

**FTS-SAMHSA**

**Moderator: Rocco LaMonaca**

**October 7, 2008**

**12:00 pm CT**

**BEGIN SESSION 1**

Rocco LaMonaca: On behalf of the Office of National Drug Control Policy and the Substance Abuse and Mental Health Services Administration, welcome to the new Drug Free Communities Grantee Fiscal and Administrative Training.

My name is Rocco LaMonaca. I'm an Accountant in SAMHSA's Division of Grants Management and one of three presenters who will provide you with an overview of the fiscal and administrative requirements for managing your new or competing Drug Free Communities awards.

I will be presenting along with Kathleen Sample, also with SAMHSA's Division of Grants Management and Nicole Dunning with the Department of Health and Human Services, Division of Payment Management.

We're happy to present this training as you move forward with your projects and to help you be successful in managing your awards.

Our objectives in today's three sessions are to orient you to the financial management requirements that you as HHS grantees need to comply with in administering your awards.

Also we'll provide information on how to access the Payment Management System to make drawdowns and record expenditures. And we'll also provide an overview of SAMHSA's Grants Management Division, along with information about fulfilling the requirements of the terms and conditions in your Notice of Award.

Before we begin though I'd like to go over how our net conference training will be conducted, along with a few housekeeping tips.

We're broadcasting from SAMHSA's video teleconference facility in Rockville, Maryland. The slides you will be following on your computer will be managed by each of the presenters.

We expect the three sessions to last about 30 to 40 minutes. We will have a 10 minute break between the second and third session. Following the third session we'll break again for about five minutes to allow time for the presenters to prepare for the Q&A session before concluding the training.

Questions can be taken by way of the phone or Internet using the Net Conference Q&A tool on your computer.

If you look at the slide I'm showing you now, you can ask a question using the Net Conference Q&A tool by clicking on the Q&A button on the meeting console that appears at the top.

A new window will pop up. And that's where you'll type your question in in the white area. And then at the top, you'll then press "Ask" to send your question to the queue.

Questions can be taken by way of the phone or Internet. I'm sorry; it would be helpful if you can direct your questions to the particular presenter or training session.

If we don't get to your question we will post questions and answers on ONDCP's Drug Free Communities Web site following the training.

For questions unique to your organization, or if you think of something afterwards, please channel them through the SAMHSA Grants Management Specialist assigned to your award.

Replays of today's training can be accessed using the link at the bottom of the training announcement flyer that's in your grant award package.

In addition, each session of the training will be available separately for replay on ONDCP's DFC Web site, along with the Q&As.

Okay, now that we've gone over the introduction and housekeeping, I think we can begin with the presentations.

Again, we have three sessions. And I'll provide an overview of the fiscal controls your organizations must have in its policies to administer Federal awards.

Then Nicole Dunning will provide an overview of the Payment Management System, which provides disbursement and cash management services to awarding agencies like SAMHSA and to you as grant recipients.

Nicole is the Lead Accountant in the Division of Payment Management of HHS's Program Support Center.

Finally, Kathleen, who's a Grants Management Officer at SAMHSA, Division of Grants Management, will provide an overview of post-award grants management and administrative requirements.

So we'll begin with my session on grantee financial management requirements. The objective of this session is to help you understand the fiscal

management requirements necessary within your organizations to adequately administer Federal awards.

This involves the need to be aware of and comply with the financial management standards prescribed by HHS and to ensure that your organization has the necessary policies in place when we conduct the financial capability review.

I'll also go over an outline of the key controls that are required in the grantee organization's policies.

The Financial Advisory Services Office is located within SAMHSA's Division of Grants Management. Our office is responsible for performing the financial capability reviews of new or perspective grantee organizations.

And I am one of three accountants also known as Financial Advisory Services Officers. And we're each assigned to one of SAMHSA's three centers, Mental Health, Substance Abuse Treatment and Substance Abuse Prevention, which administers the DFC program and SAMHSA.

Our other responsibilities include resolution of Office of Management and Budget Circular A133 audit findings assigned to SAMHSA, followup with grantees who are late in completing their A133 audits, and providing cost advisory services within SAMHSA on a broad range of fiscal matters.

We also review grant-related allegations and complaints reported directly to SAMHSA. And if potential fraud is involved, we refer the case to the investigative office of the HHS Office of Inspector General.

All the financial management standards described by HHS are found in these two regulations, which establish uniform administrative requirements for HHS awards.

Each regulation applies to a certain type of grantee. 45 CFR, which stands for Code of Federal Regulations, Part 74 applies to educational institutions, hospitals and non-profit organizations.

And Section 22, or 21, within that CFR relates to financial - contains the financial management requirements.

And likewise, 45 CFR Part 92, Point 20, Section 20 contains the financial management requirements for states, local governments and tribal organizations.

You also need to be aware that in the terms and conditions of your Drug Free Communities award, each award is subject to these regulations as well as HHS grants policy statements.

The regulations we just saw incorporate the applicable OMB Circular cost principles. Similar to the regulations there's a particular set of cost principles that apply for each type of grantee in determining allowability of costs.

