

## Single Audit Management Letter Comments

**(5) Development of Indirect Cost Plans**

OMB Circular A-87 permits states to charge indirect costs to federal awards. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term “indirect costs” applies to costs of this type originating in the grantee’s program departments, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs. Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. Under the Circular, there are three types of indirect cost plans: central service cost allocation plans, public assistance cost allocation plans, and indirect cost rate proposals.

**Central Service Cost Allocation Plan** – Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefited activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to federal awards.

**Public Assistance Cost Allocation Plans** – Federally financed programs administered by state public assistance agencies are funded predominately by the Department of Health and Human Services (HHS). In support of its stewardship requirements, HHS has published requirements for the development, documentation, submission, negotiation, and approval of public assistance cost allocation plans in Subpart E of 45 CFR Part 95. All administrative costs (direct and indirect) are normally charged to federal awards by implementing the public assistance cost allocation plan.

**Indirect Cost Rate Proposals** – Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefited cost objectives. A cost may not be allocated to a federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a federal award as a direct cost. Indirect costs include (a) the indirect costs originating in each department or agency of the governmental unit carrying out federal awards and (b) the costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs. Indirect costs are normally charged to federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under federal awards.

We observed that the District is not taking full advantage of its ability to charge and obtain reimbursement for eligible indirect costs chargeable to federal programs. There is no current District-wide central services cost allocation plan used to charge indirect costs to federal awards. Further, for those agencies that do maintain a public assistance cost-allocation plan or an indirect cost-rate proposal, the calculated rates are sometimes several years old and may not reflect the current indirect costs incurred.

We recommend that the District’s OCFO establish procedures to ensure that indirect cost plans are appropriately developed each year. The OCFO should analyze which departments may benefit from having a separate indirect cost plan versus participation in a District-wide central services plan. The objective of

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this analysis is to maximize the District's reimbursement for its indirect costs. We believe that the preparation of these indirect cost plans timely could lead to significant additional revenues for the District.

We have noted that during the past year, the Department of Housing and Community Development and the Child and Family Services Agency have submitted cost allocation plans to the federal government for approval.

***Management's Response*****OIO – Management's Response**

The OCFO is in the process of ensuring that indirect cost plans are current and approved by the Federal Granting Agency.

**DCPS – Management's Response**

DCPS OCFO is currently assessing indirect cost rates to appropriate grants. We are also in the process of looking at eligible grants where indirect cost rates have not been applied so that local funds can be maximized and that all grants, including those federal grants, are being utilized to the fullest extent possible.

**Government Direction & Support – Management's Response**

We defer to agencies program management office for their comments. In our view, advantage of the ability to charge indirect costs to federal grants would be in our interest to provide agencies with assistance to more effectively use their grants. The methodology used should be standardized into a District-wide rate, except where it would be more advantageous to have an individual rate for an agency. We suggest that the OCFO establish procedures for doing this and monitoring its implementation. This new procedure would result in more cost savings, as more local expenditures may be allocated to federal funds as indirect costs.

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**(6) Timeliness of Cash Drawdowns under the District's Treasury State Agreement**

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients. Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transaction reports to the federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to assure that subrecipients conform substantially to the same standards of cash management as those that apply to the pass-through entity.

Treasury regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA) (Pub. L. No. 101-453), require State recipients to enter into agreements, which prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures prescribed by Treasury in Subpart B of 31 CFR part 205 (Subpart B).

We observed that the District does not fully take advantage of the cash drawdown provisions of its Treasury-State Agreement. We noted numerous programs where reimbursement of local funds expended were only drawn down from the U.S. Treasury one or two times during the fiscal year. We believe this situation results from improper coding of federal expenditures to local funds in SOAR, with drawdowns occurring only after reclassification of expenditures from local to federal funds, which may not occur until late in the year.

We recommend that OFOS institute additional training for those personnel involved in federal awards programs to ensure that they understand how to code federal expenditures to the proper SOAR accounts as they occur. We further recommend that OFOS identify a central point of contact at each agency to be responsible for ensuring that federal funds for all federal awards programs at the agency are drawn down timely. By drawing down federal funds more timely, we believe the District could earn significantly higher interest revenues on its invested local funds each year.

***Management's Response*****OIO – Management's Response**

It is a requirement that all grant-receiving agencies draw down cash for grants at least bi-weekly. Delays in drawdowns are costly to the District, because of lost interest on the local funds that the District has spent but for which it has not received reimbursement. These delays, in aggregate, can also contribute to cash flow problems, which requires the District to do costly short-term borrowing.

