

Complying with EPA Assistance Agreements



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EPA's Mission...

...is to protect
human health
and the
environment.



EPA's Budget

EPA's Budget in FY 21 was \$9.2 billion. A total of \$4.9 billion was awarded in grants.

Total Amount Awarded
\$4,942,902,260

Why Does the Federal Government Issue Grants?

- ❑ Environmental improvements
- ❑ Information about results
- ❑ Good return on investment
- ❑ Worthwhile performance targets
- ❑ High probability of success

Recipients are Passionate About

- ❑ Building a Sustainable Future
- ❑ Improving the Environment
- ❑ Obtaining Resources to Support their Vision
- ❑ Creating Jobs
- ❑ Protecting Human Health

EPA Funding

EPA provides funding for the following 5 types of grant recipients:

1. State Governments
2. Local Governments
3. Educational Institutions
4. Non-profit Entities and
5. Indian Tribal Organizations

Congratulations!



You've successfully navigated the application process and have been awarded an EPA Assistance Agreement.

In addition to performing the work of the grant you will be responsible for ensuring that you are a good steward of public funds.

Recipient Responsibilities

To ensure compliance, recipients must:

- ❑ Read the requirements of the award
- ❑ Identify an authorized organizational official
- ❑ Agree to comply with the laws, regulations, policies, terms and conditions of the award
- ❑ Maintain separate financial and programmatic records of their work on the project
- ❑ Submit timely cost reimbursement requests
- ❑ Submit progress reports
- ❑ Notify the EPA if any changes occur/issues arise

Applicable Regulations

The following regulations are applicable to all awards

Uniform Grants Guidance (UGG)	2 CFR 200 and 1500
OMB Cost Principles	2 CFR 200 Subpart E
Federal Funding Accountability and Transparency Act (FFATA)	2 CFR Part 170
Disadvantaged Business Enterprises (DBE) Requirements	40 CFR Part 33
Audit Requirements (\$750,000+ threshold)	2 CFR 200 Subpart F

The Code of Federal Regulations can be found at <https://www.ecfr.gov>

Office of Grants and Debarment

The EPA's **Office of Grants and Debarment (OGD)** oversees the management of assistance agreements. OGD develops national policies, guidance and training.

The **Compliance Team** within OGD works directly with recipients to ensure overall compliance with grant regulations and terms and conditions. The team provides technical assistance, pre-award reviews, and post award monitoring.

Compliance Oversight

The Compliance Team provides oversight by conducting:

1. Indirect Cost Rate Negotiations
2. Audit Resolutions
3. Technical Assistance Reviews
4. Pre-Award Certifications
5. Advanced Administrative Monitoring Reviews
6. Improper Payment Reviews

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Indirect Cost Rate Negotiation

- ❑ The Compliance Team negotiates Indirect Cost Rates (IDCR) for Non-profit organizations and State and Local Governments for which EPA serves as the Federal cognizant agency
- ❑ The **Cognizant Federal Agency** is the agency that typically provides the most direct Federal funding to the recipient
- ❑ Recipients who wish to be reimbursed for indirect costs (IDC) must have an approved, negotiated IDC rate from their Federal cognizant agency, **prior to drawing down EPA funds.**

Indirect Cost Rate Negotiation

For the purposes of the regulations, recipients can draw down IDCs if they have one of the following IDC rates in place at the time of award:

- ❑ Provisional
- ❑ Final
- ❑ Fixed rate with carry-forward
- ❑ Predetermined
- ❑ 10% de minimis of modified total direct costs (MTDC)
- ❑ Extension of current or expired IDC rate by cognizant agency
- ❑ Approved continued use of current or expired IDC rate by the Director of the National Policy, Training, and Compliance Division (NPTCD) of OGD

Recipients that do not have a current negotiated IDC rate are eligible for a de minimis rate of 10% of MTDC for all Federal awards

Indirect Cost Rate Negotiation

Indirect Costs are costs incurred for common objectives.

- ❑ Benefit the award and other work necessary for the overall operation of the organization (HR,IT, etc); and
- ❑ Are not easily identifiable to a specific assistance agreement or cost objective.

Examples include:

- ❑ Postage
- ❑ Rent
- ❑ Supplies

Indirect Cost Rate Negotiation

Calculating Indirect Costs on Drawdowns

During a recent review, a university was cited for an improper payment of \$5,587 because the indirect costs were not drawn in accordance with the approved indirect cost rate agreement.

