

SMART FINANCIAL GRANTS MANAGEMENT 2015

Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by **circling** the appropriate number in the middle column of the sheet, labeled Pre-Training, for each of the statements.

- Differences between a subaward and a contract
- Rules that apply to pass-through-entity subawards
- Procurement rules that apply to contract awards
- Methods of procurement and types of agreements
- Micro purchase and simplified acquisition threshold guidelines

Procurement under the New Requirements 4

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Subawards v Contracts

Learning objectives for this section


- Define key procurement terms in the Uniform Guidance
- Distinguish between subrecipients and contractors and the requirements for their selection

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Grace Period for Implementation

2 CFR 200.317 – 200.326

- Grace period to implement procurement standards in 200.317 through 200.326
 - For two fiscal years that begin after the 12/26/2014 effective date of Uniform Guidance (*Federal Register* 9/10/15)
- Need to specify in documented policies and procedures that non-Federal entity will continue to comply with the applicable OMB Circulars during the grace period



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Key Terms

Non-Federal entity	Pass-Through entity
<ul style="list-style-type: none">Any entity receiving Federal funds	<ul style="list-style-type: none">Any non-Federal entity that provides a subaward to a recipient to carry out part of a Federal program
<ul style="list-style-type: none">Includes for-profits and foreign entities per DOL exceptions at 2900.2	<ul style="list-style-type: none">Key distinction: pass-through subaward (subrecipient) vs. procurement action (contractor)

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Subawards v Contracts (1 of 2)

Subaward	<ul style="list-style-type: none">Award provided by a pass-through entity to a subrecipientTo carry out part of a Federal award received by the pass-through entity<ul style="list-style-type: none">Does not include payments to contractor or to an individual as beneficiary of Federal program
Subrecipient	<ul style="list-style-type: none">Non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program


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Subawards v Contracts (2 of 2)

Contract	<ul style="list-style-type: none">Does not include subawardsLegal instrument used to purchase property or services to carry out the project or program<ul style="list-style-type: none">Often the purchase of goods and services for the non-Federal entity's own useIs competed
Contractor	<ul style="list-style-type: none">Entity that receives a contractReplaces the term "vendor"

Procurement under the New Requirements 9

 Subrecipient and Contractor Distinctions (200.330)	
Subrecipient	Contractor
Determines who is eligible to receive what Federal assistance	Provides similar goods or services to many different purchasers
Performance is measured by whether objectives of Federal program are met	Provides the goods and services within normal business operations
Has responsibility for programmatic decision making	Provides goods or services that are ancillary to the operation of the Federal program
Responsible for adhering to applicable Federal program requirements	Not subject to the compliance requirements of the Federal program
Uses Federal funds to carry out a program for a public purpose	Provides goods and services for the non-Federal entity's own use, creating a procurement relationship
Funded by a Subaward	Funded by a Procurement Contract


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Funded by a Subaward	Funded by a Procurement Contract



Document Type of Agreement

2 CFR 200.330 & 200.331

- Determine whether each agreement establishes role as a subrecipient or contractor



- If subaward to subrecipient (200.331)
 - Clearly identify as such
 - Include required information

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12

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Pass-Through Entity (PTE)

All non-Federal entities are pass-through entities when making subawards to subrecipients to carry out part of a Federal program

Including Partner and Cooperative Agreements:

These subawards are not procurement actions, but they will follow the procurement rules when:

- Required by statute (WIOA Operators and Youth)
- Required by own policies and procedures
- Awarded on competitive basis


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Competitive Subaward Selection

When subrecipients are selected on a competitive basis, follow the procurement rules at 200.318-326

- Uniform Guidance does not prohibit the use of a competitive process to select subrecipients
 - ETA encourages the use of a competitive process to select subrecipients



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Selecting Subrecipients

What guides the selection of subrecipients when a competitive process is not required?

Internal Controls System	Risk Assessment
<ul style="list-style-type: none">Written proceduresConflict of interest provisions	<ul style="list-style-type: none">Past record of performanceCost principles: reasonable costsPast record of complianceAudit and monitoring results

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Selecting Subrecipients

What guides the selection of subrecipients when a competitive process is not required?

Internal Controls System <ul style="list-style-type: none">• Written procedures• Conflict of interest provisions	Risk Assessment <ul style="list-style-type: none">• Past record of performance• Cost principles: reasonable costs• Past record of compliance• Audit and monitoring results
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Accountability for Pass-Through Entities

- Pass-through entity is as accountable as if it were providing the services itself

THEY FAIL = YOU FAIL!

- Structure award instrument to promote performance
- Conduct vigorous oversight and monitoring

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Managing Risk

- Due diligence before the award**
 - Systems, procedures, staff in place
 - Clear and measurable deliverables, interim and final
- Oversight during the period of performance**
 - Track actual vs. plan
 - Identify problems early
 - Require timely corrective action
- Verify results**
 - Monitor on site

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Managing Risk

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Profit or Incentive (1 of 2)

2 CFR 200.400 (g) & 200.323 (b)

Uniform Guidance	Requirements on profit
<ul style="list-style-type: none">• Non-Federal entity may not earn or keep profit unless expressly authorized by the Federal award <p>WIOA</p> <ul style="list-style-type: none">• Does authorize profit for non-profits and for-profits<ul style="list-style-type: none">- Non-profits: Treated as program income• Prohibited for Governmental entities	<ul style="list-style-type: none">• Negotiate as a separate element from price<ul style="list-style-type: none">- When there is no price competition- In all cases where cost analysis is performed<ul style="list-style-type: none">- Exceeds simplified acquisition threshold

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Profit or Incentive (2 of 2)

Profit Considerations

- Complexity of work performed
- Risk borne by recipient
- Recipient's investment
- Amount passed through to subrecipients
- Quality of past performance
- Industry profit rate in surrounding area for similar work
- FAR suggests that it be less than 10%

Procurement under the New Requirements 21

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Status Check

- ? What factors determine whether an award qualifies as a pass-through transaction or a procurement action?
- ? What are some of the differences that distinguish a subrecipient from a contractor?
- ? By what processes are subrecipients and contractors selected?
- ? What does a risk assessment entail?

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Procurement Standards

Learning objectives for this section

- Identify the procurement standards and when they apply

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What are Procurement Actions?

