



What's Next Series: What Firms Need to Know after Contract Award – Financial Management System and Indirect Rate Calculation

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AUDIT OFFICE

Previously the Audit Office presented an overview of the:

- Audit Process
- Direct Costs and Indirect Costs
- Testing of Costs
- Lessons Learned/Helpful Resource

The Audit Office follows the Generally Accepted Government Auditing Standards when performing audits involving federal funds.

FINANCIAL MANAGEMENT SYSTEM

The standards for a financial management system are identified in Title 49 of the Federal Regulations, Part 18.20.

The Authority's agreement with the Prime identifies that the Consultant and subconsultants must comply with OMB A-87, as amended, which is Title 49, Part 18 of the Uniform Administrative Procedures and can be found in Exhibit B, Section 5.1.

TITLE 49 CFR, PART 18.20 (A)(2)

**(a)(2) Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—
Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.**

Your financial management system must accumulate and segregate costs so that amounts invoiced can be traced back to the work performed or support the indirect rate.

- Employees record time on projects and non-project time**
- Payments received can be traced to payments for amounts invoiced.**

TITLE 49, PART 18.2 (B)(2)

(b) (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.

Similar to the prior provision, the financial management system must identify that a particular project is publicly funded. Invoicing must be tied to a specific project in the system. Revenue from the specific project must be applied as publicly funded.

TITLE 49, PART 18.20 (B)(5)

(b) (5)Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

These elements are identified in the Prime's agreement with the Authority. If it is not part of your subconsultant agreement with the prime, you should be familiar with the requirements.

The applicable OMB cost principles are also known as FAR or Federal Acquisition Regulations or Title 48 of the Code of Federal Regulations Part 31.

TITLE 49, PART 18.20 (B)(6)

(b)(6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Amounts invoiced or included in the invoiced indirect/overhead rate must have source documented that can be provided upon Contract Manager request, or in an audit.

These documents must be maintained for the period of the Prime's agreement with the Authority plus three years after final payment on the agreement.

TITLE 49, PART 18 (C)

(c) An awarding agency may review the adequacy of the financial management system of any applicant for financial assistance as part of a preaward review or at any time subsequent to award.

Adequacy includes the ability to:

- Segregate costs between direct and indirect as well as allowable and unallowable**
- Allocate costs to the proper project or indirect cost category**
- Accumulate costs by project also by indirect cost category**
- Support reasonableness of costs allocated**

DEVELOPING AN INDIRECT RATE SCHEDULE

The indirect rate schedule must be based on accurate, reconciled information from the financial management system.

- *If the time tracking system, job cost system, and the accounting system are not integrated, they should be reconciled periodically and at least at year-end.*
- *The major components of the indirect cost rate (labor) must be reconciled to supporting documentation.*
- *The year-end Trial Balance should be the starting point for the schedule of indirect costs.*

INDIRECT COST RATE SCHEDULE PRESENTATION

The most common presentation includes:

- *Columns for the accounts and costs that can be traced directly to the accounting system*
- *Column for adjustments with a column for notes*
- *Column that combines the costs and adjustments columns and represents the proposed indirect cost rate elements*
- *Calculation of the indirect cost rate*

INDIRECT RATE SCHEDULE PRESENTATION

See AASHTO example

ADJUSTMENTS

- **Adjustments are for elements that are not indirect costs or are unallowable costs:**
 - ❖ *Costs incurred specifically for a project (travel, meetings)*
 - ❖ *Interest, Contributions, Gifts, Entertainment, etc.*
 - ❖ *Directly Associated Costs with Unallowable Costs (travel to a holiday party, travel time to a company sporting event, hours spent at charity functions).*
 - ❖ *Rule of thumb*
 - ❖ *Unallowable costs are unallowable for the calculation of a Federal Acquisition Regulations (FAR) compliant indirect rate.*

LESSONS LEARNED AND HELPFUL RESOURCES

- Escalation passed along to employees
 - Related-party transactions (rent)
 - Meetings should be documented (agendas, minutes, etc.)
 - Selected provisions from the Prime agreement flow down to the subconsultant agreements
 - Record retention – documents and methodologies (including when there is a change in system or provider)
 - Record retention period – three years from date of final payment to the Prime.
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- AASHTO Accounting and Audit Guide

Questions?

THANK YOU

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