**Financial and Program Management and Control:   
Introductory Guidance**

**Background**

Activities conducted and services performed by nonprofit organizations (including health centers and PCAs-HCCNs) that are paid for in whole or in part by the U.S. Department of Health & Human Services (“DHHS”) through grant and/or cooperative agreement funds (which include grants and/or cooperative agreement funds made by any component agency within DHHS, such as HRSA) are subject to federal administrative requirements.

For awards made prior to December 26, 2014, the administrative requirements are set forth in 45 C.F.R. Part 74. The DHHS rules at Part 74 incorporated:

* Office of Management and Budget (OMB) Circular A-110 (Uniform Administrative Requirements for Grants and Agreements with Higher Education, Hospitals and Other Non-Profit Organizations);
* OMB Circular A-122 (Cost Principles for Non-Profit Organizations); and
* OMB Circular A-133 (Audits of States, Local Governments, and Non-Profit Organizations).

For awards made after December 26, 2014, different administrative requirements apply.[[1]](#footnote-1) The DHHS rules at 45 C.F.R. Part 75 (“Part 75”) supersede the above listed issuance, as Part 75 is DHHS’s comprehensive implementation of OMB’s new “Uniform Guidance” covering in a single resource the matters addressed in the circulars listed above. This Introductory Guidance is drafted with citations to Part 75 and is intended as reference for awards with project periods commencing after December 26, 2014.

The regulations in 45 C.F.R. Part 75 contain administrative requirements relating to:

* Financial and program management systems[[2]](#footnote-2)
* Audit requirements[[3]](#footnote-3)
* Procurement standards[[4]](#footnote-4)
* Property and equipment standards[[5]](#footnote-5)
* Record-keeping and reporting requirements[[6]](#footnote-6)

This Introductory Guidance covers financial and program management and control requirements. The remaining Part 75 requirements are covered in Volume II: Federal Grants Management.

1. Elements of Effective Financial Management Systems

Broadly speaking, the chief objective of the financial management standards for federal awardees is to ensure that grantees use federal dollars as intended. Toward that end, award recipients are required to have systems in place that:

* Permit “[a]ccurate, current and complete disclosure of the financial results of each Federal award;”
* Maintain “[r]ecords that identify adequately the source and application of funds for” funded activities, including “information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest;”
* Guarantee “[e]ffective control over, and accountability for, all funds, property and other assets;”
* Provide for “budget-to-actual” comparisons and reconciliations;
* Include written procedures to minimize the time between the drawdown and expenditure of federal funds;
* Provide written procedures for a determination of the allowability of costs charged to a DHHS award; and,
* Are based on generally-accepted accounting principles (“GAAP”) and accounting records supported by source documentation.[[7]](#footnote-7)

For any cost to be allowable (i.e., reasonable and properly allocable to an award), it must “[b]e determined in accordance with generally accepted accounting principles (GAAP).”[[8]](#footnote-8)

DHHS may also require that the federal awardee mitigate the risk of loss due to fraud, waste, or abuse by securing fidelity bonds for employees with control over federal funds.[[9]](#footnote-9)

* [Financial and program management and control/Accounting department procedure manual: Sample policy and procedure](https://www.healthcentercompliance.com/subscriber/pca-toolkit/volume-2/816)

1. Cost Allowability

Costs charged to a federal award must be reasonable, properly allocable to the award, and otherwise permissible under governing cost principles.[[10]](#footnote-10) Typically, a cost is reasonable if it does not exceed that which would be incurred by a prudent person making the decision under the same circumstances.[[11]](#footnote-11)

Allocable costs are those “incurred specifically for the Federal award,” “[b]enefit[ing] both the Federal award and other work of the non-Federal entity and . . . distributed in proportions that may be approximated using reasonable methods . . .”or “necessary to the overall operation of the non-Federal entity and assignable in part to the Federal award in accordance with the principles in [45 C.F.R. §§ 75.400-476].”[[12]](#footnote-12)

A cost is otherwise allowable if it:

1. Conforms to the limitations and exclusions regarding particular types of cost items;
2. Is adequately documented; and,
3. Is treated consistently under GAAP and the federal awardee’s policies and procedures.

