CHAPTER 7

FEDERAL FINANCIAL ASSISTANCE

SCOPE

Federal financial assistance is defined as assistance provided by a federal agency in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Federal assistance can come directly to a State agency from an agency of the federal government or as a subprogram through another State agency or as a pass through grant from outside the State entity.

This chapter includes some of the general requirements relating to federal financial assistance programs. Because of the many different types and varied purposes of federal programs, it is not possible to provide all-inclusive instructions for in this manual. Detailed requirements and regulations for federal assistance are included in various publications and websites.

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7.1 FEDERAL STATUTORY AUTHORITY

- *U. S. Office of Management and Budget 2CFR225 -- replaced (OMB):Circular A-87 Cost Principles for State, Local and Indian Tribal Governments-*
- *OMB Circular A-102 - Grants and Cooperative Agreements With State and Local Governments (administrative requirements)*
- *Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations*

  Circular A-133 Compliance Supplement
- *Common Rule, included in various CFR sections relating to specific programs*

  These and other useful OMB publications can be found at www.whitehouse.gov/omb/circulars.

The Catalog of Federal Domestic Assistance (CFDA), which includes a complete listing of federal programs, is available at www.cfda.gov.

Specific regulations for individual programs are updated regularly in the Federal Register and the Code of Federal Regulations (CFR). http://www.ecfr.gov/cgi-bin/ECFR?page=browse The Cash Management Improvement Act of 1990 (CMIA), which defines the rules and procedures for efficient federal-state funds transfers, is detailed in 31 CFR Part 205. http://www.ecfr.gov/cgi-bin/ECFR?page=browse

7.2 INTERNAL CONTROLS

7.2.1 Compliance Controls

As a recipient of federal financial assistance, the agency is required to maintain internal control over federal programs to provide reasonable assurance that each federal program is managed in compliance with laws, regulations, and the provisions of contracts or program agreements that could have a material effect on the federal programs

7.2.2 Cash Management Controls

Controls should be sufficient to minimize the time between disbursing federal program funds and requesting reimbursement from the federal government. If the program is listed as regulated by the CMIA, other regulations apply to prevent states from drawing federal funds prematurely.

7.2.3 General Internal Controls

Controls over the receipting, accounting, and expending federal funds should be assessed regularly and control activities established in a similar manner as non-federal funds. This topic is addressed in several other chapters in this publication. . A Guide to Internal Controls for Management can be found in the Internal Controls folder on the ENCOMPASS website at http://myshare.in.gov/SBA/encompass/Shared%20Documents/Forms/AllItems.aspx

7.3 ACCOUNTING ISSUES

7.3.1 Cash vs. Accrual Accounting

As more agencies are utilizing the Accounts Receivable module of ENCOMPASS to create a receivable as federal funds are expended, the movement to the accrual basis of accounting for federal revenues is becoming a reality. The goal is for all to utilize this process in the near future.

7.3.2 Other Accounting Issues

See Chapter 1, Accounting Systems and Processes*, for other accounting issues relating to federal programs.*

7.3.3 Identification of Federal Funds

Agencies receiving federal financial assistance are required to identify by program within the State's financial accounting system all federal awards received and expended. Each program should be identified by the CFDA number and title, the award number and year, the name of the federal agency awarding the program, and the name of any pass-through entity, whether state or

non-state, as applicable. If programs are awarded to subrecipients outside the state entity, this information must be included in the sub-program contract and the appropriate chartfield utilized in ENCOMPASS to identify such pass through funds. Also, a minimum of federal award number and year and CFDA# should be included in each remittance advice to subrecipients.

If a federal program is shared by two or more state agencies (Business Units), the last 12 digits of the project number shall be identical, the first three digits being the assigned BU number.

If a state agency receives federal funds from a pass through entity rather than directly from the federal government, "Pass through from _____" should be entered in the description field in the ENCOMPASS project.

7.3.4 Accounting Requirements

In order to more easily facilitate accounting for federal funds and the retrieval of required reports and information, all federal financial assistance received and expended by State agencies will be accounted for in the ENCOMPASS financial system in the manner described later in this section.

7.3.4.1 Federal requirements

For each federal program, the accounting records must include:

- *Expenditures charged to the program:*
  - *Must be allowable for the program, benefit the program, be reasonable in nature and cost, be within the allowable period, and have complete back-up documentation.*
  - *If an employee's time is charged to a program, the employee must have worked the time charged. Adequate records showing the time spent on each program is to be kept if the employee is not working on the program 100% of the time.*
  - *When accounts payable is included as an expenditure, the agency must have documentation that shows that a product or service has been received but not yet paid for. Encumbrances are not considered as accounts payable.*
- *Federal funds received:*
  - *Account for the amount of the program award and the amount received to ensure that the program award is not overdrawn.*
- *Source and amount of matching and other non-federal funds used for the program:*
  - *Matching shares must be properly calculated. The source of the matching funds must be shown. Matching funds are usually State funds, donations, or in-kind contributions.*

- *In-kind contributions must have proper documentation to support the value used as matching and show how the program benefited.*
- *In-kind contributions include services donated and other State operations with the same goal as the program. The federal agency should be contacted for approval of the type of in-kind contributions you plan to use as matching.*

7.3.5 ENCOMPASS Financial Accounting System

The statewide accounting system has been designed to account for federal assistance in a manner that will apply percentages of federal, state, and local funds to each disbursement as entered in the system. Reports, including federal quarterly reports and most information for the Schedule of Expenditures of Federal Awards(SEFA), can be produced with minimum time and effort. All required fields in projects must be completed in order to produce reliable reports.

