WEBINAR
USG RULES AND REGULATIONS:
FINANCIAL MANAGEMENT & COMPLIANCE
Presented by:
Accelerating Support to Advanced Local Partners
(ASAP)

FINANCIAL MANAGEMENT & COMPLIANCE
Financial Management and Compliance
• Developing a Budget
• Recovering all Allowable Costs
• Direct and Indirect Budget items
• Calculating Modified Total Direct Cost
• 10% de minimis
• Monthly Financial Reporting
• Pipeline and Burn rates

DEVELOPING A BUDGET
• Include adequate details
• Support all activities (Activity Based Costing)
• Be able to break out your activities into mini budgets, in case you are later asked to split activities/regions/tasks
• Now part of your performance management requirements (as per 2 CFR 200.301 – Performance Measurement)
• Details to justify your 10% de minimis (to be discussed below)
• To be able to recover all allowable costs as noted below (Recovering all Allowable Costs)

Definition
• 2 CFR 200.8 Budget:
  "Budget means the financial plan for the project or program that the Federal awarding agency or pass-through entity approves during the Federal award process or in subsequent amendments to the Federal award. It may include the Federal and non-Federal share or only the Federal share, as determined by the Federal awarding agency or pass-through entity."
How to read an Assistance Solicitation

- “Shred” the solicitation and share the various pieces with those who will be responsible for preparing each section.
  - Determine the available funding if stated
  - Read the program description, desired results, goals and objectives
  - Identify activities, targets, geographical scope, key and other required personnel

How to read an Assistance Solicitation

- Understand the solicitation cost application instructions
  - Follow the instructions regarding forms, pages, fonts, currencies, exchange rates etc.

Course Topics – Day One

1. Capture Management Overview
2. Pre-Solicitation Activities
3. Teaming
4. Solicitations
5. Bid Decisions
6. Grants vs Contracts
7. Proposal Strategies & Price To Win
Course Topics – Day Two

8. Technical Solution
9. Writing the Technical Volume
10. The Proposal Process
11. The Cost Proposal
13. Compliance & Risk Mitigation

Resource Timelines

Typical Staffing Timeline
How to prepare your Cost Application Budget

- Describe all costs fully and accurately
- Apply the correct Cost Principles:
  - Non-profits – CFR 200.400
  - Find them at www.ecfr.gov

How to prepare your Cost Application Budget

- The Cost Application Budget should present costs in three basic ways:
  1) Summary Budget
     - Breaks down by major line-item categories
  2) Detailed Budget
     - Breaks down categories into subcategories
  3) Budget Narrative
     - Describes each cost with enough detail for USAID to understand how you propose to spend your program funding
### Summary Budget Example

<table>
<thead>
<tr>
<th>Description</th>
<th>Year 1 USAID Cost Share</th>
<th>Year 1 Total</th>
<th>Year 2 USAID Cost Share</th>
<th>Year 2 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>$200,000</td>
<td>$300,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fringe</td>
<td>$20,000</td>
<td>$30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td>$20,000</td>
<td>$30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>$15,000</td>
<td>$25,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>$10,000</td>
<td>$20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subawards</td>
<td>$10,000</td>
<td>$20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other Direct</td>
<td>$10,000</td>
<td>$20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Costs</td>
<td>$285,000</td>
<td>$313,500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Year 1 Indirect Costs</th>
<th>Year 1 Total</th>
<th>Year 2 Indirect Costs</th>
<th>Year 2 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect Costs</td>
<td>$27,000</td>
<td>$42,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Costs</td>
<td>$312,000</td>
<td>$340,500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Detailed Budget

- Describe subcategories of costs that make up categories of the Summary Budget.
- Numbers and descriptions should be consistent with the Summary Budget.
- Break down financial data into unit costs.