The “limitations and exclusions” referenced in (1), above, would include any prohibitions on particular types of expenditures appearing in 45 C.F.R. §§ 75.420-.476 (listing specific items of cost and the proper treatment of such items), program specific laws/regulations, and/or the award document itself.

* [Allowable costs under 45 C.F.R. Part 75: Checklist](https://www.healthcentercompliance.com/subscriber/pca-toolkit/volume-2/820)

1. Cost Allocation/Indirect Costs

Costs borne in whole or in part by a federal grant are considered “project costs” and, as such, are subject to the federal cost principles. Total project costs may comprise the sum of the allowable “direct costs” incident to the performance of the grant activities plus the allocable portion of “indirect costs” (e.g., costs incurred for common or joint objectives, such as facility and administrative costs), less any applicable credits.

Costs must be allocated (assigned) to “cost objectives,” i.e. purposes or activities. Under federal awards, each grant program is generally considered a cost objective. For this reason, when speaking of cost allocation and cost objectives under federal awards, a cost objective is often described simply as a particular grant. The goal in allocation of costs is allocating each cost incurred by the non-federal entity to the grant or grants the cost supports in proportion to the degree the grant (or grant supported activity) benefits from the cost.

Some costs, such as facilities costs, benefit multiple objectives. The first step in allocating such a cost is deciding whether to allocate it “directly” or “indirectly.” The guiding principle in this determination is whether the proportions to which the cost benefits the separate activities “can be determined without undue effort or cost.”[[13]](#footnote-13) If it can be, allocating portions of the overall cost as direct costs is required.[[14]](#footnote-14)

* [Cost allocation plan: Sample](https://www.healthcentercompliance.com/subscriber/pca-toolkit/volume-2/817)
* [Cost allocation plan: Non-profit: Checklist](https://www.healthcentercompliance.com/subscriber/pca-toolkit/volume-2/365)

For example, non-federal entities often allocate their facilities costs such as rent and utilities on a square foot basis. If a PCA-HCCN’s federal grant program activities take up 80% of a building and it has state grant funding for some other purpose that uses 20% of the building, allocation by square feet occupied would be a simple and effective direct allocation approach. Another common example would be allocating a particular employee’s salary to multiple objectives on the basis of hours worked in furtherance of each. An employee whose time is directly charged in whole or in part to a DHHS grant must maintain records showing 100% of the employee’s time and an allocation of that time among both federally-supported and other activities.

* [Time and effort reporting: Sample policy and procedure](https://www.healthcentercompliance.com/subscriber/pca-toolkit/volume-2/824)

Sometimes the relationship between costs benefiting more than one objective and those objectives are too complex to be “directly allocated.” Such costs may instead be aggregated into one or more pools of indirect costs, which pools are then allocated to objectives on the basis of some reasonable principle designed to result in each objective bearing its share of the cost pool to approximately the same degree it benefitted from the cost. This can be accomplished by establishing an indirect cost pool using one of the following methods[[15]](#footnote-15):

1. Simplified allocation base method: If all of the PCA-HCCN’s major functions benefit to “approximately the same degree from” all indirect costs, then the PCA-HCCN may use the “simplified allocation method.” Under this method, the PCA-HCCN segregates its “total costs for the base period as either direct or indirect, [then] dividing the total allowable indirect costs . . . by an equitable distribution base.”[[16]](#footnote-16) PCAs-HCCNs have some flexibility in determining the base by which the single indirect cost pool will be allocated to various objectives, including modified total direct costs, direct labor, “or [some] other base which results in an equitable distribution.”[[17]](#footnote-17) This process results in a single “indirect cost rate” which is used to allocate indirect costs to each federal award.
2. Multiple allocation base method: For PCAs-HCCNs with multiple major functions that benefit to varying degrees from the organization’s different indirect expenditures, the PCA-HCCN must separate its indirect activities by more-detailed categories (depreciation, interest, operation and maintenance, and general administration).[[18]](#footnote-18) This method entails a number of specific requirements for pooling and allocation of costs which are not described here. Professional accounting assistance may be necessary for entities setting up indirect cost rates under a multiple allocation base method.
3. De minimis rate: In addition, the new Uniform Guidance permits non-federal entities that have never before had an indirect cost rate to elect to adopt a “de minimis” 10 percent rate. “De minimis” rates are described at 45 C.F.R. § 75.413(f) and in the Council on Financial Assistance Reform (COFAR) frequently asked questions.[[19]](#footnote-19) As of the writing of this guidance, little additional guidance regarding de minimis rates has been promulgated.