7.3.5.1 One federal agency = one fund

Each State agency will maintain one fund for each U. S. agency from which it receives funds, with the exception of Medicaid, which will be kept in a separate fund. State matching funds will be transferred from their State appropriated funds to the appropriate federal fund by financial staff of the SBA; it is the responsibility of the Project Administrators of each agency to accurately maintain the federal/state percentages to be applied to each expenditure in the funds distribution element of Project Costing.

7.3.5.2 Projects

In the ENCOMPASS financial system, federal funds are accounted for as a Project, as described in this section.

- *One standard project module approach for the entire State*
- *All chartfields will be used consistently by the entire State.*
- *Project reporting in ENCOMPASS will support the:*
    - *Generation of schedules to support State financial and CAFR reporting requirements;*
    - *Accumulation of capital asset and infrastructure costs to support State financial and CAFR reporting requirements*
    - *Generation of the Schedule of Federal Awards Expended and schedules to support OMB A-133 reporting requirements;*
    - *Generation of federal financial reporting schedules and supporting documentation; and*

- *Generation of federal cash drawdown calculations and supporting documentation*

- *Commitment Control will be required to be assigned at the fund, project and funding source levels.*

A "project" is required for any federal funds received by a State agency, regardless of whether the funds are expended by the State or passed on to a sub-recipient outside of State government. Consistently across the State, there will be a separate project for each individual grant award year. Within projects, the following are a few of the levels which may be used. For detailed information on use of projects, see http://myshare.in.gov/sba/encompass.

Funding Source – *used to enforce commitment control on a distinct funding stream; a funding Source may be allocated to various projects and, if a program shares expenditures with another State agency, the funding source should also be shared.*

- Funds Distribution – *will distribute project costs among multiple funding sources based on pre-established rules; the agency Project Administrator is responsible for maintaining current rates in the system.*

- Functional Activity -- *assigned at the time the transaction is created to classify transactions for budgetary and/or reporting purposes. Examples – ADMIN, RECIPNT.*

- Distributional Activity -- *assigned in the* Activity *chartfield on the new transactional lines generated in the Project module when the original transaction undergoes* Funds Distribution (See Funds Distribution).

- Source Type -- *provides State agencies with a chartfield to be utilized to meet their external and internal reporting needs not satisfied by the* Activity *chartfield.*

  - Functional Source *Category -- assigned at the time the transaction is created. The* Functional Source *category chartfield provides State agencies with a chartfield to be utilized to assist in properly recording time and labor in the Project module.*

    - Functional Source SubCategory -- *assigned at the time the transaction is created; provides State agencies with an additional chartfield to be utilized to assist in properly recording time and labor in the Project module in a lower level of detail than captured in the* Functional Source Category.

  - Distributional Source Category -- *assigned in the Source Category chartfield on the new transactional lines generated in the Project module when the original transaction undergoes Funds Distribution. The Distributional Source Category corresponds to the Funding Source ID in Commitment Control*

    - *Distributional Source SubCategory - assigned in the* Source SubCategory *chartfield on the new transactional lines generated in the Project module when the original transaction undergoes* Funds Distribution. *The* Distributional Source SubCategory *will allow agencies to capture a lower level of detail related to a funding source than the level captured in* Source Category.

- Analysis Type -- *assigned to transactions within the Project module to communicate information related to the transaction such as the source of the transaction,--how the transaction should be treated within the Project module and the stage of the transaction within the Project module. Examples – REV, ACT, GLE, ODL, TPM, MOE, etc.*

7.4 GENERAL FEDERAL REGULATIONS

7.4.1 Direct Costs

Direct costs are those that can be identified specifically with a particular program or contract. Typical direct costs include:

- *Compensation of employees for time and effort*
- *Cost of materials*
- *Equipment*
- *Services*

Any cost that is a direct cost but not 100% for a particular program must be allocated between each program for which the cost is related and to State funds for portions not relating to federal programs. The allocation must be made on a logical basis and on a basis that represents the direct benefit to the program. Some federal grants require approval of an allocation plan by the federal grantor agency.

7.4.2 Indirect Costs

Indirect costs benefit more than one program, but the effort to allocate to each specific program is disproportionate to the results achieved. Indirect costs may originate within an agency (i.e., accounting personnel's time attributable to several different programs), or outside an agency (i.e., cost of processing documents and payments by the Auditor of State).

Two different methods are used for charging indirect costs to a federal program, a Public Assistance Cost Allocation Plan (PACAP) or the Indirect Cost Rate Agreement (ICRA). Both must be approved by the federal agency with oversight over the state agency. This rate calculation includes both the state-wide (SWCAP) and agency indirect costs. When indirect costs are charged to a federal program/project, the federal share, which will be automatically calculated through funds distribution in the federal projects, is reimbursed through normal drawdown procedures.

See flowchart in Appendix 7.5.2 in this chapter.

7.4.2.1 State-Wide Cost Allocation Plan (SWCAP)

The State Budget Agency annually prepares the "State-Wide Cost Allocation Plan" which accumulates the state-wide indirect costs, allocating them across all State agencies.

