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ACCOUNTING GUIDE
FOR
CONSTRUCTION GRANT PROJECTS



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Foreword

This guide offers suggestions for financial management of a construction grant project. As a recipient of a federal grant, you are responsible for the fiscal integrity of the project. This responsibility cannot be delegated to a contractor or consulting engineer. Your accounting must separately identify all federal and matching funds applied to this project. It must also identify the disposition of those funds for completed work.

The guide is presented in two parts. The first part describes accounting procedures suggested for the effective management of a construction project. The second part is a check list developed by the Association of Government Accountants. This list may assist you in evaluating your current financial management system.

Part One

INTRODUCTION

Applicants for wastewater treatment construction grants are required to have an adequate financial management system and audit procedure which provides efficient and effective accountability and control of all property, funds, and assets related to the grant project. The grantee financial system is subject to EPA or EPA designated audit to assure fiscal integrity of Federal funds. The purpose of this guide is to suggest those accounting standards that EPA would consider basic to an adequate financial management system.

Proper accounting for construction grants can provide management with an effective tool for protecting the public interest. In addition to the accounting records and controls utilized by the grantee in managing its normal operations, the acceptance of an EPA construction grant necessitates the establishment of accounting records and controls for management of the construction project. Occasionally, however, grantees have not taken appropriate steps to establish such accounting records and controls. As a result, these grantees have not been able to adequately account for project funds or expenditures or to identify those costs considered unnecessary, unreasonable, or unallowable for Federal participation. In some cases these weaknesses have been so significant that EPA has had to withhold payments from grantees pending their correction. By verifying that their existing accounting controls and records meet the suggested standards, grantee management can avoid such difficulties and better manage their construction project.

BACKGROUND

All governmental bodies are responsible to the public for their actions. In writing the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions the Comptroller General of the United States stated:

A fundamental tenet of a democratic society holds that governments and agencies entrusted with public resources and the authority for applying them have a responsibility to render a full accounting of their activities. This accountability is inherent in the governmental process and is not always specifically identified by legislative provision. This governmental accountability should identify not only the objects for which the public resources have been devoted but also the manner and effect of their application.

EPA regulations clearly place the accountability requirement for construction grants in the hands of the grantee. Part 30.210 of the EPA general grant regulations explains the role of the grantee as follows:

An award of a grant shall be deemed to constitute a public trust. It is the responsibility of the grantee to ... effectively manage grant funds within the grant budget, complete the undertaking in a diligent and professional manner, and monitor and report performance. This responsibility may neither be delegated nor transferred by the grantee.

To obtain a grant from EPA, a grantee must qualify as responsible. Part 30.340-2 of EPA's general grant regulations explains responsibility as follows:

To qualify as responsible, an applicant must meet and maintain for the life of the proposed grant the following standards as they relate to a particular project...(d) Have an adequate financial management system and audit procedure which provides efficient and effective accountability and control of all property, funds and assets...

During the last two years, EPA audits of construction grants have often shown that grantees accounting and financial management systems were not adequate. Instances were found where the grantee could not account for the funds spent on the construction project. In other cases, claims for Federal participation have been substantially over - or under - stated. Most of these problems could have been eliminated had the grantees established the necessary controls and procedures in their accounting and financial management systems. In discussing these problems with grantees, it became apparent that existing regulations did not provide sufficient guidance all in one place for the grantee to know what EPA expected in the way of minimum accounting controls and records. This guide brings together and further develops some of the most important accounting standards enumerated in various Federal publications.

ACCOUNTING SYSTEM

Each grantee is expected to have an adequate accounting system. Part 30.800 of the EPA general grant regulations states:

The grantee is responsible for maintaining a financial management system which will adequately provide for:
(a) Accurate, current, and complete disclosure of the financial results of each grant program... Accounting for project funds will be in accordance with generally accepted accounting principles and practices, consistently applied, regardless of the source of funds.

In order to have an acceptable accounting system, there must be books and records showing all financial transactions related to the construction project. The system must document all receipt and disbursement transactions. It must also group them by type of account (e.g., asset, revenue, expense, etc.) and by individual expense account (e.g., personnel salaries and wages, sub-contract costs, etc.).

In accepting an EPA grant, the grantee has the responsibility for accounting for the costs incurred under that individual grant project. Part 30.805 of the EPA general grant regulation requires that:

...(a) The grantee shall maintain books, records, documents, and other evidence and accounting procedures and practices, sufficient to reflect properly (1) the amount, receipt, and disposition by the grantee for all assistance received for the project, including both Federal assistance and any matching share..., and (2) the total costs of the project, including all direct and indirect costs of whatever nature incurred for the performance of the project for which the EPA grant was awarded...