The HHS grants policy statement also addresses the allowability of costs through these cost principles.

So using the HHS regulations and cost principles as criteria, we perform financial capability reviews to help ensure new grantees financial management systems are capable of adequately administering their awards.

And why are the reviews important? Well they help grantees succeed fiscally. They help protect Federal and grantee dollars against fraud, waste and abuse.

And they also help equip grantees with adequate financial assistance if they decide to apply for future Federal funding.

And when we review the controls a little later you'll see that the standards prescribed by HHS are nothing more than sound business practices.

How financial capability reviews are performed. Well we begin our reviews by first relying on the results of a grantee's recent OMB Circular A133 audit, if available.

The audit provides information about the grantee organization's financial status. And shows whether Federal programs are managed in accordance with applicable laws, regulations and program requirements.

If the grantee did not have a recent single audit, we perform what we call a detailed review. And for the detailed review we'll request the grantee organization's recently issued financial statements, along with the fiscal and personnel policies and procedures.

Included in the letter requesting that information is a link to our *Grantee Financial Management Requirements Guide* in SAMHSA's grants management Web site.

And the guide is an outline of 17 necessary controls that must be incorporated in organizations' policies prior to submitting them for our review.

The Web site also contains links to the regulations, the HHS policy statement as well as the applicable OMB Circulars.

Okay based on the review additional information may be requested after we review the information. And that indicates whether or not the policies are adequate.

So if we need revisions to the policies, then we'll request the addition and any revisions that would help to make them adequately comply with the regulations.

And then upon completing the detailed review, we'll inform the grantee in writing of our conclusion about its financial management systems.

For grantees with recent single audits that had no significant findings, no letter will be issued.

If, during the review, we find serious financial management deficiencies such as a going-concern issue, inadequate policies, or if the grantee is unresponsive to our requests, HHS regulations permit SAMHSA to classify a grantee as high risk and impose additional requirements.

The additional requirements are usually in the form of a restriction on drawdowns to a reimbursement basis until the issue or concern is corrected.

And it should be noted that SAMHSA will generally not impose the award restriction during normal financial capability review processes.

This slide covers all the reasons additional requirements may be imposed in accordance with HHS regulations.

History of poor performance, the grantee is not financially stable, the financial management system of the grantee does not meet prescribed standards, or if the grantee does not conform to the terms and conditions of award.

And please note that high risk is a step that's designed to work with grantees to resolve deficiencies early and provide technical assistance or training to help correct the issues before further action is needed.

If you do experience programmatic or financial difficulty with your grant, please contact your SAMHSA Project Officer or Grants Management Specialist immediately for assistance.

When a grantee's payment management account is restricted due to high risk, the grantee can still draw down funds. However, the drawdown must be made by submitting an advance or reimbursement request form to each of the Grants Management Specialists along with source documents for the allowable expenditures.

And once the documents are reviewed and approved by the SAMHSA grant specialist and Project Officer, the funds are then released in payment management for drawdown.

And then whenever the required control, the corrective action is satisfied, then SAMHSA will probably remove the high-risk designation and account restriction. And the grantee can draw down funds as it normally would.

This slide is to inform you that if corrective action during high risk is unresolved, the regulations permit SAMHSA to take additional action if needed to suspend or terminate the current award.

Decisions on suspension and termination may be appealed through the HHS Departmental Appeals Board. You should also know that high-risk classification cannot be appealed.

For an overview of the appeals process, you can refer to Attachment 1 on the sheet of bright yellow paper that's in your award packages.

And now we'll get on to the financial management requirements. And in this section we'll go over the HHS prescribed financial management standards that must be incorporated in your organization's policies.

What you see in front of you is a list of the 17 controls that are required to be in an organization's written policies. And I'll go over each one of these.

The first one is allowability of costs. Organizational policies that we review have to demonstrate measures are in place to ensure costs are allowable.

According to OMB cost principles, allowable costs are those that are reasonable, allocable and adequately documented.

The cost is reasonable if it does not exceed what a prudent person would incur under similar circumstances. In other words, it must be ordinary, necessary, generated through sound business practice, involve an arms-length transaction and follow the terms and conditions of award.

Cost is allocable if the goods or services benefited the project. And a cost is adequately documented if it is supported by accounting records and source documents.

For example, adequate documentation should include timesheets showing actual charges to the drug free community's project along with payroll registers to support salaries.

Approved invoices and contracts, canceled checks and financial data from your organization's accounting system should be the adequate documentation.

Your organization's quarterly expenditure recording to payment management and the annual financial status reports to SAMHSA must be supported by adequate documentation as well.

I'd like to also point out that the principles for allowability of cost apply to the non-Federal drug free community match requirement that we'll cover in a little bit.

Under cash management we're referring to the controls over drawdowns from the Payment Management System.

Your organization's policies must require that drawdowns be limited to minimum amounts needed to cover allowable project costs, timed in accordance with actual immediate cash required to carry out the approved project, and also not be made to cover future expenditures. Payment management system permits advance drawdown of funds only for expenditures made within the next 72 hours.