The federal share of the state-wide indirect cost is to be paid to the State Budget Agency to reimburse the State's General Fund for costs incurred by the State in relation to the federal programs. The steps for reimbursement are as follows:

- *If an agency receives no federal funds, it is exempt from cost recovery.*

- *If an agency receives federal funds, either directly from the federal government or an outside source, or from another State agency, use the Proposed Costs from Schedule A of that fiscal year's SWCAP as indirect cost recovery owed the State when calculating the Indirect Cost Rate. If this number is negative, it may be used to offset future costs. Approval to use this offset must be obtained from the Budget Agency Controller.*

- *If the agency is 100% federally funded, divide Proposed Costs by four and process quarterly journal entries as described below.*

  For Federal or Dedicated funds, debit (+) funds to be charged using account 759910 and credit (-)Fund 10520, Account 749910, Program 10000, Department 051000.

  In the Long Description of the Journal Header, indicate that the reason for the journal entry is SWCAP.

  - *Indicate the program period to be charged.*

  - *As part of GL workflow, the journal entry will be routed to the State Budget Agency's accounting department for approval.*

- *An agency may request an exemption from Indirect Cost recovery on a program specific basis if:*

  - *Recovery of administrative indirect costs is prohibited by federal law/regulation (please cite authority).*

  - *Federal funds pass-through the agency and the agency incurs no administrative costs.*

  - *The indirect cost recovery contributes towards the program's mandatory State match requirement for which other funds are not available.*

  - *The recovery of indirect costs will decrease program effectiveness.*

- *Submit written exemption requests to the Budget Agency. All exemption approvals will be in writing.*

7.4.2.2 Indirect Cost Rate Agreement (ICRA)

Departments other than those included in 7.4.2.3 negotiate an Indirect Cost Rate with their federal oversight agency. This rate, which is applied two state fiscal years after the actual calculation, is a percentage derived from the Allowable Indirect Cost divided by the Direct Cost Base. The signed agreement will denote a rate to be applied for one or for multiple years.

Indirect costs may be accumulated throughout the fiscal year by means of Cost Pools, one of which would be the SWCAP share as communicated from the State Budget Agency (SBA). Other cost pools may be Equipment Use, Administrative costs, including salaries not possible to identify as direct cost, and Training. A separate fund may be used to accumulate these costs.

The Indirect Cost Rate percentage is applied to the total direct costs of all federal programs/projects and dedicated funds to determine the maximum indirect cost that can be charged to the various programs/projects/funds. Eligible SWCAP assessments should be first applied to this maximum, and that amount charged to the programs/projects/funds as described above in 7.4.2.1. The remainder should be charged to the program/projects/funds using account 583120 and credited to the agency indirect cost pools.

When federal revenue is drawn to reimburse the federal share of these costs, credit account 445000 – Fed Indirect Cost Revenue Agy, and account 446000 – Fed SWCAP Revenue. A flowchart illustrating these procedures is in the Appendices to this chapter.

7.4.2.3 Public Assistance Cost Allocation Plan (PACAP)

State departments (agencies) with programs listed at 45 CFR 95.503 maintain an approved PACAP with their federal oversight agency. The plan includes detailed procedures to be used to apply indirect costs to federal programs throughout the year.

Accounting treatment – The eligible SWCAP assessment should first be charged against the projects as described in 7.4.2.1. Indirect agency costs identified in the plan are then charged to the federal projects by debiting the related expense in the federal project and crediting the expense in the state fund from which the expenditure was initially made, thereby moving the expense from a general fund to the various federal projects. All such entries are made through the General Journal.

When federal revenue is drawn to reimburse the federal share of these costs, credit account 445000 – Fed Indirect Cost Revenue Agy, and account 446000 – Fed SWCAP Revenue. A flowchart illustrating these procedures is in the Appendices to this chapter.

7.4.3 Unallowable Costs

2CFR225 (OMB A-87) specifically notes the following partial list of costs that may <u>not</u> be charged against a federal program.

Bad Debts	*Cost of another Program*

Contingencies	*Contributions and Donations*
Entertainment	*Interest and Other Financial Costs*
Governor's Expenses	*Cost Incurred Outside of Program Period*
Legislative Expenses	*Lease for Empty Offices*
Fines and Penalties	*Costs Not Allowed by State Law or Regulations*
Personal Loans of any Kind	

For a detailed list of allowable/unallowable costs, see 2CFR225, Appendix B.

http://www.ecfr.gov/cgi-bin/ECFR?page=browse

7.4.4 Procurement

The purchase of products or services that relate to a federal program is no different than that for State financed activities. Federal regulations (2CFR225{OMB A-87}) require that for a cost to be allowable it must "be consistent with policies, regulations and procedures that apply uniformly to both federally assisted and other activities of the unit of government of which the grantee is a part."

7.4.5 Equipment

Many federal programs allow equipment to be purchased with grant funds.

Title of equipment purchased by a State agency with program funds vests with the State. The State agency is to use, manage and dispose of the equipment in accordance with State laws, rules and procedures. The equipment shall be used by the State agency in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by federal funds.

Property records must be kept in compliance with the State rules. The records must include the location and any ultimate disposition data including the date of disposal and the sale price.