Under the first two methods listed, indirect cost rates for PCAs-HCCNs are generally established by negotiation with the Division of Cost Allocation within DHHS’s Program Support Center.[[20]](#footnote-20)

* [Indirect cost proposal: Non-profit: Sample](https://www.healthcentercompliance.com/subscriber/pca-toolkit/volume-2/818)
* [Indirect cost proposal: Checklist](https://www.healthcentercompliance.com/subscriber/pca-toolkit/volume-2/367)

1. Post-award changes

PCAs-HCCNs are provided considerable latitude in making post-award programmatic and budget changes, although certain changes require federal approval. While grantees are allowed the latitude to rebudget within and between budget categories in the approved total project budget without obtaining federal approval, certain changes require approval from the grants management officer (“GMO”) within HRSA’s grants management office. These changes are listed at 45 C.F.R. § 75.308 and the most notable are:

* Changes in the scope or objectives of the grant supported project (e.g., the transfer of funds for training, contracting for substantial programmatic work);[[21]](#footnote-21)
* Significant rebudgeting (usually cumulative transfers among direct cost budget categories exceeding 25% in a particular budget period);[[22]](#footnote-22)
* A change in the project director, his/her absence for more than 3 months, or 25% reduction in his/her time devoted to the grant project;[[23]](#footnote-23)
* The need for additional federal funds;[[24]](#footnote-24)
* The inclusion of costs that require prior federal approval under applicable cost principles at 45 C.F.R. §§ 75.400-.476;[[25]](#footnote-25) and,
* The subaward, transfer or contracting out of any work under an award.[[26]](#footnote-26)

**Advice and Recommendations[[27]](#footnote-27)**

When developing financial management systems to meet the criteria in 45 C.F.R. Part 75, PCAs-HCCNs should address the full spectrum of their financial activities. The following table provides suggested policy areas and assignment of responsibility/authority to consider:

| **Broad Policy Topics** | **Specific Policy Topics** |
| --- | --- |
| **Responsibility and authority (R&A)** | • R&A of Board of Directors and Board Finance Committee  • R&A of CEO/Executive Director  • R&A of CFO/Controller/Fiscal Officer  • R&A of Accounting staff |
| **Accounting system** | • Fiscal year and basis of accounting (accrual vs. cash)  • Chart of accounts and general ledger  • Technology/software  • Record retention |
| **Budget** | • Content, format and timing  • Approvals and revisions |
| **Financial reporting** | • Content and format (i.e. actual vs. budget, by fund)  • Timeliness and distribution  • External reports (funders, tax-related) |
| **Audits** | • Roles and responsibilities (auditors, Board Audit Committee, management)  • Auditor qualifications and selection  • Audit findings, adjustments and follow-up actions |
| **Internal controls and business conduct** | • Compliance with internal and external rules and regulations  • Conflicts of interest  • Segregation of duties  • Schedule of authorizations  • Security and confidentiality  • Whistleblower protection |
| **Cost allocation** | • Direct and indirect costs  • Responsibility for assigning/coding |
| **Revenue, cash receipts and accounts receivable** | • Revenue recognition  • Contributions and match/cost share  • Invoicing, collection of receivables, bad debt allowance  • Cash receipts and bank deposits |
| **Purchasing** | • Procurement standards (competitive price, no conflict of interest, bid thresholds)  • Requisitions and authorization levels  • Use of credit cards |
| **Cash disbursements and payables** | • Approvals and documentation  • Contracting requirements  • Check-signing requirements  • Timing/frequency of disbursements |
| **Payroll** | • Timesheets and approvals  • Timing/frequency  • Payroll/salary changes and documentation |
| **Travel and expense reimbursements** | • Approvals and advances  • Allowable/reimbursable expenses, limits and documentation requirements  • Cell phone provisions |
| **Banking and cash management** | • Bank reconciliations  • Electronic transactions (authority, access)  • Operating account balance guidelines  • Petty cash |
| **Property and equipment** | • Capitalization thresholds and depreciation provisions  • Tagging and inventory  • Disposition |
| **Insurance** | • Types and amounts of coverage  • Procurement of insurance  • Provision for regular review |
| **Investments** | • Authority  • Investment objectives – safety/risk, yield, liquidity, diversification  • Allowable instruments, terms and brokers |

