Beyond the Numbers: The Essentials of Fiscal Contracts Compliance

HSD Provider Conference
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Agenda

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Who Is Fiscal Compliance

Overview:

Per your contract requirements , our small but mighty team of four monitors all **fiscal** compliance of the County's contracts to our Community Based Organizations, or "Subrecipients". By doing this we encompasses tools like:

- Fiscal Compliance Reviews "On Site"
- Financial Statement Analysis
- Fiscal Risk Assessments
- Management Inquiries

Our fourth position within Fiscal Compliance solely monitors compliance for our Supportive Housing Services providers, Luke!

What this is *not,* is a program monitoring review. We are actually a separate, Central function, and are only looking at fiscal monitoring requirements.

Subrecipient Selection Process - Federal Funding, Financial Risk, and by contract administer request Subrecipient accounting/financial practices are measured against County contracts, all Federal, State and Local rules and regulations as well as the following authoritative accounting pronouncements:

- Generally Accepted Accounting Principles (GAAP)
- Generally Accepted Auditing Standards (GAAS)
- Government Auditing Standards
- OMB Circular 2 CFR 200

What Does Fiscal Compliance Do?

What does monitoring mean to us? *A process that ensures organizations adhere to the financial terms and conditions within the legal contract, confirm policies and procedures, identify gaps and remediate issues to reduce potential risk.*

Fiscal Compliance Review – General Procedures

- **Financial Policies:** Review written policies and procedures for compliance with funding source and County requirements.
- **Internal Controls:** Assess the design and effectiveness of internal controls in mitigating specific organizational risks.
- **Regulatory Compliance:** Verify adherence to contract terms and applicable Federal, State, and Local regulations.
- **Accounting Systems:** Ensure the chart of accounts, general ledger, and financial reporting meet County and funding standards.
- **Capital Assets:** Evaluate the asset register against capitalization thresholds and independently recalculate depreciation for accuracy.
- **Expense Sampling:** Test organization-wide expenses and source documents to confirm active internal controls and proper approvals.
- **Payroll Testing:** Review employee eligibility files and recalculate compensation using timesheets to ensure accurate payment.
- **Invoice Reconciliation:** Trace contract invoices to General Ledger detail to verify expense allowability and accurate indirect rates.

Fiscal Compliance Review/Scoring

Scoring System:

1 - Fully Compliant

2 - Substantially Compliant

3 - Passably Compliant

4 - Minimally Compliant

5 - Non-Compliant

6 - Not Ratable

Report Components:

- **Findings:** Mandatory corrections tied to specific contract rules or regulations.
- **Recommendations:** Optional best practices for organizational improvement.

30-Day Response Window: Organizations have 30 days to respond to the findings with their corrective action plan to mitigate the findings.

- The organization can also disagree with the finding, and provide relevant supporting documentation justifying their position.

***Confidential Draft Phase:** The initial report remains strictly confidential between your organization and Fiscal Compliance as your response may alter the final findings or score.

Final Distribution: Only after receiving your response is the report finalized, packaged with your response, and shared with the relevant County contracting departments.

Examples of Opportunities

Reporting & Audits

- Delays in submitting audited financial statements within the required nine-month timeframe.
- Overlooking specific financial audit requirements triggered by contract thresholds.
- Missing the submission windows for semi-annual high-risk reporting.

Accounting & Recordkeeping

- Opportunities to more fully document required financial policies and internal controls.
- Bank reconciliations experiencing completion delays, or variances between the reconciliation and the General Ledger.
- Accounts Payable and Accounts Receivable aging reports (subledgers) that do not cleanly match the General Ledger balances.

Examples of Opportunities

Billing & Expenses

- Invoicing based on budgeted estimates rather than actual, incurred expenses.
- General expenses lacking sufficient source documentation or falling outside allowable contract parameters.
- Cost allocation plans that are unwritten, or methodologies that need adjustment to distribute costs equitably across programs.
- Mileage reimbursement logs missing specific trip details (start/end locations, business purpose) or inadvertently including standard commuting miles.

Payroll & Personnel

- Payroll allocations based on estimates rather than supported by actual time-and-effort documentation (like signed timesheets).
- Incomplete personnel files, such as missing documentation for I-9s or background checks.

Best Practices for Budget Preparation

Budgeted Salaries & Wages / FTE

- **List Titles and Names:** Include both the position title and the name of the current employee filling that role.
- **FTE Verification:** This is a helpful safeguard to ensure that an individual employee's total allocated time across all funding sources does not accidentally exceed 1.0 FTE.
- **Organizational Charts:** We highly recommend attaching your organizational chart.

Admin vs. Direct Supervision

- **Direct vs. Indirect Roles:** While direct program supervision is an allowable direct expense, upper management and administrative roles generally should not be budgeted as direct positions.
- **Indirect Cost Pools:** Administrative roles typically fall into your indirect cost pool and are recouped through your approved indirect rate. **Guiding Principle:** If a position supports the entire organization or multiple programs—and would exist regardless of this specific contracted program—it is almost always considered an indirect cost.

Best Practices for Budget Preparation

The Value of Clear Descriptions

- **Justify Line Items:** Providing a clear description and justification for each budgeted line item is highly recommended.
- **Streamlined Reviews:** This transparency helps both your organization and our program reviewers easily understand the purpose and reasonableness of each expense, leading to a much smoother review process.

Setting Up for Invoicing Success

Applying Indirect Rates

- **Base on Actuals:** Ensure your indirect rate is applied only to actual, incurred direct expenses (e.g., $0 in direct expenses equals $0 in indirect).
- **Exclude Distorting Costs:** Remember to exclude ineligible items from your indirect rate calculation, such as direct client assistance, capital expenditures, and the portion of each sub-award exceeding $50,000.

Expense Support & Budget Alignment

- **Bill Actual Costs:** Invoices should always reflect actual incurred expenses rather than a flat, estimated amount (like 1/12th of the annual budget).
- **Include Documentation:** Ensure all billed expenses are accompanied by the necessary supporting documentation.
- **Seek Prior Approval:** If you need to shift budget categories or exceed contractually allowed amounts, reach out for approval *before* invoicing.

Setting Up for Invoicing Success

Categorizing & Classifying Expenses

- **Segregate Costs:** Keep your indirect (overhead) expenses clearly separated from direct program expenses.
- **Verify Allowability:** Before billing, double-check that expenses are ordinary and necessary to the program, and allowable under your specific funding source, contract conditions, and County Fiscal Policies.
- **Avoid Duplication:** Ensure that billed expenses aren't already covered by another funding source, another program, or inadvertently included in your indirect cost pool.

Fiscal Comp Commons & Public Site

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Q&A Engagement

Thank you for your time.