To accomplish this the grantees must establish a construction cost center for each grant project. In instances where a grantee has many construction projects and does not wish to include a separate cost center for each project in its general ledger, the grantee may account for project costs through the use of subsidiary accounts. In these instances a control account must be included in the grantee's general ledger. Appropriate reconciliations must be made between the control account and its subsidiary accounts to assure the validity of amounts recorded. All direct costs of the grant project should be recorded on a timely basis to these cost accounts. Where reporting is required in the grant agreement at program element or cost objective level, subsidiary accounts should be organized to provide this data.

Where the grantee acquires Federal participation in indirect costs through a negotiated agreement, the accounting system should accumulate costs on a functional basis. In this way the grantee can identify the cost of major activities such as construction, administration, operation, or maintenance of its treatment facilities.

Some of the minimum standards for an adequate accounting system are:

1. The accounting system should be on a double entry basis with a general ledger in which all transactions are recorded in detail or in summary from subordinate accounts.

2. Recording of transactions pertaining to the construction project should be all inclusive, timely, verifiable, and supported by documentation.

3. The system must disclose the receipt and use of all Federal funds received in support of the project as well as identification of matching funds.

4. Responsibility for project funds, whether Federal or matching must be placed with a project manager and documented.

5. Responsibility for accounting and control must be segregated from project operations. The accounting system and related procedures should be documented for consistent application.

6. The accrual basis of accounting is strongly recommended for construction projects as it provides a more effective measure of costs and expenditures.

7. Inventories of property and equipment should be maintained in subordinate records controlled by the general ledger and should be verified by physical inventory at least bi-annually.

8. The accounting system must identify all EPA grant project costs and differentiate between eligible and ineligible, allowable and unallowable, and direct and indirect costs.

9. Accounts should be set up in such a way as to identify each organizational unit, function or task providing services to the construction project. This feature will provide basic data for developing and monitoring indirect cost proposals.

10. An important project management objective of the system is the deviation of information regarding actual vs. budgeted costs by project task and performing organization.

11. Financial reports should be prepared monthly to provide project managers a timely, accurate status of the construction project and costs incurred. Such reports should be reconciliable to the basic accounting records and form the basis for required Federal reports.

SUPPORTING DOCUMENTATION

According to Part 30.800 of the EPA general grant regulations, the grantee's financial management system shall provide for:

...(g) Accounting records which are supported by source documentation...

Every entry in the grantee's accounting records should be supported by appropriate documentation. This could be documentation generated from outside the grantee's office, such as invoices or it could be internally generated documentation, such as payroll registers and time distribution records. In many cases, several documents will support a single transaction. For instance, a purchase of material should be supported by a purchase request, purchase order, and receiving report in addition to an invoice. It might also be supported by requests for proposal, contracts, progress reports, and progress payments. Thus, the files of supporting documents should contain all information necessary to explain every transaction completely. The files of supporting documentation should be cross-referenced in such a way that transactions can be traced from any document dealing with the transaction back to the initiation of that transaction and forward to the entry or entries in the accounting system.

The ability to properly trace a transaction consists of two elements. The first is mechanical in nature. All entries should be traceable to supporting documents. This requires a good filing system based on reference codes for each entry and related document. The coding system used should allow one to trace any transaction recorded on the grantee's books directly to the supporting documentation and vice versa.

The second element is related to the logic behind the transaction. One should be able to determine not only what was done, but why it was done. It is here that written procedures and internal controls become essential. A grantee should have complete procedures for handling all of its significant financial transactions.

Special care must be taken in maintaining adequate supporting documentation for costs incurred or revenue utilized under an EPA construction grant. Such documentation will be utilized by the EPA auditor in making his review of the acceptability of costs for Federal participation. The lack of adequate documentation will necessitate the auditor questioning those costs not adequately supported. For example, if the grantee has claimed personnel costs for employees spending a portion of their time on the sponsored project, but time records were not maintained showing the total time worked by those employees and identifying the specific portion of that time spent working on the project, those personnel costs will have to be questioned.

INTERNAL CONTROLS

The acceptance of a Federal grant necessitates compliance with established grant conditions and regulations. For example, Part 30.800 of EPA's general grant regulations provides that the grantee will maintain an adequate financial management system to provide for:

...(c) Effective control over and accountability for all project funds, property, and other assets. Grantees shall adequately safeguard all such assets and shall assure that they are used solely for authorized projects.

Failure to comply with grant conditions or regulations can result in significant penalties (See Part 30.430 of EPA's general grant regulations).

Internal control is the means by which the grantee's accounting, procurement, and other management systems are regulated. It serves to assure management that proper procedures are being followed with respect to all project operations, as well as the receipt and disbursement of public funds. Some of the more important elements of internal control are:

1. A plan of financial organization to provide appropriate segregation of responsibilities.
2. No one person should have complete control over all phases of a transaction involving expenditures of funds.
3. Record keeping should be separated from operations in the handling and custody of assets.
4. Written procedures concerning how things are done and who has the responsibility for doing and approving them.
5. Written approvals at each major step of the process.
6. An internal review to verify that the established procedures were followed.
7. Periodic audits should be made at the grantee's initiative at least every two years.
8. A systematic method should be established to assure timely and appropriate resolution of audit findings and recommendations.
9. Cost/price analysis of contractor proposals should be carried out in accordance with EPA grant regulations.