### Detailed Budget Example

<table>
<thead>
<tr>
<th>Description</th>
<th>Unit</th>
<th>Unit Cost</th>
<th>Year 1 # of Hours</th>
<th>Year 1 Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Project Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Manager</td>
<td>Day</td>
<td>$288.46</td>
<td>260</td>
<td>$75,000</td>
</tr>
<tr>
<td>Program Officer</td>
<td>Day</td>
<td>$192.31</td>
<td>260</td>
<td>$50,000</td>
</tr>
<tr>
<td>Medical Officer</td>
<td>Day</td>
<td>$144.23</td>
<td>260</td>
<td>$37,500</td>
</tr>
<tr>
<td>Education Officer</td>
<td>Day</td>
<td>$144.23</td>
<td>260</td>
<td>$37,500</td>
</tr>
<tr>
<td>Sub Total Project Management</td>
<td></td>
<td>$200,000</td>
<td>1,040</td>
<td></td>
</tr>
</tbody>
</table>

Sub Total Personnel Cost (MUST AGREE TO SUMMARY BUDGET) $200,000
Budget Narrative

- The Budget Narrative presents clear descriptions and explanations of project costs by line item cost category
  - Provide enough detail for USAID to understand fully how its money will be spent on the project.
  - Elaborate fully on any unique or excessively high costs.

Example: Section 1 of Budget Narrative
1. Personnel
   Project implementation will occur with four in-country project staff that includes proposed key personnel positions, seven administrative staff, home office support and short term consultants as explained below:

   **KEY PERSONNEL**
   - 1 full-time Program Manager who is expected to be 100% assigned to the project.
   - 1 full-time Program Officer who is expected to be 100% assigned to the project.
   - 1 full-time Medical Officer who is expected to be 100% assigned to the project.
   - 1 full-time Education Officer who is expected to be 100% assigned to the project.

Cost Category: Key Personnel

- Break down major categories such as Personnel
  - Distinguish key personnel from other staff members
  - The solicitation will specify required key personnel

- The Detailed Budget and Narrative should give details about key personnel
  - Name and Position
  - Regular employee or Independent Contractor
  - Etc.

Cost Category: Other Personnel

- Describe all non-key personnel for the project
  - Technical and Professional Staff, Supporting Administrative Staff
  - Distinguish non-key personnel by nationality

- Conduct market research for local labor costs
  - US Embassies maintain “Local Compensation Plans” (LCP)
  - You may request a copy from the US Embassy in-country

- Consider the cost principle for Compensation at 2. CFR 200.330 on salary reasonableness
Cost Category: Fringe Benefits
- Fringe costs are the benefits the organization provides to its employees other than direct wages or salaries
  - Examples include health insurance, taxes, transportation benefits, etc.
  - Holidays, sick and vacation days are sometimes included.
  - Be descriptive. For example: “In accordance with local labor law, we have budgeted severance pay at a rate of one month’s salary per year of service (8.33%)”
  - Always refer to the relevant Cost Principles for acceptable types of Fringe costs. (2 CFR 200.431)

Cost Category: Travel
- Budget Narrative should explain and justify all project travel costs
  - Costs for air or other commercial transportation of project staff
  - Distinguish between international vs. domestic travel.
- Include the following details for all international travel:
  - Number of travellers
  - Proposed days and times
  - Proposed destinations

Cost Category: Travel
- Per Diem costs as a subcategory:
  - Includes lodging, meals and incidentals
  - Break down and explain per diem costs in the Narrative
  - Use organization’s per diem policy consistently or else use the State Department travel regulations (www.state.gov)
  - See MSP-RAAP#8 and 2CFR 200.474
Cost Category: Equipment

- USAID’s definition of Equipment = non-expendable items over $5,000 per unit. See MSP M7 and 2 CFR 200.439
- Specific equipment requires USAID approval
  - E.g. motor vehicles regardless of unit costs. See MSP M6
  - Procurement rules apply to vehicle purchases and other items as noted on the following slide.
  - The Narrative should explain planned competitive procurement procedures and attempts to procure from US sources

USAID ELIGIBILITY RULES FOR PROCUREMENT OF COMMODITIES AND SERVICES

RESTRICTED COMMODITIES

Recipients must obtain prior written approval from the Agreement Officer (or comply with waiver requirements when buying):
- Agricultural commodities,
- Motor vehicles,
- Pharmaceuticals,
- Pesticides,
- Used equipment,
- U.S. Government-owned excess property,
- Fertilizer.