<u>DRAWDOWN (TAKEN)</u>		<u>DRAWDOWN (ELIGIBLE)</u>	
<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
EMPLOYEE A	30,175.09	EMPLOYEE A	30,175.09
EMPLOYEE B	9,715.74	EMPLOYEE B	9,715.74
FRINGE BENEFITS	14,036.38	FRINGE BENEFITS	14,036.38
SUBAWARD	15,085.84		
SUB-TOTAL	69,013.05	SUB-TOTAL	53,927.21
INDIRECT COST RATE	37.04%	INDIRECT COST RATE	37.04%
INDIRECT COST EXPENSE	25,562.43	INDIRECT COST EXPENSE	19,974.64
		SUBAWARD	15,085.84
TOTAL DRAWDOWN	94,575.48	TOTAL DRAWDOWN	88,987.69
INDIRECT EXPENSE (OVERAGE)		5,587.80	

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Audit Resolutions

Federal agencies rely on single audits to perform oversight of entities that expend federal grant funds.

The purpose of the audit resolution is to ensure that recipients complete corrective actions identified in the single audit report and resolve findings that are a result of OIG and A-133 audits.

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Technical Assistance Review

Technical Assistance Reviews are **targeted, in-depth, comprehensive** assessments of the grant recipient's administrative and financial progress and management of the grant.

During the review, the compliance team will assist the recipient with strengthening internal controls.

Technical Assistance Reviews include a review of the recipient's policies and procedures and transaction testing.

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Pre-Award Certification

Pre-Award Certifications are applicable to not-for-profit organizations with a funding budget that exceeds \$200,000.

The purpose of the Pre-Award Certification is to ensure applicants have adequate administrative systems to manage EPA funds.

Pre-Award Certification

EPA Form 6600

The Pre-Award Certification includes a review of the recipient's policies and procedures in conjunction with the completed EPA Form 6600.

EPA Form 6600-01

OMB Control No. 2030-0020
Approval expires 06/30/2024

Limited Scope Administrative and Financial Review Questionnaire for EPA Assistance Agreement Desk Reviews

Introduction

Thank you for assisting EPA with our review by completing this questionnaire. The questionnaire asks about your organization's administrative and financial policies and procedures. Some of the questions require you to provide copies of your policies and procedures for review. Also, some financial drawdowns have been identified for review in Section IX. Please provide copies of the requested policies and procedures and the source documents to support the selected draws with the completed questionnaire.

This questionnaire requires "Yes" or "No" responses. Please check the appropriate box for each question. In some cases, a written response is required. Please type or write your responses in the question box. You may also include or attach additional sheets, if necessary, to provide a full response.

This collection of information is approved by OMB under the Paperwork Reduction Act, 44 U.S.C. 3501 et seq. (OMB

Pre-Award Certification

During the pre-award certification review, the compliance team will review policies and procedures in the areas of:

- I. Accounting and Financial Management
- II. Payroll
- III. Travel
- IV. Equipment
- V. Procurement
- VI. Disadvantaged Business Enterprises
- VII. Recipient Match
- VIII. Program Income

Pre-Award Certification

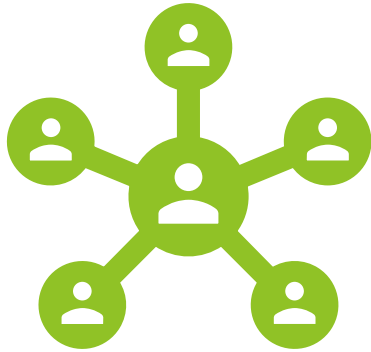
Create Awareness of Policies and Procedures

Recipients need to:

1. develop written policies and procedures
2. publish policies and procedures
3. train staff on policies and procedures

to ensure

- Accountability
- Transparency
- Awareness



Pre-Award Certification

Following the Policies and Procedures

Organizations that don't have policies or whose policies are non-compliant with regulations place all of their Federal funding at risk.

You must have (**and follow**) written policies and procedures, so that your employees can determine what is required to fulfill the grant requirements.



Pre-Award Certification

Recent Findings

Recent audits of grant recipients found:

- ❑ A city government that expended federal funds **did not follow** its process to ensure that funds were disbursed to vendors within one week of receipt of federal funds
- ❑ A state government that expended federal funds **did not formally** adopt financial and cash management policies as identified in the Code of Federal Regulations

Pre-Award Certification

Developing Policies and Procedures



Policy - clearly states what the management of the organization expects from its employees.

Procedure - a detailed description of how the instructions in your policy should be carried out.

Pre-Award Certification

Example: Developing Policies and Procedures

POLICY

The recipient organization will minimize the time elapsing between draw down and disbursement of funds

PROCEDURE

WHEN: On a monthly basis

WHO: the senior accountant

WHAT: will drawdown funds from ASAP after expenses have been paid

HOW: will log in to the system and prepare an analysis of expenditures for the month for approval from the CFO

WHY:

- ❑ In order to ensure that all expenses are reasonable, allowable, and being properly allocated to the grant prior to drawdown.
- ❑ In order to fulfill segregation of duties requirements

Pre-Award Certification

Accounting and Financial Management

As an award recipient, you must have a sound financial management system

- ❑ Financial management systems must record **separately** within the general accounting system the receipt and disbursement of grant funds and monitor the expenditure of those funds against the approved budget
- ❑ Recipients must maintain **source documentation** to support entries into the financial system.



