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| *Steps* | *Comments* |
| 1. Determine the name and title of the  individual responsible for the  preparation of the proposed budget. | 1. Preliminary contacts regarding the  budget should usually be with the  organization’s business office. A  principal investigator is not normally  authorized to obligate an organization  on financial matters. |
| 2. Determine whether a cost analysis is  necessary. | 2. Contracts-Some form of price or cost  analysis is required in connection with  every negotiated procurement action. |
| 3. If a cost analysis is required, determine  whether it is the organization’s first  DHS award. | 3. The initial contact with the organization  is critical. As such, dollar impact  should not be the principal criterion in  determining the level of effort to be  expanded. Extra effort should be taken  to insure that the organization  understands DHS requirements. |
| 4. Determine whether internal files contain  any current information on the  organization. | 4. Files may contain information on  organizational structure, policies and  procedures regarding salaries, fringe  benefits, travel, etc., and other financial  data. |
| 5. Determine whether the organization has  received grants and/or contracts from  any other Federal agency. | 5. Information derived from other sources  can be of assistance in evaluating  current budget proposals. Such data  may also serve to limit the extent of cost  analysis needed. |
| 6. Determine whether any audits of the  organization have recently been  completed (e.g., by DHS, other  Federal agencies, independent  accountants, or State auditors). | 6. Audit reports may be found in the permanent and/or a previous file. Additionally, the prospective awardee of the DHS Grants Division may be called to determine whether any governmental agency has recently conducted an audit of their costs, operations, financial management systems, etc. |
| 7. If it is a renewal or continuation award,  review prior awards for comparability  and reasonableness to the current  proposal. | 7. If the proposal under review appears  reasonable in comparison to the prior  award, no in depth review may be  necessary. This applies only where the  scope or effort has not changed  significantly. |
| 8. Determine if the budget is in  conformance with statutory or  administrative requirements. | 8. Frequently, statutory or administrative  requirements place limitations on the  recovery of certain elements of cost,  (e.g., indirect cost reimbursement,  construction costs, alterations and  renovations). |
| 9. Determine the extent of effort to be  expended on the review. | 9. The extent of the review is dependent  upon the following:  a. Past experience with the organization.  b. Total dollar impact of the cost  proposal.  c. Extent to which proposed cost items  are verifiable to supporting  documentation.  d. Other known factors that may affect  the organization’s financial capability  to operate under the award. |
| 10. Obtain program or other peer review  group data. | 10. Program or other peer groups are  responsible for determining the  necessity, quantity, and/or quality of  the cost items included in the budget.  As such, they can provide valuable  information in the financial evaluation  process. |
| 11. Verify accuracy of mathematical  computations. | 11. Sometimes budgets include  mathematical errors due to either  transpositions or human error.  Therefore, it is important to ascertain  that budget proposals are accurate. |
| 12. Scan the entire application. | 12. The following is a list of the types of  items that should be looked for in  scanning the budget:  a. Unallowable costs (e.g.,  entertainment, interest).  b. Lack of grantee/contractor  understanding of the difference  between the direct and indirect  charges.  c. Excessive or inadequate indirect  cost rates.  d. Need for offsite indirect cost rates if  there are offsite direct charges.  e. Submission of the application  without going through the  organization’s business office. |

