

U.S. Department of Veterans Affairs | Office of Business Oversight

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GPD Grantee Financial Management Training - Tracking and Recording of Costs

Presentation for
GPD Grantees
October 21, 2020

Presented by
Office of Business Oversight



Agenda

Topic	Speaker	Duration
Welcome & Introductions	OBO/GPD	5 minutes
Financial management system requirements	OBO	5 minutes
Cost centers and general ledger	OBO	10 minutes
Classifications of costs (Direct and Indirect)	OBO	10 minutes
The SF-425 and general ledger	OBO	10 minutes
Tracking costs and reviewing the general ledger	OBO	10 minutes
Open Discussion / Q&A	All Participants	10 minutes



Welcome & Introductions

- **Welcome message by GPD** – Yvette Green
- **OBO Team Members** – Omar Ochoa, Tony Huff and Nick Rayo
- **Training objectives:**
 - Define the financial system requirements for organizations receiving Federal grant funds
 - Explain the purpose of cost centers and how they may be used to record entries in the general ledger
 - Describe the difference between direct and indirect costs and the impact to the general ledger
 - Explain the importance for reconciling the general ledger to the SF-425
 - Understand best practices for tracking costs and reviewing general ledger outputs



Financial management system

- The financial management system of each non-Federal entity must provide for the following:
 - Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Communication tool to report on the financial health of the grant and demonstrate appropriate use of funds to VA
 - Accurate, current, and complete disclosure of the financial results of each Federal award or program
 - Records that identify adequately the source and application of funds for federally-funded activities
 - Written procedures, effective control over, and accountability for, all funds, property, and other assets
 - Comparison of expenditures with budget amounts for each Federal award



Note: See also [§ 200.333](#) Retention requirements for records



Purpose of cost centers

- The primary reason for the cost center element in the General Ledger is to assign ownership – for an individual or a group – for that particular transaction
- Cost Centers should have a budget
- The assignment of costs from one group to another – usually based upon activity
- Proactive management of the GL infrastructure is critical to keeping administrative costs down and allowing Finance and Accounting to focus on proactive analysis



Recording entries in the general ledger

- Start with a complete and thorough cost center review. It is difficult to make progress without first reviewing and assessing all of the cost centers and divisions. In this review, map out all of the divisions and cost centers to get the following detail:
 - The individual/group that is responsible for these costs. The cost center manager would be the person that is responsible for preparing/reviewing the budgets and monitoring budget-to-actual performance. In many cases, this will be the manager of the people that reside in the cost center. In addition, you might have defined additional rollups or hierarchies of cost centers up to the budget department.
 - If there are multiple cost centers for one cost center manager, define what additional detail this breakout provides. This can often be gathered from the cost center description.
 - Define how many people reside in each cost center



Knowledge Check 1



Classification of costs

- There is no universal rule for classifying certain costs as either direct or indirect “Facilities” and “Administration” (F&A) under every accounting system.
- A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective.
- Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards.



Direct costs

- Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.
- Typical costs charged directly to a Federal award are the compensation of employees who work on that award, their related fringe benefit costs, the costs of materials and other items of expense incurred for the Federal award. If directly related to a specific award, certain costs that otherwise would be treated as indirect costs may also include extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations.



Direct costs (continued)

- The salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if all of the following conditions are met:
 - Administrative or clerical services are integral to a project or activity;
 - Individuals involved can be specifically identified with the project or activity;
 - Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
 - The costs are not also recovered as indirect costs.



Indirect (F&A) costs

- Facilities and Administration Classification. For major nonprofit organizations, indirect (F&A) costs must be classified within two broad categories: “Facilities” and “Administration.”
 - “**Facilities**” is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.
 - “**Administration**” is defined as general administration and general expenses such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of “Facilities” (including cross allocations from other pools, where applicable).



Note: Non-federal entities **which have never held a negotiated rate** are eligible to elect the **de minimis rate of 10%** of modified total direct costs (MTDC).