Agencies should supplement the ENCOMPASS Asset Management system with any additional federal requirements. Records showing proper disposition of the equipment should be maintained at least three years from date of disposition. When equipment with a current per unit fair market value of $5000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value.

The federal awarding agency, the grant agreement, and the Code of Federal Regulations should be consulted to determine if there are additional requirements for the disposition of equipment. In most instances, follow State policies in disposition of equipment.

7.4.6 Audits

The Single Audit Act of 1984, as amended in 1996, directs the policy for audits of federal financial assistance provided to state and local governments. The Federal Office of Management and Budget issues the circular that establishes requirements pursuant to these Acts,OMB Circular A-133see below for link. Based on these requirements, the Indiana State Board of Accounts conducts an annual state-wide single audit of the federal funds expended by the State of Indiana. Due to these requirements, specific testing of certain federal programs will be done in addition to an agency's routine State compliance review.

Once the audit is completed, the Indiana State Board of Accounts issues a report, which includes any federal findings in the Schedule of Findings and Questioned Costs. Also in the A133 report are required audit opinions, the Schedule of Expenditures of Federal Awards, financial statements based on state-wide financial activity, a Summary Schedule of Prior Audit Findings, and agencies' Corrective Action Plans.

The report is filed as an official public document in the State Board of Accounts' office. Copies are submitted, along with the SF-SAC Data Collection Form, to the U.S. Bureau of Census. https://harvester.census.gov/fac/

7.4.6.1 Corrective Action on Findings

Circular A-133 requires agencies to follow up and take corrective action on audit findings, as well as preparation of a Summary Schedule of Prior Audit Findings. This schedule shall report the status of all audit findings included in the prior audit's Schedule of Findings and Questioned Costs. When an audit finding is fully corrected, the summary schedule needs only to list the audit finding and state corrective action taken. When audit findings are not corrected or are only partially corrected, the summary schedule shall describe the planned corrective action and any partial corrective action taken. This schedule is to be submitted to the State Board of Accounts timely when requested. This schedule will be incorporated into the statewide audit report. The circular also requires agencies to prepare a corrective action plan for any current year audit findings. The corrective action plan shall include the corrective action planned, the anticipated completion date, and the name(s) of the contact person(s) responsible for corrective action. This corrective action plan will also be incorporated into the statewide audit report. The corrective action plan is to be submitted to the State Board of Accounts within ten calendar days after the exit conference with agency officials.

7.4.7 Sub-granting Federal Funds -- Pass-through Funds

7.4.7.1 Sub-grant Contract vs. Vendor Contract

If your agency sub-grants federal funds to another governmental unit or not-for-profit entity, OMB Circular A-133 requires that you provide each subrecipient certain information. The

information required includes the CFDA title and number, award name, award number and year, and the name of the federal agency. You should include this information in both your agreements with the subrecipients and also the remittance advice of each disbursementin the ENCOMPASS financial system. If you include State funds with the federal funds in a single payment, you must inform the subrecipient of the percentage, or amount, of the federal/state funds.

If federal funds are to be shared with another Business Unit within the state, the granting BU must also provide the project number and the funding source number in the ENCOMPASS financial system. Although the ENCOMPASS system uses the term 'subrecipient' for this sharing of a grant, OMB Circular A-133 reserves this term for monies passed outside of the reporting entity only, in our case, the State of Indiana.

Occasionally the federal government contracts with a State agency to perform a service rather than awarding a grant from a federal program. An example would be if the Indiana Department of Health was asked by HHS to compile statistics of vaccinations given by the State of Indiana, and HHS would pay them upon completion of the service. In such a case, use the funding source "Federal non-reportable" in a non-federal project. This is considered a vendor relationship rather than a grant award.

7.4.7.2 Monitoring

If you pass-through federal funds to another entity (subrecipient), you are required to monitor the activities of the subrecipient. Monitoring should be sufficient to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or program agreements, and that they achieve performance goals.

When the subrecipient is required to be audited per OMB Circular A-133, the resulting report and the review of and follow up on the report's findings may be utilized as part of the monitoring process. Other procedures might include such things as analysis of the subrecipient's financial status reports, requests for copies of supporting documentation, limited scope or program specific audits, and on-site testing of sub-grantees' records.

The circular requires that you issue a management decision on any audit findings relating to the federal programs you sub-granted within six months after receipt of a subrecipient's audit report. You are also to ensure that the subrecipient takes appropriate and timely corrective action.

7.4.8 Program Requirements

OMB Circular A-133 Compliance Supplement for Single Audits issued by OMB has identified fourteen program requirements. The compliance supplement also contains, for many programs, specific information that identifies which requirements are applicable. Agencies need to determine which program requirements are applicable to each of the federal programs they administer and ensure that these requirements have been properly implemented.

This document contains specific requirements for individual programs, the compliance for which your auditors' will be testing. http://www.whitehouse.gov/omb/circulars

7.4.9 Cash Management Improvement Act Of 1990

The purpose of the Cash Management Improvement Act of 1990 (CMIA) is to ensure efficiency, effectiveness, and equity in the transfer of funds between State and Federal governments. The requirements of CMIA can be found in 31 CFR Part 205. The general concept is that, in the case of a reimbursement grant, drawdowns of federal funds are not to be made to cover future expenditures.

