreed-upon Procedures Reviews
 - Staff Augmentation
 - Training & Consulting Services
 - Sponsoring Organizations
 - Monitoring
 - Audits/Agreed-upon Procedures Reviews
 - Training & Consulting Services
 - Management Studies



Learning Goals

- Learn how the new Super-Circular impacts CACFP management
- Important Program reminders affecting VCA

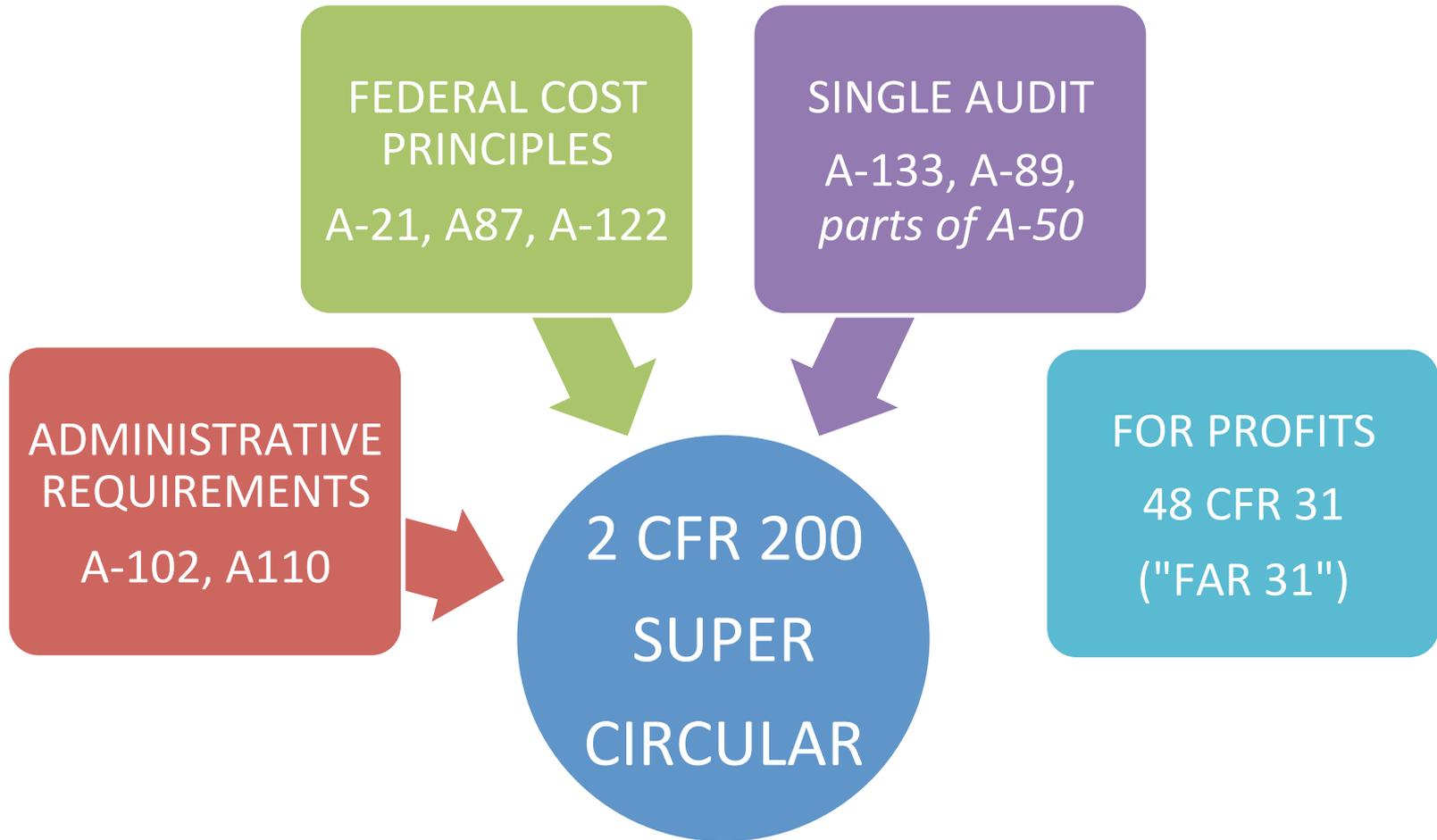


2 CFR 200

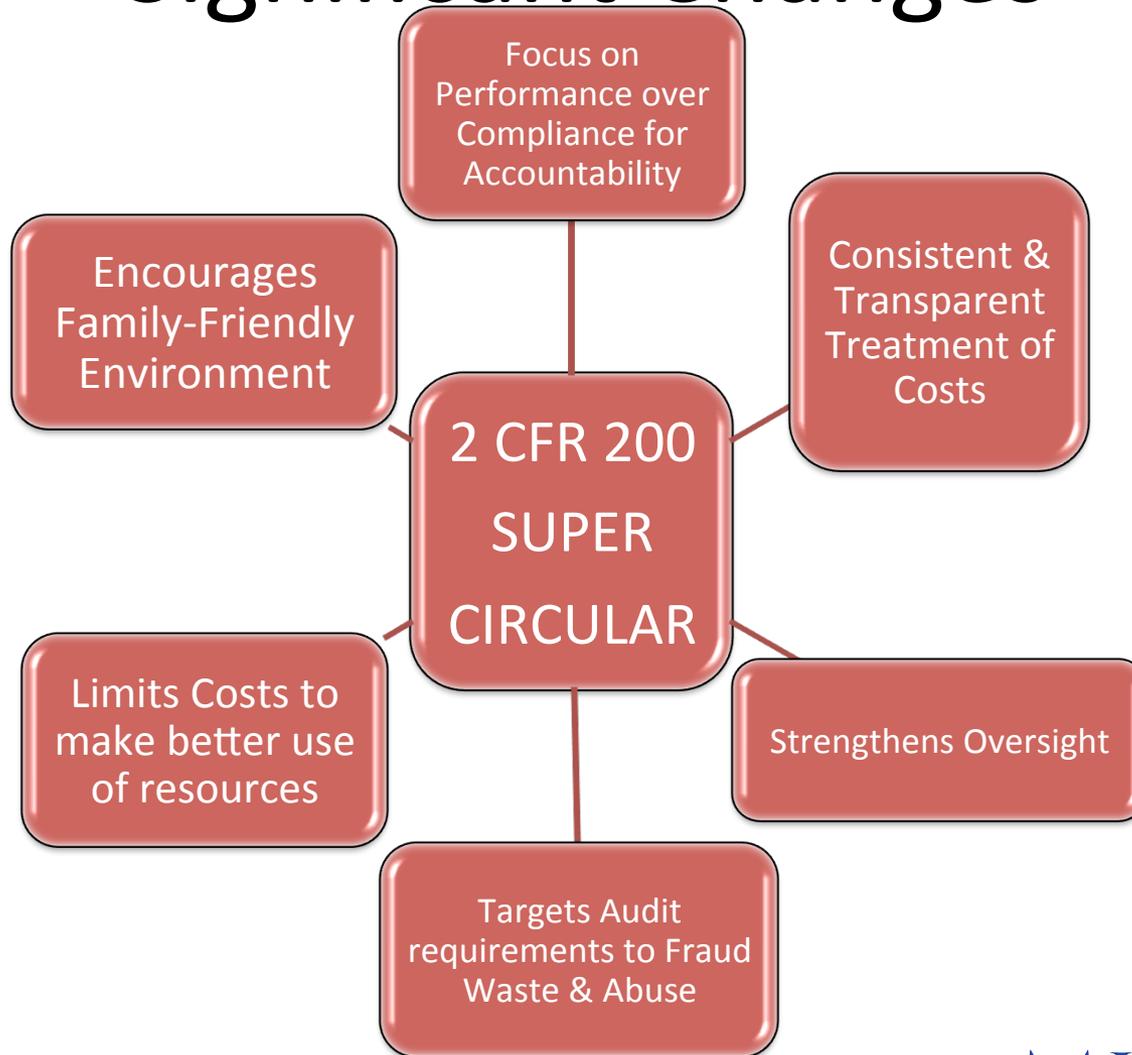
- The Super-Circular
 - Not technically a “circular”
 - Federal regulations carry more weight of law
- Officially:
 - “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (codified at 2 CFR Part 200)



“History”



Significant Changes



OVERVIEW

- How is 2 CFR 200 Organized?