Cost Category: Sub-Awards

- Sub-Awards/Sub-Grants/Subrecipients
  - Separately list prospective sub awardees
  - Prepare separate budgets for each sub awardee with the same details as the prime
- Consultants/Independent Contractors
  - Separate sub-category under “Personnel”
  - Include daily rate and LOE
Cost Category: Other Direct Costs

- Direct costs attributable to the project that do not fit neatly into other categories.
- NEVER include contingency or undefined miscellaneous costs.
- Common ODCs include training, conferences, passports, visas, vehicle insurance, rent and utilities, publications and postage, phone and internet services, bank fees, legal fees and USAID Marking and Branding.
- As noted regarding salaries and fringe, be very detailed about ODC's as well. See following for example

Cost Category: Other Direct Costs

- Office rental costs are based on our current lease of $2,000/month exclusive of utilities. There are 20 desks in our office, and 10 of them will be used for personnel directly billing to this activity. As such, the rent allocated to this award will be 50% of our rental costs, this comes out to $1,000/month.

DEVELOPING A BUDGET QUESTIONS
RECOVERING ALL ALLOWABLE COSTS

• Include all allowable costs into the budget (USAID and all USG Agencies will pick up their “fair share” of costs)
• Understand upfront what is allowable and allocable (Get to know what you currently do not know)
• Review 2 CFR 200.405(a) closely. It states, “A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:
  (1) Is incurred specifically for the Federal award;
  (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
• Review M1(b) - MSP’s for Non-US Governmental Organizations which states:
  “It is the recipient’s responsibility to ensure that costs incurred are in accordance with the applicable cost principles, meaning the costs are (1) reasonable: costs which are generally recognized as ordinary and necessary and would be incurred by a prudent person in the conduct of normal business; (2) allocable: incurred specifically for this award; and (3) allowable: conform to any limitations in this award. The recipient must obtain any prior written approvals from the AO that are required by the applicable cost principles. …”
• Document and justify why you need to recover those items that are necessary for your organization to exist (e.g., board meetings, accounting costs, statutory audits, NGO registration fees, directors fees)
• Understand how much things actually cost (e.g., GAGAS audits, compliance requirements, grants management costs, payroll costs for special staff who are hard to find and cost more than the market prices). Speak with other NGO’s that have been operating in the country for a while.
• Certain types of costs are never allowable; such as alcohol, bad debts, certain entertainment, goods and services for personal use, unnecessary fines and penalties, most lobbying, certain foreign taxes etc. Read your Cost Principles closely.
RECOVERING ALL ALLOWABLE COSTS

QUESTIONS

DIRECT AND INDIRECT BUDGET ITEMS

• Read up on the differences in the cost principles (2 CFR 200.413 (direct costs) & 414 (indirect costs))
• Try to direct cost as much as possible
• Ask for/elect the 10% de minimis
• Continue to get ready for indirect costs at some point in time depending on your mission
• Always seek approvals if you are not sure (as per MSP#1 – Allowable costs, and 2 CFR 200.407 – Prior Written Approval)

CALCULATING MODIFIED TOTAL DIRECT COST

2CFR200.68 – MTDC Definition

MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of $25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.
.414-11 Providing Proof of Indirect Costs for De Minimis Rate *

Does a non-Federal entity that uses the 10 percent de minimis indirect cost rate need to provide documentation to prove that its indirect costs are at least 10 percent of its organization’s modified total direct costs?

No. A non-Federal entity that has never received a negotiated indirect cost rate and that uses the 10 percent de minimis rate does not need to provide proof of its indirect costs. The 10 percent de minimis rate was designed to reduce burden for small non-Federal entities (See also .414-11 above). The non-Federal entity has to report in its SEFA whether it has elected to use the 10% de minimis rate for its Federal programs (see §200.510(b)(4)).

10% DE MINIMIS

• 10% de minimis is an election. Most missions are allowing it if you clearly calculate it and ask for it with the proper citations and calculations.
• In the May 18, 2020 update of the Non-US MSPs, USAID added in, at RAAP#5, the new de minimis provision
• NICRA’s are considered in the MSP’s at RAAP#3 and as per 2 CFR 200.414(f)

.492 Determining Modified Total Direct Costs *

In determining Modified Total Direct Costs, some non-Federal entities are interpreting the definition of MTDC in §200.68 as only including “direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $25,000 of each subaward.” Others interpret it to mean all allowable direct costs minus “equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of $25,000.” Since the two methods are not always the same, is one method preferable to the other?