Purchase of a specific product or service that is ancillary to the Federal program

Purchase of goods and services for the non-Federal entity's own use

- As distinguished from a pass-through subaward to carry out part of a Federal program
- Equipment and supplies
- Audit services
- Consulting services
- Leases
- Training

Procurement under the New Requirements 24

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Competitive Selection of Subrecipients

Competitive Selection of Subrecipients

- When selecting subrecipients on a competitive basis, you must follow the procurement rules
- When required by statute
- E.g. WIOA Youth Programs



- When required by own policies and procedures
- When required by the Funding Opportunity Announcement (FOA) and/or grant terms and conditions



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What Procurement Standards Apply? (1 of 2)

States

- Follow the same policies and procedures as for procurements using their non-Federal Funds
- Comply with 200.322 of Procurement of Recovered Materials
- Ensure that every purchase order or other contract includes the required contract provisions in 200.326

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What Procurement Standards Apply? (2 of 2)

All other non-Federal Entities

- Develop and use own documented procurement procedures
- Follow the general procurement standards 200.318-326

- Reflecting applicable State/local laws and regulations
- Conforming to applicable Federal law and standards of the Uniform Guidance

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General Procurement Standards (1 of 5)

2 CFR 200.319

- Full and open competition
 - Restrictions on competition generally prohibited, including geographic preferences
 - Pre-qualified lists must be current and include enough qualified sources to ensure open and free competition
 - Must not preclude bidders from qualifying during solicitation period



- Written procurement policies and procedures
- Written standards of conduct

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General Procurement Standards (2 of 5)

Use most economical approach

Cost principles apply

Oversight of contractor performance regarding contract terms, conditions, specifications

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General Procurement Standards (3 of 5)

Award only to responsible contractors (200.318 (h))

Prohibited organizations and individuals

- Ability to perform successfully
- Past performance, compliance with public policy, financial and technical resources, contractor integrity

- Debarred or suspended
- Tax liability
- Felons

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General Procurement Standards (4 of 5)

Maintain records sufficient to detail the history of the procurement, including:

- Rationale for method of procurement
- Selection of contract type
- Basis for contractor selection or rejection
- Basis for contract price

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General Procurement Standards (5 of 5)

2 CFR 200.323

Contract Cost and Price Analysis

- Every procurement action in excess of the Simplified Acquisition Threshold, including modifications, MUST include an independent estimate of costs before receiving bids or proposals
- Cost plus percentage of cost contracts not allowable
- Procedures for settlement of all contractual and administrative issues {200.318(k)}
 - Non-Federal entity alone responsible for resolving disputes

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5 Essential Elements of a Contract (1 of 2)

- Offer**
 - A conditional promise made by the offeror to the offeree giving the offeree the ability to accept
- Consideration**
 - The giving of something of value in return for something of value
- Authorized Officials and Purpose**
 - Parties involved must have the authorization to make an offer, and the purpose should be a legal and authorized purpose and during an authorized period of time

Procurement under the New Requirements 33

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5 Essential Elements of a Contract (2 of 2)

- Acceptance**
 - Unconditional agreement with the terms of the offer
- Additional elements**
 - In writing (signed by both parties)
 - Includes essential terms and conditions
 - Specifies a period of performance

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Required Contract Clauses (1 of 3)

2 CFR 200.326 & Appendix II

- Administrative, contractual, or legal remedies for breach of contract if contract exceeds Simplified Acquisition Threshold (currently \$150,000)**
- Termination for cause and for convenience if contract exceeds \$10,000**
- Equal Employment Opportunity provisions**

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Required Contract Clauses (2 of 3)

2 CFR 200.326 & Appendix II


- Must include EEO notice in recruiting materials**
- Davis-Bacon Act for construction contracts > \$2,000**
- Contract work hours and safety standards for contracts over \$100,000 employing mechanics or laborers**

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Required Contract Clauses (3 of 3)

- ✓ Right to inventions for non-profit organizations and small business firms where applicable
- ✓ Clean Air Act for contracts > \$150,000
- ✓ Energy efficiency standards per State plan
- ✓ Byrd Anti-lobbying certification for contracts > \$100,000
- ✓ Procurement of recovered materials for States
- ✓ DOL Exception on creative commons licensing
- ✓ Not a contract clause, but Uniform Guidance prohibits use of debarred, suspended, and other excluded parties
- ✓ Grant terms and conditions may identify additional requirements



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Expanded Disclosure of Violations

2 CFR 200.113

Mandatory Disclosures

- Non-Federal entity or applicant must disclose in writing to Federal agency or pass-through entity
 - All violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award
- Penalties for failure to make required disclosures
 - Remedies in 200.338 including termination, suspension or debarment
 - See also 2 CFR Part 180, 31 U.S.C. 3321



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Expanded Disclosures


2 CFR 200.112 & 200.318 (c)

Conflict of Interest (200.112 and 200.318 (c))

↓

Disclose in writing any potential conflict to Federal agency or pass-through entity

Procurement under the New Requirements 39




Standards of Conduct, Conflict of Interest

2 CFR 200.112 & 200.318 (c)

Must establish policies for Federal awards

Written standards of conduct for anyone who touches process (selection, award, administration of contracts)	Real or apparent conflict of interest—personal or organizational	Neither solicit nor accept anything of monetary value	Staff, family member, partner, or employer organization has financial or other interest in or tangible benefit from awardee or bidder
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Status Check

Are the statements true or false?

- ? The purchase of equipment and supplies for the entity's own use is a procurement action requiring compliance with the procurement standards
- ? You must follow the procurement rules when establishing pre-qualified lists of contractors
- ? A cost or price analysis is required for every procurement action.

Procurement under the New Requirements 41



Methods of Procurement

Learning objectives for this section

- Identify the different methods of procurement


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Methods of Procurement

2 CFR 200.320

Methods of Procurement to be Followed

- Micro Purchase
- Small Purchase
- Sealed Bids
- Competitive Proposals
- Non-Competitive Proposals



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Micro Purchases

Micro Purchase 200.320 (a)

- Acquisition of supplies or services not exceeding \$3,000 in aggregate
- May be awarded without soliciting competitive quotations if price is reasonable
- Distribute equitably among qualified suppliers to extent practicable

Notable Changes

- Micro purchase procedures not previously authorized



Procurement under the New Requirements 44

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Small Purchases


Small purchase procedures 200.320 (b)

- Informal procurement methods for securing services, supplies, or other property
- Cost is less than the Simplified Acquisition Threshold (SAT)
- SAT set by the FAR at 48 CFR 2.1
- Increased from \$100,000 to \$150,000 in 2010
- Price or rate quotations must be obtained from an adequate number of qualified sources

Notable changes

- Threshold linked to Simplified Acquisition Threshold
- Future changes in FAR threshold will apply

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Sealed Bids

Sealed Bids (formal advertising) 200.320 (c)

- Bids publicly solicited
- Firm fixed price contract is awarded
- Successful bid conforms to all material items and conditions of the invitation for bids—and is lowest in price
- Preferred method for procuring construction

No notable changes

Procurement under the New Requirements 46



Competitive Proposals

Requirements 2 CFR 200.320 (d)

- Publicize RFP and identify all evaluation factors
- Contract awarded to responsible firm
- Solicit from an adequate number of qualified sources
- Written method for evaluating and selecting proposals
- Most advantageous proposal
- Price and other factors considered

Procurement under the New Requirements 47



Qualifications-Based Procurement

Qualifications-based procurement

- Architectural/engineering (A/E) professional services
- Qualifications evaluated and most qualified selected
- Subject to negotiation of fair and reasonable compensation
- No notable changes

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Non-Competitive Proposals

2 CFR 200.320 (f)

Solicitation from only one source (sole source)