- 6 SUBPARTS

- Subpart A - Acronyms & Definitions
 - Subpart B - General Provisions
 - Subpart C - Pre-Federal Award Requirements & Contents of Federal Awards
 - Subpart D - Post Federal Award Requirements
 - Subpart E - Cost Principles
 - Subpart F - Audit Requirements
 - 11 APPENDICES

Subpart A: ACRONYMS & DEFINITIONS

- Provides 45 acronyms (200.0)
 - Acronyms include Federal agencies, Federal programs, grant terms, etc.
- Provides 98 definitions (200.1 - 99) Examples include:
 - Federal award
 - Internal controls over compliance requirements for Federal awards
 - Non-Federal entity and a pass-through entity
 - Discusses when the term “must” is used; it expresses a mandate; **you have no choice but to comply!**
 - Discusses when the term “should” is used; it expresses advice on best practices

Subpart B: GENERAL PROVISIONS

Effective/Applicability Date

- 10/01/2015 for CACFP institutions
- 12/31/2015 for single audits

Subpart B: GENERAL PROVISIONS

- Requires non-Federal entities or applicants to disclose all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting a Federal award (200.113)
- Requires non-Federal entities to disclose, in writing, any potential conflict of interest to the Federal awarding agency or pass-through entity (200.112)

Subpart C: Pre-Federal Award Requirements and Contents of Federal Awards

- Subpart C does not apply to the following FNS Programs: **200.101 (e)(4)**
 - National School Lunch Program
 - Summer Food Service Program for Children
 - Child & Adult Care Food Program
 - Special Milk Program
 - Supplemental Nutrition & Safety Programs (WIC, TEFAP, & CSFP only)
 - Supplemental Nutrition Assistance Program (Administrative Cost only)

Subpart D: Post-Award Administrative Requirements

INTERNAL CONTROLS (I/C)

Section 200.61 defines I/C as a process, implemented by a non-federal entity, to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a. Effectiveness and efficiency of operations;**
- b. Reliability of reporting for internal and external use; and**
- c. Compliance with applicable laws and regulations**

Subpart D: Post-Award Administrative Requirements

200.309 - Reaffirms that a grantee or subgrantee may only charge to a Federal award:

- a. Allowable costs incurred during period of performance; and
- b. Pre-award costs authorized by the awarding agency.

Subpart D: Post-Award Administrative Requirements

Subgrantee Monitoring & Management

- **Section 200.331 clarified general rules on responsibilities of pass-through entities (State agencies).**

Principal new requirements are:

- State agencies must make risk assessments of subgrantees, and use as basis for determining subgrantees' monitoring needs. (2 CFR 200.331(b))

-Useful Monitoring tools

- Providing subrecipients with training & technical assistance
- Performing on-site reviews of the subrecipients program operations
- Arranging for agreed-upon procedures engagements

Subpart D: Post-Award Administrative Requirements

Subgrantee Monitoring & Management

State Agencies must:

- Consider taking enforcement action against noncompliant subrecipients as described in 200.338

Subpart E: Cost Principles

- Fundamental premises:
 - Applying these cost principles should require no significant changes to sound internal accounting policies/procedures
 - Indirect costs should be allocated consistently with the negotiated basis
 - The non-Federal entity may not earn or keep profit resulting from Federal awards

Subpart E: Cost Principles

- “Allowable” costs attributes:
 - Necessary and reasonable for the performance of the Federal award
 - Conform to any limitations or exclusions set forth in these principles
 - Consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity

Subpart E: Cost Principles

- “Allowable” costs attributes:
 - Accorded consistent treatment as either direct or indirect
 - Determined in accordance with generally accepted accounting principles
 - Not included as a cost or used to meet cost sharing or matching requirements of any other federally financed program
 - Adequately documented

Subpart E: Cost Principles

- Direct and indirect costs:

- § 200.412 Classification of costs.