7.4.9.1 Interest on Funds Drawn Prematurely

State and federal agencies must minimize the time between the transfer of federal funds to the State and the presentment of the State's checks and warrants or the settlement of EFT payments for program purposes. The CMIA requires the State to pay interest on federal funds from the time the funds are deposited in a State bank account to the time of the actual cash outlay (the time the State warrant clears the bank). Interest can be avoided if approved funding techniques are used. These techniques are described in 7.4.9.5.

The interest calculation will be based on the annualized rate equal to the average equivalent yield of 13-week Treasury Bill auctioned during the State's fiscal year. This interest rate will be provided each year to the State liaison by the federal government. Federal funds cannot be used to pay the interest; .CMIA also provides for the federal government to pay interest when State funds are used in advance of receipt of federal funds if this occurs due to actions of the federal government.

7.4.9.2 State Liaison

A State liaison person is to be appointed to oversee the implementation of CMIA and be the State's contact person. Indiana's liaison is a State Budget Agency staff member. It is the liaison's responsibility to draft the Treasury-State Agreement. This agreement is to include:

- *Federal programs included*
- *Funding technique for each program*
- *Clearance pattern methodology (if required)*
- *Interest calculation methodology*

The liaison will require the cooperation of State agencies that have federal programs that are covered by CMIA to develop the above items.

7.4.9.3 Programs Exempt From CMIA

See the current CMIA agreement, available from the State Budget Agency, for up to date exemptions.

7.4.9.4 State Agencies' Responsibilities for CMIA

- *Use the specified funding technique for each of the agency's covered programs*
- *Developing the clearance patterns for federal funds by program using methodology specified in the current Treasury-StateTreasury-State Agreement. Custom reports have been developed in ENCOMPASS to produce the necessary information -- Project Costing >Reports > CMIA Clr Patt Rpt by Pmt Date and Project Costing>Reports> CMIA Clr Patt Rpt by Clr Date. Requirements for maintaining a clearance pattern are outlined in the Treasury-State Agreement (from State Budget Agency).*
- *Tracking drawdown of federal funds by program*
- *Calculating interest owed and due*
- *Providing support documentation upon request*
- *Providing interest calculations and other information to the State liaison*

7.4.9.5 Funding Techniques

For each program included in the Treasury-State Agreement, a funding technique is indicated for each program covered for the year indicated. The funding techniques include:*

- ***Same Day Payment -- Zero Balance Accounting (ZBA)***

  The State shall request funds the same day it pays out funds, in accordance with the appropriate Federal agency cut-off time specified. A Federal agency will deposit funds in a State account the same day as requested. The amount of the request shall be for the amount of funds that clear the State's account that day. This funding technique is interest neutral.

- ***Average Clearance***

  The State shall request funds such that they are deposited by ACH on the dollar-weighted average day of clearance for the disbursement, in accordance with the clearance pattern specified. The request shall be made in accordance with the appropriate Federal agency cut-off time specified and shall be for the exact amount of that disbursement. This funding technique is interest neutral.

- ***Modified Composite Clearance***

  The State issues warrants and ACH payments for contractor fees, engineering fees, right-of-way acquisition fees, payroll, and other Highway program expenses; by statute, most payments are made via ACH. The State shall bill the FHA weekly for

these accrued expenses. The State shall time the billing process so that funds are requested from a 7 day cost collection period., (Thursday thru Wednesday of the following week). The request shall be made in accordance with appropriate Federal agency cut-off time specified. This funding technique is interest neutral.

- ***Modified Estimated Clearance for Labor***

  The agency will request funds from the Department of Labor by 12:00 noon EST based on a modified clearance pattern. The State will draw down the first two days of the estimated clearance on the first day, which gives the State 93.5% of the payroll needed. On the fifth day, which includes a weekend, the State will draw down the rest of the payroll, which is 6.5%. The State's payroll reaches 99% clearance on the eighth day. This funding technique is interest neutral.

- ***Payment Schedule – Proportionate Share***

  On Wednesdays during weeks without payroll, the State shall receive a proportionate share (1/6th or 1/7th) of the quarterly plan for other administrative expenses. This funding technique is interest neutral.

- ***Pre-Issuance Funding – for programs not covered by the Treasury-StateTreasury-State Agreement***

  The State requests federal funds no earlier than three business days before it initiates EFT payments or issues warrants, unless otherwise justified. The State will incur an interest liability from the day federal funds are credited to a State's bank account to the day they are paid out to the ultimate program recipient (the day the warrants clear the bank). With this funding method the State will always incur interest.

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**From CMIA Treasury-State Agreement – FY2012*

7.4.9.6 CMIA Annual Report

The State is required to submit an annual report to the U.S. Department of the Treasury's Financial Management Service (FMS) by December 31 of each year. This report includes the Federal and State interest liabilities of the State's most recently completed fiscal year. The State CMIA liason will contact State agencies as needed regarding the compilation of this report. After the report has been reviewed and approved by FMS, the exchange of interest liabilities should occur no later than March 31.

