



Compliance and Regulatory Guidelines: Understanding Your Responsibilities, Setting Up Internal Controls & Compliance

Participant's Questions & Answers

1. How important are Board activities in providing Oversight to a small non-profit?

It is important the board is involved in providing oversight, even to a small non-profit as they are to be engaged, as they are to provide the governance duties of the nonprofit. Those governance duties include, as it relates to today's training, they are to oversee the financial health of the organization and ensure legal compliance. By being engaged, there is more opportunity for the board to address compliance issues, such as internal controls, in a timely manner.

Check out the Fundamentals for Nonprofits, provided by the Nonprofit Finance Fund:
<https://nff.org/fundamental/best-practices-nonprofit-boards>

2. What does pass-through entity mean?

When a non-federal entity receives an award directly from a federal awarding agency, they become a recipient of federal funds and are sometimes referred to as a prime recipient (2 CFR 200.1). If the prime recipient is permitted and chooses to distribute award funds to other non-federal entities, they are then considered a pass-through entity, or a PTE, as those funds are being passed through from prime recipient to subrecipient, through the subawarding process. You can read more about pass-through entities here [Success as a Pass-through Entity](#).

3. Why is management oversight and support of internal control procedures so important? Can't we just trust employees to do their job as they were trained.

Unfortunately, Trust is NOT an Internal Control. Continuous monitoring, and education are required to maintain an organization's financial integrity over the long term.

*Per [2 CFR 200.303 Internal controls](#), the non-Federal entity **must**:*

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

(b) *Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards.*

(c) ***Evaluate and monitor the non-Federal entity's compliance*** with statutes, regulations and the terms and conditions of Federal awards.

(d) ***Take prompt action when instances of noncompliance are identified*** including noncompliance identified in audit findings.



(e) **Take reasonable measures to safeguard** protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, State, local, and tribal laws regarding privacy and responsibility over confidentiality.

Internal Controls are required to be continually enforced, monitored and evaluated as part of the terms of accepting a federal grant. Failure to do can result in disbarment, legal costs, public embarrassment, and other legal consequences up to and including prison time.

4. Can Admin and Indirect funds be used for executive salaries?

Salaries can be considered as either a direct or indirect cost (note, how salary is charged must be consistent across all funding streams) and must be documented in accordance with generally accepted accounting practices. The percentage must reflect the time and effort of that executive’s activities in relation to the federal award. Don’t forget, reporting including the names and total compensation of the five highest-paid officers of an entity, if in the preceding fiscal year, that entity received: 80% or more of its annual gross revenues in Federal awards, \$25,000,000 or more in annual gross revenues from Federal awards, and the public does not already have access to data on executive compensation through reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934, or section 6104 of the Internal Revenue Code of 1986, must be reported via the Federal Subaward Reporting System (FSRS) because of the Federal Funding Accountability and Transparency Act (FFATA). Visit [FSRS - Federal Funding Accountability and Transparency Act Subaward Reporting System](#) for further information.

5. How do you get a negotiated rate for indirect costs?

To negotiate a rate, you must first develop an indirect cost rate proposal and submit this to your cognizant agency for indirect costs for approval. The requirements for developing and submitting a proposal should be reviewed and can be found in [Appendices III-VII and Appendix IX of the Uniform Guidance](#) – each appendix is specific to the type of non-federal entity.

Appendix III	Indirect (F&A) Cost Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs)
Appendix IV	“” For Nonprofit Organizations
Appendix V	State/Local Governmentwide Central Service Cost Allocation Plans
Appendix VI	Public Assistance Cost Allocation Plans
Appendix VII	States and Local Government and Indian Tribe Indirect cost proposals
Appendix XI	Hospital Cost Principles

Before you can negotiate an indirect rate, your organization must have an established accounting system and that system must provide adequate internal controls to insure accountability and accounting accuracy and reliability.

To prepare an Indirect Cost Rate Proposal you should consider the appropriate method your organization should use, i.e., a simplified allocation method. Documents you may need to include are an organizational chart, a narrative explaining compliance with 2 CFR 200.430 (if you’re a nonprofit),



examples of employee timesheets, a signed cost policy statement, personnel costs including fringe benefits breakdowns, a statement of total costs, supporting the indirect and direct costs by expense category, audited financial statements (if available), certification that your proposal was prepared in accordance with the cost principles set forth in 2 CFR 200 Appendices (above), and a listing of grants and contracts notice of awards

Check Out [DCD-2-CFR-Guide.pdf \(dol.gov\)](#) for a guide on indirect cost rate determination from the U.S. Department of Labor for nonprofits and commercial organizations

Once you prepare your proposal you will have to obtain Cognizant Agency Approval for review to then receive your negotiated indirect cost rate agreement (NICRA). Find your Federal Cognizant Agency for approving indirect rates here [Partial List of Other Federal Cognizant Agencies Approving Indirect Rates | U.S. Department of Labor \(dol.gov\)](#)

6. How important is the cost allocation plan in determining whether costs can be charged as a direct or indirect. If I charge 100% of my costs to federal programs, can I still charge de minimis indirect?

A cost allocation plan is documentation of the process used to identify and assign costs. Types of costs include direct costs, or costs that can be directly associated with a specific cost objective, and indirect costs, costs that cannot be related to a specific cost objective. A Modified Total Direct Cost (MTDC) is a common indirect cost rate allocation base. The De minimis rate of 10% can be used by any non-federal entity that has never received a negotiated indirect cost rate. This rate may be used indefinitely subject to review and approval by the federal grantor (2 CFR 200.414(f))

As a note, a de minimus rate must only be used to pay overhead costs that are not directly charged to federal awards. If all costs are charged directly, a recipient may not also charge the 10% de minimus rate.

- **A Guide for Indirect Cost Rate Determination for [Nonprofit and Commercial Organizations](#)**
- **Guidance on Indirect Costs for [State and Local Governments](#)**