There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective.

Subpart E: Cost Principles

- Direct costs:

- Can be identified specifically with a program or other cost objective, or can be assigned to cost objectives relatively easily and with a high degree of accuracy.
 - *Examples: Compensation of staff working in the program, materials, supplies & equipment used in the program*

- Indirect costs:

- Incurred for common or joint purposes benefiting more than one cost objective.
 - *Example: Fringe benefits, rent, utilities, insurance*

Indirect Cost Rules

- Federal agencies must accept negotiated indirect cost rates
- Requires pass-through entities (e.g. states and local governments) to honor a nonprofit's negotiated indirect cost rates or negotiate a rate.
- Significant change because in the past, many state and local governments simply did not pay indirect costs.

Indirect Cost Rules

- Nonprofits
 - Empowered to elect an automatic indirect cost rate of 10%, which can be used indefinitely.
 - Alternatively, can negotiate a higher rate.
 - Allows nonprofits to choose a course that makes the most business sense for the organization.

Secretarial Staff - Direct or Indirect?

Indirect Cost Rules

De Minimis Rate

- Set at 10-percent of MTDC.
- Available to program operators that have never negotiated a rate with the Federal Government.
- Restriction on availability to State, local, and non profits.
- Used without negotiation.
- May be used indefinitely.

Regular Rate

- Set at whatever level can be justified under the cost principles.
- Available to all program operators that wish to recover indirect costs allocable to their Federal awards.
- Must be periodically re-negotiated with the program operator's cognizant Federal agency for indirect costs.

Cost Principles

- Sections 200.420 through 200.475 itemizes and gives rules for specific cost items.
- Replaces Appendix B to A-87 and A-122, and section J to A-21.

200.430 Compensation for Personal Services BONUSES

- (f) Incentive compensation. Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., is allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an ***agreement*** entered into in good faith between the non-Federal entity and the employees ***before the services were rendered, or pursuant to an established plan followed by the non-Federal entity so consistently as to imply, in effect, an agreement to make such payment.***

200.430 Compensation for Personal Services

BONUSES

- (g) Nonprofit organizations. For compensation to members of nonprofit organizations, trustees, directors, associates, officers, or the immediate families thereof, determination should be made that such ***compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs***. This may include director's and executive committee member's fees, incentive awards, allowances for off-site pay, ***incentive pay***, location allowances, hardship pay, and cost-of-living differentials.

Staff Wages & Salaries

- **Old Rules** (A-87, A-122) has very prescriptive documentation requirements:
 - **Semi-annual certification for staffer working in one cost objective.**
 - **Monthly personnel activity reports for staffers working in multiple programs or other cost objectives.**
 - **Has been controversial and difficult to enforce.**
- **Section 200.430(i) of the Super-Circular sets standards for program operators' accounting and records systems instead. Such systems MUST:**
 - **Generate records that accurately reflect the work performed.**
 - **Be supported by system of internal control that provides reasonable assurance that charges to programs for wages & salaries are accurate, allowable, and allocable.**
 - **Be incorporated into the program operator's official records.**
 - **Support the distribution of a staffer's salary among all cost objectives in which he/she works.**

Staff Wages & Salaries

USDA is prohibited from requiring additional documentation if a program operator's records system meets the new standards (200.430(i)(2)). However, the reverse is also true.

- Under the new requirements, the process must:
- Be supported -- best practice would suggest having a timecard that outlines total hours worked for each employee by day and activity
- Be an official record -- best practice would require employees to certify a timecard and a supervisor to approve the time card periodically (at the end of time period is suggested).
- Reflect total hours worked by the employee (cannot show estimated or budgeted; **MUST** be actual based on employees "clocking in and out" every day).

Staff Wages & Salaries

- Show federal, nonfederal time spent on contract and programmatic work, administrative work and fundraising work performed.
- Comply with accounting standards (generally accepted accounting principles or other standards followed). This may mean educating employees on what is defined by GAAP as program, management and fundraising activities.
- Show how the employee's time is allocated over the various programs. Audit support must be retained to show how the costs were charged to the various programs. Best practice might suggest a summary by employee and activity for each pay period would be sufficient support.