7.4.10 Program Income -- Rebates

To determine whether monies, other than matching funds, being receipted into a program are rebates or program income, you must first check the current federal regulations for the program. General rules from part 3 of the compliance supplement are:

"Program income is gross income received that is directly generated by the federally funded project during the grant period. If authorized by Federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income. Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds. Except as otherwise provided in the Federal awarding agency regulations or terms and conditions of the award, program income does not include interest on grant funds (covered under "Cash Management"), rebates, credits, discounts, refunds, etc. (covered under "Allowable Costs/Cost Principles"), or interest earned on any of them (covered under "Cash Management"). Program income does not include the proceeds from the sale of equipment or real property (covered under "Equipment and Real Property Management)."

Rebates constitute, for the most part, payments made by third parties who assume responsibility for certain expenses and essentially reduce the amount paid out for those expenses from program funds. Examples of this are drug rebates from pharmaceutical companies, and rebates from manufacturers from vouchers used by recipients of certain children's programs.

If in doubt, check the specific program requirement in either the A-133 compliance supplement (http://www.whitehouse.gov/omb/circulars_default), or the CFR that applies to your specific program, (http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&tpl=%2Findex.tpl).

7.4.10.1 Accounting for Program Income

If a federal program will receive program income, a request should be sent to SBA to set up a Program Income funding source in order that those receipts can be included in that funding source and related expenses paid from that source. Check with individual program requirements on how and when such funds are to be spent. In most cases, program income is to be spent prior to other funds. Also, in most cases, these funds are to be used toward the total federal grant, rather than to supplement the grant with additional funds.

A-102, Grants and Cooperative Agreements with State and Local Governments, states in 2(e):

(1) Agencies shall encourage grantees to generate program income to help defray program costs. However, Federal agencies shall not permit grantees to use grant-acquired assets to compete unfairly with the private sector.

(2) Federal agencies shall instruct grantees to deduct program income from total program costs as specified in the grants management common rule at paragraph __.25 (g)(1), unless agency regulations or the terms of the grant award state otherwise.

7.4.10.2 Rebates

Rebates should be receipted into a fund/project using the same expenditure account the rebate is intended to reimburse. Presently in ENCOMPASS, after the deposit is posted, a Journal

Entry is necessary to move the rebate amounts to the fund/project. Such an entry will reduce the expenditure amount, thus releasing the funding source(s) amount for future payments.