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| 1. Insure that proposed direct labor has been  presented in sufficient detail for review. | 1. Analyses to determine reasonableness  cannot be made if direct labor has not  been presented in sufficient detail. The  organization should supply the following  data:  a. Name and/or job titles for all  individuals budgeted for award.  b. Rate of pay for each individual and  labor category.  c. Level of effort (percentage or hours)  for each individual or labor category,  whichever is applicable.  d. Other information deemed necessary, |
| 2. Determine that sufficient data and documentation  needed to evaluate direct labor have been  submitted. | 2. In order to adequately evaluate the  proposed direct labor cost, certain  background information must be  supplied. Permanent or award files  should be checked to determine whether  any of this information has been  submitted previously. The following list  is not intended to be all inclusive, but  rather to be used as a guide in  determining the basic information  needed to perform in depth review of  direct labor.  a. Name and/or job title of those  individuals or labor categories  scheduled for assignment to the  project should be listed on the  application (see 1.a. above). Such  information should correspond to the  labor categories established by the  organization as set forth in its  personnel policies.  b. Pay scales of the organization are  needed. If the organization does not  have written pay scales, annual salary  rate of pay should be provided by  individual(s) or position(s).  c. If direct identification of individuals  working on the project is possible,  their current salary rate of pay should  be submitted.  d. If estimates are used (e.g., estimated  salaries, inflation factors, differential  pay), data from which estimates were  derived are needed.  e. Bonuses and incentive compensation. |
| 3. If it is a renewal or continuation award, determine  whether any advance agreements were established  in prior years, and, if so, whether the organization  complied with the agreements for the proposal  under review. | 3. In prior evaluations, advance agreements  may have been established to preclude  disputes or problems. Examples of such  agreements applicable to direct labor  include:  a. Changes in organization’s accounting  system to identify time and effort more  accurately.  b. Treatment of certain types of labor  categories.  c. Performance of special studies or  analyses in connection with the  development of future proposals.  d. Limitation on certain labor categories  (e.g., stipulated salaries and wages).  e. Bonuses and incentive compensation. |
| 4. Determine that position descriptions and pay  scales are current. | 4. Outdated information does not apply to  project awards. |
| 5. Compare job titles and salary amounts proposed  on the award application with those established  by the organization. | 5. This is to insure that salaries proposed  are consistent with the organization’s  established personnel policy. |
| 6. Determine that proposed salary rates are based on  the individual’s regularly compensation under the  organization’s policy. | 6. Charges for work performed are  allowable only at the individual’s base  salary rate. The base salary rate is that  level for which the individual is  regularly compensated under the practice  established by the organization. |
| 7. If an organization is unable to provide established  pay scales, determine the basis used to estimate  salaries and whether base salaries are reasonable  under the circumstances. | 7. Salary estimates should be analyzed for  reasonableness by comparing them to  appropriate salary surveys for  comparable positions. |
| 8. If an organization proposes a labor class (e.g.,  laboratory technicians, clerical) rather than  specific position description or job title, determine  the accuracy and propriety of the method used in  computing averages. | 8. The organization’s policy on salary  ranges for a given labor class or  appropriate salary surveys may be used  in establishing reasonableness. |
| 9. If inflation factors or other methods are used to  estimate future increases, determine the propriety  of such method. | 9. Written organization-wide, cost-of-living increases may be one method for proposing future labor costs. Other bases used to estimate future labor increases include: national cost-of-living rate analysis of organization’s historical salary increases, and any other approach as deemed reasonable and equitable. |
| 10. Determine whether direct labor includes fringe  benefits such as vacation, holiday, and sick  leave. | 10. It should be ascertained that where fringe benefits have been included as part of direct labor or in the indirect cost pool, they  are not included as a separate cost element on the award proposal as well.  Refer to the DHS Indirect Cost Rate  Negotiation Agreement for a  determination of the treatment of these  benefits. |
| 11. If labor of a subcontractor and/or contractor  under a grant or other secondary recipient is  being proposed, determine the propriety of  applying the indirect cost rate to these groups. | 11. Outside services do not produce  indirect costs to the same extent as  internal personnel; consequently, it is  often inappropriate to apply the primary  organization’s indirect cost rate to these  individual’s labor costs. |
| 12. Determine if there is possible duplication due to  the direct charging of typical indirect labor  costs. | 12. The following is a partial list of costs  normally included as part of the indirect  cost pool.  a. Administration – director, department  head.  b. Personnel – personnel director.  c. Accounting – controller, bookkeeper.  d. Procurement – purchasing director,  stockroom clerk.  e. Housekeeping – and Maintenance –  custodial and janitorial, repairman,  grounds-keeping |
| 13. Determine whether students, fellows, or  trainees, are being proposed as direct labor  charges to DHS research projects with  educational institutions. | 13. Costs of scholarships, fellowships, and  other forms of student aid apply only to  instruction and, therefore, are  un-allocable to DHS research  agreements. However, in the case of  students engaged in work under  research agreements, tuition remissions  for work performed are allowable to  such research agreements as direct  labor costs provided consistent  treatment is accorded such costs. |
| 14. Determine the propriety and reasonableness of  summer salaries proposed under DHS projects  with educational institutions. | 14. Monthly charges for work performed  by faculty members on DHS projects  during the summer months or other  periods not included in the base salary  period must not exceed the base salary  monthly rate. The base salary by the  number of work months in the period  for which the salary base is paid. |
| 15. Determine whether the organization has  established adequate payroll distribution and/or  time and effort reporting requirements. | 15. See comment 6.c., Section IV, Chapter  XIII “Financial Management Systems  Reviews.” |
| 16. Evaluate the reasonableness of the proposed  labor costs. | 16. The following procedures may be used  in determining reasonableness:  a. Compare salary costs/rates budgeted  with those appearing in other similar  current proposals from other  organizations.  b. Compare salary costs/rates budgeted  with those included in previous  proposals or other prices or costs  paid in earlier projects.  c. Compare salary costs/rates budgeted  with those cited in publications listed  in Section V, “Source Material,” of  this chapter.  d. Ensure that the types and classes of  personnel categories proposed are  necessary for the achievement of the  project.  e. Ensure that the salary costs/rates  proposed are commensurate with  expected assignments and  responsibilities. |
| Steps | Comments |
| 1. Determine that sufficient data and  documentation needed to evaluate fringe  benefits have been submitted. | 1. In order to adequately evaluate the  proposed fringe benefits, certain  background information must be  provided by the organization. The  following list is not intended to be all  inclusive, but rather, to be used as a  guide in determining the basic  information needed to perform an  in depth review of fringe benefits.  a. If a fringe benefit rate is proposed,  determine whether the organization is  a non-profit or profiting entity.  1) Nonprofit – Determine whether the  rate is current and has been  reviewed and approved  (negotiated) by the appropriate  DCA/RASC.  If the rate has not been reviewed by  DCA, request an opinion from that  office concerning the acceptability  of the rate.  2) Profitmaking – By consultation  with the applicant organization,  determine whether the rate has  been reviewed and approved by  another awarding component  within DHS, DHS, or the Federal Government. If so, contact such  office for a verification of such information. Where the proposed rate has not been reviewed or approved by another Federal Government agency, a test of reasonableness should be made by comparing total fringe benefits paid in the most recently completed fiscal year with those paid to similar firms in the area, doing the same type of work.  b. For an evaluation of fringe benefits  not proposed by means of a rate, see  step and comment 11.  c. Written policy on the type and  makeup of fringe benefits paid by  class of employee is needed.  (Organizational handbook issued to  new employees may contain this  information.)  d. Names (if applicable) and job titles of  those individuals who will perform  on the project are needed.  e. If direct identification of individuals  working on the project is possible,  obtain data on most recent fringe  benefits paid by items and amount.  f. If estimates are used (e.g., anticipated  changes in Federal and State laws, increases in pension funds), obtain data from which estimates are derived.  g. Written policy is needed of how  various fringe benefits are to be  treated (e.g., direct vs. indirect).  h. Any other type of information  necessary to make an informed  judgment should be supplied. |
| 2. If it is a renewal or continuation  application, determine whether any  advance agreements were established in  prior awards and, if so, whether the  organization complied with the  agreements for the proposal under  review. | 2. In prior evaluations, advance agreements  may have been established to preclude disputes or problems or to help insure more equity in the future. Examples of such agreements applicable to fringe benefits include:  a. Changes in the organization’s  accounting system to identify more  accurately certain types of fringe  benefits.  b. Treatment of certain types of fringe  benefits.  c. Performance of special studies or  analyses in connection with the development of future proposals.  d. Limitation of certain fringe benefits. |
| 3. Determine treatment of fringe benefits (e.g., direct or indirect). | 3. If the organization is charging one class  of fringe benefits directly to the DHS activity, determine that this is consistent with the method used for determining the indirect cost rate (e.g., if the organization has elected to treat one class of fringe benefits as indirect costs, it cannot charge them directly to any grant or contract regardless of any other restriction placed on the award). This information is contained in the DHS Indirect Cost Negotiation Agreement. |
| 4. Determine whether the organization has  elected to treat some classes of fringe  benefits as personal compensation. | 4. Many organizations treat the cost of  authorized absences such as vacation, holidays, sick leave, and other time off, as part of the personnel compensation cost category. The reviewer should ensure that such items are not duplicated in the personnel compensation and fringe benefit categories so as to prevent over recovery of these costs by DHS supported organizations. |
| 5. Compare types and amounts of fringe  benefits proposed on the application with  those established by organizational  policy. | 5. Insure that the organization charges  similar types of fringe benefits to other areas as it does to Government activities. In determining reasonable amounts, comparison to other organizations of similar size, nature, and type may be useful. |
| 6. If individuals who are to work on a  project activity are identifiable, compare  current fringe benefits with those proposed on application. | 6. Fringe benefits each year should not  differ substantially unless some change in organizational policy or Federal or State law has taken place. |
| 7. Ensure that fringe benefit plans include  those prerequisites required by law. | 7. All fringe benefit plans must, at a  minimum, provide the following prerequisites:  a. Social security contributions or a  substitute State plan where permitted.  b. Federal unemployment insurance  contributions.  c. State unemployment compensation  insurance contributions.  d. Workman’s compensation insurance  coverage. |
| 8. If proposed fringe benefits are based on  estimates, determine the propriety of the  method used. | 8. The organization must use one or a  combination of the following methods  for estimating fringe benefits:  a. Past experience for a given type of  position.  b. Fringe benefits of a comparable  organization.  c. Anticipated organization, Federal or  State regulation changes, etc.  Regardless of the method used, a test of reasonableness should be made by comparing total fringe benefits paid in the most recently completed fiscal year with that of total salaries paid. (This information may be contained in the organization’s certified financial statements. |
| 9. If a fringe benefit rate is used, determine  whether the organization is a nonprofit or  a profitmaking entity. | 9. Nonprofit – In addition to negotiating  indirect cost rates, a DCA office may negotiate the establishment of fringe benefit rates if the organization uses a rate to charge and bill fringe benefits.  Profit – The propriety of a fringe benefit rate for a profitmaking organization may best be determined by comparing the rate proposed with the most recent historical fringe benefit rate available, or by comparing the benefit rate with that or an organization of similar nature, type, and size. |
| 10. If only one fringe benefit rate is  proposed, determine whether two or  more would be more equitable. | 10. Very often where different classes of  individuals are employed (e.g.,  professional and clerical), two or more  fringe benefit rates may be appropriate. |