As an example of internal control, a grantee's accounting office might require that an invoice for construction services be accompanied by a monthly progress report from the engineering firm certifying that the work for which payment was requested, was properly completed in accordance with approved plans and specifications. Grantee officials responsible for overseeing the construction project would then review the billing and engineering firm's certification and authorize payment based on their knowledge of progress being made on the project.

Internal control systems will be implemented differently for each grantee. Each system should, however, have procedures which act to check the internal controls automatically and which insure that all major transactions have appropriate controls or checks and balances on the individuals involved.

The grantee's internal control system should be the prime mechanism utilized in assuring that Federal and/or State grant conditions and regulations are met. Upon receiving a Federal or State grant, the grantee should carefully review the grant terms and conditions and applicable regulations to identify those requirements with which he must comply. Those of most concern for recipients of EPA construction grants are:

- 40 CFR 30 - EPA General Grant Regulations
- 30 CFR 35, Subparts C, D, & E - EPA Regulations Governing Construction Grants
- Federal Management Circular 74-4 - Cost principles applicable to grants and contracts with State and local governments, and
- Federal Management Circular 74-7 - Uniform administrative requirements for grants-in-aid to State and local governments.

The grantee should then review his internal control system to determine whether its procedures will assure compliance with all the grant requirements. In addition to internal control, the system should assure that all contractors, consultants, or engineers working on the project properly fulfill their responsibilities. This requires careful monitoring of the quality and timeliness of their work as well as scrutiny of their adherence to contract terms and conditions. In some instances, the internal control system should provide for review of their technical and financial books and records as they relate to the sponsored project.

If a grantee's internal management control system is not adequate to assure competent management of all aspects of the project and compliance with all grant terms, conditions, and regulations, appropriate modifications in the system must be made. The grantee should at the very least review and approve all contractor invoices before payment.

BOOKS AND RECORDS

The following is a brief description of the books of account and records considered to be the minimum required to record transactions. However, the grantee may establish any additional accounting records considered necessary to provide adequate financial control of its assets and liabilities and to account for program costs.

1. A Cash Receipts Register should be maintained for the recording of funds received (all funds applied to the project). A combined Cash Receipts and Disbursements Register may be used in lieu of separated registers.

2. A Check Disbursements Register should be maintained to record checks issued for the withdrawal of funds from the grantee's bank account.
3. A General Ledger should be maintained to record all accounting transactions.
4. A Cost Control Ledger may be maintained containing separate subsidiary accounts with the General Ledger containing a control account.
5. A Journal Voucher should be used to document and record transactions in the General Ledger and/or Cost Control Ledger which are not recorded from the Cash Receipts or Check Disbursements register. An example would be to correct the erroneous classification of the purchase of a supply item which had originally been classified as equipment.
6. Payroll Records should be maintained to accumulate the payroll data required by Federal, State or local law with respect to each employee. In addition, time and effort reports should be maintained indicating the jobs worked and time worked by each employee.
7. Property Records should be maintained for each item of non-expendable property acquired. As a minimum these records should include a description of the property, serial and model numbers, date of purchase, original cost, and location.

DETERMINATION OF PROJECT COSTS

As mentioned in the section on accounting systems, one of the primary functions of the system and related records is to identify and support cost items charged to the grant project. The grantee accounting system should segregate project costs into various sub-accounts for each category of costs included in the grant budget and/or for cost items required for the financial report, Outlay Report and Request for Reimbursement for Construction Projects. By recording costs in this manner, the grantee may readily make comparisons between actual and budgeted expenses, review the source and application of funds, review for allowability of costs, and prepare required EPA financial reports. Throughout this process, appropriate distinction must be made between direct and indirect costs, allowable and unallowable costs, and eligible and ineligible costs.

Part 30.700 of EPA's general grant regulations state:

- (a) All Federal assistance received under an EPA grant shall be expended by the grantee solely for the reasonable and eligible costs of the approved project in accordance with the terms of the grant agreement and this sub-chapter. All project expenditures by the grantee shall be deemed to include the Federal share.
- (b) The grantee may not delegate nor transfer his responsibility for the use of grant funds.

(c) No profit or other increment above cost in the nature of profit is allowed.

The grantee must analyze each cost item before it is charged to the grant project to determine that it is eligible, allowable, and whether direct or indirect.