7.5 APPENDICES

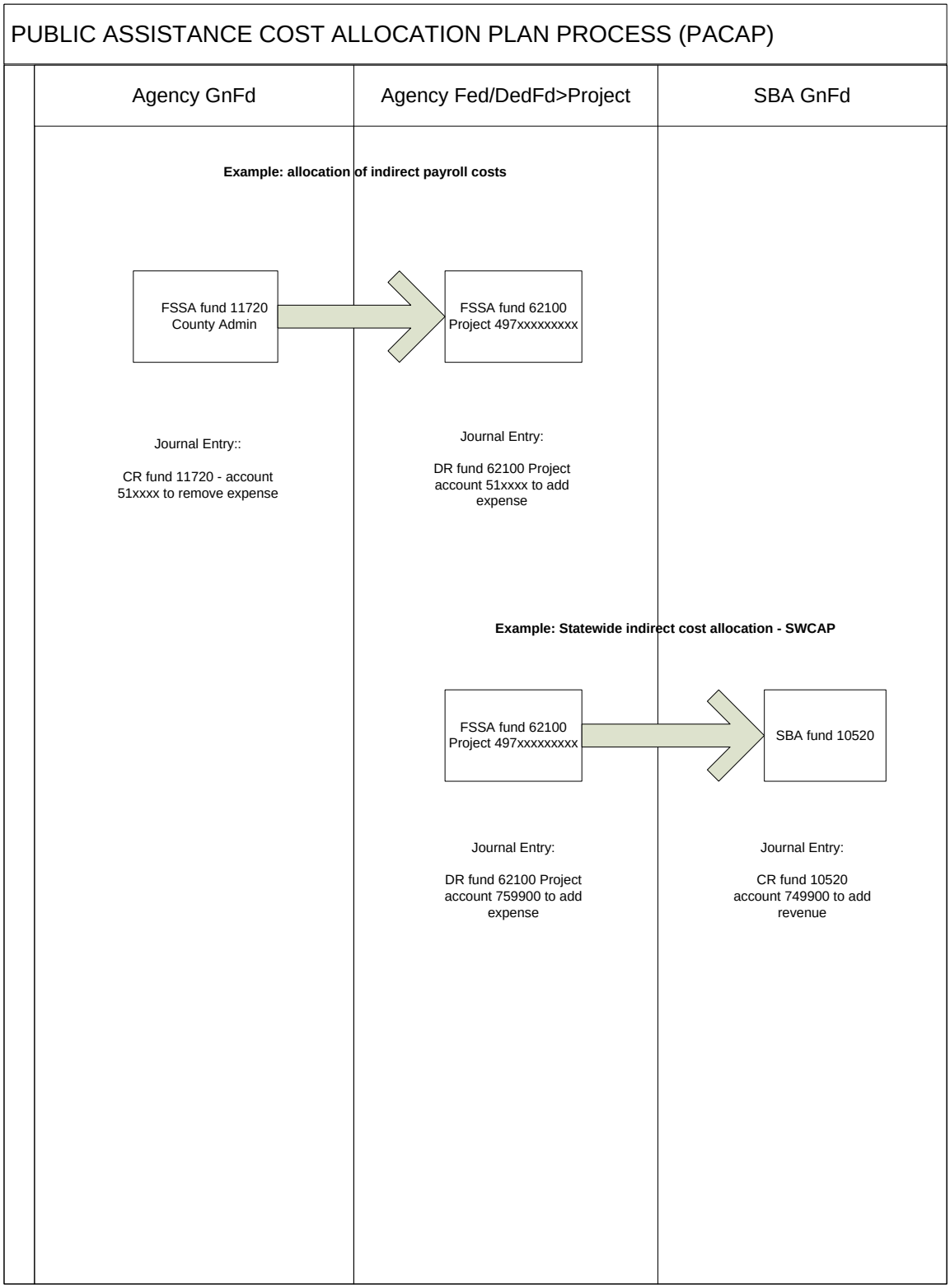
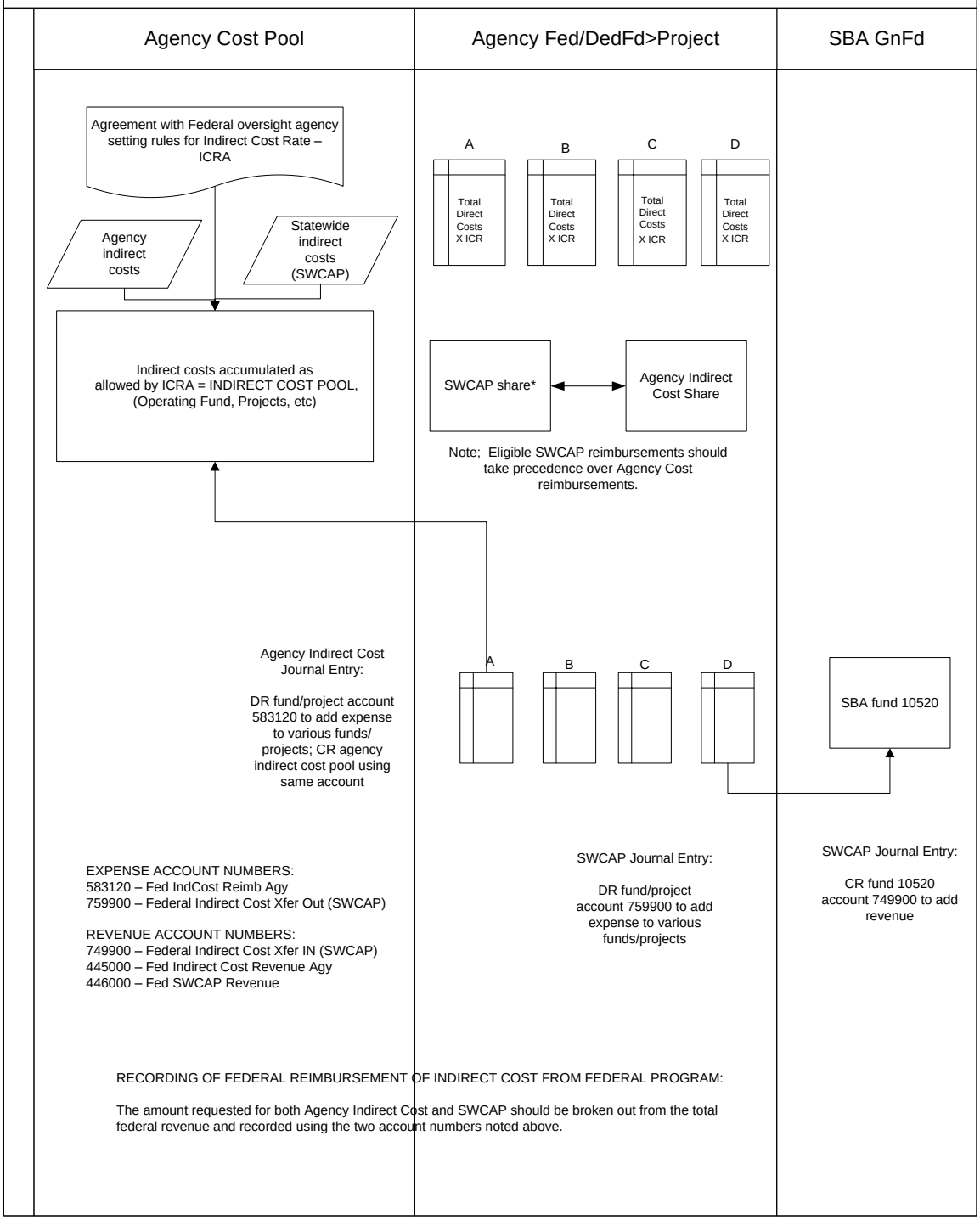
7.5.1 Project Costing Reports – ENCOMPASS