- Allowable only when one or more circumstances apply:
 - Item available only from a single source
 - Public exigency or emergency will not permit a delay
 - Awarding agency authorizes non-competitive proposals in response to a written request
 - After solicitation from a number of sources, competition is determined inadequate

Procurement under the New Requirements 49

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Small, Minority, Women's, Labor Surplus Area Businesses

Must take all necessary affirmative steps to assure that small, minority, women's, and labor surplus area firms are used whenever possible, to include:

- Placing qualified businesses on solicitation lists
- Soliciting them whenever they are potential sources
- Dividing total requirements into smaller tasks or quantities when economically feasible
- Establishing delivery schedules to encourage participation
- Using services of SBA and MBDA of Dept. of Commerce
- Requiring prime contractor to take these same steps

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Contract Types

Learning objectives for this section

- Distinguish among the different types of contracts
- Incorporate performance provisions in contracts

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Contract Types (1 of 4)

COST REIMBURSEMENT → EFFORT / PERFORMANCE

FIRM FIXED PRICE CONTRACT → PRE-SET PRICE / PERFORMANCE

FIRM FIXED PRICE INCENTIVE → COST REDUCTION = PROFIT INCENTIVE

COST-PLUS INCENTIVE FEE → COST INCREASE = EXTRA PROFIT

TIME AND MATERIAL → TIME + MATERIAL

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Contract Types (2 of 4)

FAR 16.2-3

Cost Reimbursement Contract

- Not recommended for contracts
- Pay for effort, not performance
- Performance risk borne by awarding agency

Firm Fixed Price Contract

- Purchase of goods and ancillary services
- Reasonably definite performance or design requirements
- Pay pre-set price for each unit of deliverable regardless of actual costs incurred
- Performance risk borne by contractor

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Contract Types (3 of 4)

Fixed Price Incentive

- Cost uncertainties exist and there is the possibility of cost reduction by giving contractor:
 - A degree of cost responsibility
 - Positive profit incentive

Cost-Plus Incentive Fee

- Prohibited by statute and regulations
 - Fees increase with costs

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Contract Types (4 of 4)





Time and Material (Labor Hour)

- Not possible to initially estimate extent or duration of work
 - E.g. engineering and design services
 - Repair and maintenance
- Fixed price per unit of materials used
- Direct labor hours at specified hourly rates that include wages, overhead, general and administrative expenses, and profit

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Performance Considerations (1 of 2)

-  Performance requirements are defined in measurable mission-related terms
-  Performance standards (i.e., quality, quantity, timeliness) tied to performance requirements
-  Quality Assurance (QA) plan describes how the contractor's performance will be measured against the performance standards
-  Positive and negative incentives appropriate if critical to accomplishing performance

(Source: White House: Best Practices for Performance-Based Contracting)

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Performance Considerations (2 of 2)

FAR 37.6

- Describe the requirements in terms of results required rather than the methods of performance of the work
- Use measurable performance standards (i.e., terms of quality, timeliness, quantity, etc.) and quality assurance surveillance plans (see 46.103(a) and 46.401(a))
- Specify procedures for reductions of fee or for reductions to the price of a fixed-price contract when services are not performed or do not meet contract requirements (see 46.407)
- Include performance incentives if appropriate.


Procurement under the New Requirements 57



Key Concepts

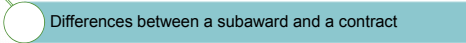
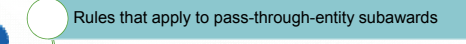
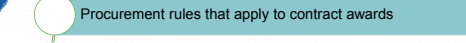


-  New procurement-related terms
-  Expanded responsibilities for pass-through entities
-  Changes to procurement standards, contract provisions, and disclosures
-  Differences in agreement types and methods of procurement
-  Uniform Guidance places greater emphasis on performance

Procurement under the New Requirements 58




Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by **circling** the appropriate number in the column of the sheet labeled Post-Training for each of the statements.

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- 
- 
- 
- 

Procurement under the New Requirements 59



THANK YOU!

Please complete your evaluations.

Capital Assets, Equipment, Intangible Property and Supplies

Why This Session Is Needed

New rules for acquisitions, use, management, and disposition of capital assets	New rules governing intangible property
Change in Uniform Guidance related to fully depreciated assets	Share common mistakes related to capital assets

Capital Assets, Equipment, Intangible Property and Supplies

Lesson Overview & Module Objectives (1 of 2)

Capital Assets vs. Supplies	• Define equipment vs supplies based on the Uniform Guidance
Equipment	• Define equipment as it relates to IT systems
Intangible Property	• Explain change in Uniform Guidance related to fully depreciated assets
	• Define intangible property and discuss Uniform Guidance requirements concerning intangible property

Capital Assets, Equipment, Intangible Property and Supplies

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Lesson Overview & Module Objectives (2 of 2)

Prior Written Approval Property Management Systems

- Explain the Uniform Guidance requirements relative to property prior approvals
- Discuss property acquisition, management, use and disposition, including user fees
- Describe common mistakes related to capital assets

Capital Assets, Equipment, Intangible Property and Supplies 4

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Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by circling the appropriate number in the middle column of the sheet, labeled Pre-Training, for each of the statements.

?

- Prior approval requirements for equipment acquisitions
- How to determine the cost of assets
- Dollar threshold for assets to be considered capital assets
- What information must be tracked on property inventories
- How long equipment purchased with Federal funds can be kept

Capital Assets, Equipment, Intangible Property and Supplies 5

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Equipment vs Supplies

Learning objectives for this section

- Define equipment vs. supplies based on the Uniform Guidance

Capital Assets, Equipment, Intangible Property and Supplies 6


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Capital Assets

2 CFR 200.12

Capital Assets

- Tangible or intangible
- Useful life of more than one year
- Includes **equipment** and intellectual property
- Capital Asset Levels
 - \$5,000
 - Non-federal entities may have lower capital thresholds but not higher thresholds



Capital Assets, Equipment, Intangible Property and Supplies 7

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Supplies (1 of 2)


2 CFR 200.94

Supplies

In contrast to Equipment ...

- Supplies means all tangible personal property other than that described in §200.33 Equipment.
- A computing device is a supply if the acquisition cost is below the lesser of the capitalization levels established by the non-Federal entity for financial statement purposes or \$5,000, regardless of the length of its useful life.

See also §§200.20 Computing devices and 200.33 Equipment.



Capital Assets, Equipment, Intangible Property and Supplies 8

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Supplies (2 of 2)

2 CFR 200.314

Supplies

- Materials and supplies including the cost of computing devices
- May be used for non-federally-funded programs
 - User fees should be considered, if appropriate
 - Program income
- If residual unused inventory exceeds \$5000 at end of grant, must compensate government for its share



Capital Assets, Equipment, Intangible Property and Supplies 9

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Acquisition Costs

2 CFR 200.94



The cost of the asset, including the cost to prepare the asset for its intended use

Capital Assets, Equipment, Intangible Property and Supplies 10

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Equipment

Learning objectives for this section

- Define equipment as it relates to information technology systems
- Explain change in Uniform Guidance related to fully depreciated assets

Capital Assets, Equipment, Intangible Property and Supplies 11

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Equipment

2 CFR 200.33

Equipment

- Tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or \$5,000.