Pre-Award Certification

Accounting and Financial Management

Separate Fund Accounting

The following are the results of recent reviews conducted by the compliance team.

- ❑ A state government erroneously drew \$50,000 for program A from program B. The agency was cited for having (1) a lack of internal control over the drawdown process, (2) a lack of knowledge of timing of program expenses and (3) an absence of internal control (budget-to-actual analysis to determine reasonableness of expenditures would have helped)
- ❑ An organization incurred \$700,000 in improper payments because they drew funds based on the available balances in each of their funding sources and were unable to reconcile the amounts to actual expenditures

Using funds from one assistance agreement to cover the expenses for another is impermissible and results in an improper payment.

Pre-Award Certification

Accounting and Financial Management

Source Documentation

A source document is the original document that contains the details of a business transaction.

A source document captures the key information about a transaction, such as the names of the parties involved, amounts paid, the date, and the substance of the transaction.

Examples of source documents are

- ❑ Invoices
- ❑ Receipts
- ❑ Check stubs
- ❑ Bank statements

Pre-Award Certification

Accounting and Financial Management Insufficient Source Documentation

Items that are insufficient as Source Documentation include:

- × General ledgers
- × Journal vouchers
- × Excel spreadsheets
- × Other internally created files

Costs that are not adequately documented will be considered questionable

Pre-Award Certification

Accounting and Financial Management Insufficient Source Documentation Recent Findings

Shown below are examples of recent review comments:

- ❑ Supporting documentation for payroll did not state that the payroll was for the grant under review
- ❑ The reviewer could not locate signed timesheets or paystub to verify costs were associated with grant

During a recent audit:

- ❑ A city government paid a vendor for work performed, but the city did not maintain sufficient documentation of the procurement method and contractor selection rationale used to choose that vendor.

A recipient who incurs questioned costs or improper payments could be subject to repayment of funds and additional reviews of other grant awards.

Pre-Award Certification

Payroll: Salaries and Wages

All salaries and wages charged to Federal awards must

- ❑ Be supported by a system of internal controls
- ❑ Provide reasonable assurance that the personnel costs incurred are accurate, allowable, and properly allocated

This system of internal controls should ensure that:

- ❑ total compensation paid to employees is **reasonable** according to the work performed on the assistance agreement
- ❑ compensation is made in accordance with established **policies** of the organization
- ❑ compensation policies are **consistently applied** to both government and non-government activities
- ❑ staff **attest to their time** at the end of each pay period
- ❑ supervisors **verify the accuracy of the time and approve** the hours for the staff that report to them

Pre-Award Certification

Payroll Costs: Source Documentation

Source documentation for payroll costs must include:

- rate of pay
- verification of hours/time worked
- allocation plan
- documents that show that the employee worked for the EPA grant
- substantiation of time worked on the grant

Pre-Award Certification

Payroll Costs: Recent Findings

- ❑ A tribe that expended federal funds had multiple control deficiencies, including inaccurate time reporting and **missing timecard approvals**
- ❑ A tribe that expended federal funds **could not reconcile** its accounting records to employee timesheets
- ❑ A nonprofit that expended federal funds did not have adequate internal controls to make sure payroll expenditures were **charged to the proper program**

Pre-Award Certification

Payroll Costs: Fringe Benefits

Fringe benefit costs are allowable to the extent that the benefits are reasonable and are required by law.

Fringe benefits must be equitably charged and applied across all grants.

In a recent improper payment review, the compliance team determined that a state agency applied fringe benefits incorrectly resulting in \$22,000 of unallowed costs

Pre-Award Certification

Travel

The compliance team will review the recipient's travel policy to ensure that:

- ❑ Recipients authorize travel that is included in the budget
- ❑ Recipients require travel documents to be signed **in advance** by the recipient's authorized representative
- ❑ In addition to the traveler, an authorized representative approves the travel voucher **after** travel has been completed
- ❑ Recipients require travelers to **retain receipts** for travel prior to being reimbursed

Pre-Award Certification

Travel: Recent Findings

During a recent improper payment review, EPA found:

- ❑ Receipts for travel were provided but they did not add up to the total drawn down for that line item
- ❑ Recipient provided internal documentation supporting pre-approval of the travel but did not collect actual receipts to reconcile pre-approved amounts to actual expenditures

Pre-Award Certification

Equipment

Capital Equipment as defined by the OMB is “tangible nonexpendable personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.”

