

The Financial Risk Management System (FRMS) is a CDPHE program that assesses the financial risk factors of local public health agencies (LPHAs). The FRMS has gathered common LPHA recommendations by review area with the associated Office of Management and Budget (OMB) citation. Allowable costs are subject to the funding program's determination and contract. Grantees are required to be good stewards of funds by using the money in the most effective way possible.

In accordance with 2 CFR § 200.302(b)(7) (Financial Management), all non-Federal entities must ensure all financial policies and procedures are documented and updated. CDPHE recommends LPHAs train new and existing staff on the OMB requirements.

## Personal Services

### 2 CFR 200.430 (g) Standards for Documentation of Personnel Expenses

Sub-recipients must maintain a system of internal controls that provides reasonable assurance that the charges are accurate, allowable, and properly allocated. The most common internal control system that sub-recipients utilize is time-and-effort reporting.

#### FRMS Common Recommendations

- Ensure personnel services costs are accurate and based on actual time-and-effort as shown in timekeeping records and not estimated or budgeted amounts.
- Ensure employees that work on multiple programs list 100% of actual hours worked to reflect the total activity for which the employee is compensated.
- Ensure the total gross salary amounts listed on the payroll documentation match total gross amounts on the CDPHE invoices.
- Exclude paid leave hours from the total activity calculation.
- Supporting documents for fringe expenses must match reported fringe on the invoice to CDPHE.
- Adopt policies for fringe expense calculation.
- Overtime expenses should be prorated among all programs or activities worked during the pay period and not charged exclusively to the program the employee worked overtime in.

## Supplies and Operating

### 2 CFR 200.403 through 2 CFR 200.405 Cost Principles Basic Considerations

Supplies and operating costs used to carry out the Federal award must be *necessary* for the operation of the Agency or performance of the Federal award; *reasonable* in its nature and amount; and *allocable* to a particular Federal award based on relative benefit received.

#### FRMS Common Recommendations

- Strengthen documentation and support for expenses by showing how the expense benefits the program and how a fair and equitable allocation methodology is used to allocate expenses proportionately when a purchase benefits multiple programs.
- When a cost benefits two or more projects or activities, the cost must be allocated to projects based on the proportional benefit. Ensure equitable allocation of resources that are shared across programs, such as cell phones or rent costs.
- Ensure expenses are reimbursed from CDPHE for the month the payment appears on the ledger.
- Supplies and operating equipment must be purchased for use during the budget period and not for future budget years (200.403(a)). Agencies must closely monitor budget vs. actual costs to avoid large spend-down efforts at the end of the contract period.
- Food, beverage, and incentive costs generate a higher level of scrutiny with federal funds. The Agency must exercise discretion and judgment to ensure these costs are allowable, reasonable, necessary, and allocable in addition to funding allowability.

# Travel

## 2 CFR 200.475 Travel Costs

Documentation for travel costs must justify that costs are reasonable and consistent with written travel policies of the Agency; and may be charged on an actual cost basis, on a per diem or mileage basis, or a combination of the two.

### FRMS Common Recommendations

- Ensure that travel costs are adequately documented with the purpose of travel and to/from addresses.
- Strengthen source documentation for travel and food expenses by providing *itemized* receipts and additional information needed to determine if costs are reasonable, necessary, and allowable.
- Seek reimbursement for training and conference costs **AFTER** attending the training or conference. CDPHE cannot reimburse for training or conference costs, including hotel stays, until confirming the staff member or coalition member attended the training.

# Contractual Services

## 2 CFR 200.332 Requirement for Pass-through Entities

The Agency must monitor the activities of the Sub-recipient to ensure the subaward is used for authorized purposes and that the subaward performance goals are achieved. Subcontractors/Sub-recipients shall comply with all applicable rules and regulations.

### FRMS Common Recommendations

- Review invoices with source documentation, progress reports, and deliverables.
- Ensure reimbursement invoices are submitted on time and reflect actual costs, not budgeted amounts.
- Ensure adequate source documentation is available to support the cost of services provided. This includes supporting documentation for approved indirect cost rates.
- Address noncompliance through audits, on-site reviews, and other means such as check-in meetings, providing technical assistance, regular reminders of deliverable due dates, and frequent communication.
- Ensure that policies and procedures and internal controls are in place for adequate monitoring of any Agency Sub-recipients, including sufficient documentation in support of Agency Sub-recipient expenses. See [FRMS Subaward Guidance](#).
- Ensure that Sub-recipients have signed and dated Memorandum of Understanding (MOU) and/or other contractual documents in place.
- Create written policies and procedures to identify disbarred/suspended contractors.