See also

§§200.12 Capital Assets, 200.20 Computing Devices, 200.48 General Purpose Equipment, 200.58 Information Technology Systems, 200.89 Special Purpose Equipment, and 200.94 Supplies.

Capital Assets, Equipment, Intangible Property and Supplies 12

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Equipment Management and Use

States – follow their own policies and procedures

Other non-federal entities – specific requirements

Priority order of use on projects or programs after grant end

Same for all types of equipment

Capital Assets: Equipment, Intellectual Property and Supplies 13

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Allowable Cost for Equipment

One Program

- If specifically authorized under a federal award, costs are assignable to the federal award regardless of later use when no longer needed for original purpose

Multiple programs—allocate costs

Insurance and maintenance costs are allowable

Depreciation costs are allowable*

Capital Assets: Equipment, Intangible Property and Supplies 14

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Depreciation (1 of 3)

DEPRECIATION


Non-federal entities may be compensated for the use of their equipment and software projects capitalized in accordance with Generally Accepted Accounting Principles (GAAP)

Compensation must be made by computing depreciation for the accounting period based upon the pattern of use

Capital Assets: Equipment, Intangible Property and Supplies 15

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Depreciation (2 of 3)



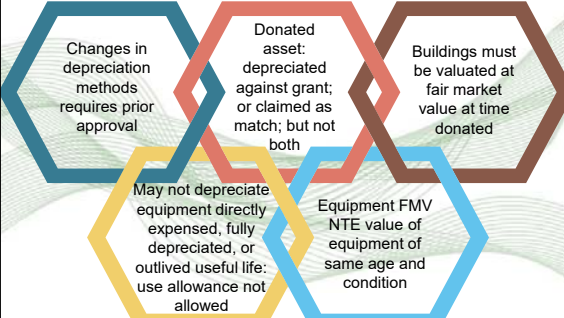
Allocation for depreciation must be made in accordance with Appendices IV through VIII

May use straight line depreciation – absent clear evidence indicating consumption is greater earlier than consumption later

Capital Assets, Equipment, Intangible Property and Supplies 16

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Depreciation (3 of 3)



Changes in depreciation methods requires prior approval

Donated asset: depreciated against grant; or claimed as match; but not both

Buildings must be valued at fair market value at time donated

May not depreciate equipment directly expensed, fully depreciated, or outlived useful life: use allowance not allowed

Equipment FMV NTE value of equipment of same age and condition

17

SMART FINANCIAL GRANTS MANAGEMENT 2015

Uniform Guidance Equipment Types



General Purpose Equipment

Special Purpose Equipment

Information Technology

Capital Assets, Equipment, Intangible Property and Supplies 18

SMART FINANCIAL GRANTS MANAGEMENT 2015

General Purpose Equipment

2 CFR 200.48

Equipment not limited to technical activities

Examples include:

- ✓ Office equipment and furnishings
- ✓ Modular offices
- ✓ Movable trailers which are later anchored
- ✓ Information technology equipment and systems
- ✓ Air conditioning equipment
- ✓ Reproduction and printing equipment
- ✓ Motor vehicles



Capital Assets, Equipment, Intangible Property and Supplies 19

SMART FINANCIAL GRANTS MANAGEMENT 2015

Special Purpose Equipment

2 CFR 200.89

Used for research, medical, scientific, or other technical activities



Capital Assets, Equipment, Intangible Property and Supplies 20

SMART FINANCIAL GRANTS MANAGEMENT 2015

Information Technology Systems

2 CFR 200.58

Information Technology Systems

- Included in the definition of general purpose equipment
- Includes equipment computing devices, ancillary equipment, software, firmware, and similar procedures, services (including support services), and related resources



Capital Assets, Equipment, Intangible Property and Supplies 21

SMART FINANCIAL GRANTS MANAGEMENT 2015

User Fees

Income	Fees
Program income when the property is used for non-grant purposes	User fees must at least be equal to those of private companies as long as the Federal government retains interest (fair market value is \$5,000 or greater)

Capital Assets, Equipment, Intangible Property and Supplies 22

SMART FINANCIAL GRANTS MANAGEMENT 2015

Status Check

Are the statements true or false?

- ? Capital assets now include intangible property.
- ? Computing devices that cost less than \$5,000 are included as equipment.
- ? A grantee may establish a capitalization level greater than \$5,000.

Capital Assets, Equipment, Intangible Property and Supplies 23

SMART FINANCIAL GRANTS MANAGEMENT 2015

Intangible Property

Learning objectives for this section

- Define intangible property and discuss Uniform Guidance requirements concerning intangible property

Capital Assets, Equipment, Intangible Property and Supplies 24

SMART FINANCIAL GRANTS MANAGEMENT 2015

Intangible Property

2 CFR 200.59

Intangible Property






- Intangible property means property having no physical existence, such as trademarks, copyrights, patents and patent applications, and property, such as loans, notes and other debt instruments, lease agreements, stock and other instruments of property ownership (whether the property is tangible or intangible).



Capital Assets, Equipment, Intangible Property and Supplies 25

SMART FINANCIAL GRANTS MANAGEMENT 2015

Examples of Intangible Property

-  Copyrights
-  Trademarks
-  Patents and patent applications and property
-  Service marks
-  Loans, notes and other debt instruments

Capital Assets, Equipment, Intangible Property and Supplies 26

SMART FINANCIAL GRANTS MANAGEMENT 2015


Intangible Property

2 CFR 200.315

Intangible Property

Federal Government Rights

- Obtain, reproduce, publish
- Authorize others to receive, reproduce, publish



- Title to intangible property (see §200.59 Intangible property) acquired under a Federal award vests upon acquisition in the non-Federal entity.



Capital Assets, Equipment, Intangible Property and Supplies 27

SMART FINANCIAL GRANTS MANAGEMENT 2015

Intellectual Property – Grant Provision

Government has a paid-up, nonexclusive and irrevocable license to use or authorize others to use intellectual property developed with grant funds

2 CFR 200.315 (b)

The non-Federal entity may copyright any work that is subject to copyright and was developed, or for which ownership was acquired, under a Federal award. The Federal awarding agency reserves a royalty-free, nonexclusive and irrevocable right to reproduce, publish, or otherwise use the work for Federal purposes, and to authorize others to do so.



Capital Assets, Equipment, Intangible Property and Supplies 28

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Creative Commons Licensing

DOL exception at 2900.13

DOL Exception

- ... requires intellectual property developed under a competitive Federal award process to be licensed under a Creative Commons Attribution license.
- This license allows subsequent users to copy, distribute, transmit and adapt the copyrighted work and requires such users to attribute the work in the manner specified by the recipient.

<http://creativecommons.org/>




Capital Assets, Equipment, Intangible Property and Supplies 29

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Intellectual Property – DOL Direct Grant Provision

The following wording should be included on works of intellectual property created wholly or partly with DOL funds?