ELIGIBLE COSTS

In reviewing and approving construction grants, EPA analyzes in detail all significant documentation related to the project. This includes grant applications, plans and specifications, change orders, etc. One purpose for this review is the determination of those portions of the project which are eligible or ineligible for Federal participation. For example, under grants awarded under Public Law 84-660, EPA could not participate in the costs of sanitary sewers. Similarly, under Public Law 92-500, EPA may not participate in the cost of sewer collection systems for new communities, new subdivision, or newly developed urban areas.

When EPA identifies a portion of a project as ineligible for Federal participation, the grantee must take action to assure that all costs related to the ineligible portion are appropriately segregated. If the ineligible portion of work relates to construction, bid documents should clearly distinguish between the eligible and ineligible portions of the contract. Similarly contractors should be required, in preparing their bills or invoices, to distinguish between the charges for the eligible portion of work and the charges for the ineligible portion. Similarly, where a portion of the engineering, legal, or any other part of the work under the grant is deemed ineligible, invoices and/or other supporting documentation must clearly distinguish between the costs of the eligible and of the ineligible work. Costs applicable to an ineligible portion of a project can not be claimed for Federal reimbursement.

ALLOWABLE COSTS

The EPA general grant regulations provide general guidance on allowability of project costs. Section 30.705 states that allowability of project costs shall be determined by the following:

1. The costs must be reasonable and within the scope of the project;
2. The cost is allocable to the extent of benefit properly attributable to the project;
3. Such cost must be accorded consistent treatment through application of generally accepted accounting principles;

4. The cost must not be allocable to or included as a cost of any other Federally assisted program in any accounting period (either current or prior); and

5. The cost must be in conformity with any limitations, conditions, or exclusions set forth in the grant agreement or this sub-chapter, including appropriate Federal cost principles.

In addition to the general grant regulations, there are three basic guidelines governing the allowability of costs for municipalities or other local governmental entities receiving construction grants. The first is a general guideline for all grants to local governments: Federal Management Circular 74-4. The other two guidelines are EPA originated and provide further guidance as to which costs are allowable or unallowable: 40 CFR 35.940 of EPA's Construction Grants Regulations and Program Guidance Memorandum PG-64.

Through the exercise of its internal control system and/or through the review of individual transactions, the grantee must identify those costs unallowable for Federal participation (40 CFR 30.800(f)). Such costs should be segregated into separate sub-accounts under the construction project's cost center. Care must be taken to assure that these unallowable costs are not included in the grantee's claim for Federal participation.

DIRECT AND INDIRECT COSTS

Direct costs are those which can be directly identified to the grant project. For an EPA construction grant, this would include costs of construction, engineering, rate studies, salaries and wages of grantee personnel working directly on the project, etc. Sub-accounts should normally be established to account for each major category of direct costs.

Indirect costs are those which can not readily be identified to a particular project, but are nevertheless incurred by the grantee for the joint benefit of not only the grant project but also for all other of the grantee activities. For example, accounting or procurement support, office space and utilities are normally indirect costs in that they are incurred as part of the grantee's normal operation and it would be difficult to determine just what portion of these costs would be attributable to any individual cost center or grant project.

One key factor in accounting for direct and indirect costs is consistency of treatment. Part 30.715(b) of EPA's general grant regulations requires that grantees must consistently handle an item of costs as either a direct or as an indirect cost. Thus, items of cost which are charged directly to a construction grant cost center must also be similarly handled for other grantee cost centers. Items of indirect cost should be accumulated and then allocated or charged out on an equitable overall basis to all of the grantee's cost centers.

To obtain Federal participation in indirect costs, a grantee must obtain an approved indirect cost rate or negotiated lump sum for overhead from EPA. An indirect cost rate is merely a means by which the grantee determines the relative proportion of indirect expenses which each cost center including the construction project should bear. In order to develop an indirect cost rate, the grantee must identify the total of all its indirect costs, exclusive of ineligible or unallowable costs, and an appropriate indirect cost base. Once this is done, the grantee should prepare an indirect cost proposal showing the composition of indirect costs and the method in which the indirect cost rate was computed. The indirect cost proposal should then be submitted to the cognizant agency for review. The process for obtaining an approved indirect cost rate is discussed in more detail:

- Part 30.715 of EPA's General Grant Regulations
- Federal Management Circular 73-6 - Indirect Cost for Educational Institutions
- Federal Management Circular 74-4 - Cost principles applicable to grants and contracts with State and local governments, and
- OASC-8, a Department of Health, Education and Welfare publication entitled, "A Guide for Local Governmental Agencies".

Once an indirect cost rate has been reviewed and approved for use on the EPA construction grant, indirect costs may be claimed for reimbursement under the grant.

All the grantee claims for costs incurred on the construction grant project and the supporting documentation are subject to audit by the EPA. All costs charged to the Federal share of the project must be carefully analyzed by the grantee to assure both eligibility and allowability. Grantees with established patterns of erroneous claims will draw greater EPA interest from the standpoint of supporting document requirements and more frequent audit coverage.