| 11. If fringe benefit costs are not being  proposed by means of a rate, determine the composition of the costs (by classes of benefits), percentages used in computing the cost, and personnel to whom benefits apply. | 11. Benefits offered should include those  required by law. Percentages used in  computing these costs should not  exceed those required by law. You  may contact the local Internal Revenue  Service (IRS) or State income tax office  for additional guidance (e.g., private  nonprofit 501©(3) organizations are  exempt from paying Federal unemployment).l As for other benefits offered, reasonableness may be determined by comparing benefits available to employees of organizations of similar nature, type, and size. |
| 12. If this is a profitmaking organization,  determine whether the organization has  a written policy for handling  overages/underages of the fringe benefit  rate. | 12. Regardless of the method used, the  organization must have a written policy  consistently applied for handling  overages/underage’s of the fringe  benefit rate. Any one of the following  is acceptable:  a. Incorporating overages/underage’s  into the indirect cost pool.  b. Incorporating overages/underage’s  into the fringe benefit rate of the  following year.  c. Adjusting the current fringe benefit  rate to include overages/underage’s,  and then rebilling for any  differences. In the case of nonprofit  organizations, the appropriate DCA  office will evaluate the propriety of  the organization’s policy in this  regard. |
| 13. Determine overall reasonableness of fringe benefit costs proposed. | 13. Fringe benefit plans usually include the  following features:  a. Medical insurance  b. Disability benefits  c. Pension Plan  d. Death benefits  e. Paid absences  f. Taxes and contributions required by  law (e.g., FICA and Unemployment  Compensation Insurance)    When the time-off-with-pay benefit is  treated as part of the salary cost, the remainder of the fringe benefit plan usually will not exceed 20 percent of salary costs when the organization offers retirement income (pension.) Where no retirement income is offered then the remainder of the fringe benefit plan should be about 12 percent of salary costs.  The U.S. Chamber of Commerce published annually a survey of fringe benefits by various classes of industrial groups (e.g., hospitals, non-manufacturers, etc.), and by major geographical location. |
| Steps | Comments |
| 1. Determine that sufficient data and  documentation needed to evaluate  material costs have been submitted. | 1. In order to evaluate adequately the  proposed material costs, certain  background information should be  supplied. The following list is not  intended to be all inclusive, but rather,  to be used as a guide in determining the  basic information needed to perform an  in depth review of material costs.  a. A listing of materials proposed.  Where applicable, stock numbers,  part numbers, quantities, and unit  prices should be included for items of  significant dollar value.  b. The basis used by the organization in  estimating material costs.  c. Information on the organization’s  accounting treatment of materials  costs not directly related to project  activity.  d. The organization’s documentation  (e.g., support data for prices quoted)  e. Data from which estimates, if used,  were derived (e.g., spoilage factor,  returns to vendors, allowances, and  rebates).  f. Any other types of data necessary to  make an informed judgment. |
| 2. If it is a renewal or continuation  grant or contract, compare proposed  material costs with those expended  in prior years. | 2. When material costs have increased  substantially over prior years, determine  whether increases are justifiable (e.g.,  material costs may have increased due  to an increase in level of work, hiring of  additional personnel). |
| 3. If it is a renewal or continuation grant or contract, compare proposed material costs with those expended in prior years. | 3. The amounts should agree. If there are any differences, the organization should be asked to explain the reason(s) for the discrepancies. |
| 4. If the organization is unable to  supply a detailed listing of materials,  but rather, proposes broad general  categories (e.g., chemicals, office  supplies), obtain rationale for  project amounts. | 4. Rationale should be of sufficient detail  so that an evaluation can be made. The  cost analyst should endeavor, where  possible, to reconstruct a detailed  schedule of materials so that prices per  unit may be verified to commercial  catalogs, trade publications, vendor  bids, etc. |
| 5. Determine whether the organization  has adjusted actual prices by such  offsets as cash discounts, trade  discounts, rebates, allowances, etc. | 5. These offsets reduce the cost of the  material, and, therefore, should be taken  into consideration by the organization  when proposing material costs. |
| 6. If estimates are used (e.g., factor for  spoilage, returns to vendors,  salvage, anticipated future increases  in cost), determine propriety of  method used. | 6. Estimates may be evaluated as to  reasonableness as follows:  a. Historical data compiled by an  organization in support of estimates.  b. Industry-wide trend data.  c. Written statements from vendors  verifying estimates.  d. Any other approaches deemed  reasonable and equitable. |
| 7. Determine that like material costs  charged directly to the project are  not being concurrently treated a  indirect costs (e.g., material costs  must be treated consistently within  the accounting framework of the  organization. | 7. No project shall have materials costs  allocated to it as a direct cost if other  material costs incurred for the same  purpose, in like circumstances, have  been included in any indirect cost pool  to be allocated to that project. |
| 8. Determine whether the organization  is receiving or had available to it,  appropriate Government surplus  materials, or materials available  under GSA Federal Supply Schedule  that may be more economical. | 8. Grant or contract award funs may be  used to acquire Federal surplus material.  The Customer Service Bureau GSA  Regional Office of Federal Supply and  Services or the State Agency for Surplus  Property are in a position to inform you  of the availability of Federal surplus  material. |
| 9. Determine whether any material is  being purchased through “intra-  company” transactions. | 9. This is allowable provided that project  is not being charged a profit factor or  unreasonable or unnecessary costs. |
| 10. Determine whether the organization  has obtained a sufficient number of  competitive bids on significant  items of material. | 10. The determination of what constitutes a  significant item of material is largely a  matter of judgment. However, criteria  such as cost per unit may be used. |
| Steps | Comments |
| 1. Determine that sufficient data  and documentation needed to  evaluate equipment costs  have been submitted. | 1. In order to evaluate adequately the  proposed equipment costs, certain background information must be supplied. The following list is not intended to be all inclusive, but rather, to be used as a guide in determining the basis information needed to perform an in depth review of equipment costs.  a. A copy of the organization’s written policy and procedures regarding property management which details, at a minimum:  1) Composition of costs included as  equipment charges in the accounting  system (e.g., transportation,  installation charges).  2) The organization’s definition of  equipment; specifically, detailing  policy in regard to useful life and  acquisition costs.  3) The kind, amount, and location of  equipment purchased.  4) Current availability and condition of  the equipment.  b. A detailed description of the proposed  item of equipment is necessary. If the  part, sock or catalog number is  known, it also should be stated.  c. If estimates are used (e.g., anticipated  increases in equipment costs), obtain data from which estimates were derived.  d. Any other types of information  necessary to make an informed  judgment. |
| 2. If it is a renewal or  continuation grant or  contract, determine whether  any advance agreements were  established in prior awards  and, if so, whether the  organization complied with  the agreements for the  proposal under review. | 2. Advance agreements may be established  to preclude disputes or problems or to  help insure more equity in the future.  a. Allowing a use charge on fully  depreciated equipment.  b. Performance of special studies or  analyses in connection with the  development of future proposals (e.g.,  cost of rental versus purchase.  c. Allowing certain types of general  purpose equipment (e.g., typewriters,  calculators). |
| 3. Determine whether the same  or similar type of equipment,  or one that may be used for  comparable purpose, is  currently available in the  organization. | 3. Where it is determined that the  organization does not have written  property management policies or  procedures, a certification from the  organization that the same or similar  equipment is currently unavailable may  be necessary. |
| 4. Determine that equipment is  specifically relates to the  project | 4. Generally, only project-specific  equipment is allowable as a direct charge  to a project. However, the awarding  component may allow general purpose  equipment to be charged directly if:  a. Equipment is specifically related to  the project, and the organization  consistently treats this type of  equipment as a direct charge to all  other projects.  b. Circumstances indicate that it would  be a financial burden not to reimburse  the organization for general purpose  equipment. |
| 5. Compare the cost of  significant equipment items  proposed on the award  application with that shown  in GSA or commercial  catalogs, vendor bids, or other  source data. | 5. These amounts should agree. If there  are any significant differences, the  prospective awardee should be asked to  explain the reasons for the  discrepancies. |
| 6. Determine whether the  equipment is to be used  concurrently between two or  more organizational  activities. | 6. If the equipment is to be utilized by  many different organizational activities,  the organization shall treat this  equipment as an indirect cost.  However, if the organization historically  and consistently treats this type of  equipment as a direct cost, it ca prorate  the costs between two or more  activities. Any equitable method or  proration that provides consideration to  the full use of the equipment is  acceptable.  Equipment may be prorated as follows:  a. Where actual equipment usage and  related costs records are available,  the amount distributed should be  based on such records.  b. Where such equipment records are  unavailable, the amount distributed  may be done on total space assigned  to the various activities.  c. Any other method as deemed  reasonable and equitable may be  used. |
| 7. Determine the availability  and acceptability of  Government surplus property. | 7. Grant or contract award funds may be  used to acquire Federal surplus property.  The Customer Service Bureau, GSA  Regional Office of Federal Supplies and  Services, or the Stat Agency for Surplus  Property are in a position to inform you  of the availability of surplus property. |
| 8. Determine that equipment  costs are being treated  consistently within the  accounting system of the  organization. | 8. No project shall have allocated to is as a  direct costs any equipment cost if other  equipment costs incurred for the same  purpose, in like circumstances, have  been included in any indirect cost pool,  to be allocated to that project. |
| 9. If estimates are used (e.g.,  anticipated future increases in  equipment costs), determine  propriety of method used. | 9. Future increases in costs may be used  on vendor’s bids, price quotes, purchase  orders, or other similar documents. |
| Steps | Comments |
| 1. 1. Determine that sufficient data and  documentation needed to evaluate space  rental costs have been submitted. | 1. In order to evaluate adequately the  proposed space rental costs, certain  background information must be  supplied. The following list is not  intended to be all inclusive, but rather, to  be used as a guide in determining the  basic information needed to perform an  in-depth review of space rental costs.  a. A copy of the current lease or rental  agreement.  b. Total square footage required to  perform the grant/contract.  c. If applicable, a copy of the sale and  leaseback agreement.  d. If estimates are used (e.g., anticipated  rental increase, change in facility  location), obtain data from which  estimates were derived.  e. Any other types of information  necessary to make an informed  judgment. |
| Ss 2. If it is a renewal or continuation  grant/contract, determine whether any  advance agreements were previously  established. If such an agreement exists,  determine whether the organization complied with the agreement and its effect on the proposal under review. | 2. In prior grant/contract evaluations,  advance agreements may have been  established to preclude disputes or  problems or to help insure more equity  in the future. Examples of such agreements applicable to space rental include:  a. Changes in the organization’s  accounting system to identify more  accurately space rental costs.  b. Performance of special studies or  analyses in connection with the  development of future proposals (e.g.,  renting versus purchasing). |
| 3. Determine that the lease or rental agreement is current or will apply during the period in which the award will be performed. | 3. Outdated information may not be  applicable to the award proposal. |
| 4. Compare the space rental amount proposed on the award application with that shown on the lease or rental agreement. | 4. These two amounts should agree. If  there are any differences, the grantee or  contractor should explain the reasons  for the discrepancies. |
| 5. 5. Where possible, compare space rental costs proposed with those set forth in the yearly published GSA schedules for average charges per square foot for office space. | 5. As state previously, average space rental  rates established by GSA may be used  as a general guideline in estimating  reasonableness of the proposed costs.  In DHS facilities, 135 square feet per  person is considered reasonable for  general office space needs. Requests  for space in excess of 135 square feet  per person should be substantiated by  the organization |