This workforce product was funded by a grant awarded by the U.S. Department of Labor's Employment and Training Administration. The product was created by the grantee and does not necessarily reflect the official position of the U.S. Department of Labor. The Department of Labor makes no guarantees, warranties, or assurance of any kind, express or implied, with respect to such information, including, but not limited to, accuracy of the information or its completeness, timeliness, usefulness, adequacy, continued availability, or ownership. This solution is copyrighted by the Institution that created it. Internal use by an organization, and/or personal use by an individual or for non-commercial purposes, is permissible. All other uses require the prior authorization of the copyright owner.

Capital Assets, Equipment, Intangible Property and Supplies 30

SMART FINANCIAL GRANTS MANAGEMENT 2015

Prior Written Approval

Learning objectives for this section

- Explain the Uniform Guidance requirements relative to property prior approvals

Capital Assets, Equipment, Intangible Property and Supplies 31

SMART FINANCIAL GRANTS MANAGEMENT 2015

Delegation to Governor for Prior Approval for Equipment

State Formula Grants



-  Prior approval has been delegated to the governor unless noted in the grant award.
-  Subrecipients obtain prior approval from the governor.

Capital Assets, Equipment, Intangible Property and Supplies 32

SMART FINANCIAL GRANTS MANAGEMENT 2015

Mandatory Prior Approval For Equipment (1 of 2)

State Other Direct Grants



-  Prior approval requirements are not delegated. Must be given by Grant Officer.
-  Subrecipients must go through State for prior approval.
 - States request prior approval for the subrecipients from the Grant Officer.

Capital Assets, Equipment, Intangible Property and Supplies 33

SMART FINANCIAL GRANTS MANAGEMENT 2015

Mandatory Prior Approval For Equipment (2 of 2)

Other (Non-State) Direct Grants

-  Prior approval requirements are not delegated. Must be given by Grant Officer.
-  Subrecipients must go through direct grant recipient for prior approval. Direct grant recipient requests prior approval for the subrecipients from the Grant Officer.

Capital Assets, Equipment, Intangible Property and Supplies 34

SMART FINANCIAL GRANTS MANAGEMENT 2015

Review and Approval Process

Pass-Through Entities

- Assign responsibility for managing prior approval requests at all levels, as appropriate, following proper protocol
- Develop a process
 - ✓ Receipt
 - ✓ Review
 - ✓ Approval/disapproval
- Criteria
 - ✓ Documentation
 - ✓ Justification
 - ✓ Reasonableness of cost
 - ✓ Need







Capital Assets, Equipment, Intangible Property and Supplies 35

SMART FINANCIAL GRANTS MANAGEMENT 2015

Status Check

Are the statements true or false?

-  Formula grant subrecipients must obtain prior Grant Officer approval for equipment purchases.
-  Prior approval authority has been delegated to the governor for "non-formula" grants to the state.
-  Other direct grantees (non-state) must obtain prior approval from the Grant Officer for equipment purchases.
-  A grantee purchased a computer costing \$4,000 but failed to obtain prior approval. What are the consequences of this action?

Capital Assets, Equipment, Intangible Property and Supplies 36

SMART FINANCIAL GRANTS MANAGEMENT 2015

Property Management Systems

Learning objectives for this section

- Discuss property acquisition, management, use and disposition, including user fees
- Describe common mistakes related to capital assets

Capital Assets, Equipment, Intangible Property and Supplies 37

SMART FINANCIAL GRANTS MANAGEMENT 2015

Property Management System (1 of 2)

Policies for Acquisition, Use, Disposition, Internal Controls and Records, Documentation

- Inventory system and physical Inventory Requirement
- Percentage of participation by Federal programs
- Supporting documentation for charges
- Allowable depreciation cost
- 3rd party donated equipment used for the programs
- Equipment and software projects owned by the non-federal entity but used for the project or program

Capital Assets, Equipment, Intangible Property and Supplies 38

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Property Management System (1 of 2)

Policies for Acquisition, Use, Disposition, Internal Controls and Records, Documentation

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- Percentage of participation by Federal programs
- Supporting documentation for charges
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Capital Assets, Equipment, Intangible Property and Supplies 39

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Property Management System (2 of 2)

 <p>-Property should be maintained in good, working order</p> <p>Maintenance</p>	 <p>-Allowable Cost -Federal government not liable for loss</p> <p>Insurance</p>	 <p>-Procedures for requesting disposition instructions from ETA</p> <p>Disposition</p>
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Capital Assets, Equipment, Intangible Property and Supplies 40


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Equivalent Insurance

2 CFR 200.310

Equivalent Insurance

- The non-Federal entity must, at a minimum, provide the equivalent insurance coverage for real property and equipment acquired or improved with Federal funds as provided to property owned by the non-Federal entity.
- **Federally-owned** property need not be insured unless required by the terms and conditions of the Federal award.



Capital Assets, Equipment, Intangible Property and Supplies 41

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Management Requirements

- Management requirements (including replacement equipment)
 - ✓ a description of the property,
 - ✓ a serial number or other identification number,
 - ✓ the source of funding for the property (including the FAIN),
 - ✓ who holds title,
 - ✓ the acquisition date and cost of the property, percentage of Federal participation in the costs by the Federal award
 - ✓ the location, use and condition of the property, and
 - ✓ any ultimate disposition data, including the date of disposal and the sale price of the property

Capital Assets, Equipment, Intangible Property and Supplies 42

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Documentation (1 of 2)

-  Estimates of costs and related documentation
-  Prior Approvals
-  Maintain inventory and conduct physical inventory (detailed information)
-  Percentage of participation by Federal programs in cost

Capital Assets, Equipment, Intangible Property and Supplies 43

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Documentation (2 of 2)

-  Tagging/Decals
-  Supporting Documentation for Charges
-  Record retention – three years after disposition or submission of final expenditure report, whichever is later (\$200,333 Retention requirements for records)


Capital Assets, Equipment, Intangible Property and Supplies 44

SMART FINANCIAL GRANTS MANAGEMENT 2015

Tracking Capital Equipment Costs

Capital Assets

- Total cost (historical cost)
- Historical cost includes original cost, plus:
 - additions, modifications
 - replacements, rearrangements
 - reinstallations
 - renovations or alterations that materially increase their value or useful life.
 - does not include ordinary repairs and maintenance
- Donated equipment
 - FMV at time donated



Capital Assets, Equipment, Intangible Property and Supplies 45

SMART FINANCIAL GRANTS MANAGEMENT 2015

Title to Assets

Title vests in the non-federal entity

Prior approval required from DOL prior to encumbering the title




Capital Assets, Equipment, Intangible Property and Supplies 46

SMART FINANCIAL GRANTS MANAGEMENT 2015

Must Be Held In Trust

2 CFR 200.316

- Real property, equipment, and intangible property that are acquired or improved with a Federal award must be held in trust by the non-federal entity as a trustee for the beneficiaries of the project or program under which the property was acquired or improved.



