

RURAL DEVELOPMENT PROJECT POLICIES AND PROCEDURES	Issued by: RDP Statewide Program Officer- Maile Lu'uwai	Policy No.: FIN 001
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Subject: <i>Financial Management</i>	Approved by: RDP Statewide Program Coordinator-John Dunncliffe	Revision No.: N/A
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I. **PURPOSE:** To guide RDP staff in the financial management and oversight of grant funds.

II. **STANDARDS FOR FINANCIAL MANAGEMENT**

RDP staff is required to comply with the federal cost principles and requirements outlined in OMB Circular A-21 and OMB Circular A-110. It is the responsibility of each staff member to have access to the most recent version of each circular. The circulars are available on the RDP website and the Department of Labor website.

A. **OMB CIRCULAR A-21: COST PRINCIPLES FOR EDUCATIONAL INSTITUTIONS** establishes principles for determining costs applicable to sponsored agreements, contracts, and other agreements with educational institutions. The 1998 revisions affect not only the development of Facility and Administration (F&A) rates, formerly known as Indirect Costs, but also the way in which direct costs are charged to sponsored programs.

B. **OMB CIRCULAR A-110: UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND AGREEMENTS WITH INSTITUTIONS OF HIGHER EDUCATION, HOSPITALS, AND OTHER NON-PROFIT ORGANIZATIONS** provides standards for obtaining consistency and uniformity among Federal agencies in the administration of grants. The Financial Management Standards section of OMB Circular 110 requires that financial management systems assign financial costs (and any income) to program activities and develop unit costs if needed. The Department of Labor codified OMB Circular A-110 in 29 CFR Parts 95 and 97.

III. **FEDERAL COST PRINCIPLES AS ESTABLISHED BY OMB**

RDP is required to relate finance data to performance data. At minimum, all RDP financial management systems will provide for:

1. Accurate, current, and complete disclosure of financial results of each grant project.
2. Records that identify adequately the source and application of funds.
3. Effective control over and accountability for funds, property, and other assets.
4. Comparison of outlays with budgeted amounts for each award.

5. Accounting records including cost accounting and source documentation.

RDP must comply with the following categories, known as types of compliance, but which are also standards of internal control, on which it may be audited by its external auditors, A-133 major program auditors, or federal auditors.

IV. ALLOWABLE VS. UNALLOWABLE COSTS

Total allowable costs are composed of allowable direct costs and allocable portion of indirect costs. OMB Circular A-21 provides general guidance on overall cost principles. Section J provides clarification and explanations for costs that are allowable and unallowable and the circumstances and criteria that determine whether the costs are or are not allowable.

A. Allowable Costs: In summary, the following cost principles must be used in determining allowed costs for RDP grants:

1. Costs must be reasonable and necessary for the performance and administration of the grant.
2. Costs must be allocable to grant. A cost is allocable to a particular cost objective (that is, a specific function, program, or project) if the goods or services involved are charged or assigned to such cost objective in accordance with the relative benefits received.
3. Costs that are given consistent treatment through generally accepted accounting principles (GAAP) appropriate to the circumstances. A cost may NOT be assigned to a grant as a direct cost if any other cost incurred for the same purposes in like circumstances was allocated to another grant as an indirect cost.
4. Costs must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items [Reference A-21C.2].
 - a. The "**Prudent Person**" Rule is used to determine if a cost is reasonable. This rule provides that if a prudent person would have purchased the good or service for the same amount under similar circumstances then the cost is reasonable. Costs must be necessary for the performance of the sponsored agreement. A particular cost may be allowable on one project, where it is needed for performance, but be unallowable on another project where no similar performance requirement exists.
 - b. Costs should be allocated to users in proportion to the benefits received. For example, the cost of repair for a piece of equipment used by two projects should be divided between the two projects. The salary of a staff person working on two projects should be charged to both projects based the apportioned time spent on each project.
 - c. Costs applicable to one award or activity may not be charged or shifted to another award or activity. It is not allowable to move expenditures from Project A to Project B in order to eliminate an overexpenditure on Project A.

B. Disallowed Costs: The following costs are NEVER allowable (for either direct or indirect cost purposes): Alcohol, bad debts, commencement activities, convocations, donated goods and services, goods and services for personal use, contingencies, lobbying,

housing and living expenses, memberships and subscriptions, entertainment, first class travel.

V. PROCUREMENT PROCEDURES AND RECORDS MANAGEMENT. RDP procurement procedures and records management that conform to applicable federal laws and the regulations and standards contained in OMB Circular A-110 (see .41 - .48 for the standards) and 29 CFR Sections 95.41 through 95.48. *See Policy No. MAN 0002-Records Retention & Management.*

VI. SF 269 & PERFORMANCE REPORTS. RDP is responsible for managing and monitoring each project, program, subaward, function or activity supported by its funds. RDP will use the Financial Status Report SF-269 to report financial activity and a Performance Report to report program activity. The Performance Reports will contain comparison of actual accomplishments with the goals and objectives for the period, reason why the established goals were not met and other pertinent information. RDP will submit SF 269 and Performance Reports no later than 30 days after the quarter end.

VII. REFERENCES

OMB Circular A-21; OMB Circular A-110; OMB Circular A-133; 29 CFR 95 and 97.