No. the MTDC definition in §200.68 does not have two different methods for determining MTDC. The definition of MTDC in that section must be considered in its entirety. However, the list of direct costs by each entity is different; therefore, the preference would be to state total direct costs and exclude the items listed as per the definition in §200.68. In general, MTDC is the total direct costs excluding equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of $25,000. Any other exclusions are for cost items that may skew the equitable distribution of indirect costs and must be approved by the cognizant agency for indirect cost.
MONTHLY FINANCIAL REPORTING

Link to reporting forms
https://www.grants.gov/web/grants/forms/post-award-reporting-forms.html

Read Schedule A of your award!!!
MONTHLY FINANCIAL REPORTING QUESTIONS

PIECELINE AND BURN RATES

For advance requests, you need to submit a supporting cash-flow budget. This is also referred to as a pipeline analysis or burn rate. This helps USAID ensure that there is enough money available to cover your upcoming expenses and to make sure your project does not end up over budget.

- **Pipeline** funds are the funds that have been obligated to your project but have yet to be spent.
  - Calculated as follows:
    - Obligated amount to date minus total Expenditure to date
- **Burn rate** is an estimate for how quickly your award’s obligated funds are currently being spent and is used to estimate how long your remaining funds will last.
  - Calculated as follows:
    - Total expenditure to date divided by number of months to date

PIECELINE AND BURN RATES

- **Total Estimated Cost** – The total amount anticipated to be provided by the USG and spent by the Implementing Partner over the life of the project

- **Obligated Amount** – The amount the USG has committed to spend on the project to date, which may be a portion of the award amount
### PIPELINE AND BURN RATES

**Pipeline Analysis Example:**

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E=D-G</th>
<th>F=B-E</th>
<th>G</th>
<th>H=A(E-D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Estimated Cost (TEC)</td>
<td>Obligated amount to date</td>
<td>Costs incurred to date</td>
<td>Project Outstanding Commitments</td>
<td>Total Unexpended Balance</td>
<td>Funding Request</td>
<td>Additional funding required to expend TEC</td>
<td></td>
</tr>
<tr>
<td>$1,000,000</td>
<td>$800,000</td>
<td>$200,000</td>
<td>$700,000</td>
<td>$150,000</td>
<td>$100,000</td>
<td>$50,000</td>
<td></td>
</tr>
</tbody>
</table>

Funding request cannot be greater than the additional funding required to expend the TEC. FH-425 (financial report) provides useful information for the calculation of the pipeline.

### PIPELINE AND BURN RATES

**Burn Rate Calculation Example:**

<table>
<thead>
<tr>
<th>Contract Term (months)</th>
<th>75</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of months (to date)</td>
<td>45</td>
<td>B</td>
</tr>
<tr>
<td>Number of months (remaining)</td>
<td>30</td>
<td>C-A-B</td>
</tr>
<tr>
<td>Total Estimated Cost</td>
<td>$1,000,000</td>
<td>D</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>$700,000</td>
<td>E</td>
</tr>
<tr>
<td>Average Monthly Burn Rate</td>
<td>$10,656</td>
<td>F-E/B</td>
</tr>
<tr>
<td>Money for future expenditures (new funding request plus unexpended balance)</td>
<td>$300,000</td>
<td>G=D-F</td>
</tr>
<tr>
<td>Estimated no. of months current money will last</td>
<td>19</td>
<td>H=G/F</td>
</tr>
</tbody>
</table>

### PIPELINE AND BURN RATES

ADS 602.3.5 Minimum Pipeline Standards; “Whenever the projected pipeline is less than six months at the end of the fiscal year, operating units are encouraged to reassess their estimated expenditure levels, reduce mortgages by eliminating activities where appropriate, or request additional funds”.

602.3.7(a) Program Management; “Any amounts identified as excessive for programmatic needs may be considered candidates for de-obligation. If possible, in conformity with the Agency’s de-obligation / re-obligation authority, these funds may be reallocated and re-obligated to those strategic objectives that are underfunded and that warrant additional funding on the basis of performance and other relevant criteria used by the Agency in making resource allocation decisions”.

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49 50 51