Advertising & Public Relations Cost

Section 200.421

- No change in policy, however “Program Outreach” included in list of **allowable** advertising costs.

Bad Debts

Section 200.426

- No change in policy, however “Related collection and legal costs” clarified
 - Delinquent Debts:
 - Past due but still deemed collectible
 - Related collection and legal costs **allowable**
 - Bad Debts:
 - Determined uncollectible and written-off as losses
 - Related collection and legal costs **unallowable**

Conferences

Section 200.432

- Policy change & clarification
 - No longer entitled “**Meetings** & Conference”
 - Dissemination of technical information beyond the non-Federal entity and **necessary and reasonable** for successful performance
 - Cost of internal board meetings unallowable
 - Cost of identifying (but not providing) locally available dependent-care resources now allowable
 - Pertains to conferences hosted by program operators (sending staff to conferences hosted by others considered “Training and Education Costs”)

Contingency Provisions

Section 200.433

- **Policy change & clarification**
- **What's a Contingency?**
 - An event whose likelihood, magnitude, or intensity cannot be foretold with certainty.
- Contributions to a contingency reserve have always been unallowable, and remain so (subsection 200.433(c)).
- New policy: Subsection 200.433(b) allows certain contingencies to be included in the budget estimates of IT systems and other projects. Amounts must be estimated using broadly-accepted cost estimating methodologies

Depreciation

Section 200.436

- Policy change & clarification
- What is Depreciation?
 - An expense of using a **capital asset** in one's operations. It represents the systematic consumption of the asset's cost over the course of its useful life.
 - Capital assets means tangible or intangible assets used in operations having a useful life of more than 1 year which is capitalized in accordance with GAAP. Capital assets include:
 - Land, buildings (facilities), equipment, and intellectual property (including software) whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases
 - Additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life.

Depreciation

Section 200.436

- Policy change & clarification
- Use Allowance from old rules as alternative to depreciation abolished
- Depreciation on fully depreciated asset is now an unallowable cost. (reasonable use allowance gone)

Interest

Section 200.449

- Policy change & clarification
- Interest on funds borrowed for capital expenditures is allowable. (Date restrictions from old rules removed)
- Program operator can be reimbursed for interest cost incurred in connection with computer software development projects.
- Allowable interest cost limited to cost:
 - Incurred in program operator's fiscal year(s) beginning on or after January 1, 2016; and
 - Capitalized according to GAAP

Memberships, Subscriptions & Professional Activities

Section 200.454

- Policy change & clarification
- **Old Rules**: Membership in civic associations; community organizations; country, social, or dining clubs allowable with prior approval.
- **New Rules**: Membership in country, social, or dining clubs unallowable.
- Cost of membership in “organizations whose **primary purpose** is lobbying” are unallowable (old rule substantially engaged)

Materials & Supplies

Section 200.453

- Policy change & clarification
- Old rules prohibited charging costs of materials & supplies unless actually used in performance under Federal award.
- Under new rules (section 200.453(c)), materials & supplies used in performance of Federal award “May” be charged as direct costs.
- Computing devices may be charged as direct costs if “essential and allocable, but not solely dedicated, to the performance of a Federal award.”

Procurement

Section 200.318

For Program operators, 2 CFR Part 200.318 requires that Program operators must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards which include:

Procurement: 2 CFR 200.318

- ❑ Maintain written standards of conduct [covering real or apparent] conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts.
- ❑ Award contracts only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. As referenced, 2 CFR Part 200.213 goes on to “restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.”

Procurement: 2 CFR 200.318

- Maintain records sufficient to detail the history of procurement.
- Be responsible, in accordance with good administrative practice and sound business judgment, for the settlement of all contractual and administrative issues arising out of procurements. Violations of law will be referred to the local, state, or Federal authority having proper jurisdiction.