And if for some reason funds drawn are not spent within the 72 hours, or within three business days, payment management request the funds be promptly returned.

## **Annual Audits**

The policies must require that audits be performed in accordance with OMB Circular 8133 for fiscal years with expenditures under Federal awards of 500,000 or more.

And reports on these audits must be submitted to the Federal audit clearinghouse within the earlier of 30 days after receipt of the audit or nine months after your organization's fiscal year ends.

The policies must include a description of the accounting system. And it must have the ability to separately report revenue and expenditures by Federal programs as well as other programs.

And also a chart of accounts should be maintained. And that lists all the accounts in the general ledger.

The policies must require bank statements be reconciled in a timely manner by an employee not authorized to sign checks. And timely should be defined, for example within 14 days of receiving the bank statement.

We also strongly encourage that bank reconciliations be reviewed and signed by someone outside the payment process for added control.

The policies and procedures must require the disbursements and procurements documentation be maintained; support all disbursements; that blank checks be safeguarded; that disbursements be pre-approved, and indicate by whom; that expenditures be reasonable - and here the policy should explain how your organization ensures costs are reasonable such as through bids or quotes, etc.

And it should require - the policy should also require two expenditures on all checks over \$1,000. And the organization officials authorized to sign checks should be designated in the policies.

Because the Drug Free Communities Program includes a statutory match requirement, your organization's policies and procedures must require that contributions, including third-cash and third-party in kind, must be verifiable from your records; not be included as contributions for any other federally assisted project; be necessary and reasonable for proper and efficient accomplishment of the project or program objective; not paid by the Federal Government under another award, except where authorized by statute; and allowable and provided for in the approved budget.

For use of consultants and subcontracts, the organizational policies must define the nature and scope of services that may be outsourced. It must include in-house capabilities be evaluated before obtaining external assistance, that the selection process be described, and the policy should also contain a method for ensuring that costs and fees are reasonable.

The policies must require an expenditure analysis of actual and budgeted expenditures to be compared periodically. Any significant variances such as 10% or more should be investigated, resolved and documented to ensure actual expenditures do not exceed amounts budgeted for the grant period.

And we recommend that the expenditure analysis be performed on a monthly basis.

The policies and procedures must also describe the - whether any - must also describe any existing or planned indirect cost rates.

If all costs are charged direct, then the method used to allocate common costs to cost objectives must be described in detail.

And when charging costs to an award, you need to be aware that costs cannot be both direct and indirect.

If your organization uses credit cards, the policies need to describe how their use is controlled. The policies must require that all expenditures be pre-approved, the expenditure amounts and types limited, that personal expenditures are prohibited, and that all receipts be submitted for review and comparison with credit card statements before payment.

Under timekeeping, the policies must require that salaries and wages be based on actual time employees worked and be supported by timesheets that separately report total time worked on each project and leave.

Timesheets must be certified as accurate by the employee or supervisor familiar with the employee's activities. And salaries and wages charged to Federal awards cannot be based on budgets or estimates.

Under travel, the policies must require that expenses must be reasonable, necessary, and pre-approved. That mileage, meals, and incidentals and lodging must be limited to rates published in the Federal Travel Regulations.

And those can be found in the General Services Administration's Web site. That air fare is limited to coach and car rentals limited to mid size and travel costs reimbursed based on travel vouchers, expenditure reports or the like listing each cost individually along with receipts.

The policies also need to require that property records be maintained and include a description, cost, purchase date, source of funding, location and condition.

Physical inventories conducted at least every other year should be made and reconciled with property records. And property purchased with government funds needs to be tagged and safeguarded to prevent loss or theft.

Under conflict of interest, the policies must prohibit the appearance and existence of conflict of interest situations for employees, officials and agents of the organization.

Examples of conflict of interest situations should be given in the policies. And an example may be where an employee or officer has an interest in a company selected for a contract, such as through ownership or ownership by a family member.

Or a conflict of interest situation could be nepotism that exists in the organization. And the conflict of interest policies also need to define a code of conduct for conflict of interest situations.

The grantee organizations must have a written Drug Free Workplace Act policy where the unlawful manufacture, distribution, dispensing, possession, or use of controlled substances is prohibited in the workplace.

As a condition of employment, employees must notify management within, in writing in five calendar days if they were convicted of violating a criminal drug statute.

Appropriate personnel action must be taken within 30 calendar days against any employee convicted of violating a criminal drug statute.

And Federal agencies must be notified in writing within 10 calendar days if any employee engaged in the performance of an award is convicted of violating the criminal drug statute.

And if you're unfamiliar with program income, it's income that's directly generated by the grant-supported activity or earned as a result of the award.

And whether or not program income applies, policies should be in place to limit use of program income to furthering the eligible project or program objectives, financing the non-Federal share of the project or program, or deducting it from the not - from the total Federal share of the project or program allowable costs.

And my final slide, I just have a link to the grants management Web site that many of you have probably all ready gotten into.

And with that, that concludes our session on fiscal management.