Capital Assets, Equipment, Intangible Property and Supplies 47


SMART FINANCIAL GRANTS MANAGEMENT 2015

Disposition: Real Property (1 of 2)

2 CFR 200.311(c)

Real Property

- When real property is no longer needed for the originally authorized purpose, the non-Federal entity must obtain disposition instructions from the Federal awarding agency or pass-through entity.



Capital Assets, Equipment, Intangible Property and Supplies 48

SMART FINANCIAL GRANTS MANAGEMENT 2015

Disposition: Real Property (2 of 2)

If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return

Capital Assets, Equipment, Intangible Property and Supplies 49

SMART FINANCIAL GRANTS MANAGEMENT 2015

Disposition: Equipment

2 CFR 200.311(e)


- Same for all types of equipment with a fair market value of \$5,000 at the time of disposition
 - Non-federal entities **must request disposition instructions** from the federal awarding agency if required by the terms and conditions of the Federal award

Capital Assets, Equipment, Intangible Property and Supplies 50

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Disposition Options: Equipment

Options for disposition include:

-  Keeping the property
-  Selling the property
-  Transferring the title to a third party

Failure to take disposition actions may result in ETA directing the entity to take disposition actions

Capital Assets, Equipment, Intangible Property and Supplies 51

SMART FINANCIAL GRANTS MANAGEMENT 2015

Disposition Process

ETA retains authority over disposition of property

End of Direct Grant period of performance

- Subrecipients

Formula grants to State – end of Period of Performance:

- States follow own procedures
- States establish process for:
 - State subrecipients
 - Local areas
 - Local subrecipients

Capital Assets, Equipment, Intangible Property and Supplies 52


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Disposition: Intangible Property

2 CFR 200.315(a)

Intangible Property

- Follows the disposition requirements related to equipment at 200.313(e)




Capital Assets, Equipment, Intangible Property and Supplies 53

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Disposition of Aggregate Supplies

- Residual inventory of unused supplies exceeding \$5,000 in total aggregate value upon termination or completion of the project or program
- Retain them for use or sell them
 - Must compensate DOL in either event
 - Compensation is based upon the same manner as equipment (participation in the acquisition cost)



Capital Assets, Equipment, Intangible Property and Supplies 54

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Common Mistakes (1 of 2)

- Failure to obtain prior written approval 
- Failure to conduct physical inventories every two years 
- Failure to account for property:
 - Missing items
 - No disposition requested
 - No loss noted on the property inventories

Capital Assets, Equipment, Intangible Property and Supplies 55

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Common Mistakes (2 of 2)



- Improper allocations of equipment direct charges or depreciation 
- Improper valuations for donated property 

Capital Assets, Equipment, Intangible Property and Supplies 56

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Status Check





Are the statements true or false?

-  For real property and equipment acquired or improved with Federal funds, the non-Federal entity must, at a minimum, provide the equivalent insurance coverage as provided to property owned by the non-Federal entity.
-  When equipment is no longer needed for the originally authorized purpose, or for other Federal program activities, the non-Federal entity must obtain disposition instructions from the Federal awarding agency or pass-through entity.

Capital Assets, Equipment, Intangible Property and Supplies 57

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Key Concepts

-  Prior written approval is required for equipment purchases in excess of \$5,000 for discretionary grants
-  The Federal Government retains an interest in intangible property
-  ETA recipients must provide a Creative Commons attribution license to intellectual property produced with assistance from grant funds
-  Disposition instructions must be requested from ETA for most types of capital assets

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Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by **circling** the appropriate number in the middle column of the sheet, labeled Post-Training, for each of the statements.

-  Prior approval requirements for equipment acquisitions
- How to determine the cost of assets
- Dollar threshold for assets to be considered capital assets
- What information must be tracked on property inventories
- How long equipment purchased with Federal funds can be kept

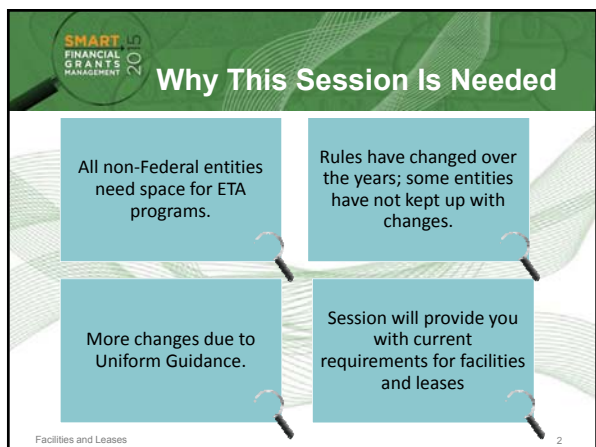
Capital Assets, Equipment, Intangible Property and Supplies 59

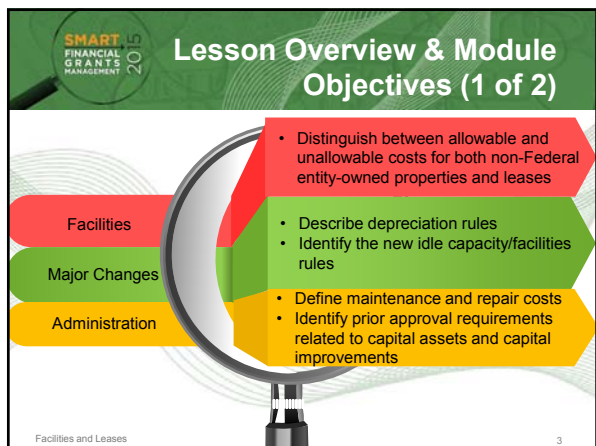
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Please Complete Your Evaluations

Thank You!







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Lesson Overview & Module Objectives (2 of 2)

Leases

- Describe difference between capital and operating leases

Key Changes

- Describe limitations on sale and lease back and less-than-arms-length agreements, and the unallowability of home offices.

Facilities and Leases 4

SMART FINANCIAL GRANTS MANAGEMENT 2015

Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following statements by circling the appropriate number in the middle column of the sheet, labeled Pre-Training, for each of the statements.

- Prior approval requirements for capital improvements/special arrangements.
- Space costs limitations for non-Federal entity-owned property, capital lease arrangements, less-than-arms-length transactions, and sale and lease-back arrangements.
- Calculation and documentation standards for depreciation costs charged to a Federal award
- Difference between maintenance costs, capital improvements, and special arrangements.
- Definition of capital leases.

Facilities and Leases 5

SMART FINANCIAL GRANTS MANAGEMENT 2015

Facilities

Learning objectives for this section

- Distinguish between allowable and unallowable costs for both non-Federal entity-owned properties and leases

SMART FINANCIAL GRANTS MANAGEMENT 2015

Facilities

2 CFR 200.446(a)(1)

Facilities

- Facilities means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the non-Federal entity.