| 6. If the space in which the award is to be performed is not similar to or costs vary significantly from those shown on the GSA schedules, determine reasonableness of the proposed space rental costs. | 6. Factors affecting reasonableness of  proposed rates include: comparing proposed space costs with those of an organization of similar nature, size, and type, market conditions, condition and value of property, alternatives available, etc. |
| 7. Determine whether the lease creates a  material equity in property. | 7. A material equity in the property exists if  the lease is non-cancelable or is  cancelable only upon the occurrence of  some remote contingency.  In all cases, rental costs under leases  which create material equity in the leased property are allowable only up to the amount that would be allowed under applicable DHS cost principles had the lessee purchased the property on the date the lease agreement was executed. |
| 8. Determine whether a rental agreement  has been established under a long-term  lease (e.g., cumulative occupancy of  more than 5 years). | 8. Rental costs under long term leases are  allowable only up to the amount the lessee would be allowed under applicable DHS cost principles had the lessee purchased the property on the date the lease agreement was executed. However, if the lessee can demonstrate that such leasing (a) will result in less cost over the total period in which the property will be utilized, or (b) is clearly necessary in light of the particular circumstances involved, the rental costs for the term of the lease may be charged to the grant or contract. |
| 9. Determine whether a sale and lease-back  agreement has been negotiated. | 9. Generally, costs of renting facilities are  not allowable where one party to the  rental agreement is able to control or  substantially influence the actions of the  other (e.g., organizations under common  control through common officers,  directors, or members). |
| 10. Determine whether a sale and lease-back agreement has been negotiated. | 10. A sale and lease-back arrangement is  one under which property owned by the  lessee organization is sold and leased  back from another organization.  If such an agreement exists, determine  that the rental does not exceed the  amount the organization would have  received had legal title to the facilities  been vested in it. |
| 11. Determine that space rental costs are being treated consistently within the accounting framework of the organization. | 11. If other rental costs incurred for the  same purpose, in like circumstances,  have been included in any indirect cost  pool to be allocated to that project, no  project shall have rental costs allocated  to it as a direct cost. |
| 12. If space rental costs are being treated as direct charges to the project, determine that, in applying the indirect cost rate, the operation and maintenance, and depreciation/use charge factors have been excluded from the rate. | 12. Nonprofit Organizations-The  appropriate Regional DCA office can advise whether space rental costs were treated as direct or indirect charges in computing the organization’s indirect cost rate. If appropriate, DCA can establish an offsite or special indirect cost rate applicable to the project. |
| 13. If estimates are used (e.g., anticipated future increases in rental costs, charges in present facility), determine propriety of method used. | 13. Various bases used for estimating  future rental increases include:  a. An organization’s prior history  regarding rental increases.  b. Written or oral information from  owner, landlord, etc., citing intent  to increase rental cost.  c. Any other method or approach as  deemed reasonable and equitable. |
| 14. If the rented facility will be used for more than just the performance of a grant or contract, determine the propriety of the method of rental allocation to benefiting areas. | 14. If rented facilities will be used by  many organizational activities, the organization should treat these rented facilities as indirect costs. However, if rent is treated historically and consistently as a direct cost, the organization may make an allocation to benefiting areas as follows:  a. Where actual space and related cost  records are available, the amount  distributed should be based on such  records.  b. Where such space records are  unavailable, the amount distributed  may be allocated on total space  assigned to the various activities.  c. Any other method as deemed  reasonable and equitable may be  used. |
| Steps | Comments |
| 1. Determine whether the type of project  being contemplated authorizes the use of  funds for alterations and renovations. | 1. Certain types of awards restrict the use  of funds to salaries and/or stipends only. |
| 2. Determine whether the proposed costs  are presented in sufficient detail in the  project application. | 2. Detailed data concerning proposed costs  should include the following:  a. A listing of work to be performed.  b. Cost details by task or work order  contemplated.  c. Details as to whether the work will be  performed in-house or by outside contractors (e.g., engineers, mechanics). |
| 3. Ascertain that there is a need for the type  of work and cost being proposed. | 3. A review of the proposed scope of work  may readily justify the need for funding of alterations and renovations. However, where such justification is not readily discernible, the evaluator should request an opinion from the Project Officer concerning the need for the proposed renovations and alterations costs. |
| 4. Determine the basis for the preparation  of the estimates. | 4. The evaluator should ascertain whether  the estimate is based on builder’s quotes, the applicant’s own historical experience for similar work, or in-hose “engineering estimates.” |
| 5. Request documentation in support of  proposed costs. | 5. Supporting documentation may include  any of the following:  a. Quotes from builders.  b. Quantitative and pricing factors for  “engineering estimates” prepared in-  house.  c. Copies of invoices for similar work  performed under other projects.  d. Other historical data accumulated by  the applicant for similar work  previously performed.  e. Any other types of information  necessary to make an informed  judgment. |
| 6. Review the reasonableness of the costs  proposed.  a. Verify costs proposed to quotes  received.  b. Where costs are based on oral quotes,  attempts should be made to have the  applicant provide written confirmation  of the proposed costs.  c. Where costs are based on “engineering  estimates,” the proposed costs should  be compared with those of similar  proposals for reasonableness. | 6. Reasonableness should be determined by  doing the following:  a. Where costs are based on current  quotes, the analyst should determine  the extent of bid solicitation.  Generally, the presence of more that  one bid obviates the need for  extensive tests or reasonableness due  to the element of competition  involved.  b. Instances where the written  confirmation is not readily available,  it is permissible to confirm the quotes  orally, by direct communication with  the supplier. However, a written  confirmation of the conversation  should be requested by the evaluator.  c. See comments under 6.a. and b.  above. |
| 7. Determine that like costs incurred under  other projects are also being charged  directly. | 7. The applicant should be consistent in its  treatment of the proposed costs. If such items are being charged directly to Government projects, similar costs incurred for the same purpose under non-Government projects should also be charged directly. |
| 8. Whether the applicant is unable to  provide any documentation in support of  the proposed costs, the evaluator may  perform alternative procedures. | 8. The alternatives may include the  following:  a. Set aside the proposed costs for lack  of supporting documentation.  b. Reemphasize the need for submission  of supporting data.  c. Recommend funding of the project  exclusive of any costs for which no  supporting data has been submitted. |
| Steps | Comments |
| 1. Request from the contractor/grantee data  supporting the costs proposed for  sub-grants and/or contracts under grants,  and subcontracts. | 1. Detailed data supporting costs proposed  should include the following:  a. A listing of contractors, sub-grantees, and subcontractors scheduled to perform under the price contract or grant.  b. Cost or price proposals in support of  each contract/subcontract, etc., with  each one listing all cost elements and  amounts being proposed.  c. Data in support of cost or price  analyses performed by the prime  contractor/grantee for each  subcontract under a grant proposed. |
| 2. Evaluate the reasonableness of the costs  proposed. | 2. The evaluator should:  a. Review the cost or price analysis  performed by the recipient of the DHS  award. All significant cost elements  listed in the proposal should be tested.  Steps delineated in the appropriate  chapters elsewhere in this Manual  should be used in testing all  significant cost elements.  b. Ensure that a breakdown of and  justification for the estimated costs  was provided, including the manner in  which indirect costs will be  reimbursed.  c. Ensure that indirect costs budgeted for  both the subrecipient and the applicant  organization are not excessive and  would not result in duplicate  unreasonable charges. |
| 3. Where the DHS contractor/grantee has  not performed cost or price evaluations  of the proposed subcontract(s), etc., the  DHS evaluator should perform an  evaluation of the proposal(s) using the  guidelines discussed elsewhere in the Manual, with respect to labor, material and other direct and indirect costs. |  |
| 4. Ascertain that profit or fee factors  included in the subcontract or contract  under grant proposals are reasonable. | 4. Ensure that the maximum profit or fee  proposed is the percentage allowed by statute or regulation (see Federal Acquisition Regulation Manual (FAR) 15.903(d)). |
| 5. See step 8, under section “Alterations  and Renovations” of this chapter. |  |
| Steps | Comments |
| 1. Determine whether proposed costs are  presented in sufficient detail in the  project application. | 1. Supporting data concerning travel costs  should include the following:  a. Number of trips planned.  b. Cost per trip per person.  c. Destination(s) proposed and duration of trip(s).  d. Number of travelers per trip.  e. List of individuals proposed for the  trips.  f. Mode of transportation and proposed  fare per trip.  g. Mileage allowances if privately  owned vehicles will be used.  h. Subsistence rate per day (per diem).  i. Other incidental data supporting the  proposed costs. |
| 2. If necessary, request additional  documentation in support of proposed  costs. | 2. See comments under 1. above. |
| 3. Determine whether the applicant organization has written travel policies. | 3. Where the applicant has no formal travel  policies, GSA travel regulations shall  apply in determining the travel costs  chargeable to project funds. |
| 4. Determine whether the proposed costs  are consistent with organizational travel  policies. | 4. Any deviations between costs proposed  and those allowable in accordance with established organizational policies should be adequately explained. |
| 5. Ensure that commercial transportation  costs have been proposed at less than  first class rate. | 5. In accordance with GSA policy,  commercial transportation costs must be proposed at less than first class whenever available. |
| 6. Test the reasonableness of proposed car  rental rates. | 6. Car rental allowances should be  proposed at the most economical rates available. If the organization is entitled to car rental discounts, proposed costs should be duly adjusted. |
| 7. Determine the acceptability of the  proposed subsistence costs. | 7. Where the established organizational  travel policy allows for the reimbursement of actual costs incurred, and the proposed costs appear to be excessive, the cost evaluator may deem it appropriate to recommend that certain reimbursement limitations be incorporated into the grant award document.  Where subsistence costs are based on daily rates, reasonableness may be determined by comparing the proposed rates with those of other grantees, those cited in Internal Revenue Service guidelines, the maximum per diem rate authorized by the Federal Government in the locality in which the travel was performed, etc. |
| 8. Evaluate the reasonableness of proposed  mileage allowances for the use of  personal cars. | 8. Mileage allowances estimated for the use  of personal cars should not exceed reasonable limits. Where appropriate, car pooling should be considered in lieu of use of multiple vehicles. |
| 9. See step 8, under section “Alterations and Renovations” of this chapter. |  |
| Steps | Comments |
| 1. Determine whether proposed costs are  presented in sufficient detail in the  project application. | 1. Detailed data concerning proposed costs  should include the following:  a. Types of equipment which will be  used; personal computers, word  processors, remote terminals, central  processor unit, input-output  components, etc.  b. Usage hourly rates for the types of  proposed equipment.  c. Estimated use time for each type of  equipment. |
| 2. Request documentation in support of  proposed costs. | 2. Supporting documentation may include  any of the following:  a. Listing of rates or quotes from  prospective suppliers of Automated Data Processing Systems (ADPS).  b. Copies of invoices submitted by past  suppliers of the applicant.  c. Where the applicant has in-house  ADPS capability, listing of rates  developed and/or approved by a  Government agency. |
| 3. Evaluate the reasonableness of the costs being proposed. | 3. The evaluator should:  a. Verify proposed rates with those on  listings or quotes obtained by the  applicant.  b. Copies of invoices submitted by past  suppliers of the applicant.  c. In the case of nonprofit organizations  where the proposed rates have not  been approved by a Federal agency,  the appropriate Regional DCA office  should be requested to review, and  express an opinion on , the  reasonableness of such rates. |
| 4. See step 8, under section “Alterations  and Renovations” of this chapter. |  |
| Steps | Comments |
| 1. Ascertain the need for the type of  service(s) being contemplated. | 1. Generally, consulting services may be  justified when the organization does not have the expertise being sought from the consultants. |
