

Accountability Is Here To Stay

Not-for-profit ("NFP") organizations have learned, especially since the introduction of the American Recovery and Reinvestment Act of 2009 ("ARRA"), that the accountability requirement for the use of public dollars is great, and that emphasis is increasingly placed on controlling costs, justifying spending, and timely financial reporting. Organizations must be ready to provide services, monitor costs, and report program results on a current basis; this will require systems of internal control and procedures that will allow for the gathering and maintaining of information on a real-time basis.

It is critical, therefore, that NFP executives review with their advisors the organization's capabilities to determine whether they have the systems of controls and documentation in place to support accountability requirements. Further, they need to develop a working knowledge for Federal awards and the compliance requirements set forth by Office of Management and Budget ("OMB") Circular A-122, "Cost Principles for Non-Profit Organizations."

There are 14 basic compliance requirements for Federal awards. They are:

- Activities allowed or unallowed
- Allowable costs/cost principles
- Cash management
- Davis-Bacon Act
- Eligibility



- Equipment and real property management
- Matching, level of effort, earmarking
- Period of availability of Federal funds
- Procurement and suspension and debarment
- Program income
- Real property acquisition and relocation assistance
- Reporting
- Subrecipient monitoring
- Special tests and provisions

While all 14 requirements are not applicable to all Federal awards, it is critical that they be reviewed and that members of your organization understand their specific requirements. Funding programs such as the ARRA funding may result in new compliance requirements. For example, ARRA money awarded for construction projects are subject to the Davis-Bacon Act and the procurement and suspension and debarment requirements.

Some awards may have additional or specific requirements; for example, the ARRA awards had certain requirements on reporting that separate the ARRA and non-ARRA funds in terms of reporting and accountability, allowed and unallowed activities, and specific reporting on the program results. The operating requirements for your funds can be found in the program legislation, the Federal awarding agency regulations, and the terms and conditions of the contract or award.

OMB Circular A-122 addresses the issue of allowed and unallowed costs and specifically states which costs are not allowed as charges against Federal awards. An allowed cost should:

- Be reasonable for performance of the award and be allocable to the award as either a direct or indirect charge;

- Conform to limitation or exclusions of certain costs as specified in Circular A-122;
- Be consistent with policies and procedures of all activities of the awarding organization (Federal, local, and private funding);
- Be allowed on a consistent basis;
- Be determined in accordance with U.S. generally accepted accounting principles ("U.S. GAAP");
- Not be used for meeting cost sharing or match purposes; and
- Be adequately documented.

It is important that management review its current operations to determine that costs are appropriate. It is important to focus on what portion of the organization's operations *provide* direct services and what portions *support* direct services. This information helps management understand the differences between direct and indirect costs and enables them to set budgets that will assist in not only monitoring costs but also to plan for the staffing levels and competencies necessary to administer programs.

Indirect costs should be identified to their smallest component, that is, administrative, facilities, and corporate services such as IT support and human resources. Allowed costs are allocable to the award if they are incurred specifically for the award (direct costs) or benefit the award and other programs and can be distributed in proportion to the benefit received (indirect costs).

Circular A-122 also discusses allowable cost documentation requirements, particularly with regard to employee compensation. There are several key areas to note, primarily concerning compensation. Under Circular A-122, salaries and wages, whether direct or indirect costs, must be based on documented payrolls approved by a responsible official of the organization.

The distribution of payroll costs needs to be reported by personnel activity reports. The report must document actual costs after the activity occurs. Budget estimates do not qualify as support for charges to awards.

An organization must maintain a human resource system that documents each employee's job position (including title and award being charged), salary or wage being paid, and award being charged as

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approved by the appropriate official. Furthermore, it needs to maintain a reporting system such as a time sheet system or time card which accounts for the employee's activity. The report should be signed by the employee and a supervisory employee having first-hand knowledge of the activities performed by the employee. The organization needs a payroll system that allocates cost to the appropriate fund.

One can assume that new programs will cause additional strain on an organization's resources. ARRA had certain requirements on reporting, subrecipient monitoring, and allowable costs which increased the cost to operate the program. As such, an evaluation of personnel needs could ensure that the organization has resources to comply with award requirements.

It should also be noted that while Circular A-122 discusses many other specific costs and whether such costs are allowable or unallowable, it also provides information on certain costs such as donated goods, space, or services that, while not reimbursable under grant awards, may qualify to meet the Federal match requirement.

The level of scrutiny by both the public and the private sector is at a very high level. Non-compliance can be administratively problematic and potentially costly. Before committing to a program ask yourself the following questions:

- 1) Do I understand the requirements?
- 2) Do I have the capabilities of operating the program and accounting for the program as required?

- 3) If necessary, do I have the ability to pay for the resources needed to operate and account for the program in accordance with the requirements?

If you cannot answer all of these questions with a resounding "yes," this may not be the funding you should be accepting. ■

Kelly Frank, CPA, is a J.H. Cohn partner and director of the Firm's Not-for-Profit Industry Practice. She may be reached at kfrank@jhcohn.com or 973-403-7999.

For more information on J.H. Cohn's Not-For-Profit Industry Practice, go to <http://www.jhcohn.com/industry>

CALIFORNIA

Los Angeles

11755 Wilshire Boulevard
17th Floor
Los Angeles, CA 90025
310-477-3722

San Diego

9255 Towne Centre Drive
Suite 250
San Diego, CA 92121-3060
858-535-2000

Warner Center

21700 Oxnard Street
7th Floor
Woodland Hills, CA 91367
818-205-2600

CAYMAN ISLANDS

P.O. Box 1748 GT
27 Hospital Road
George Town, Grand Cayman
877-704-3500 x7839

CONNECTICUT

Farmington

76 Batterson Park Road
Farmington, CT 06032
860-678-6000

Glastonbury

180 Glastonbury Blvd.
Glastonbury, CT 06033
860-633-3000

New London

125 Eugene O'Neill Drive
Suite 120
New London, CT 06320
860-442-4373

Stamford

1177 Summer Street
Stamford, CT 06905
203-399-1900

MASSACHUSETTS

Springfield

One Monarch Place
Suite 2020
Springfield, MA 01144
413-233-2300

NEW JERSEY

Roseland

4 Becker Farm Road
Roseland, NJ 07068
973-228-3500

Eatontown

27 Christopher Way
Eatontown, NJ 07724
732-578-0700

Metro Park

333 Thornall Street
Edison, NJ 08837
732-549-0700

Princeton

103 Carnegie Center, Suite 311
Princeton, NJ 08540
609-896-1221

NEW YORK

Manhattan

1212 Avenue of the Americas
New York, NY 10036
212-297-0400

Long Island

100 Jericho Quadrangle
Suite 223
Jericho, NY 11753
516-482-4200

White Plains

1311 Mamaroneck Avenue
White Plains, NY 10605
914-684-2700



877-704-3500
www.jhcohn.com

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