Facilities and Leases 7

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Basic Facilities Costs (1 of 2)

-  Commercial rent and limited allowable costs for awardee-owned facilities
-  Special arrangements and capital improvements
-  Renovations and alterations
-  Drawings and design plans

Facilities and Leases 8

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Basic Facilities Costs (2 of 2)

-  Depreciation and allowable financing costs
-  Maintenance and repairs: utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings

Facilities and Leases 9


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Capital Assets (1 of 2)

2 CFR 200.12

Capital Assets

- *Capital assets* means tangible or intangible assets
 - Useful life of more than one year
 - Capitalized in accordance with GAAP




Facilities and Leases 10

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Capital Assets (2 of 2)

2 CFR 200.12 (a) & (b): Capital Assets

- Land, buildings (facilities), equipment and intellectual property (including software)**
- Additions, improvements, modifications, etc., that materially increases value/useful life.

Facilities and Leases 11

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Allowability of Costs

<p>Real Property</p> <ul style="list-style-type: none">• Real property acquisition and construction unallowable, without statutory authorization	<p>Capital Improvement</p> <ul style="list-style-type: none">• Real property capital improvement allowable with prior approval<ul style="list-style-type: none">– Costs are depreciated over the useful life of the improvement
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Facilities and Leases 12

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Capital Expenditures (1 of 3)

Capital Expenditure **2 CFR 200.13**

To acquire capital assets or to make additions, improvements or modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets (materially increase their value or useful life)



Facilities and Leases 13



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Capital Expenditures (2 of 3)

For general purpose equipment, buildings and land

For improvements to land, buildings, or equipment which materially increase their value or useful life

- unallowable as direct charges, except with the prior written approval.
- unallowable as a direct cost except with the prior written approval of the Federal awarding agency or pass-through entity.



Facilities and Leases 14

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Capital Expenditures (3 of 3)

2 CFR 200.439

Equipment and Other Capital Expenditures

- When approved as a direct charge:
 - capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the Federal awarding agency.



Facilities and Leases 15

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Major Changes

Learning objectives for this section

- Describe depreciation rules
- Identify the new idle capacity/facilities rules

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Depreciation (1 of 4)

2 CFR 200.436(a)

Depreciation

Depreciation is the method for allocating the cost of fixed assets to periods benefitting from asset use.


- The non-Federal entity may be compensated for the use of its buildings and capital improvements provided that they are used and needed in the non-Federal entity's activities, and properly allocated to Federal awards.
- Such compensation must be made by computing depreciation.

Facilities and Leases 17


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Depreciation (2 of 4)

2 CFR 200.436(d)(4) Depreciation

 No depreciation may be allowed on any assets that have outlived their useful lives.

- **Use allowance is no longer allowed**
- May charge repair and maintenance cost

 May charge depreciation on capital improvements if not fully depreciated

Facilities and Leases 18

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Depreciation (3 of 4)

Depreciation cost is computed by applying the following rules:

- Historical cost of the asset**
 - Not including value of land
- Period of useful service or useful life**
- Remaining depreciation**
 - May not change depreciation method without prior approval
- Renewal and replacement policies followed**

Facilities and Leases 19

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Depreciation (4 of 4)

Two options for building depreciation (200.436(d)(3))

- Treated as a single asset; depreciated over single useful life**
- Divided into multiple components; each component depreciated over its estimated useful life**

Facilities and Leases 20

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Depreciation of Donated Property

Donated assets may be depreciated as a cost to the grant **or** claimed as matching, but not both

- Must be valued
- Value established based on the fair market value at the time of the donation

Facilities and Leases 21

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Idle Facilities and Idle Capacity

200.446(a)(3) Idle capacity
Unused capacity of partially used facilities

- Difference between 100 percent usage and actual usage

200.446(a)(2) Idle facilities
Completely unused facilities

- Excess to current needs
- Unallowable with exceptions

Facilities and Leases 22

SMART FINANCIAL GRANTS MANAGEMENT 2015

Cost of Idle Facilities

Costs are unallowable except when (200.446(b)):

- They are necessary to meet fluctuations in workload
- Although not necessary to meet fluctuations in workload, they were necessary when acquired
- Idle because of changes in program requirements and other reasons
- Under reasonable exceptions stated in this requirement, costs are allowable for a reasonable period
- Up to one year depending on initiative to use, lease, or dispose of such facilities

Facilities and Leases 23

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Cost of Idle Capacity

2 CFR 200.446(c)

- Normal cost of doing business
 - Allowable with provisions
 - Capacity is reasonably anticipated to be necessary to carry out the purpose of the Federal award or
 - Capacity was originally reasonable
 - Not subject to other reduction or elimination of other Federal awards, subletting, renting, or sale, in accordance with sound business, economic, or security practices
 - Widespread idle capacity (may be idle facility)

Facilities and Leases 24

SMART FINANCIAL GRANTS MANAGEMENT 2015

Administration

Learning objectives for this section

- Define maintenance and repair costs
- Identify prior approval requirements related to capital assets and capital improvements

SMART FINANCIAL GRANTS MANAGEMENT 2015

Maintenance and Repair Costs (1 of 2)

2 CFR 200.452

Maintenance and repair costs

- Costs incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings.

Facilities and Leases 26

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Maintenance and Repair Costs (2 of 2)

- Neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition

➔ Allowable

- Add to the permanent value of the buildings and equipment or appreciably prolong their intended life must be treated as capital expenditures.

➔ Only allowable to the extent not paid through rental or other agreements

- Allocate based on cost allocation plan

Facilities and Leases 27

SMART FINANCIAL GRANTS MANAGEMENT 2015

Plant and Security Costs (1 of 2)

Necessary and reasonable expenses for protection and security of facilities, personnel, and work products are allowable

-  Wages, uniforms of security personnel
-  Equipment
-  Barriers

Facilities and Leases 28

SMART FINANCIAL GRANTS MANAGEMENT 2015

Plant and Security Costs (2 of 2)

Necessary and reasonable expenses for protection and security of facilities, personnel, and work products are allowable

-  Protective (non-military) gear, devices and equipment
-  Contractual security services; and consultants
-  Capital expenditures for plant security require prior approval

Facilities and Leases 29

SMART FINANCIAL GRANTS MANAGEMENT 2015

Insurance Coverage

2 CFR 200.310

Insurance coverage

- The non-Federal entity must provide insurance for property acquired or improved with Federal funds equivalent to insurance coverage it provides for its own property.