| 2. Determine whether the proposed costs  are presented in sufficient detail in the  project application. | 2. Detailed data concerning the proposed  costs should include the following:  a. Name(s) of consultant(s) to be  engaged.  b. Daily fees to be paid to each  consultant.  c. Number of estimated days of  continuing services.  d. Scope of work to be performed.  e. Other incidental data supporting the  proposed costs. |
| 3. Request documentation in support of  proposed costs. | 3. Supporting documentation may include  the following:  a. Consulting agreements entered  into/between consultant(s) and the  organization.  b. Invoices submitted by consultants for  similar services previously provided  to the organization.  c. Educational institution’s policy which  authorizes the use of its employees as  consultants. |
| 4. Evaluate the reasonableness of the costs  being proposed. | 4. Generally, the fees being proposed by  consultants are based on the degrees of  expertise that each individual possesses  in the field in which the services are to  be provided.  The determination of what constitutes a  reasonable cost is largely a matter of  judgment.  a. Verify proposed rates with those listed  in “Consulting Agreements” entered  into/between the organization and the  consultant(s).  b. If consultants have been used  previously by the organization,  compare proposed rates with those  appearing on previous invoices for  services rendered by the consultants to  the organization. |
| 5. Determine that no employees of the  organization are being proposed as  consultants to the project. | 5. Employees of the organization  submitting the proposal may not perform as consultants to the project, except in the case of educational institutions. See this section’s introductory remarks for allowability criteria. |
| 6. Determine whether fringe benefit costs  have been applied to proposed  consultants’ costs. | 6. Fringe benefits should not be applied to  consultants’ costs since consultants generally are not employees of the organization. |
| 7. Determine whether indirect costs have been applied to proposed consultants’ costs. | 7. Indirect costs should not be applied to  consultants’ costs unless the distribution basis is total direct costs, or such other basis which would include consultants costs. |
| Steps | Comments |
| 1. Determine whether the proposed costs  are presented in sufficient detail in the  project application. | 1. Detailed data concerning costs proposed  should include the following:  a. Individuals scheduled for attendance  at the meetings if available  b. Meetings to be attended, duration,  location, etc.  c. Registration fees for each individual  attending.  d. Transportation costs (mode, fare, type  of accommodation, per diem, etc.)  e. Other costs such as room rentals,  equipment rentals, printing and  postage, honoraria, etc. |
| 2. Determine whether there is a direct  relationship between attendance at the  meetings and the work to be performed  under the project. | 2. Costs of attending meetings and  conferences should be allowed as direct costs when there is a direct benefit accruing to the project. Otherwise, such costs should be treated as indirect costs of the applicant organization. |
| 3. Request documentation in support of  proposed costs. | 3. See comments under 1. above. |
| 4. Evaluate the reasonableness of the  proposed costs. | 4. The evaluator should:  a. Verify proposed costs to supporting  data.  b. Ensure that registration fee costs do  not exceed those for Federal  Government employees or most  favored participants.  c. Ensure that transportation costs are  proposed at less than first class rates.  d. Ensure that per diem rates do not  exceed maximum authorized by the  Federal Government for the locality in  which the travel occurs.  e. Ensure that where subsistence costs  which are based on actual expenses  incurred appear to be excessive,  certain cost limitations are  incorporated into the grant or contract  document. |
| 5. See step 8, under section “Alterations  and Renovations” of this chapter. | 5. The evaluator should ascertain whether:  a. Review the appropriate sections of  the Medicare cost report to  determine:  - Daily routine patient care rate.  - Cost conversion factors for  outpatient and ancillary services.  b. Obtain justification for differences  between the Medicare cost report  rates and the proposed costs.  - Determine if any audit adjustments  have been made to the cost  reports, if appropriate.  c. Review allocation procedures and  stepdown schedules when a  Medicare cost report is not available  to determine how the daily routine  patient care rate and cost conversion  factors for outpatient and ancillary  services were computed.  - This verification would ensure that  general service costs are allocated  to direct cost centers (e.g., patient  care, research) based on a ratio of  services provided. |
| Steps | Comments |
| 1. Determine whether an indirect cost rate is  necessary. | 1. It is generally necessary for most  organizations to establish an indirect cost rate to obtain reimbursement for indirect costs applicable to DHS supported projects.  a. The award is the sole source of  funding to the organization.  b. The organization consistently treats  all charges as direct costs and can properly account for them as such.  c. The award is subject to certain statutory or administrative restrictions which prohibit the payment of indirect costs.  d. The award is a training grant to other than a State or local government agency.  e. The organization voluntarily waives reimbursement of indirect costs. |
| 2. Determine whether the institution has a  currently effective indirect cost rate established with DHS or another Federal agency. | 2. Organizations which claim indirect  costs can generally only be reimbursed indirect costs when they are appropriately supported by a currently effective indirect cost rate. All organizations other than profitmaking organizations, which do not have a current negotiated rate, must submit an indirect cost proposal to the appropriate Regional DCA office. Organizations which have not negotiated an indirect cost rate prior to receipt of an award may be funded at an initial amount of 50 percent of the proposed indirect costs or 10 percent of salaries and wages, whichever is the lesser, until a rate is established. Indirect cost rates with another Federal agency will normally be recognized by DHS provided such rates are published.  In those instances where an award is being made to a profit organization, any questions concerning the propriety of the indirect cost rate(s) proposed should be referred to the appropriate cost advisory staff of the DHS agency administering the project. Where it is deemed appropriate by the cost evaluator, indirect cost rates negotiated by another Federal agency may be acceptable. |
| 3. Determine that the organization has  applied the indirect cost rate to the proper distribution base. | 3. Normally, a single indirect cost rate is  established which is applicable to all projects conducted by the organization. However, offsite or discrete rates are established if applicable. |
| 4. Determine that the organization has  applied the indirect cost rate to the proper distribution base. | 4. Typical distribution bases include:  a. Salaries and wages including vacation, holiday, and sick leave, but excluding all other fringe benefits.  b. Salaries and wages including all  fringe benefits.  c. Total direct costs less major  renovations and alterations, subcontracts, and equipment.  Therefore, the indirect cost rate must be applied only to those costs on which it was developed. For example, if the indirect cost rate was established based on salaries and wages including all fringe benefits, the indirect cost rate can only be applied to proposed personnel costs including all fringe benefits. |
| 5. Determine whether an offsite, special, or  discrete indirect cost rate is appropriate. | 5. Offsite and other special indirect cost  rates will be established only when all of the following conditions are present:  a. An activity is conducted in a  physical or administrative environment that generates a significantly different level of indirect costs than the other activities of the organization.  b. The special rate(s) would be  substantially lower or higher than the rate(s) applicable to other activities.  c. The rate(s) would apply to a material amount of federally supported direct costs. |
| 6. Determine whether the organization is  charging directly to the project such items of costs that are normally treated as indirect (e.g., heat, light, rent, general and administrative expenses.) | 6. This is not necessarily incorrect  provided:  a. The award is the sole source of  funding to the organization.  b. The organization consistently treats  all such charges as direct costs and can properly account for them as such.  c. A special or discrete indirect cost  rate has or is being established. |
| 7. Determine that the organization is  consistently treating the costing of such items as fringe benefits, equipment, materials, long-distance toll calls, ADP, etc. | 7. These types of charges can easily be  treated as indirect or direct costs depending on the organization’s accounting system. Either method selected by the organization is acceptable provided it is followed consistently. For example, it would be unacceptable to charge fringe benefits applicable to a Government project directly while charging all non-Government fringe benefits to indirect costs. |
| Steps | Comments |
| 1. Ascertain whether matching and/or cost  participation should be provided under the grant or contract proposal submitted. | 1. This may be done through a review of  the DHS program requirements. |
| 2. Ascertain whether the proposed  matching and/or cost participation contributions comply with the DHS program requirements. | 2. The evaluator should ensure that the (i)  proposed matching or cost participation costs are included as part of the project budget, and (ii) total amount or rate to be provided is in compliance with the applicable requirements. |
| 3. Determine how the recipient proposed  to satisfy the matching and/or cost participation requirements. | 3. The proposal would state how the  contributions will be made, i.e., a reduction of indirect costs, indirect costs, or total proposed costs. Further, it should state whether the contributions will be made by the applicant, third-parties, or both. |
| 4. Determine the propriety of the proposed  matching or cost contributions.  a. Applicant in-kind contributions.  b. Third-party in-kind contributions. | 4  4. a. Personnel or other direct costs to be  contributed should be based on the salaries to be paid to the individuals involved or costs to be incurred for the other items to be provided.  The valuation of real or tangible personal property to be contributed should be based on the costs recorded on the organization’s books of account.  The valuation of indirect costs to be contributed should be based on a reduction of the amount which the organization would otherwise be entitled to.  b. The value assigned to effort  contributed by third-party sources should be commensurate with the salary costs which otherwise would be paid to the individual or individuals involved. If the data is not available, a comparison with salaries paid by other organizations doing similar work in the same geographic location may prove useful.  The valuation of real or tangible personal property donated by third-parties should be based on their fair market value. |
| Steps | Comments |
| 1. Determine whether the organization has  written policies and procedures relating to program or grant-related income. | 1. Obtain a copy of the organization’s  written policies and procedures. Where there are no written policies and procedures, obtain a description of the practices in used and request that policies and procedures be formally issued. |
| 2. Evaluate the adequacy of the  organization’s policies and procedures. | 2. Desirable features of adequate program  or grant-related income policies and procedures include:  a. A management system to adequately  identify the income for each Government project.  b. Records showing earnings, receipts,  and disposition of the income for which the organization is accountable should be maintained by the recipients in the same manner as required for the funds that gave rise to the income.  c. Establishment of accounts for  recording the type of income producing services (e.g., vocational rehabilitation grants, selling services, special testing or computer resources, third-party reimbursements, and patient diagnostic and/or treatment). |
| 3. Determine if the organization has a  system to account for the proper disposition of program or grant-related income. | 3. This should include the proceeds of any  income from patients, third-party payers, and income earned from royalties, copyrights and copyrighted materials, patents or inventions, interest, sale of real or tangible property, use fees, etc.  All program or grant-related income should be used or disposed of in accordance with the federal regulations. Interest or investment income earned on advances of grant funds (except for State entities) is to be remitted to DHS. General program income is retained by the recipient and used in accordance with one or a combination of three alternatives as prescribed by 2 CFR 200. |
| Steps | Comments |
| 1. Determine that sufficient data and  documentation needed to evaluate program income have been submitted. | 1. The proposal should include the  following.  a. A listing of program income sources,  i.e., Medicare, Medicaid and other third party sources, patients’ fees.  b. The basis used in estimating projected  program income, i.e., catchment area population, patients to be attended, patients’ ability to pay, third-party coverage. |
| 2. Determine the reasonableness of program projections. | 2. This may be accomplished as follows:  a. New Project – Compare projections  against experience by other similar organizations within the same geographical area providing the same or like services.  b. Renewal or Continuation Project –  Compare projections against the organization’s previous years’ experience as reported on financial status reports, financial statements, etc.  If projections are considerable less that the organization’s previous experience, ascertain and evaluate the propriety of such difference. Projections may also be compared against other like organization’s experience. |