PROPERTY ACCOUNTABILITY

EPA General Grant Regulations, 40 CFR 30.810 prescribe policies and procedures governing management and ownership of real property and tangible personal property whose acquisition cost is borne in whole or in part by EPA as a direct cost under a grant. However, recipients of grants for construction of waste treatment works are not required to submit property reports for tangible personal property purchased with grant funds (see Section 30.635-5 of the EPA grant regulations and procedures). Generally, grantees are authorized to use their own property management standards and procedures as long as they meet the minimum standards prescribed in Part 30.810 and FMC 74-7, Attachment N.

FINANCIAL REPORTS

During and subsequent to the completion of the grant project, the grantee is required to submit financial reports. For construction grants the report required is an "Outlay Report and Request for Reimbursement for Construction Programs". Traditionally, many grantees have relied upon EPA or their consulting engineer to prepare or assist in the preparation of their financial report or claim. It should be noted, however, Part 30.635.3 of the EPA General Grant Regulations provides that the grantee is responsible for this task, and rightfully so. The grantee will be held financially liable if claims are made and paid for costs which are not acceptable under the EPA grant program. Similarly, it is the grantee who suffers if significant acceptable costs are overlooked and not included in the reimbursement form. In such instances, the grantee would not receive Federal funds to which he was rightfully entitled.

In instances where a grantee has maintained an adequate accounting system as described herein, the preparation and submission of the financial report should be routine. Balances from the appropriate sub-accounts could be posted to the financial report. Where there are differences between the amounts recorded in the sub-accounts and the amounts to be reported, the grantee must maintain reconciliations or other documentation explaining such differences.

The Outlay Report and Request for Reimbursement for Construction Programs provides space for the grantee to provide an estimate of project completion. Grantees should use report progress from their engineering firms to develop this estimate. The estimated percentage of completion should represent the accomplished portion of the project or task described in the grant agreement for which the reimbursement report is submitted. All financial reports, should be submitted on a timely basis to the appropriate EPA region finance office.

CONCLUSION

It is extremely important that the grantee assures its financial management methods and accounting systems support the requirements of a Federal grant program. The grantee should measure its current accounting system against the standards in this guide and other Federal regulations referenced. If assistance is needed in evaluation or upgrading the grantee accounting system, the services of a certified public accountant or registered municipal accountant should be acquired.

More detailed exhibits of accounting systems methodology is available from a number of reference books, such as Governmental Accounting, Auditing, and Financial Reporting, published by the Municipal Finance Offices Association.

Guidance in developing an industrial cost recovery system is provided in EPA publication, MCD-45, Industrial Cost Recovery System.

Part Two

Section 1

Planning and Budgeting

A. Activity Plans

1. Are (organizational) goals and objectives planned?
2. Does the planning include documentation showing:
 - (a) manpower projections?
 - (b) projections of facility requirements?
 - (c) projections of major equipment requirements?
 - (d) the establishment of priorities?
 - (e) target dates for interim and final objectives?
 - (f) all requirements of individual Federal grants/contracts?

B. Operating Budgets

1. Does the organization prepare and use an annual financial plan or operating budget to allocate its resources by type of work or activity?
 - (a) Are responsibilities for budget preparation defined for all organizational levels?
 - (b) Do budget processes involve the active participation of intermediate and lower level managers?
 - (c) Do budget processes allow time for full review, adjustment, approval, and dissemination prior to the commencement of a new budget period?
 - (d) Do budgeting procedures provide for a grantee's share of both cash and non-cash (in-kind and contributed resources) contributions?

C. Cash Flow Budgets

1. Are cash flow projections prepared and approved (by the senior manager or governing groups), and do the projections show whether funds will be available to meet all scheduled needs on time?
2. Are cash flow projections based on
 - (a) financial reports which include all assets and liabilities (including contingencies)?
 - (b) cash expenditures forecasts derived from planned activity and prior period costs, appropriately adjusted for changing conditions?

- (c) cash receipt or borrowing forecasts which are reasonably certain to be realized?
 - (d) the maintenance of generally accepted financial ratios, i.e.,
 - (1) working capital ratio of 2:1?
 - (2) quick asset (acid test) ratio of 1:1?
3. Are Federal cash requirements based on reliable forecasts of expenditures in order to limit the time between the receipt and the disbursement of such funds?

D. Budget Reviews/Revisions

1. Are periodic reports comparing incurred costs to budgets prepared and;
- (a) submitted to management?
 - (b) used to identify required adjustments in time to make necessary changes and to obtain approvals before limitations are exceeded?
2. Does the system identify budget category revisions which require grantor agencies' approvals?