Indirect (F&A) costs (continued)

- Diversity of nonprofit organizations.
 - Because of the diverse characteristics and accounting practices of nonprofit organizations, it is not possible to specify the types of cost which may be classified as indirect (F&A) cost in all situations.
 - Identification with a Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards. However, typical examples of indirect (F&A) cost for many nonprofit organizations may include depreciation on buildings and equipment, the costs of operating and maintaining facilities, and general administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting.
- Federal Agency Acceptance of Negotiated Indirect Cost Rates.
 - The negotiated rates must be accepted by all Federal awarding agencies.



Knowledge Check 2



Purpose of the SF-425

- Required Office of Management and Budget (OMB) financial reporting form to track the status of financial data tied to a particular Federal grant award.
- Captures the obligations and disbursements that occurred during the grant period
- Communication tool to report on the financial health of the grant and demonstrate appropriate use of funds to VA.



Note: A **separate** SF-425 must be done **for each grant award**.



Reconciling SF-425 to the general ledger

- Cash Receipts Reconciliation

- Verify that the reported cash receipts reconciles to the total amount of funding requested and received from VA through the end date of the reporting period.
- Verify whether the amount reported aligns with the entity's approved budget for the fiscal year.
- Verify whether the amount reported reconciles to the entity's general ledger/financial system.



Note: If the funding is received in the next reporting period, you must account for it during the period which it was earned.



Reconciling SF-425 to the general ledger (continued)

- Cash Disbursements Reconciliation
 - Review monthly statement of disbursements (SOD) related to the specified grant and verify that the reported cash disbursements amount reconciles to the entity's SOD.
 - Verify whether the amount reported aligns with the entity's approved budget for the overall fiscal year.
 - Verify whether the amount reported reconciles to the entity's general ledger/financial system.



Summary of Reconciling SF-425 to the general ledger

- 10b Cash Disbursements – Amount of Federal funds that have been disbursed; may not be greater than amount of Cash Receipts.
- 10e Federal Share Expenditures - Cumulative federal dollars spent should not exceed total amount of federal dollars received during the reporting period.
- 10I Program Income – This amount should represent actual additional income earned as a result of the award, not including contributions or donations.
- Amounts reported on SF-425 should be specific to the grant related activities only



Note: If your organization has an active Federal contract with the VA, the related costs/expenditures should not be reported on your SF-425.



Knowledge Check 3



Tracking project costs

- To ensure adequate fiscal administration, accounting, and auditability of all Federal funds received, records should be established using the Federal agency “total project cost”. This includes all of the following types of funding sources:
 - Federal and State funds
 - Match
 - Program income
 - Any other funds received for the program

- The grantees’ general ledger accounting system must ensure that GPD funds are not commingled with funds from other Federal or private agencies. If no such system exists, one should be established to adequately track funds according to each budget category.



Reviewing general ledger outputs

- Budgets should be based upon the total estimated costs for the project including all funding sources. List anticipated expenditures according to the funding source from which they will be paid. The example below displays one sheet of a sample budget; additional back-up pages will further break out personnel and other costs.

Budget Categories	Federal Award	Non-Federal Amount	Total
Personnel/Direct Labor	\$75,000	\$25,000	\$100,000
Food	\$5,000	—	\$5,000
Consultants/Contracts	\$10,000	\$5,000	\$15,000
Other	\$15,000	\$5,000	\$20,000
Total Direct Costs	\$105,000	\$35,000	\$140,000
Approved Indirect Cost Rate or 10% De minimis rate of MTDC	\$10,000	\$2,500	\$12,500
Total Project Cost	\$115,000	\$37,500	\$152,500



Knowledge Check 4



Questions?



References

- For additional information on grants management, please visit the website of the Council on Financial Assistance Reform at <https://www.cfo.gov/knowledge-sharing/grants-resources/>. The Government Printing Office also maintains electronic copies of the Code of Federal Regulations at <https://www.gpo.gov/fdsys/browse/collectionCfr.action?collectionCode=CFR> and e-CFR at <https://www.ecfr.gov>.
- 2 CFR Part 200
- 38 CFR Part 61
- OMB Federal Financial Reporting SF 425



Thank you for your participation in the Tracking and Recording of Costs Training

@ For questions related to today's training please email
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