Procurement: 2 CFR 200.318

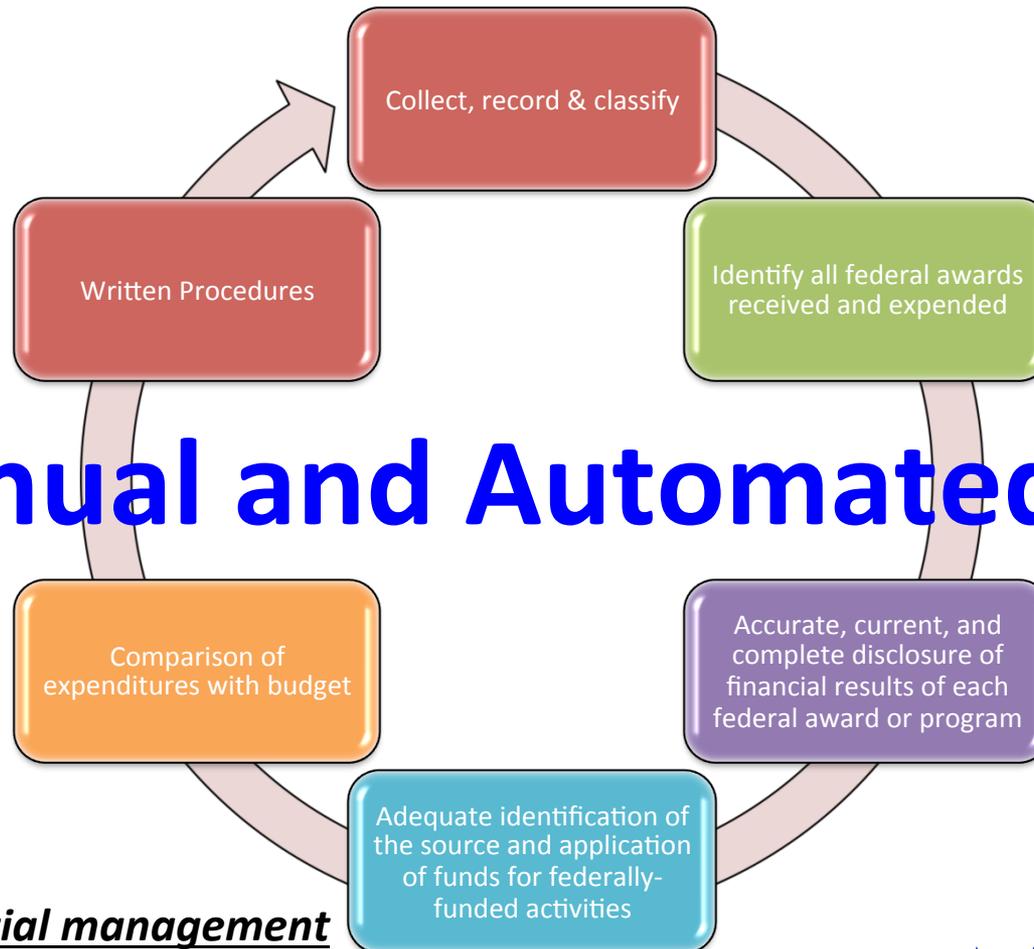
- Have written procedures for procurement transactions that incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured.

Audits

- \geq \$750,000 in Federal award Expenditures
Audit report and Data Collection Form & reporting Package must be submitted to the Federal Clearinghouse:
 - Within 30 after receipt of completed audit
 - 9 month after end of FY
- Cost for Audits not performed in accordance with regulations are unallowable.

Financial Management System

Manual and Automated



§200.302 Financial management

Financial Management System (Continued)



Performance Standard 3— Program accountability

Tracking Income & Expenses

- Program Funding Sources
 - Restricted
 - Unrestricted
- Budget Monitoring
- Administrative Costs
- Carry over

Board of Directors

- Meet on a regular basis
- Authority to hire & fire
 - All employees, including the Executive Director
- Independent
 - Not financially interested
 - Not related to personnel or each other
 - Voting privileges
 - Conflict of interest
- Adequate Oversight
 - Program training

Fundamental premises for applying cost principles:

The non-federal entity recognizes its own unique combination of staff, facilities, and experience has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary in order to assure proper and efficient administration of the Federal award.