Section 2

Accounting

A. Basic System Features

1. Does the financial accounting system provide data which is compatible (including account classifications) with the planning budgeting and program management system data?
2. Are the financial accounting system policies and procedures documented to ensure uniform accounting practices?
3. Does the accounting system provide accrual accounting data for financial reports?
4. Does the accounting system provide all the data needed to prepare financial reports on the:
 - (a) financial status of the:
 - (1) overall organization?
 - (2) each Federally assisted program (or project)?
 - (b) sources of funds for
 - (1) the overall organization?
 - (2) each Federally assisted program?
 - (c) costs of activities and operations of the
 - (1) the overall organization?
 - (2) each Federally assisted program?
5. Is the accounting for Federal programs integrated into the general accounting system?
6. Does the system provide a direct means or audit trail for verifying reported data, through each accounting process, with the original documents?
7. Are original documents:
 - (1) supported by sufficient data to confirm the propriety of the accounting entry?
 - (2) retained for audit?

B. Basic Controls

1. Are organizational functions and duties structured to segregate responsibilities for:
 - (a) authorizing and approving financial transactions?
 - (b) entering transactions?
 - (c) keeping summary (control) records?
 - (d) maintaining custody of funds and property?
2. Does the response to question 1 above apply to:
 - (a) cash receipts
 - (b) cash disbursements
 - (c) procurements
 - (d) personnel and payroll management
 - (e) property (and supply) management
3. Does the system specify the controls required over the timeliness, reliability, and accuracy of the entries, the processing and the reports?
4. Does the system provide for all revenues/costs to be recorded prior to the preparation of end of period reports?
5. Are costs in the program or project accounts (sub-accounts or project records) reconciled with amounts in the general ledger accounts?
6. Are program (or project) funds, property, and other resources afforded appropriate physical and security safeguards?
7. Are periodic internal reviews (audits, inspections, etc.) required to validate qualifications of personnel for:
 - (a) operating the accounting system?
 - (b) managing the program or project?
8. Are financial records and reports, including those for Federally assisted programs or projects regularly audited by independent accountants?

C. Program (Project) Funds

1. Does the system require all grant payments/advances to be identified in a separate account or on the project accounting record?
2. Does the system provide adequate data that can be used to prepare Requests for Advances or Reimbursements?

3. Does the system require that all persons who have access to Federal funds be bonded?
4. Are Federal fund advances deposited in a bank with FDIC insurance coverage?
5. Does the system provide procedures for monitoring subgrantees (or secondary recipients) needs for funds to assure that program funds are not acquired and/or paid out until necessary?
6. Does the system provide specific records to identify and support in-kind contributions applicable to the program?

D. Fiscal Controls

1. Does the system include accounting for obligations (legally binding commitments)? (If answer is no, explain how orders requiring the expenditure of funds are controlled.)
2. Does the system limit obligations to the amounts approved for each respective budget category?
3. Does the system outline the criteria for an obligation?
4. Are obligations entered on accounting records in the month in which the legal commitment is made e.g., approval and issuance of a subgrant or contract)?
5. When proposed expenditures are recorded before becoming legally binding obligations, are they segregated from binding obligations for reporting purposes?
6. Are obligations reclassified as expenditures in the month the goods are received or constructive receipt occurs?

E. Cost Accounting

1. Basic Features

- (a) Does the system require that all costs for Federally aided projects be supported by documentary evidence of:
 - (1) personnel management studies which show that compensation (for both employees and consultants) is comparable with skill levels and/or geographical area rates?
 - (2) appropriate procurement methods? (See Section 3)

- (3) actual receipt and application of materials and services (including prorated amounts) to the program (or project)?
- (4) justification for travel?
- (b) Does the system identify substantial non-cash costs, if charged to the direct or indirect costs of the Federally aided projects, which are provided to:
 - (1) employees? (e.g., house, private use of an automobile, boat or airplane, recreation facilities, etc)
 - (2) officials, officers, consultants of the grantee?
 - (3) contractors or contractors employees?
- (c) Does the system documentation provide criteria and procedures to ensure the consistent identification of:
 - (1) direct costs?
 - (2) indirect costs (if applicable)?
 - (3) unallowable costs (ineligible for Federal assistance)?
- (d) Are direct costs charged to a Federally assisted program or project (or indirect cost identified for distribution) reviewed for propriety, reasonableness and allowability before the costs are recorded as eligible for Federal aid?
- (e) Are all costs that are charged to a Federally assisted program or project summarized in one distinct group of accounts (or sub-accounts) or on a project record?
- (f) Do the sub-accounts (or project records) provide cost data for each:
 - (1) identified segment of the program or project?
 - (2) program element (budget category or cost objective) within the segment?
- (g) Does the criteria for direct costs exclude labor, material, and other costs normally allocated to various activities by overhead/indirect rates?

2. Direct Costs

- (a) Personnel Costs
 - (1) Does the system require compensation costs charged to Federally aided projects to be:

- (a) based on written authorization?
- (b) limited to items/amounts approved for Federal participation?
- (c) supported by time and attendance reports?
- (d) supported by time distribution records showing the ratio of time spent on the Federal program to other work?