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| ***Steps*** | ***Comments*** |
| 1. Planning for a site visit. | 1. This may include the following actions:  a. Reviewing the applicant  organization’s files to determine whether any reviews were performed previously and examining all file material.  b. Discussing with appropriate program  staff and other DHS officials, areas of concern regarding the organization’s proposed budget.  c. Inviting appropriate program staff to  participate in the site visit review.  d. Calling the organization as far in  advance as possible to set a date for the site visit (usually the business manager or project administrator).  e. Obtaining the names and duties of  individuals who will participate in the site visit review.  f. Sending a follow up letter of  confirmation to the grantee/contractor within 3 days of the call. |
| 2. Site visit protocol. | 2. In addition to the guidance specified in  this chapter, the grants management analyst/specialist should use the detailed procedures. |
| 3. Obtain basic information concerning the  organization under review.  a. Type of organization applying for  the award.  b. Names and titles of principal  officers, partners, employees, etc., responsible for the business affairs of the organization.  c. Type of operation in which the  organization is involved.  d. Annual revenues volume and extent  of Government participation in the total revenue pool.  e. Government agencies for which the  organization is doing work or has recently done work.  f. Cognizant Government audit agency.  g. Obtain the name and address of  outside auditors | a. The grants management analyst/specialist should determine whether the applicant is a profitmaking, other nonprofit, hospital, educational, or State, local, or Indian tribal government.  b. All contracts regarding financial  management aspects of the organization and/or the proposed award, should be with the appropriate business officials.  c. This may include such fields as  manufacturing, services, construction, research, etc. For an established organization, an accounting system is usually designed to fit its particular needs. Usually, construction and research organizations will have operational job order cost accounting systems. Manufacturing and services organizations, unless already involved in Government work, will usually operate without a project cost accounting system.  d. The greater the participation of the  Federal Government in the revenue pool, the more the likelihood that other Government agencies may have reviewed and approved their accounting or financial management systems.  e. *If the organization has been conducting*  *business with other Government agencies, the extent of review may be limited to obtaining opinions of the adequacy of the system for such agencies.*  f. The cognizant Government audit activity  would be an appropriate source for an opinion of the adequacy of the accounting and financial management systems, provided that the auditors have performed relatively recent review.  g. Obtain the name and address of outside  auditors for future reference should there e a need to contact them. Obtain other financial information, such as type of services provided, audit of financial statements, tax services, etc. |
| h. Accounting period in use.  i. Are employees in a position of trust covered by fidelity bonds? | h. Is the organization on a calendar or a  fiscal year basis? When does the accounting year end?  i. Individuals who are in a position of trust  and employees handling cash should be bonded. This procedure affords financial protection from any possible misuse of Government funds. |
| 4. Review the applicant’s accounting  system.  a. Inventory the general and subsidiary  books of account maintained by the organization.  b. Determine whether the books of  account maintained are adequate for and suited for the organization’s business.  c. Determine whether the accounting  system in use is adequate for the accumulation and segregation of costs on a project-by-project basis.  d. Determine whether cost records are  controlled by or periodically reconciled with the general books of account.  e. Determine whether the accounting  system provides for a reliable determination of costs.  f. Determine whether the prospective  awardee has an accountant to handle financial and business data.  g. Determine whether the prospective  awardee has engaged outside auditors for a review of financial statements and to provide counsel on financial management matters.  5. Survey the applicants purchasing  procedures.  a. Determine whether the organization  has written purchasing procedures.  b. Evaluate the adequacy of the  procurement practices and procedures.  6. Survey the applicant’s personnel records  and procedures.  a. Determine whether the organization  has written personnel procedures.  b. Evaluate the adequacy of the  personnel practices and procedures.  c. Determine whether the organization has  established adequate payroll distribution and/or time or effort reporting requirements. | a. Usually, an organization doing business  under Government projects should have the following books of account and journals:  1) General ledger – This ledger  contains all revenue and expense accounts classified in detail, summarizing all the transactions relating to operating revenues and expenses of an organization.  2) Operating ledger – This ledger  contains all revenue and expense accounts classified in detail, summarizing all the transactions relating to operating revenues and expenses of an organization.  3) Project cost ledger – This is a  subsidiary ledger containing data by cost element (e.g., labor, materials, equipment, travel) for each project.  NOTE: Organizations which are or will perform under a single Government grant or contract need not have a project cost ledger in its accounting system since all costs incurred are attributed to one project. However, organizations performing under more than one project must have a project cost ledger to segregate and accumulate costs by project.  4. Cash receipts journal – This is a  journal in which all cash receipts of  an organization are entered  chronologically, indicating the  source of funds received.  5. Cash disbursements journal – This is  a journal in which disbursements of an organization are chronologically entered, indicating the purpose for each disposition of funds.  6. Payroll journal – This journal records  and distributes employees’ time charges to the appropriate projects and/or functions; records employee benefits such as vacation time, sick leave, and other time off. This journal also records required salary deductions e.g., Federal and State income taxes and other deductions as authorized by employees).  7. Income (Sales) journal – This journal  records all income, individually or in groups, received by an organization.  8. Purchases journal – This journal  records all purchases on credit for goods and services of an organization.  9. General journal – This is the journal  in which transactions not provided for in other specialized journals are recorded.  b. Generally, any organization providing  services under a Government project should have all of the accounting ledgers and journals delineated under 4.a. above.  c. Organizations, which perform or expect  to perform under Government projects, should have a project cost accounting system.  A project cost accounting system accumulates and segregates costs by projects. This method of cost accounting provides cumulative information relating to costs incurred by individual projects, thereby facilitating an efficient management and control of project funds.  d. Costs recorded in the job cost ledger  should tie in with those recorded in the operating ledger and other accounting records.  e. All costs attributed to a project should  be supported by adequate documentation such as invoices, time or effort reports, etc.  f. All organizations performing work under  Government projects should have an individual(s) on their staff with the necessary educational and experience background in accounting to handle the Government project(s). Where there is no such individual(s), it is imperative that the organization be made aware of the importance of possessing such expertise, to properly provide for adequate financial management of government projects.  g. It is good business policy for an  organization to have outside auditors to review and evaluate management business practices and the results of operations on a periodic basis. Additionally, outside auditors possess the professional expertise to provide business management services such as (a) installation and improvements of accounting systems, (b) strengthening of internal controls, (c) prDHSration and filing of tax returns, (d) bookkeeping services, (e) auditing services, etc. Review of outside auditors’ statements-as indicated elsewhere in this Manual-by the cost evaluator is an important method of determining the adequacy of a prospective awardee’s financial management system.  a. Obtain a copy of the organization’s  written policies and procedures for your review. Where there are no written policies and procedures, obtain a description of the practices in use and *request that the organization develop them*.  b. Desirable features of adequate  procurement policies include:  1) Centralization of purchasing activities  to prevent excessive or wasteful purchasing.  2) All purchasing should be supported  by purchase orders which should be reviewed and approved by the responsible purchasing official.  3) All purchase orders should be  supported by properly prepared and authorized purchase requisitions. All purchase requisitions should cite the purchase justification, item/service description, quantity desired, and the estimated cost.  4. Competitive bidding procedures  should be utilized whenever purchasing items/services are of significant cost.  5. Where appropriate, analyses of lease  and purchase alternatives should be made to determine the most economical cost.  a. See comment 5.a. above.  b. Desirable features of adequate  personnel records and procedures include:  1) Hiring, dismissal, or change in pay  should be authorized by the personnel director or another authorized official of the organization.  2) There should be an established  wage and salary schedule covering all employees.  3) There should be a description of  duties and responsibilities for all employees.  4) There should be an individual  personnel file for each employee in the organization. At a minimum, the following data should be contained in the file.   * Resume * Position description * Hiring information * Appropriate tax forms * Insurance forms * Copies of any personnel actions * Copies of personnel evaluations   and/or appraisals  c. Briefly summarized, the standards for  documentation of payrolls are as follows:  1) State, local, and federally recognized  documentation of payrolls are as follows:  a) Time and attendance or equivalent  records for individual employees.  b) Time distribution records for  employees whose compensation is chargeable to more than one project or cost objective.  2) Educational institutions:  a) A system of plan-confirmation.  b) A system of after-the-fact activity  records.  c) A system of multiple confirmation  records.  3) Other nonprofit organization  including hospitals:  a) Monthly after-the-fact activity  reports including a signed certification by the employee or a responsible supervisory official having firsthand knowledge of the work performed that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. Each report must account for the total activity for which the employee is compensated and which is required in fulfillment of his/her obligations to the organization.  b) For nonprofessional employees,  additional supporting records indicating the total number of hours worked each day must be maintained in conformance with the Department of Labor’s regulations implementing the Fair Labor Standards Act (29 CFR Part 516).  The distribution of salaries and wages must be supported by personnel activity reports as described above, except when a substitute system has been approved in writing by the cognizant agency designated under 2 CFR 200.  4) For profitmaking organizations:  a) Time and attendance or equivalent  records for all employees.  b) Time distribution records for  employees whose compensation is chargeable to more than one project or cost objective. |
| 7. Survey the applicant’s travel policies  and procedures.  a. Determine whether the organization  has established travel policies and procedures.  b. Evaluate the adequacy of the  organization’s formalized travel policies and procedures. | a. See comment 3.a. above.  b. An organization’s travel policies and  procedures should include the following features at a minimum:  1) All travel should be approved by a  supervisor prior to its occurrence.  2) Travel advances should not be  charged to projects.  3) Trip reports must be prepared and  approved shortly after completion of travel.  4) Reimbursement claims based on  actual costs incurred should be adequately supported by statements, receipts, invoices, etc.  5) All travel vouchers should be  reviewed and approved by a supervisor before payment. |
| 8. Survey the applicant’s policies and  procedures for the use of consultants.  a. Determine whether the organization  has written policies and procedures.  b. Evaluate the adequacy of the  organization’s policies and procedures or practices in use. | 8. Criteria for use of consultants:  a. See comment 8.a. above.  b. Desirable features of adequate policies  include:  1) Evaluation of in-house capability  supporting determination of need for services.  2) Utilization of a selection process to  secure the most qualified individual(s).  3) Approval of selection of  consultants by a senior official of the organization.  4) Assurance that consultants’ fees  are appropriate considering their normal charges and nature of services to be provided. |
| 9. Survey the applicant’s property  management policies and procedures.  a. Determine whether the organization  has written policies and procedures relating to property management.  b. Evaluate the adequacy of the  organization’s property management policies and procedures or practices in use. | a. See comment 9.a. above.  b. The organization’s property management  standards should include the following procedural requirements:  1) Property records outlining description,  cost, acquisition date, source of property, location, use and condition, percentage of Federal participation in the ownership, and ultimate disposition of data.  2) A physical inventory of the property  should be taken at least once every 2 years.  3) Property owned by the Government  should be adequately marked to indicate ownership.  4) A control system to ensure adequate  safeguards to prevent loss, damage, or theft of the property should be in effect.  5) Maintenance programs to keep the  property in good use and working condition should be in effect. |
| 10. Survey the applicant’s indirect costs  practices.  a. Determine whether the  organization’s indirect costs are recorded separately.  b. Determine whether costs  unallowable under applicable Government cost principles are segregated on the books of account from costs to be apportioned to Government projects. | a. Indirect costs should not be commingled  in the books of account with those costs which are readily identifiable with a project.  b. The organization should have knowledge  of those costs which are expressly unallowable in accordance with the applicable laws and regulations. For example, entertainment, donations, and interest expenses |
| 11. Survey the organization’s system of  internal controls.  a. Determine whether the organization  has an organizational structure which provides appropriate segregation of functional responsibilities.  b. Determine whether the organization  has a system of authorization and record procedures adequate to provide reasonable accounting control over assets, liabilities, revenues, and expenses.  c. Determine that employee’s  qualifications are commensurate with their assigned responsibilities.  d. Determine whether the  organization has adequate practices to be followed in the performance of duties and in the functions of each of the organizational departments, offices, and employees. | 11. A system of internal controls includes  all coordinated methods and measures adopted by an organization to safeguard its resources, assures the accuracy and reliability of its accounting and cost data to promote operational efficiency, and encourages adherence to established management policies and procedures.  A system of internal controls constitutes the methods followed by an organization to:  - Protect assets.  - Protect against the incurrence of  improper liabilities.  - Assure the accuracy and reliability of  all financial and operating  information.  - Judge operating efficiency.  - Measure adherence to established  policies and procedures.  a. An organizational structure provides  for the proper assignment of authority and responsibility among departments, individual officers, and employees so as *to furnish the necessary segregation of duties and responsibilities.* Duties of the management staff must be allocated so that the responsibilities for operations, custodianship, and reporting are separate distinct and can be immediately subjected to the challenge and scrutiny of the chief executive officer and board of directors.  b. This phase of internal control is  primarily concerned with detailed accounting and operational procedures. Another function of this phase of internal control is to safeguard assets.  The information produced by the system must be based on objective facts maintained in the form of records. Documentation supporting the accounting records should be kept in a central location. The accounting records should be the sole source of financial information in the organization and should be the responsibility of one individual.  Examples of internal control in this area are:  - Employees handling cash should be  bonded. Bonding is protection to the employer, and it serves as a psychological deterrent to the employee.  - Responsibilities for the handling of  cash should involve at least two persons. This procedure lessens the possibility of funds misappropriation by employees of the zation.  - Employees handling cash should be  rotated on a job, if possible. Rotation reduces the opportunity for fraud.  - Vacations for employees in position  of trust (e.g., cash handling) should be enforced.  c. The organization should have  procedures which would ensure that employees are selected carefully and trained to properly discharge their assigned responsibilities.  For example, individuals in charge of accounting and financial operations should have the necessary educational and experience background to properly and effectively discharge their responsibilities. If this is not possible, these individuals should receive proper training. Adequate training would result in higher performance, reduced costs, and better experienced employees.  d. This phase of internal control  promotes operational efficiency and encourages adherence to prescribed managerial policies. These purposes are achieved in part by establishing departmental personnel responsibilities. They are further accomplished by installing reporting *procedures which measure the performance of each breakdown of responsibility,* thereby exposing such measurements to review, cross-check, or criticism.  Examples of internal control in this area are:  - *Operating instructions for each*  *position should be in writing (i.e. SOPs)*. These manuals of procedure promote efficiency and prevent misunderstanding.  - Lines of responsibility should be clearly established. This feature allows management to periodically check on progress made or performance based on established goals. |
| 12. Summarize results of survey review.  a. *Exit conference*.  b. Final report. | a. *Site visits should be concluded with an*  *exit or summation conference with the program director and fiscal officer present or other governing authority of the organization if possible*. At the exit conference, a summary of the findings should be provided giving all present the opportunity to discuss these findings and to offer any further information that may have been overlooked. The findings should be reported as tentative since an official report must be prepared.  b. A final report on the review should be  prepared with a summary of the findings, recommendations, and suggestions regarding the financial and administrative management systems, allowability of costs, etc. If the review excluded any of the major categories, the reviewer’s report should indicate the reason(s) for it with an explanation for each item excluded. If acceptance of the financial management system is conditional, a letter should be prepared and sent to the grantee/contractor detailing the findings and recommendations resulting from the review. This letter should request the grantee/contractor detailing the findings and recommendations resulting from the review. This letter should request the grantee/contractor to respond within 30 days to any recommendations requiring corrective actions. A copy of the report and corrective actions taken by the grantee/contractor should be maintained in the official file. |