§200.400 Policy guide

Fundamental premises for applying cost principles:

- Sound management practices
- no significant changes in the internal accounting policies and practices
- accounting practices must be consistent with cost principles
- support the accumulation of costs as required by the principles
- must provide for adequate documentation to support costs charged to the Federal award

§200.400 Policy guide

§ 226.6 (b) (18)

State agency administrative responsibilities.

- Each new or renewing (participating) institution must submit information sufficient to document that it is *financially viable*, is *administratively capable* of operating the Program, and has **internal controls** in effect to ensure *accountability*.

Internal Controls

§226.2 *Internal controls* means the policies, procedures, and organizational structure of an institution designed to reasonably assure that:

- (a) The Program achieves its intended result;
- (b) Program resources are used in a manner that protects against fraud, abuse, and mismanagement and in accordance with law, regulations, and guidance; and
- (c) Timely and reliable Program information is obtained, maintained, reported, and used for decision-making.

Internal Control

§200.61 Internal controls.

Internal controls means a process, implemented by a non-Federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;
- (b) Reliability of reporting for internal and external use;
- and
- (c) Compliance with applicable laws and regulations.

Internal Control

§200.303 Internal controls.

The non-Federal entity **must**:

Establish and maintain effective internal controls over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

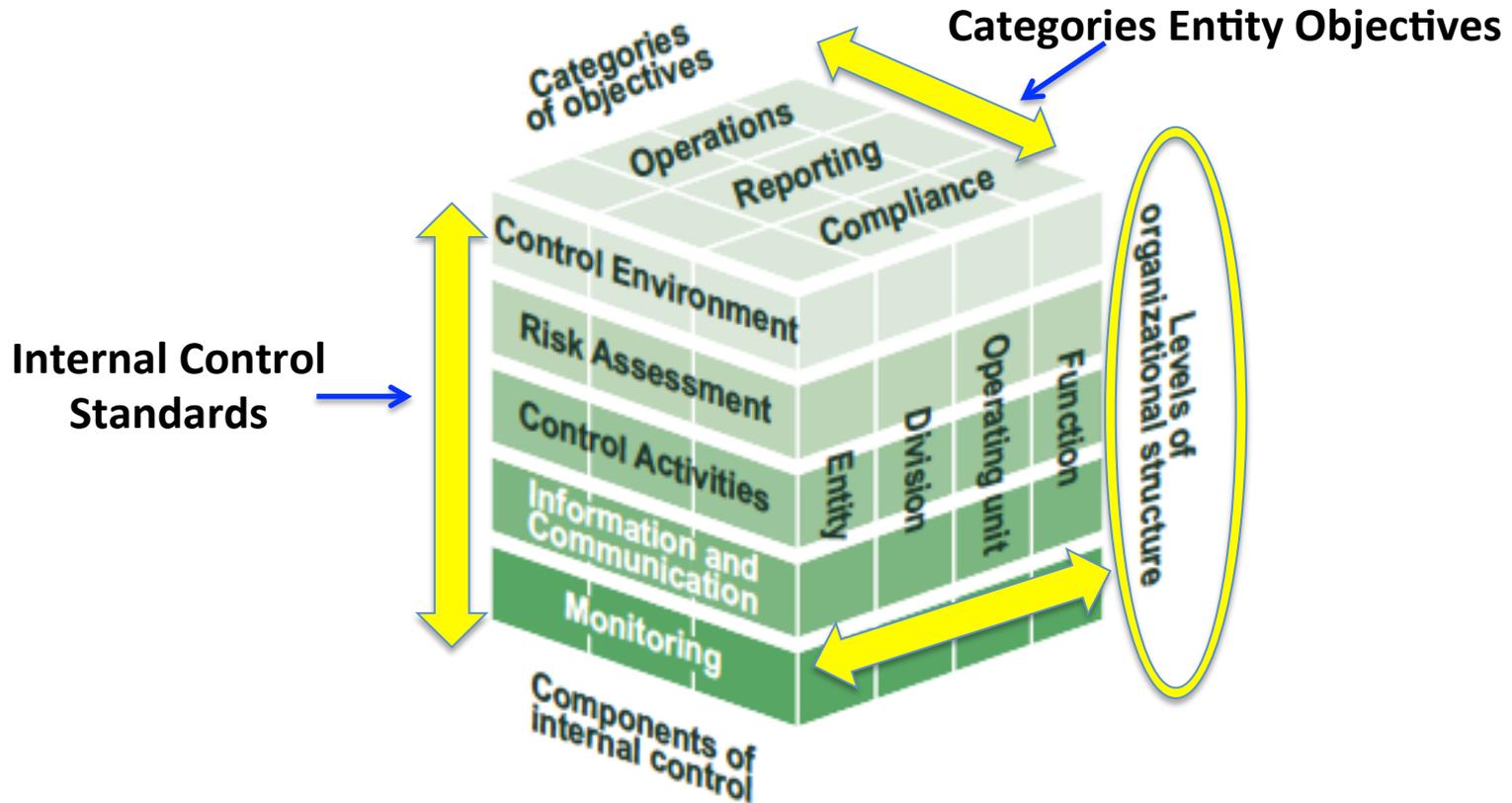


Internal Control Standards

These internal controls should be in compliance with guidance in:

- “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States; or
- the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Cube (GAO.GOV/GREENBOOK)



5 IC Standards and 17 Principles

1. Control Environment
 - 5 Principles
2. Risk Assessment
 - 4 Principles
3. Control Activities
 - 3 Principles
4. Information & Communication
 - 3 Principles
5. Monitoring
 - 2 Principles

Internal Control Standards

- **Control Environment**

- The foundation for an internal control system
- Tone at the top

- **Risk Assessment**

- Assesses risks to objectives (internal/external)
- Develop responses to risk

Internal Control Standards (Continued)

- **Control Activities**

- Policies, procedures, techniques and mechanisms
 - Policy- established standard (**what you do**)
 - Procedure- official way of doing things (**how you do it**)
- Essential for stewardship and accountability

Control Activities

Policy	Procedure	Process Control
