

RURAL DEVELOPMENT PROJECT POLICIES AND PROCEDURES	Issued by: RDP Statewide Program Officer- Maile Lu'uwai	Policy No.: FIN 001
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<i>Financial Management</i>	Approved by: RDP Statewide Director – Dan Regan	Revision No.: 10/5/2009
		Supersedes Policy: N/A

I. **PURPOSE:** To guide RDP staff in the financial management and oversight of grant funds.

II. **STANDARDS FOR FINANCIAL MANAGEMENT**

RDP staff is required to comply with the federal cost principles and requirements outlined in OMB Circular A-21 and OMB Circular A-110. It is the responsibility of each staff member to have access to the most recent version of each circular. The circulars are available on the RDP website and the Department of Labor website.

A. **OMB CIRCULAR A-21: COST PRINCIPLES FOR EDUCATIONAL INSTITUTIONS** establishes principles for determining costs applicable to sponsored agreements, contracts, and other agreements with educational institutions. The 1998 revisions affect not only the development of Facility and Administration (F&A) rates, formerly known as Indirect Costs, but also the way in which direct costs are charged to sponsored programs.

B. **OMB CIRCULAR A-110: UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND AGREEMENTS WITH INSTITUTIONS OF HIGHER EDUCATION, HOSPITALS, AND OTHER NON-PROFIT ORGANIZATIONS** provides standards for obtaining consistency and uniformity among Federal agencies in the administration of grants. The Financial Management Standards section of OMB Circular 110 requires that financial management systems assign financial costs (and any income) to program activities and develop unit costs if needed. The Department of Labor codified OMB Circular A-110 in 29 CFR Parts 95 and 97.

III. **FEDERAL COST PRINCIPLES AS ESTABLISHED BY OMB**

RDP is required to relate finance data to performance data. At minimum, all RDP financial management systems will provide for:

1. Accurate, current, and complete disclosure of financial results of each grant project.
2. Records that identify adequately the source and application of funds.
3. Effective control over and accountability for funds, property, and other assets.

4. Comparison of outlays with budgeted amounts for each award.
5. Accounting records including cost accounting and source documentation.
RDP must comply with the following categories, known as types of compliance, but which are also standards of internal control, on which it may be audited by its external auditors, A-133 major program auditors, or federal auditors.

IV. **ALLOWABLE vs. UNALLOWABLE OR "DISALLOWED" COSTS**

Total allowable costs are composed of allowable direct costs and the allocable portion of indirect costs. OMB Circular A-21 provides general guidance on overall cost principles. Section J provides clarification and explanations for costs that are allowable and unallowable and the circumstances and criteria that determine whether the costs are or are not allowable.

A. Allowable Costs: In summary, the following cost principles must be used in determining allowed costs for RDP grants:

1. Costs must be reasonable and necessary for the performance and administration of the grant.
2. Costs must be allocable to grant. A cost is allocable to a particular cost objective (that is, a specific function, program, or project) if the goods or services involved are charged or assigned to such cost objective in accordance with the relative benefits received.
3. Costs that are given consistent treatment through generally accepted accounting principles (GAAP) appropriate to the circumstances. A cost may NOT be assigned to a grant as a direct cost if any other cost incurred for the same purposes in like circumstances was allocated to another grant as an indirect cost.
4. Costs must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items [Reference A-21C.2].
 - a. The **"Prudent Person" Rule** is used to determine if a cost is reasonable. This rule provides that if a prudent person would have purchased the good or service for the same amount under similar circumstances then the cost is reasonable. Costs must be necessary for the performance of the sponsored agreement. A particular cost may be allowable on one project, where it is needed for performance, but be unallowable on another project where no similar performance requirement exists.
 - b. Costs should be allocated to users in proportion to the benefits received. For example, the cost of repair for a piece of equipment used by two projects should be divided between the two projects. The salary of a staff person working on two projects should be charged to both projects based the apportioned time spent on each project.

- c. Costs applicable to one award or activity may not be charged or shifted to another award or activity. It is not allowable to move expenditures from Project A to Project B in order to eliminate an overexpenditure on Project A.

B. Disallowed Costs: The following costs are NEVER allowable (for either direct or indirect cost purposes): Alcohol, bad debts, commencement activities, convocations, donated goods and services, goods and services for personal use, contingencies, lobbying, housing and living expenses, memberships and subscriptions, entertainment, first class travel.