Report Name	Purpose	Data Prerequisite	Navigation
Summary of Revenue by Project by Activity	Gives the summary of revenue by a project & activity ID	Cost Collection process run to move AR data from GL to PC; ROC entries posted to PC; Accounts beginning with 4	Project Costing > Reports > Summary of Rev by Proj & Act
Detailed Funding Source & Project KK Transactions and Remaining Balance	Shows funding sources allocated and remaining balances at the funding source level	Budget checked transactions have Project number and Funding Source	Project Costing > Reports > Funding source & Project Bal
Funding Source KK Transactions and Remaining Balance by Project	Shows funding sources and remaining balances by project.	Budget checked transactions with Project number and Funding Source	Project Costing > Reports > FS KK Trans and Rem Bal by Prj
Funding Source & Category Reconciliation	Reconciliation between funding source and distributional category at the transaction level.	Funding Source allocated to project and FND rows in PC	Project Costing > Reports > Fund Source and Dist Category
Purchase Order Activity and Balance by Project	Includes all purchase orders associated with a project and remaining PO balances, if any.	Purchase Order for Project and any associated vouchers	Project Costing > Reports >PO Activity & Bal by Projct
Summary Account Settlement/Draw Worksheet Report	Provides a Summary Account Settlement/Draw Worksheet for Federal Project Reporting	Finalized Budget Plan; FEDERAL FND expense rows in PC; ROC entries posted to PC	Project Costing > Reports > Draw Worksheet Report
Summary of Cash Transactions by Project by Functional Activity by Distributional Category	Support for reporting and drawdown process; includes cash transactions only	ROC or FND Expense transactions in PC that impact cash	Project Costing > Reports > Summary of Cash Transactions
Federal Cash	To assist in preparing the	ROC entries posted to PC; Expenses posted to PC; Use of Activity id of PRGINCA or PRGINCS	Project Costing>Reports>Federal

Report Name	Purpose	Data Prerequisite	Navigation
Transactions Report	Federal 272 Report	for program income.	Cash Transactions Rpt
CMIA Detail Report by Clear Date	Gives details about the payment clearance pattern (Number of days from Payment Date to Cleared Days).	Vouchers posted and paid within AP with Project id's that have cleared the bank	Project Costing>Reports> CMIA Clr Patt Rpt by Clr Date
Project & Activity Budget Commitment Control Comparison Report (Expenditures in KK to Actual)	Comparison of budget to actual expenditures; can select either project or activity budget	Budget Checked transactions with Project id's and posted transactions with Project id's. For comparison at the Activity id level, select Activity Budget Provided on Run Control.	Project Costing > Reports > Project & Activity Comp Report
Detail Transactional Report by Project with all Project Chartfields and Account Roll-up Nodes	Provides detailed transactions; support for federal reporting (detailed version of RPT 075)	Original (ACT/GLE) rows posted in PC and FND rows generated during Funds Distribution process. Accounts properly place in the PROJACCTRPTTREE.	Project Costing> Reports>Detail Trans Rpt by Project
Transaction Balance Report by Project with all Project Chartfields and Account Roll-up Nodes	Provides balances by project; support for federal reporting (summary of 074)	Original (ACT/GLE) rows posted in PC and FND rows generated during Funds Distribution process. Accounts properly place in the PROJACCTRPTTREE.	Project costing > reports > Transaction Bal Rept by Proj
Federal Financial Status Report	To assist Agencies in preparation of Federal FSR Report	Expense FND rows with FEDERAL or STATE00 Target Activity id's in PC; Third Party/In-Kind direct entries to PC, if applicable; Use of Activity id of PRGINCA or PRGINCS for program income.	Project Costing>Reports>Federal Financial Status Rpt
Federal Financial Report Supporting Worksheet	Support worksheet for Federal Financial Report	Funding Source Allocated to Project; ROC's posted to PC. FND expense rows with Target Activity id's of FEDERAL or STATE00 generated by Funds Distribution in PC; Use of Activity id of PRGINCA or PRGINCS for program income.	Project Costing> Reports > Federal Finl Rpt Supporting WS
Federal 270 Report Supporting Worksheet	Support for preparation of Federal 270 Report	Expense FND rows with FEDERAL or STATE00 Target Activity id's in PC and paid; ROC entries posted to PC; Use of Activity id of PRGINCA or PRGINCS for program income.	Project Costing >Reports > Federal 270 Rpt Supporting WS

Report Name	Purpose	Data Prerequisite	Navigation
CMIA Clearance Pattern Rpt Detail by Payment Date	This CMIA Report gives details about the payment clearance pattern by Payment Date	Vouchers posted and paid within AP with Project id's that may or may not have cleared the bank	Project Costing >Reports > CMIA Clr Patt Rpt by Pmt Date
Project Budget Reconciliation Report	A comparison of the BUD Analysis Type rows in the Project Resource Table to the KK Project commitment control ledger by Project	Finalized Budget Plan	Project Costing>Reports>Project Budget Recon
Schedule of Expenditure of Federal Awards (OMB A-133 Schedule)	Provides most of the information needed for the annual A-133 report	Funding Source with CFDA , grant # and award amount populated; ROC entries posted to PC; Expense FND rows associated with Funding Source	Project Costing>Reports>Expenditure of Federal Awards
Project Detail by CFDA	Includes receipts, disbursements, grant detail and other available information by federal CFDA number	Funding Source with CFDA , grant # and award amount populated; ROC entries posted to PC; Expense FND rows associated with Funding Source	Project Costing > Reports > Project Detail by CFDA
Capital Asset Purchases by Project	Gives information from AM on assets by projects selected. Can select $$ threshold, such as $5,000.	Assets posted to AM with Project id's. Proper Asset Table data as confirmed during agency Asset Cleansing processes, Capitalized Assets.	Project Costing>Reports>Capital Assets by Project

7.5.2 Indirect Cost Flowchart



INDIRECT COST RECOVERY AGREEMENT (ICRA)