For equipment purchased with Federal funds recipients must:

- ❑ have written procedures concerning property management and inventory control
- ❑ maintain records tracking equipment

Pre-Award Certification

Equipment

Equipment Records must include:

- description
- acquisition date
- cost (including percentage of federal participation in the cost of the equipment)
- source of funding
- serial number
- title holder
- location
- status of equipment (i.e. use and condition)
- disposition data

Pre-Award Certification

Equipment: Recent Findings

During a recent improper payment review, a nonprofit incurred \$1.3 million in questioned costs for equipment purchases that were not included the original work plan

Pre-Award Certification

Procurement

Purchases made when procuring goods or services with federal funds must:

- ❑ Follow the procurement standards under the Federal Uniform Grants Guidance
- ❑ Be identified by the recipient in the budget and approved

Pre-Award Certification

Procurement

Purchases made when procuring goods or services with federal funds must be supported by procedures that:

- ❑ discuss how staff creates and submits purchase requests,
- ❑ evaluate and select suppliers/vendors,
- ❑ negotiate the terms of a contract with the selected supplier,
- ❑ finalize the purchase, and
- ❑ receive the order

Recent Findings

In a recent review, a city government was unable to provide evidence that the vendor was not suspended or disbarred.

Pre-Award Certification

Disadvantaged Business Enterprises

Recipients must have procedures to show that they will make good faith efforts to solicit and use:

- ❑ Small Businesses
- ❑ Minority Owned Firms
- ❑ Women's Business Enterprises
- ❑ Labor Surplus Areas

when procuring construction, equipment, services and supplies.

Pre-Award Certification

Disadvantaged Business Enterprises Strengthening Policies and Procedures

- ❑ One factor that lengthens the time to pre-award certification is that the recipient copies the regulation without providing the procedures that will be followed in order to fulfil this requirement.
- ❑ Stating that the organization will make “good faith efforts” to solicit and use DBE’s is insufficient.
- ❑ Examples of good faith efforts include handouts at conferences, flyers sent to DBE’s, electronic searches and communication, email and phone logs.
- ❑ If one or more of the good faith efforts cannot be performed, EPA recommends that the circumstances that have precluded the efforts be documented and retained in the recipient's records.

Pre-Award Certification

Recipient Match and Program Income

Recipient Match

Recipients must have procedures for identifying, valuing, documenting and reporting cost sharing, matching and in-kind contributions for EPA projects

Program Income

When program income is being derived from and included in EPA assistance agreements recipients:

- ❑ Should discuss how the program income is being generated in the **policies and procedures**
- ❑ Must report how the recipient accounts for the program income in its financial records

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Advanced Administrative Monitoring Reviews (AAMR)

AAMR's

- ❑ Are **limited scope reviews** of the grant recipient's administrative and financial management of the grant
- ❑ Includes a review of the recipient's policies and transaction testing

Advanced Administrative Monitoring Review Transaction Testing

During transaction testing, the compliance team selects three non-consecutive drawdowns for review for every active grant (up to five grants)

Claimed costs must be:

- ✓ Allowable
- ✓ Allocable
- ✓ Necessary
- ✓ Reasonable

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Improper Payment Reviews

On an annual basis, EPA estimates and reports improper payments for programs and activities that are deemed susceptible to significant improper payments.

Improper Payments are Payments:

- ❑ Made in an incorrect amount
- ❑ That should not have been made
- ❑ To ineligible recipients
- ❑ For an ineligible good or service
- ❑ That are duplicates
- ❑ For goods or services not received
- ❑ That do not account for credit for applicable discounts

Improper Payment Reviews

Unallowable Costs

- ❑ Advertising/Promotions
- ❑ Alcohol
- ❑ Entertainment
- ❑ Food that does not contribute towards mission/goals of project
- ❑ Fund Raising
- ❑ Bad Debts

Improper Payment Reviews

Drawing Down Funds

Drawdowns

- ❑ Should be based on immediate cash needs
- ❑ Cannot be based on estimates
- ❑ Cannot be drawn in whole dollars
- ❑ Must be expended within 3 to 5 business days

The Automated Standard Application for Payments (ASAP) is an electronic system that federal agencies use to quickly and securely transfer money to recipient organizations. ASAP is available 24 hours a day

Improper Payment Reviews

Drawing Down Funds: Recent Findings

- ❑ During an improper payment review, a state government drew down funds based on estimates in whole dollars resulting in \$90,000 in improper payments
- ❑ Reviewers tested transactions and found a city government that expended federal funds did not follow its process to ensure that funds were disbursed to vendors within one week

Remedies for Non-Compliance

- ❑ If a recipient fails to comply with the terms and conditions of their agreements, the EPA may:
 - ❑ Impose additional requirements
 - ❑ Withhold cash payments pending corrective action
 - ❑ Disallow costs
 - ❑ Suspend the current award (fully or in part)
 - ❑ Withhold future awards
- ❑ The EPA will always provide recipients ample opportunity to respond to requirements and appeal decisions

Contact Information

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