C. Matrix of Specific Cost and Category Allocation

RDP Costs	Admin.	Program	Notes - Comments
Salaries and Fringe Benefits			
Staff:			
Accounting	X		Exception: Costs of collecting financial information for determining performance accountability is a program cost. Section 667.220 (c)(6).
Administrative Overhead	X		
Advertising	X	X	
Audit Staff & Services	X		
Automatic Data Processing	X	X	Costs of collecting financial information for determining performance accountability is a program cost. Section 667.220 (c)(6).
Bid & Proposal Costs	X		Must be included as an allowable indirect cost, not a direct project charge.
Budgeting	X	X	First line managers budget preparation costs are allowable a program cost
Case Management		X	
Contracting for Admin. activities	X		667.220(a)
Contracting for Program activities		X	667.220(a) When the purpose of the contract is for core, intensive and training Services.
Coordination of Participant Services		X	
Counseling		X	
Data Processing	X	X	Admin if function is <u>fiscal</u> reporting. Program if function is client tracking 667.220(c)(6)(i) Data entry for tracking or monitoring of participants and performance information is program.
Program Development		X	
Eligibility Determination		X	
Fiscal Staff	X		
Follow Up Analysis		X	

Initial Assessment		X	
Labor Market Analysis		X	667.220(b)(1)(iv)(B) and WIA section 134(d)(2)(E)
Monitoring	X	X	When the purpose of monitoring is for reviewing the provision of program services the cost is chargeable to program, if the purpose of monitoring is for reviewing administrative activity the cost is to be charged to admin.
Participant Follow-Up		X	
Personnel Staff	X		
Procurement Staff	X	X	
Program Design/Curriculum		X	
Training Personnel (client)		X	
Other:			
Core Services		X	
Equipment Expenditures	X	X	667.220(c)(2)
Establishment of Board		X	
Indirect Costs	X	X	667.220(c)(4) "Specific costs charged to an overhead or indirect cost pool that can be identified as a program cost may be charged as a program cost. Documentation of such charges must be maintained."
Intensive Services for adults & dislocated workers		X	663.200, 663.220
Maintaining Individual Training Account System		X	
Maintenance & Repair	X	X	
Materials & Supplies	X	X	
Monitoring Service Providers		X	
Performance Tracking (MIS)		X	667.220(b)(iv)(A).
Publication and Printing	X	X	
Purchase Participant Tracking System		X	Modified by section 667.220 (c) (5).
Purchase Financial Mgmt. System	X		
Rental Costs	X	X	
Staff Training & Education	X	X	
Subrecipients' of One-Stop Operators for the purchase of services for core, intensive and training services		X	
Training Services		X	
Travel	X	X	
Utilities	X	X	
Participant Costs:			

100% of Participant Payments for Work Experience Program		X	
100% of Participant Payments for Vocational Exploration		X	
100% of Participant Payments for Limited Internships		X	

Tuition:			
Entrance Fees for Participants		X	Lab fees, activity fees, parking fees, application fees, graduation fees
Needs-Based Payments and financial assistance		X	
Tuition for Participants		X	

V. INDIRECT COSTS

Indirect costs represent the expenses of doing business that are not readily identified with a particular grant, contract, project, function or activity, but are necessary for the general operation of the organization and the conduct of activities it performs. Cost allocation plans or indirect cost rates are used to distribute those costs to benefiting revenue sources.

RDP Indirect Costs are calculated based on the Modified Total Direct Costs (MTDC), as defined by the Office of Research Services (“ORS”). MTDC consists of

- Salaries and wages
- Fringe benefits
- Materials and supplies
- Travel
- The first \$25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract).

MTDC excludes:

- Equipment and capital expenditures
- Participant tuition and scholarships
- Training costs
- Rental costs of off-site
- The portion of each subgrant or subcontract in excess of \$25,000

In order to determine the amount of the indirect cost, the total MTDC is multiplied by the indirect cost rate for the grant. The indirect cost rate is found in Part IV, Special Clauses in the DOL final grant award documents.

For example, if the total costs budgeted for salaries and wages, fringe benefits, material and supplies, travel and “other” is \$145,530, the indirect cost would be determined by multiplying \$145,530 by 27.1% (the current indirect cost rate) resulting in indirect costs of \$39,438.63. The indirect cost for a project is automatically calculated in FMIS, but for budget planning and monitoring purposes, always check the grant documents for the indirect cost rate.

VI. PROCUREMENT PROCEDURES AND RECORDS MANAGEMENT.

RDP procurement procedures and records management that conform to applicable federal laws and the regulations and standards contained in OMB Circular A-110 (see .41 - .48 for the standards) and 29 CFR Sections 95.41 through 95.48. *See Policy No. MAN 002-Records Retention & Management.*

VII. SF 269 & PERFORMANCE REPORTS.

RDP is responsible for managing and monitoring each project, program, subaward, function or activity supported by its funds. RDP will use the Financial Status Report SF-269 to report financial activity and a Performance Report to report program activity. The Performance Reports will contain comparison of actual accomplishments with the goals and objectives for the period, reason why the established goals were not met and other pertinent information. RDP will submit SF 269 and Performance Reports no later than 30 days after the quarter end.

VIII. REFERENCES

OMB Circular A-21
OMB Circular A-110
OMB Circular A-133
29 CFR § § 95 and 97.