**Questionnaire for Evaluation of Financial Management Systems**

*A. General Information*

YES NO N/A COMMENT/REFERENCE

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| --- | --- | --- | --- | --- |
| 1. Does the organization have  a Board of Directors with specific functions and responsibilities (By-laws)? (Obtain list of officers  2. Are minutes of the Board of  Directors’ meetings maintained? (Review of minutes for items related to financial management system issues.)  3. Is there an organizational chart or  similar document establishing clear lines of responsibility and authority? (Obtain a copy.)  4. Are duties for key employees of  organization defined? (Obtain a list of key personnel.)  5. Does the organization have grants or  cost reimbursable contracts with:  a. Other DHS agencies?  b. Other Federal agencies? (Obtain a  list of all support, Federal, non-Federal, and percentages of support for each agency.)  6. Has any aspect of the organization’s  activities been recently audited by a Government agency or independent public accountant? (If yes, obtain copy of audit report(s).)  7. Has the organization obtained fidelity  bond coverage for responsible officials and employees of the organization? (Indicate personnel covered and amounts of coverage.)  8. Has the organization obtained fidelity  bond coverage in amounts required by statute or organization policy? |  |  |  |  |

*B. Accounting System*

YES NO N/A COMMENT/REFERENCE

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| --- | --- | --- | --- | --- |
| 1. Is there a chart of accounts?  2. Is a double-entry accounting system  used?  3. Does the organization maintain the  basic books of account as  applicable?  a. General ledger  b. Operating ledger  c. Project cost ledger  d. Cash receipts journal  e. Cash disbursement journal  f. Payroll journal  g. Income (Sales) journal  h. Purchase journal  i. General journal  (If not, describe the books of account maintained.)  4. Does the accounting system  adequately identify receipt and disbursement for each grant or contract?  5. Does the accounting system provide  for the recording of expenditures for each program required budget cost categories?  6. Does the accounting system provide  for recording the non-Federal share and in-kind contributions?  7. Does the organization prepare financial statements at least annually? If not, how often? (Obtain a copy of latest statements.)  8. Have the financial statements been audited within the last 2 years by an independent public accountant?  9. Does the organization have a bookkeeper or an accountant? (If not, who is in charge of the accounting section or department?)  10. Is there an accounting instruction manual?  A negative response requires immediate remedial action. |  |  |  |  |

*C. Budgetary Controls*

YES NO N/A COMMENT/REFERENCE

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| --- | --- | --- | --- | --- |
| 1. Does the organization use an  operating budget to control project funds?  2. Are persons in the organization who approve budget amendments authorized to do so by the Board of Directors or top management?  3. Are there budgetary controls in effect to preclude incurring obligations in excess of (e.g., comparison of budget with actual expenditures on a monthly basis):  a. Total funds available for an award?  b. Total funds available for a budget  cost category?  4. Are cash requirements and/or draw downs on letter of credit limited to immediate needs? (Check last bank statement(s) for unreasonably large cash balance(s).) |  |  |  |  |

*D. Personnel*

YES NO N/A COMMENT/REFERENCE

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| --- | --- | --- | --- | --- |
| 1. Are personnel policies established in  writing or in the process of preparation which detail at a minimum?  a. Duties and responsibilities of each  employee’s position?  b. Qualifications for each position?  c. Salary ranges associated with each  job?  d. Promotion plan?  e. Equal employment opportunities?  f. Annual performance appraisals?  g. Types and levels of fringe benefits  paid to professionals, nonprofessionals, officers, or governing board members?  (Obtain a copy)  2. Is employee compensation  reasonable and comparable to that paid for similar work in the competitive labor market? (How does it compare? Is it reasonable?)  3. Are salary comparability surveys conducted? How often?  4. Are salaries of personnel assigned to Government projects about the same as before assignment? (Identify reasons for significant increases.)  5. Does the organization maintain a payroll distribution system which meets the required standards as contained in the applicable cost principles for that organization?  6. Does the organization maintain daily attendance records for hourly employees? (is this a “positive” recording system showing actual time and attendance performed?)  7. Does the payroll distribution system account for the total effort (100 percent) for which the employee is compensated by the organization?  8. Who signs and certifies work performed in items 5, 6, and 7? (Obtain copies of documents and/or forms used on those items.)  9. Where duties require employees to spend considerable time away from their offices, are reports prepared for their supervisors disclosing their outside activities? |  |  |  |  |

*E. Payroll*

YES NO N/A COMMENT/REFERENCE

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| --- | --- | --- | --- | --- |
| 1. Does preparation of the payroll require more than one employee?  2. Are the duties of those individuals preparing the payroll related?  3. Are the names of the employees hired reported in writing by the personnel office to the payroll department?  4. Are the names of the employees terminated reported in writing by the personnel office to the payroll department?  5. Is the payroll verified at regular intervals against the personnel records?  6. Are all salaries and wages rates authorized and approved in writing by a designated official or supervisor?  7. Are vacation and sick leave payments similarly authorized or fixed?  8. Is there a verification against payments for vacation, sick leave, etc., in excess of amounts authorized and/or approved?  9. Is the payroll double-checked as to:  a. Hours?  b. Rates?  c. Deductions?  d. Extensions, etc?  10. Are signed authorizations on file  for all deductions being made from  employees’ salaries and wages?  11. Is the payroll signed prior to the  payment by:  a. The employee preparing the  payroll?  b. The employee rechecking the  payroll?  12. Are salary payrolls approved by an authorized official prior to payment?  13. Are employees paid by check? (If  not, how are they paid?)  14. If paid by check, are the checks pre-numbered?  15. Are checks drawn and signed by employees who do not:  a. Prepare the payroll?  b. Have custody of cash funds?  c. Maintain the accounting  records?  16. Are payroll checks distributed to employees by someone other that the supervisor?  17. Is there a payroll bank account? (If not, request that a bank account be opened.)  18. Is the payroll bank account reconciled by someone other than payroll staff or personnel who sign or distribute the pay checks? |  |  |  |  |

*F. Consultants*

YES NO N/A COMMENT/REFERENCE

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| --- | --- | --- | --- | --- |
| 1. Are there written policies or consistently followed procedures regarding the use of consultants which detail at a minimum:  a. Circumstances under which  consultants may be used?  b. Consideration of in house capabilities to accomplish services before contracting for them?  c. Requirement for solicitation or bids from several contract sources to establish reasonableness of cost and quality of services to be provided?  d. Consulting rates, per diem, etc.  (Obtain a copy.)  2. Are consultants required to sign “consulting agreements” outlining services to be rendered, duration of engagement, reporting requirements, and pay rates? |  |  |  |  |

G. Property Management

YES NO N/A COMMENT/REFERENCE

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| --- | --- | --- | --- | --- |
| 1. Are records maintained which provide a description of the items purchased, the acquisition cost, and the location?  2. Are detailed property and equipment records periodically balanced to the general ledger?  3. Are detailed property and equipment records periodically checked by physical inventory?  4. Are there written procedures governing the disposition of property and equipment?  5. Are periodic reports showing obsolete equipment, equipment needing repair, or equipment no longer useful to the organization? |  |  |  |  |

*H. Purchases*

YES NO N/A COMMENT/REFERENCE

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| --- | --- | --- | --- | --- |
| 1. Does the organization have written purchasing procedures? If not, briefly describe how purchasing activities are handled. (Obtain a copy of policy or procedure.)  2. Does the policy/procedure consider such matters as quality, cost, delivery, competition, source selection, etc.?  3. Has the responsibility for purchasing been assigned to one department, section, or individual within the organization? (If not, explain.)  4. Is the purchasing function separate from accounting and receiving?  5. Are competitive bids obtained for items such as rentals or service agreements over specific amounts?  6. Are purchase orders required for purchasing all equipment and services?  7. Is control maintained over items or dollar amounts requiring the contracting or grants management officer’s advance approval? (Describe controlling factors.)  8. Is the accounting department notified promptly of purchase goods returned to vendors?  9. Is there an adequate system for recording and checking partial deliveries and checked against the purchase order?  10. When only a partial order is  received, is the project account credited for the undelivered portion of the purchase order?  11. Are the vendor invoices checked for:  a. Prices and credit terms  b. Extensions?  c. Errors or omissions?  d. Freight charges or  disallowances?  12. Are vouchers, supporting documents, expenses, or other distributions reviewed and initialed by designated staff before payment is authorized? |  |  |  |  |

*I. Travel*

YES NO N/A COMMENT/REFERENCE

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| --- | --- | --- | --- | --- |
| 1. Does the organization have formal  travel policies or consistently followed procedures which, at a minimum, state that:  a. Travel charges are reimbursed  based on actual costs incurred by use of per diem and/or mileage rates?    b. Receipts for lodging and meals are required when reimbursement is based on actual cost incurred?  c. Per diem rates include reasonable dollar limitations? Subsistence and lodging rates are comparable to Federal per diem rates and current Federal mileage rates for personal auto use? (If not, obtain organization travel rates policy.)  e. Travel requests are approved prior to occurrence?  f. Travel expense reports show purpose of trip?  (Obtain a copy of policy or describe procedure.) |  |  |  |  |

*J. Internal Controls*

YES NO N/A COMMENT/REFERENCE

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| --- | --- | --- | --- | --- |
| 1. Is there a separation of responsibility  in the receipt, payment, and recording of cash? For example:    a. Are the duties of the record keeper  or bookkeeper separated from any  cash functions, e.g., receipt or  payment of cash?  b. Is the signing of checks limited to those designated officials whose duties exclude posting and/or recording cash received, approving vouchers for payment, and payroll preparation?  2. Are all checks approved by an authorized official before they are signed?  3. Are all accounting entries supported by appropriate documentation (e.g., purchase orders, vouchers, vendor payments)?  4. Does the organization have an internal auditor or internal audit staff?  5. Is there a petty cash fund where responsibility is vested in one individual; limited to a reasonable amount; restricted as to purchase; and counted, verified, and balanced by an independent employee at time of reimbursement?  6. Are all checks pre-numbered and accounted for when general purpose bank account is reconciled?  7. If a mechanical or facsimile signature is used for cash disbursements, is the signature plate, die, key, electronic car, etc., under strict control?  8. Are bank accounts reconciled by persons not handling cash in the organization?  9. Are all employees who handle funds required to be bonded against loss by reason of fraud or dishonesty? |  |  |  |  |

*K. Program or Grant Related income*

YES NO N/A COMMENT/REFERENCE

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| --- | --- | --- | --- | --- |
| 1. Is the organization aware of the  applicable DHS program or grant-related income policy?  2. Does the organization have written policies and procedures relating to program or grant-related income? (If yes, proceed below.)  a. Does the applicant maintain of the earning, receipt, and disposition of program or grant-related income for which it is accountable?  b. Does the program or grant-related income accounts identify the type and source of income producing services?  c. Is a management system in effect that adequately identifies program or grant-related income for each Government project?  d. Is there a system to properly dispose of program or grant-related income?  e. Are then any financial statements available issued by an independent accounting firm which identify the source and disposition of program or grant-related income? |  |  |  |  |

*L. Institutional Prior Approval System (IPAS)*

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| 1. Does the organization have an IPAS  established?  2. Who is authorized to request DHS funds? To whom does this person(s) report?  3. Are these procedures describing the IPAS process?  4. Are there internal controls which preclude a principal investigator from rebudgeting without prior approval?  5. Are rebudgeting requests ever denied?  6. Have there been any retroactive appeals?  7. Are rebudgeting approvals established by in depth reviews by the responsible officials?  8. Are approval actions in compliance with DHS policy? |  |  |  |  |