(2) Does the system provide controls over overtime that would:

- (a) limit overtime charges to a program for approved and necessary needs?
- (b) distribute overtime charges in accordance with approved and consistently followed methods?

(3) Does the system provide that responsibilities for the following functions will not be assigned to the same persons:

- (a) timekeeping?
- (b) payroll computation?
- (c) payroll verification?
- (d) payroll approval?
- (e) payroll/paycheck distribution?

(b) Consulting Costs

Does the system require consulting services costs to be supported by:

- (1) formal agreements initiated under approved procurement practices?
- (2) evidence that the service was received and applied to the Federal aid program?

(c) Travel Costs

Does the system provide for travel costs charged to a Federal program to be based on

- (1) written travel policies which establish approval and allowance provision not in excess of Federal allowances?
- (2) documentation showing the time, purpose, mode and points of travel, and the net expense reimbursements?

(d) Contract Costs

Are contractual costs for Federal aid programs based on the total incurred costs as determined and documented by

- (1) a program manager and/or engineer?
- (2) a contract administrator? (See Section 3)

(e) Property and Facility Costs

- (1) Does the system limit charges for property (including facilities, equipment and supplies) for Federal cost participation to:
 - (a) items approved for inclusion in the program or project costs?
 - (b) the lower of the competitive rental costs or acquisition costs if the option for the most economic determination was delegated by the Federal agency?
 - (c) the actual acquisition costs, adjusted by discounts, rebates, allowances, etc?
 - (d) the usual net costs of items normally acquired by quantity purchases?
 - (e) the lower of the net competitive market costs or the net acquisition costs if such property is available and normally acquired from other departments?
- (2) Are property improvement costs capitalized if:
 - (a) the original acquisition cost of the property was capitalized? or
 - (b) the improvement will provide useful benefits after the end of federal support?
- (3) Does the system provide criteria and procedures for properly classifying and recording improvements and maintenance/repair costs?
- (4) Are costs for property and facility maintenance, heating, etc., charged to Federal aid programs based on (a) actual cost measurements or (b) engineering estimates?
- (5) Are property use and depreciation charges for Federally aided programs:
 - (a) limited to capitalized property which is essential and not otherwise charged to project?
 - (b) based on a uniform policy which provides for:
 - (1) actual cost allocations which are started at the time the property is placed in use and based on the most realistic practical method for matching costs with use?

- (2) the cessation of charges when the property is no longer in use or when all acquisition costs (has net residual value) have been distributed as operating costs?
 - (3) the exclusion of charges for property provided at no charge by the Federal Government?
- (6) Does the system require that costs for lease and rental payments which create a material equity in the property be distributed as both capital and operating costs if:
- (a) the asset has or will be used for any purpose other than the Federal program?
 - (b) the asset will probably be used after federal aid has disclosed its intention to accept such equity payments as current operating costs?

3. Indirect Costs

- (a) Does the system provide for the accumulation of indirect costs, applicable and allowable for Federal programs, to support rate computation?
- (b) Are reviews made to determine (or confirm annually) the propriety of the base used for rate applications?
- (c) Does the system require the documentation and justification of all rate computations?

F. Automation

- 1. Is the accounting system automated? (If "No", omit questions 2 through 9)
- 2. Are the ADP aspects of the grantees' financial accounting system fully documented?
- 3. Are audit trails provided that permit the tracing of any transaction back to the original source document and forward to a final total?
- 4. Are source documents fully controlled from the point of origin to the point of conversion to machine-readable media?
- 5. Is the access to and movement of machine readable data fully controlled?
- 6. Are rejected and erroneous data controlled to the extent that management can be assured that corrections are made?

7. Are positive processing controls built into the system?
8. Are provisions made for (a) safeguarding computer programs and program documentation (b) back-up or emergency operation and (c) reconstruction of data files in case of catastrophe?
9. Does the system provide complete controls over output products?

Section 3

Procurement

A. Management

1. Do written policies (as well as organizational placement) provide the procurement unit with independent and final authority over:
 - (a) the award of all major (over \$100) purchase contracts?
 - (b) the administration of purchase contracts?
2. Do organizational policies require that procurement personnel be qualified by training in:
 - (a) the organizations procurement practices?
 - (b) evaluation specifications?
 - (c) source identification and bid solicitation methods?
 - (d) negotiating techniques?
 - (e) price cost analyses?
 - (f) type of contracts and contract clauses?
 - (g) code of conduct or conflict of interest situations?
3. Do procurement policies require that all major procurements will be supported by:
 - (a) properly approved requisitions?
 - (b) quotations and approved bidders tabulation lists, or approved records of negotiations?
 - (c) price/cost analyses?
 - (d) record of basis of contract used?
 - (e) signed copy of contract?
 - (f) records of contract performance and disputes?
4. Do procurement policies require an assessment of subcontractors procurement practices for compliance with Federal requirements?
5. Do organizational policies require periodic audit/management reviews to determine whether sound procurement practices are used?