**DCPS – Management's Response**

DCPS OCFO would take full advantage of any program or training provided relative to the integrity of the reporting and spending process.

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**OFOS – Management’s Response**

The City Administrator, in conjunction with the OCFO Office of Integrity and Oversight, will issue a document within the next few weeks entitled *Requirements from the Annual Single Audit of Federal Awards* that addresses this issue by making the following statements and establishing the following requirements:

1. All grant-receiving agencies must draw down cash for grants at least bi-weekly.
2. All District agencies must immediately implement the policies and procedures discussed in this memo.
3. The *Grants Management Roles and Responsibilities* states that the responsibility for “Creating and enforcing District draw-down policies” has been assigned to OFT.

**Government Direction & Support – Management’s Response**

We have ensured that federal funds for all federal award programs at the agency are drawn down bi-weekly for FY 2003. Timely drawdowns could result in more revenues through interest earned to more than offset the cost stemming from its implement.

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**(7) Preparation of the District-wide Schedule of Expenditures of Federal Awards**

OMB Circular A-133 indicates that it is the auditee's responsibility to prepare the Schedule of Expenditures of Federal Awards (SEFA or Schedule). At a minimum, the District's SEFA should:

***Identify the Federal Awards Programs***

The Schedule of Expenditures of federal Awards (SEFA) should list individual federal programs by federal agency, as well as all federal program clusters. For federal programs included in a cluster, individual federal programs within the cluster should be listed. For R&D, total federal awards expended shall be shown either by individual award or by federal agency and major subdivision within the federal agency. Each federal award program in which the District participates is assigned a unique CFDA number by the awarding agency. The District must be able to track these CFDA numbers for a variety of reasons:

- Total federal awards expended, by CFDA number, must be reported to the Federal Audit Clearinghouse annually so that federal awarding agencies can monitor annual expenditures.
- Subrecipient agreements entered into by the District must identify the CFDA number to the subrecipient so that they are aware that they are receiving and expending federal awards and so that the subrecipient can make their annual report to the Federal Audit Clearinghouse.
- The CFDA number can be used within the SOAR system to identify individual federal awards so that total annual expenditures by individual program can be tracked and reported individually, as required, to the federal awarding agencies.

Our audit procedures revealed the following: (1) many District agencies were not able to identify the proper CFDA numbers for their federal awards programs; (2) numerous outdated CFDA numbers were included in the SEFAs provided to us by District agencies; and (3) District agencies could not always provide CFDA numbers for all programs included on the SEFA. Further, we observed that federal awards provided to the District as a whole, appear to include some research and development programs; however, these programs have not been clustered as required for reporting on the SEFA.

We noted that a data field exists within SOAR to identify CFDA numbers. We recommend that the OFOS require that all agencies use this field to identify federal awards so that annual preparation of agency SEFAs is facilitated. Also, to the extent agency personnel need assistance in identifying CFDA numbers or programs that are required to be clustered for the SEFA, they should contact the District's cognizant agency's (the U.S. Department of Health and Human Services) Technical Assistance Department for help.

Finally, we observed that District agencies often fail to provide the CFDA numbers to its subrecipients in its subrecipient agreements. We recommend that each agency review its subrecipient agreements to ensure they include identification of CFDA numbers and appropriate reporting instructions.

***Identify Pass-Through Expenditures***

For federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included on the Schedule. Although the District does not receive significant amounts of pass-through monies, a procedure should be established to identify and report any such amounts on the Schedule.

Further, to the extent practical, the District, as a pass-through entity, should identify in a note to the Schedule, the amounts provided to its subrecipients from each federal program.

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### ***Reconcile to SOAR***

Each District agency prepares a Schedule of Expenditures of Federal Awards at year-end. The individual agency schedules are used to compile the District-wide SEFA.

Our audit procedures revealed that many District agencies are not reconciling the agency prepared SEFA to SOAR, and as a result, over \$72 million dollars in adjustments were required to accurately report all District federal awards on the SEFA.

We recommend that each agency CFO and/or Director certify to the Single Audit coordinator that the agency prepared SEFA has been properly prepared and reconciles to the SOAR.