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| --- | --- |
| 1. Request from the prospective awardee appropriate data and information for a determination of its financial capability.  2. Where available, request comments and opinions from the cognizant Government audit activity such as DHS, Defense Contract Audit Agency, etc., concerning the applicant’s accounting system, internal controls, and available audit findings on major elements of the financial statements.  3. Evaluate financial data provided by the prospective awardee.  a. Verify the accuracy and reliability  of the financial statements  representations.  b. Review all notes accompanying  the financial statements to  ascertain whether there are other  data which may impact on the  reliability of the statements,  financial capability, etc.  c. Analyze the financial ratios of the  organization.  2) Test of “quick assets” or “acid  test” ratio.  3. Review other sources of financing  available to the prospective awardee.  a. Bank loan commitments.  b. Loan commitments from officers,  stockholders, etc., of the prospective awardee.  c. Proposed issues of stock.  d. Government financing through grant/contract advances, progress payments, etc.  4. Evaluate the credit rating of the  prospective awardee.  5. Summarize the results of the review performed. | 1. Data requested should consist of the  following:  a. Audited financial statements for  the most recent accounting year.  For the purpose of this review,  “audited financial statements” are  those statements issued by  independent public accountants.  b. Latest available interim financial  statements prepared by the  prospective awardee.  c. Existing and contemplated credit  or financing arrangements, such  as:  1) Bank loan commitments.  2) Loan commitments from  officers, stockholders, etc., of  the prospective awardee.  3) Projected equity capital  increases in the case of  profitmaking organizations.  4) Projected general fund  increases for nonprofit  organizations.  5) Government financing through  grant/contact advances,  progress payments, etc.  2. Input from other Government  activities, if adequate, may obviate the need for any analysis by the evaluator or may assist in the evaluation of financial capability of the applicant.  3. As stated under 1. above, the organization under review should provide recent financial statements and comparable statements for prior periods. Where recent statements are not available, the prospective awardee should be requested to prepare them.  a. Financial statements reviewed by  independent public accountants  may be accompanied by any of  four types of opinions on the  reliability of the representations.  If an unqualified opinion of the  financial statements has been provided by an independent accountant, this opinion as to the reliability of the financial representations should be accepted. It should be noted that although the financial statements may be accompanied by an unqualified opinion, this in itself is no assurance that the organization is in a sound financial condition or that it has an adequate accounting system for the accumulation of costs under Government projects. An unqualified opinion merely states that the financial statements’ representations are fairly stated.  Where the financial statements are no accompanied by an unqualified opinion or where the statements have not been reviewed by an independent accountant, an evaluation as to the reliability of the representations may be requested from any of the following offices as appropriate:  1) Division of Cost  Allocation/RASC.  2) DHS Cost Advisory Staff  3) DHS Regional Inspector  General for Audit  b. Other relevant data may include information concerning longstanding debts to the Internal Revenue Service for nonpayment of payroll taxes, lateness in paying critical ssuppliers, landlords, pending litigations, etc. In the event that such creditors demand immediate payment, the applicant may be unable to continue operations.  c. In appraising the organization’s financial capability and ability to pay its obligations as they become due, use should be made of financial ratio tests.  1) The working capital ratio is  one of the most reliable  measures of the liquidity of an  organization. Liquidity is the  potential ability to meet  obligations incurred in the  normal performance of  operations as they become  due. Although acceptable  working capital ratios differ  from industry to industry, a  working capitol ratio of 2:1 is  considered satisfactory. A  working capitol of less that  1:1 (such as 0.9:1) is  precariously low as to imply  insolvency for the entity being  reviewed.  2) The “quick assets” or “acid  test” ratio serves as a supplementary check on the liquidity of an organization. This ratio is computed by dividing the current assets, exclusive of any inventory values, by the current liabilities. The ratio is indicative of the immediate liquidity of an organization and of its ability to pay immediate debts. Generally, a “quick assets” ratio of 1:1 is deemed adequate. In the case of service organizations where inventory is not a significant factor, the “working capital” ratio and “quick assets” ratio will be the same.  3) Where the evaluator  determines that the applicant does not have adequate financial capability to perform under the project, the evaluator should review data concerning other sources of financing. This examination becomes critical when the applicant appears to be in a precarious financial condition as evidenced by the tests performed by the evaluator.  a. This method of financing  provides the prospective awardee with sufficient funds to finance operations through bank loans. The loans are then repaid with the proceeds from grants, contracts, etc. The commitments by the banks should be substantiated by letters of credit approving draws of funds to a certain amount, interest, etc.  b. This method of financing operations is similar to that provided through bank loan commitments, except that the funds are being provided by individuals instead of banks. These commitments of private individuals should be evidenced by formal written agreements to that affect.  c. This type of funding is usually available to profitmaking corporations only. Through issuances of capital stock shares, the corporation is able to generate and/or raise funds to finance operations, enlarge facilities, etc. As in the case of the bank and private loan commitments, the prospective awardee should provide a prospectus and written statements from potential investors attesting to this type of funding.  d. Normally, DHS provides grant funds in advance to grantees to finance the contemplated under the project(s). Under cost-type contractual agreements, costs are reimbursed as they are incurred, usually on a monthly basis.    Accordingly, in situations where a prospective awardee is in a “precarious” financial condition, the availability of Government funding should constitute sufficient evidence that the prospective awardee will be financially capable of performing under the project.  4. A quick way to determine the financial condition and the extent of a prospective awardee’s relationship with the Federal Government is by obtaining from Dun & Bradstreet Credit Services the “Government Activity Report.” These reports would provide the cost evaluator with the following data.  a. Loan repayment conditions.  b. Contract fulfillment status.  c. Debarment information.  d. Grant/contractor  performance.  e. Other business risks.  f. Supplier’s trade experiences  on a firm’s bill payments.  g. Balance sheet information  for determining financial  condition and trend.  h. Suits, liens, judgments  against the prospective  awardee.  i. Debt collection activity.  j. Procurement information on  contracts, subcontracts, etc.  Procurement offices can obtain credit reporting services through GSA supply schedules.  5. Where the results of the review  do not disclose any exceptions indicating that the prospective awardee lacks the financial capability to perform, the evaluator should recommend funding the project, subject to the results of a financial management systems review, cost analysis, program review, etc.  Where the results of the review indicate that the prospective awardee lacks the financial capability to perform, the evaluator should do either of the following:  a. Recommend disapproval of  the cost proposal because of the lack of adequate financial capability of the applicant.    Where an adverse recommendation is issued by the evaluator, the applicant should be informed of all details surrounding the case and afforded every opportunity to present and provide any additional data which may affect the outcome of the review.  b. Where the particular circumstances of the case so dictate it, request from DHS the appropriate cost advisory staff, etc., a special review of the applicant’s records to determine whether, in fact, the applicant possesses the necessary financial capability to perform under the project. |

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| ***Steps*** | ***Comments*** |
| 1. Review the files maintained on the  prospective awardee to ascertain whether any previous audit reports relevant to the ongoing review are available.  2. Check with the prospective awardee to  determine whether any other Government agency has conducted an audit on their costs, operations, financial management systems, etc.  3. Where no copies of reports of recent  reviews are on file, contact the Government audit agency which has performed a review of the organization’s activities.  4. Request a copy of the audit report  resulting from the review of the organization’s activities.  5. Review the audit report(s) to ascertain whether the deficiencies in the organization’s management policies affecting the incurrence of costs are of sufficient significance to warrant additional review or remedial action.  6. Where the audit report(s) cites deficiencies regarding management policies, the cost evaluator should contact the cognizant audit agency and/or the prospective awardee to ascertain what remedial action, if any, has been taken. The cognizant agency is the Federal activity which is charged with the oversight responsibility of resolving all issues raised by the audit report(s).  7. Where no remedial action has been taken and the deficiencies are significant, the cost evaluator may recommend that the award be withheld until such deficiencies have been eliminated. | 1. Review of previous audit reports would  disclose to the evaluator any significant exceptions uncovered during examinations which may necessitate corrective action prior to the award of any subsequent projects.  2. Audit reports or reviews performed by other Government activities may be of assistance in arriving at an opinion concerning the adequacy of the organization’s financial management systems.  3. Ascertain from the audit agency which conducted the review whether any negative findings were uncovered by the examination and if corrective actions have been taken. If no exceptions were found, a memorandum to the file to such effect is sufficient.  4. Obtain copies of the audit reports issued by other Government agencies where such reports disclose management deficiencies.  5. Significant deficiencies which would warrant a detailed review and/or remedial action before a project is awarded may include, but not limited to, any of the following:  a. Absence of an acceptable cost  accounting system.  b. Inadequate internal controls concerning the accountability of funds.  c. Inadequate purchasing policies and procedures (e.g., lack of competition for large purchases, poor controls over the receipts and disposition of goods and completed services procured).  d. Absence of time and effort reporting requirements which preclude adequate accountability of labor costs being charged to Government projects.  6. Where corrective action has been taken, the evaluator should attempt to determine whether the measures adopted to support approval of the cost proposal under consideration. In determining whether the actions taken by the prospective awardee are adequate to support the approval of the cost proposal under consideration. In determining whether the actions taken by the prospective awardee are adequate, the evaluator should seek the counsel and guidance of any of the following:  a. The audit agency which performed the  review.  b. The DHS Regional Inspector General for Audit.  c. The DHS Cost Advisory Staffs.  d. The Cost and Audit Management Branch, DGC/ORM/OM/DHS.  7. In the absence of any attempts by the prospective grantee to correct significant audit deficiencies, the evaluator should recommend that no award be made until such time as the corrective action is implemented.  Notwithstanding the recommendations of the cost evaluator to reject the award application because of significant unresolved audit exceptions, if a determination is made by higher level DHS officials that such award application be approved, the evaluator should recommend that funding the project be authorized contingent upon the ability of the organization to effect and implement the audit recommendations. |

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| ***Steps*** | ***Comments*** |
| 1. Request copies of the latest financial  statements prDHSred by the prospective awardee’s outside accountant(s).  2. Review the auditor’s report and determine:  a. The type of opinion accompanying  the financial statements.  b. Whether there are any other  deficiencies cited by the auditors  which may have a bearing on the  reliability of the financial  management systems, etc.  c. If the auditor’s report pertains to  management services provided or ‘  functional reviews performed,  ascertain whether any of the findings  and conclusions significantly affect  the accounting or financial  management systems.  3. Evaluate other data reported by the auditor. | 1. Audit reports requested should be those for a complete accounting year. Such reports are accompanied by an auditor’s opinion as to the fairness of the representations of management.  2. a. If the auditor’s opinion is not  unqualified, it may be necessary to perform an evaluation of its effect on the content and reliability of the financial statements and the accounting system in operation.  b. Issues dealing with financial data representations should be carefully reviewed since such comments may reflect on the ability of the prospective awardee to perform under the project.  c. If the report refers to any deficiencies, the evaluator should ascertain whether corrective action, if any, has been taken.  3. Audit reports may include other useful information such as summary statements or other data which provide a description of the organization’s major projects.  - Such information may be used to identify other Federal awards, verify applicant responses, determine whether other similar or closely related projects are being performed, etc. |