B. Requirements

1. Do procurement policies
 - (a) specify who has authority to initiate purchase requests?
 - (b) provide the procurement unit with authority to question requirements which may restrict competition or increase prices?

2. Do procurement or material management policies require requisitioners to:
 - (a) affirm that the items/services are needed and not otherwise available?
 - (b) assure that the minimum requirements (specifications, quality, quantity, etc.) do not extend needs?

C. Source Selection

1. Do procurement policies outline sources selection criteria?
2. Do the policies require the maintenance and use of:
 - (a) source lists and catalogues (e.g., Thomas Register, Buyers Guides, McCraes and Sweets catalogues, business and trade magazines, etc.)?
 - (b) Vendor files which cover:
 - (1) technical, managerial, and financial capabilities?
 - (2) bid/cost reliability experience?
 - (3) quality and delivery experience?
 - (4) compliance with administrative requirements (civil rights, wage rates, environmental, etc.)?
3. Does the selection process assure adequate and effective competition and the use of sole source buys only under controlled conditions.

D. Pricing

1. Do the procurement policies require an appropriate price/cost analysis by qualified individuals as a prerequisite to all major buys. (major purchases and contracts)
2. Is the procurement staff adequately supported by technical, cost, legal and audit experts to assist in deliberations and negotiations?
3. Are purchase order changes and contract extensions subjected to price/cost analysis comparable to that afforded the initial buy?

E. Contract Performance/Delivering

1. Do procurement policies require contractors to post bid and performance bonds?
2. Do procurement policies require requisitioners to notify the procurement offices of the receipt of goods and services in the quantity and quality ordered?

3. Is the procurement office responsible for remedial actions in those instances in which goods and services are not delivered in accordance with the terms of the procurement instrument?

Section 4

Property and Facilities Management

A. Property Management

1. Does the system provide property records for all non-expendable items which show:
 - (a) the date acquired,
 - (b) title rights,
 - (c) source,
 - (d) description,
 - (e) location,
 - (f) condition,
 - (g) quantity,
 - (h) and cost or value?
2. Are inventories performed of:
 - (a) all program property annually and on completion or termination of Federal aid?
 - (b) program property in custody of subgrantees or contractors annually and on completion or termination of the agreement?
3. Are differences between physical and book inventories properly reviewed, reconciled and approved?
4. Is the property stored in a secure area which would prevent deterioration?
5. Does the system require the identification and labeling of all program property, including those acquired by subgrantees and contractors?
6. Does the system limit provide for obtaining the grantors approval prior to the personal property?
7. Are periodic reports required of property no longer needed for the project?

B. Facilities Management

Space Utilization

1. Does the organization have a written policy for the assignment and utilization of building space?

2. Does the criteria/authority for space administration ensure that needs are determined impartially and that allocations are justified for the accomplishment of program objectives?
3. Are inventory records of owned and leased real property maintained which describe:
 - (a) functional purpose and size?
 - (b) condition?
 - (c) cost?
 - (d) use categories?
4. Do the inventory records provide support for the preparation of:
 - (a) operating budgets?
 - (b) capital budgets?
 - (c) maintenance and housekeeping requirements and cost allocations?
 - (d) depreciation schedules and space rental cost allocation schedules?

Section 5

Management Information

A. Financial Reports

1. Has responsibility been assigned or a system established to assure that all financial reports required for grants by law or regulation are:
 - (a) prepared and submitted?
 - (b) complete and accurate?
 - (c) timely?
 - (d) prepared on a consistent basis?
2. Do independent public accountants regularly render opinions on:
 - (a) financial reports for grants?
 - (b) other financial reports?
3. Are guidelines established to provide for the retention of grant financial records for a grantors audit?
4. Are financial reports based on sources other than the accounting system? (If so, explain)

B. Program Management Reports

1. Do management reports on Federal programs contain information on:
 - (a) percentage of completion?
 - (b) major milestones met?
 - (c) major milestones to be met?
 - (d) foreseen problems in meeting grant objectives or terms?
 - (e) milestones requiring government approval before proceeding?
 - (f) decisions of governing bodies (board of directors, county or city supervisors, etc.) on major points of the grant?
2. Are all program management reports available to the grantor? (If no, explain)
3. Does the system assure that financial information on program management reports agree with that shown on financial reports for grants? (If no, explain)
4. Are there any "action" reports prepared as a result of findings in audit reports from:
 - (a) internal auditors?
 - (b) external auditors?

- (c) State or local government auditors?
 - (d) Federal government auditors?
5. Do program management reports compare budgeted costs with actual costs?
 6. Are there any action reports as the result of budgeted costs exceeding actual costs?