### ***Management's Response***

#### **OFOS – Management's Response**

The City Administrator, in conjunction with the OCFO Office of Integrity and Oversight (OIO), will issue a document within the next few weeks entitled "Requirements from the Annual Single Audit of Federal Awards" that addresses this issue by making the following statements and establishing the following requirements:

1. The OBP is examining all current federal grant records in SOAR to ensure that they have a valid CFDA number. If necessary OBP will require agencies to correct the CFDA number in SOAR.
2. District agencies are required to include CFDA numbers on any documents related to subgrants and are required to communicate the CFDA number to all subrecipients.
3. Agencies must promptly reconcile expenditures to the proper cost categories on a regular basis.
4. Deficiencies noted in the audit reports must be immediately corrected so they do not appear in subsequent audits, but more importantly, because good financial and program management demands that we do so. From this point forward, all individuals with grant management roles and responsibilities will be held accountable for correcting the deficiencies.
5. A Subrecipient Monitoring Manual has been developed for District-wide use. This manual will provide District agencies with subrecipient monitoring tools and practices that will enable the District to ensure and document that the dollars are being properly used.
6. The *Grants Management Roles and Responsibilities* states that the responsibility for "Providing reports on all grant activities" and "Maintaining records as required" has been assigned to the agencies; the responsibility for "Providing monthly reports on District-wide grant activities versus grant budgets and grant expenditures versus grant collections" has been assigned to OBP.
7. Training on operations, procedures, and management of the Subgrant Award Process, Subrecipient Monitoring, Time and Effort Reporting, Cash Drawdowns and other subject areas deemed necessary, will be offered through the Center for Work Force Development in conjunction with a subcommittee of staff from OPDB, OBP, CWD, OCA, OIO, and OCP.

#### **OIO – Management's Response**

The Office of Integrity and Oversight (Single Audit Coordinator) submitted a certification to each agency for certification that the SEFA had been properly prepared and reconciled to SOAR.

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**DCPS – Management’s Response**

DCPS OCFO will comply with any OFOS requirement in this area.

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**(8) Reconciliation of Federal Awards Reports to SOAR**

Virtually every federal award program in which the District participates requires that periodic reports be filed with the federal awarding agency. These reports must be supported by the books and records of the District and filed timely in accordance with the grant agreement. We observed that many of the District agencies preparing these reports use the Executive Information System (EIS) to prepare these reports. In certain instances, it is unclear how these EIS reports relate to the SOAR balances. In other instances, in addition to these EIS reports, we noted that the agencies may have prepared adjustments to the EIS reports for over/under reporting of expenditures. We found that while most reports were prepared and filed on time, the documentation supporting the amounts reported on these reports were not maintained. We believe that this occurred in instances where the federal reports were prepared and submitted by operating personnel, not OCFO personnel.

We recommend that the District require agencies filing reports with the federal awarding agency to clearly reconcile the amounts included on the federal report to SOAR balances. We further recommend that the reconciliation be approved by OCFO personnel prior to the submission of the report. While it is appropriate to use the EIS to prepare these reports, the EIS report must be reconciled to SOAR. Further, any adjustments made by the agency to the EIS report to arrive at the report balances must be supported. We further recommend that the agencies be required to maintain the support for the reported balances.

***Management's Response*****OFOS – Management's Response**

The City Administrator, in conjunction with the OCFO Office of Integrity and Oversight (OIO), will issue a document within the next few weeks entitled *Requirements from the Annual Single Audit of Federal Awards* that addresses this issue by making the following statements and establishing the following requirements:

1. Agencies must promptly reconcile expenditures to the proper cost categories on a regular basis.
2. Deficiencies must be immediately corrected so they do not appear in subsequent audits, but more importantly, because good financial and program management demands that we do so. From this point forward, all individuals with grant management roles and responsibilities will be held accountable for correcting the deficiencies.
3. The *Grants Management Roles and Responsibilities* states that the responsibility for "Providing reports on all grant activities" and "Maintaining records as required" has been assigned to the agencies; the responsibility for "Providing monthly reports on District-wide grant activities versus grant budgets and grant expenditures versus grant collections" has been assigned to OBP.

**OIO – Management's Response**

The District personnel should reconcile the amounts on the SF 269 (federal report) to the SOAR balance. The Agency Chief Financial Officer should ensure that the SF 269 is filed timely and certifies that it agrees to the SOAR balance.

**DCPS – Management's Response**

DCPS OCFO will comply with any of OFOS requirement in this area.