<p>The house should be secure at all times.</p>	<p>Lock the door behind you when you enter or leave the house.</p>	<p>Before going to bed, mom or dad checks that doors are locked. Self locking door locks are installed.</p>
<p>Pay bills for allowable CACFP expenses.</p>	<p>Every Thursday, bills received during the prior week will be paid. Each bill must be accompanied by a PO signed by a responsible CACFP management official.</p>	<p>Perform bank reconciliations to ensure that all checks are properly captured in the records. Spot check a few items from the reconciliation & trace back to PO and bill/invoice.</p>

Policy/Procedure/Control

Policy	Procedure	Process Control
All time should be documented and approved using weekly timesheets.	Employees should log their time into the timekeeping system on a daily basis and then should have supervisor approve every Friday.	Timekeeping system will not generate a payroll request for employees who's supervisors have not authorized the time in the system. Unique passwords for every employee.
Sufficient milk should be served to children who participate in the CACFP.	Specific size cups are used to serve the children based on their age group.	Monthly milk testing is be done to ensure sufficient quantities of milk are purchased to meet serving policy.

Procedure vs. Control



The person performing the Control testing should never be the same person who performs the Procedure.

Internal Control Standards (Continued)

- **Information and Communication**

- Quality information
- Relevant and reliable

- **Monitoring**

- Ongoing
- Remain aligned with changing environments, laws, risks, environment



Effective Internal Control System

- Each of the five components of internal control effectively designed, implemented, and operating; and
- The five components operating together in an *integrated* manner.



Ineffective Internal Control System

If a principle or component is not effective, or the components are not operating together in an integrated manner, *then an internal control system cannot be effective.*



Internal Control Documentation Requirements

1. Support for missing principles
2. Management develops and maintains documentation of its internal control system. (paragraph 3.09)
3. Management documents in policies the internal control responsibilities of the organization. (paragraph 12.02)

Internal Control Documentation Requirements (Continued)

4. Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues. (paragraph 16.09)
5. Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis. (paragraph 17.05)
6. Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis. (paragraph 17.06)

Questions



Thank You



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