# Equipment

## 2 CFR 200.439(b) Equipment and Other Capital Expenditures

Capital expenditures for *special purpose equipment* are allowable as direct costs, provided that items with a unit cost of \$5,000 or more have the prior written approval of the Federal awarding agency or pass-through entity. Capital expenditures for *general purpose equipment*, buildings, land; or for improvements to land, buildings or equipment are unallowable as direct costs except with prior written approval of the Federal awarding agency or pass-through entity.

### FRMS Common Recommendations

- Equipment is defined as tangible items not considered real property with a useful life of more than a year and a unit cost of more than \$5,000. However, if the Agency's internal policy defines equipment as less than the \$5,000 Federal threshold, then it must use the lower amount for equipment purchased for Federal purposes.
- Equipment must be used by the Agency in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by the Federal award.

# Other Expenses

2 CFR 200.454 Memberships, Subscriptions, and Professional Activity Costs; 2 CFR 200.445 Goods or Services for Personal Use	2 CFR 200.445 Goods or Services for Personal Use (Gift Cards)
Membership and subscription to business or professional organizations are allowable, unless specified in the contract terms and conditions.	Costs of goods or services for personal use of the non-Federal entity's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

## FRMS Common Recommendations

- Membership and subscriptions to business or professional organizations must be supported with documentation.
- If gift cards are allowed under the terms and conditions of your grant award, then the purchase of gift cards must be adequately documented, properly secured, and appropriately distributed. The amount of the gift card must be reasonable in relation to the effort performed. The Agency should be prepared to provide [gift card documentation](#) if requested.

# Indirect

## 2 CFR 200.414 Indirect (F&A) Costs

It is essential that each 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. Additionally, non-Federal entities may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) indefinitely. Once the de minimis rate is elected, it must be used consistently for all Federal awards until the entity negotiates a new rate. Existing negotiated rates will remain in place until they expire and become effective at the time determined by the parties during negotiation of the rate.

## FRMS Common Recommendations

- The agency should submit an attestation letter if taking an indirect rate that is less than their negotiated rate.
- Meet with CDPHE Internal Audit to discuss indirect rate and shared expenses.
- If indirect costs are requested for reimbursement, the Agency must negotiate an indirect cost billing rate or use a de minimis rate (10% of modified total direct costs). The de minimis indirect cost rate is only available to Sub-recipients that have never previously had a negotiated indirect cost rate.
- MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition reimbursement, scholarships and fellowships, participant support costs, and the portion of subawards and subcontracts in excess of the first \$25,000.

### Cost Allocation

2 CFR 200.405

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Recommendations

- Adopt a written cost allocation method for personal services and goods & services, and include operating procedures. See [Cost Allocation Guidance](#).

### Cash Management

2 CFR 200.303

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Recommendations

- Secure cash with multiple layers of security and limit access to cash.
- Regularly deposit cash and checks.

Budget Maintenance

2 CFR 200.208

Recommendations

- Add alerts to budgets for projected overages.
- Schedule time to formally review budgets with the agency, county budget team, and BOH.

Record Retention

2 CFR 200.334

Recommendations

- Retention policies and procedures must align with funding requirements.
- Ensure emergency plan is in place to access financial records.

Inventory

2 CFR 200.334 - 200.338

Recommendations

- Ensure documented policy and procedure on inventory assets.
- Create inventory log for items which require tracking.
- Complete item count on regular interval.
- Avoid stockpiling at end of contract period.

Purchase Cards

2 CFR 200.303

Recommendations:

- Ensure policy and procedure details spending authority and define purchasing limits.
- Limit access to cards.
- Separation of duties for users, approvers, payments, and reconciling.
- Require training for users.

The Uniform Guidance 2 CFR § 200.303 outlines the **internal controls** required. See *below* for the foundations of strong internal controls.

Effective Monitoring	Evaluate and monitor compliance. Take prompt action when noncompliance is detected. Monitoring tools include clear contracts, measurable deliverables, and performance improvement plans.
Separation of Duties	Thought of as checks and balances. Purchase requestors should not be responsible for approvals, custody, or record keeping. Demonstration of segregation of duties includes authorization and purchase request processes and inventory tracking.
Control Environment	What’s the “tone at the top”? From the top down, agencies should strive for openness, strong internal culture of training and accountability, attention to detail in record keeping, and a commitment to integrity and ethical values.
Trained Employees	Train employees in grant compliance, policies, and processes. Staff should not interact with an agency’s financial system until training is completed. Training should be ongoing.
Written Policies and Procedures	Formalize written policies and procedures. Key written policies and procedures include the purchasing and procurement process, how time and effort are recorded and charged, and the reconciliation process.

For additional technical assistance on compliance-related matters, please feel free to contact FRMS at [cdphe\\_contractmonitoring@state.co.us](mailto:cdphe_contractmonitoring@state.co.us)