1. [45 C.F.R. § 75](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75). [↑](#footnote-ref-1)
2. [45 C.F.R. §§ 75.300-.315](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1300). [↑](#footnote-ref-2)
3. [45 C.F.R. §§ 75.500-.521.](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1500) [↑](#footnote-ref-3)
4. [45 C.F.R. §§ 75.326-.340](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1326). [↑](#footnote-ref-4)
5. [45 C.F.R. §§ 75.314-.325](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1310_675_1315). [↑](#footnote-ref-5)
6. [45 C.F.R. §§ 75.361-.370.](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1361) [↑](#footnote-ref-6)
7. [45 C.F.R. § 75.302(b).](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1302) [↑](#footnote-ref-7)
8. [45 C.F.R. § 75.403](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1403). [↑](#footnote-ref-8)
9. See [45 C.F.R. § 75.304](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1304). [↑](#footnote-ref-9)
10. See [45 C.F.R. § 75.403](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1403). [↑](#footnote-ref-10)
11. [45 C.F.R. § 75.404](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1404). [↑](#footnote-ref-11)
12. [45 C.F.R. § 75.405](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1405). [↑](#footnote-ref-12)
13. [45 C.F.R. § 75.405(d).](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1405) [↑](#footnote-ref-13)
14. Id. [↑](#footnote-ref-14)
15. See [45 C.F.R. § 75, Appx. IV](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#ap45.1.75_1521.iv). [↑](#footnote-ref-15)
16. See [45 C.F.R. § 75, Appx. IV(B)(2),](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#ap45.1.75_1521.iv) [45 C.F.R. § 75.414(e).](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1414) [↑](#footnote-ref-16)
17. [45 C.F.R. § 75, Appx. IV(B)(2)(c).](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#ap45.1.75_1521.iv) [↑](#footnote-ref-17)
18. [45 C.F.R. § 75, Appx. IV(B)(3).](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#ap45.1.75_1521.iv) [↑](#footnote-ref-18)
19. Available at <https://cfo.gov/cofar/>. [↑](#footnote-ref-19)
20. [45 C.F.R. § 75, Appx. IV, Subsection C](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#ap45.1.75_1521.iv). [↑](#footnote-ref-20)
21. [45 C.F.R. § 75.308(c)(1).](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1308) [↑](#footnote-ref-21)
22. [*DHHS Grants Policy Statement*](https://www.healthcentercompliance.com/subscriber/pca-toolkit/appendix/199) (Jan 1, 2007) p. II-54, implementing [45 C.F.R. § 75.308(e)](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1308). [↑](#footnote-ref-22)
23. [45 C.F.R. § 75.308(c)(3).](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1308) [↑](#footnote-ref-23)
24. [45 C.F.R. § 75.308(c)(12)](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1308). [↑](#footnote-ref-24)
25. [45 C.F.R. § 75.308(c)(4)](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1308). [↑](#footnote-ref-25)
26. [45 C.F.R. § 75.308(c)(6)](http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75#se45.1.75_1308). [↑](#footnote-ref-26)
27. The Authors of these materials include attorneys at the law firm of Feldesman Tucker Leifer Fidell LLP. The advice and recommendations consist of general guidance based on federal law and regulations and do not necessarily apply to all PCAs-HCCNs under all facts and circumstances. Further, these materials do not replace, and are not a substitute for, legal advice from qualified legal counsel. [↑](#footnote-ref-27)