Facilities and Leases 30

SMART FINANCIAL GRANTS MANAGEMENT 2015

Rearrangements and Reconversion Costs (1 of 2)

2 CFR 200.462(a)

- Ordinary and normal rearrangement and alteration costs are allowable as indirect costs.
- Special arrangements/alterations incurred specifically for a Federal award are allowable as direct cost with prior approval

Facilities and Leases 31

SMART FINANCIAL GRANTS MANAGEMENT 2015

Rearrangements and Reconversion Costs (1 of 2)c

2 CFR 200.462(a)

- Ordinary and normal rearrangement and alteration costs are allowable as indirect costs.
- Special arrangements/alterations incurred specifically for a Federal award are allowable as direct cost with prior approval

Facilities and Leases 32

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Rearrangements and Reconversion Costs (2 of 2)

2 CFR 200.462(b)

- Costs for restoration or rehabilitation of facilities after use by ETA programs, less normal wear and tear, are allowable

Facilities and Leases 33

SMART FINANCIAL GRANTS MANAGEMENT 2015

Interest (1 of 4)

2 CFR 200.449(a)

- Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-Federal entity's own funds, however represented, are **unallowable**.
- Financing costs (including interest) to acquire, construct, or replace assets are **allowable**, under limited circumstances; except ETA does not allow purchase of buildings

Facilities and Leases 34

SMART FINANCIAL GRANTS MANAGEMENT 2015

Interest (2 of 4)

Financing costs, including interest, are allowable for all non-Federal entities under the following conditions:

- The asset is used for the Federal award
- The costs are limited to fair market values
- Transaction is with an unrelated 3rd party or claims reimbursement at a comparable rate for such a transaction

Facilities and Leases 35

SMART FINANCIAL GRANTS MANAGEMENT 2015

Interest (3 of 4)

Financing costs, including interest, are allowable for all non-Federal entities under the following conditions:

- The non-Federal entity limits claims for Federal reimbursement of interest costs to the least expensive alternative.
- The non-Federal entity expenses or capitalizes allowable interest costs in accordance with GAAP.

Facilities and Leases 36

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Interest (4 of 4)

Additional conditions:


- States, local governments, and Indian Tribes
 - must have been incurred for buildings acquired after October 1, 1980
- Non-Profits
 - Interest must have been incurred after September 29, 1995
- Institutions of Higher Education (IHE)
 - Interest must have been incurred after September 23, 1982, in connection with "acquisitions after this date"

Facilities and Leases 37

SMART FINANCIAL GRANTS MANAGEMENT 2015

Documentation

- Estimates of costs and valuations
- Prior approvals
- Maintain physical inventory of facilities and Federal programs' occupancy percentages
- Methods of charging costs to Federal programs
- Depreciation records



Facilities and Leases 38

SMART FINANCIAL GRANTS MANAGEMENT 2015

Status Check

Are the statements true or false?

- ? After a building has outlived its useful life, a grantee may begin charging a 2% use allowance for the property.
- ? Grantees may charge depreciation on capital improvements not fully depreciated.
- ? The costs of idle facilities/capacity are unallowable costs to Federal awards.
- ? Insurance, security, maintenance, janitorial services, repair, etc., are allowable maintenance and repair costs.

Facilities and Leases 39

SMART FINANCIAL GRANTS MANAGEMENT 2015

Leases

Learning objectives for this section

- Describe difference between capital and operating leases

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General parameters for leases

2 CFR 200.465

- Rental costs, to the extent reasonable, are allowable, with certain limitations
 - Limitations on
 - Sale and lease-back
 - Less-than-arms-length
- Rental arrangements should be reviewed periodically

Facilities and Leases 41

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What is a Capital Lease?

- Usually a non-cancellable lease for a fixed term with an option to buy
- Lessors' services are limited to financing the asset
- Lessee pays all other costs—title remains with the lessor


- Lessee
 - Cost to ETA programs is limited to depreciation and third-party financing costs or limit interest to least expensive alternative

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What is an Operating Lease?

- Lessor (or owner) transfers only the right to use the property to the lessee
- Lessee returns the property to the lessor at the end of the lease period
- Lease does not affect the lessee's balance sheet
- Lease generally provides for early termination fees

- Lessee
 - Lease expense is treated as an operating expense




Facilities and Leases 43

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Termination Clauses

- Leases should have termination clause
- Unexpired lease costs are generally allowable where reasonably necessary for award performance, less residual value, if:
 - Amount claimed does not exceed reasonable use value for the award and further reasonable period
 - All efforts were made to terminate, assign, settle, or otherwise reduce the lease costs




Facilities and Leases 44

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Key Changes

Learning objectives for this section

- Describe limitations on sale and lease-back and less-than-arms-length agreements, and the unallowability of home offices.



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Less-Than-Arms-Length Transactions

A less-than-arm's-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other.

These include:

- (1) Divisions of the non-Federal entity;
- (2) The non-Federal entity under common control through common officers, directors, or members; and
- (3) The non-Federal entity and a director, trustee, officer, or key employee of the non-Federal entity or an immediate family member, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.

Facilities and Leases 46


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Restriction on Home Office

2 CFR 200.465(c)(6)

Home office workspace




- The rental of any property owned by any individuals or entities affiliated with the non-Federal entity for purposes such as home office workspace, is **UNALLOWABLE**.



Facilities and Leases 47

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Documentation

-  Lease or rental agreements for space used for Federal programs
-  Procurement process followed to ensure that rental or lease rates are fair and reasonable for the space
-  Floor plan or other allocation method used to determine amount of costs charged to Federal programs and the cost by program

Facilities and Leases 48

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Status Check





Are the statements true or false?

- ?** A capital lease is the most common form of lease and is used by most organizations to rent space.
- ?** When a grant is terminated early, rental costs under unexpired leases are unallowable charges to the Federal award.

Facilities and Leases 49

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Common Mistakes (1 of 2)

- Missing or unreasonable termination clauses 
- Inadequate documentation to support ETA program's fair share of facilities cost 
- Depreciation charged on fully depreciated building 
- Accelerated depreciation charged without justification 

Facilities and Leases 50

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Common Mistakes (2 of 2)

- Mortgage payments charged to awards 
- Failure to obtain prior written approval for questionable capital improvement projects 
- Interagency transfers for capital projects reflected as expenditures in the books of account 

Facilities and Leases 51

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Quiz (1 of 2)

Are the statements true or false?

- ?** Capital expenditures must be capitalized in accordance with the Generally Accepted Accounting Principles (GAAP).
- ?** The costs of idle facilities are unallowable for Federal programs.
- ?** If I own a facility and use it for program purposes, my entity can charge market rent to the Federal grant for use of the facility.

Facilities and Leases 52

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Quiz (2 of 2)




Are the statements true or false?

- ?** Capital improvement projects are allowable as outright charges to the Federal programs as long as they are approved by the director of the organization and they are properly justified.
- ?** If a building is sold and then leased back for program occupancy, I can charge market rate for using it for ETA grant activities.

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Key Concepts (1 of 2)

 <p>Capital improvements require prior approvals.</p>	 <p>Unallowable costs include: land, amortizations, and construction of facilities.</p>	 <p>Costs for non-Federal entity-owned facilities are based on depreciation.</p>
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Facilities and Leases 54

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Key Concepts (2 of 2)



Space costs are relative to occupancy.



Costs are charged in accordance with cost allocation plan.



ADA requirements must be followed.

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Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following statements by **circling** the appropriate number in the middle column of the sheet, labeled Pre-Training, for each of the statements.

- Prior approval requirements for capital improvements/special arrangements.
- Space costs limitations for non-Federal entity-owned property, capital lease arrangements, less-than-arms-length transactions, and sale and lease-back arrangements.
- Calculation and documentation standards for depreciation costs charged to a Federal award .
- Difference between maintenance costs, capital improvements, and special arrangements.
- Definition of capital leases.

Facilities and Leases 56

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Everything matters!

THANK YOU!

Please complete your evaluations.
