

Montana Department of Natural
Resources and Conservation
Forestry Division
Subaward Manual



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Updates to the Subaward Manual:

- Issued June 10, 2013
- Revised July 15, 2015, to reflect consolidation of federal grant guidance into 2 CFR 200
- Revised February 09, 2017.

Section 1: Introduction

1.1 Purpose

The Montana Department of Natural Resources and Conservation Forestry Division's (DNRC) Subaward Manual was established to assist with interpreting the administrative and financial requirements for funds distributed through DNRC Forestry Division subawards.

This manual is intended to *supplement* the federal, state, and programmatic requirements that govern subaward administration. It is not a substitute for familiarization with the actual requirements. Any omission of a federal, state, or local requirement from this manual does not waive a subrecipient's responsibility to comply with that requirement.

1.2 Definitions and Websites

- ❖ Terms that are [blue](#) in color and underlined are electronically linked to a definition in [Appendix A](#). Definitions can also be manually retrieved in the appendix.
- ❖ URLs, also [blue](#) in color and underlined, are linked to a website.

1.3 Notes on Terminology

When DNRC receives a grant award of funds directly from a federal agency, DNRC is considered the [primary recipient](#) of the award. When DNRC then [subawards](#) (or subgrants) the funds to another entity, this entity is considered a [subrecipient](#) (or subgrantee), and DNRC is deemed a [pass-through entity](#).

If the subrecipient then subawards the federal funds to a second entity, the second entity is considered a second-tier subrecipient. The entity that is intended to ultimately benefit from the award is considered a [beneficiary](#). Beneficiaries are not considered subrecipients and therefore are not subject to the same regulatory and administrative requirements as subrecipients.

When DNRC awards state funds (rather than federal funds), DNRC is the awarding agency, and the receiving entity is a primary recipient.

State and federal grant administrative requirements are very similar. For the sake of simplicity, the term “**subrecipient**” is used throughout the manual to refer to both recipients and subrecipients, and “**subaward**” to refer to both awards and subawards of DNRC funds, regardless of the underlying funding source.

More information on the flow-down of federal grant award funds and related terms is provided in [Appendix B](#).

Throughout this manual, the term “**DNRC**” refers to the Forestry Division of DNRC. Other divisions of DNRC and other State of Montana agencies may, or may not, be subject to the guidance in this manual, depending on their source of funds and programmatic constraints.

1.4 DNRC Contact Information

Questions or comments about the manual should be directed to the DNRC Forestry Division’s Business Management Bureau:

Montana DNRC Forestry Division
Business Management Bureau
2705 Spurgin Road
Missoula, MT 59804
Phone: (406) 542-4300
Fax: (406) 542-4217

Section 2: Compliance with Laws and Regulations

2.1 Office of Management and Budget (OMB) Guidance

Subrecipients of federal grant funds must comply with the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* published by the federal Office of Management and Budget (OMB).

The Uniform Guidance is consolidated in the [Code of Federal Regulations](#) (CFR), Title 2, Part 200, Subparts A through F and appendices. These regulations, referred to collectively as “2 CFR 200,” are regularly referenced in this document. They can be viewed in their entirety at www.ecfr.gov, with selection of “Title 2 – Grants and Agreements” and then “Parts 200-299 – Office of Management and Budget Guidance.”

2.2 Additional Regulations Governing DNRC Subawards

Additional regulations governing DNRC subawards include, but are not limited to:

- ❖ federal, state, and local laws, statutes, rules, and ordinances, as applicable;
- ❖ the federal award—the signed agreement between DNRC and the federal agency providing funds. Terms and conditions of the federal award that are applicable to subrecipients are incorporated into the Subaward Agreement;
- ❖ the Subaward Agreement—a signed agreement that documents the legal relationship between DNRC and the subrecipient and describes each party’s roles and responsibilities; and

- ❖ other federal or state programmatic requirements or guidelines. These are generally communicated to the subrecipient through subaward-related materials such as the request for proposal, application, and Subaward Agreement; or via relevant agency websites and publications.

Section 3: Applying for DNRC Subawards

3.1 Eligibility to Receive Subawarded Funds

The following requirements must be met for an entity to receive subaward funds from DNRC:

- ❖ **Debarment and Suspension**

Subrecipients of federal funds are required to sign Form AD-1048, “Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion—Lower Tier Covered Transactions,” certifying that neither their entity nor their principals have been debarred or suspended or are otherwise ineligible to receive federal funds. Federal debarment and suspended party searches can be conducted at the System for Award Management website: www.sam.gov.

- ❖ **Insurance Requirements**

Subrecipients must purchase and maintain liability insurance coverage equal to or exceeding the limits required in the Subaward Agreement. Prior to applying for subaward funds, applicants can contact the designated DNRC Program Manager for information about insurance requirements. Documentation required by DNRC to verify insurance depends on the type of entity:

(1) Counties, cities, towns, or organizations covered under the Montana Municipal Interlocal Authority (MMIA) or Montana Association of Counties (MACo) have coverage verified by DNRC.

(2) Entities covered under private insurance companies must submit the following insurance verification documentation to DNRC before a Subaward Agreement can be executed:

- current Certificate of Liability Insurance that (a) includes the types and maximum coverage for the insurance, (b) names the State of Montana as an additional insured and as the certificate holder, and (c) lists the DNRC Subaward Agreement Number on the face of the certificate.
- Endorsement, as required, to document the naming of the State of Montana as an additional insured. The address to use on the endorsement is: State of Montana; ATTN: DNRC Procurement Office; PO Box 201601; Helena, MT 59620-1601.

❖ **Single Audit**

Any applicant that has expended \$750,000 or more in federal awards in the subrecipient's preceding fiscal year is required to complete a [Single Audit](#) or [Program-specific Audit](#) for that year in accordance with the provisions of 2 CFR 200-Subpart F. If a subrecipient has completed one of these audits, verification of the audit and any findings must be submitted to the Federal Audit Clearinghouse, as directed in 2 CFR 200.512. More information on audits can be found at <https://harvester.census.gov/facweb>.

❖ **Subaward Disbursements**

DNRC prefers to release subawarded funds for project costs on a reimbursement basis consistent with guidance found in 2 CFR 200.305(b)(3). Therefore, applicants should be able to pay project costs from their own funds before requesting reimbursement from DNRC. Under certain circumstances, a DNRC Program Manager may approve an advance of awarded funds. To discuss this possibility, contact the manager prior to execution of the Subaward Agreement.

❖ **DUNS Number**

A subrecipient must have a DUNS number prior to signing a DNRC Subaward Agreement. Applications are made through Dun and Bradstreet (D&B) at www.dnb.com.

❖ **EIN**

A subrecipient must have an Employer Identification Number (EIN), obtained from the IRS at <http://www.irs.gov>.

❖ **State Registration**

Private entities (nonprofits and for-profits) must be registered with the Montana Secretary of State's office at <http://sos.mt.gov/Business/>. (Select the "Business Toolkit.")

❖ **Internal Controls**

Entities applying for DNRC subaward funds must have internal controls and financial management systems in place to provide reasonable assurance of effectiveness and efficiency of operations; reliability of financial reporting, for internal and external use; and compliance with applicable laws and regulations. Internal control processes should be documented.

Internal controls are used for many different systems aside from financial ones, including procurement, personnel, travel, and the protection of [personally identifiable information](#). 2 CFR 200.302 and 303 provide more information about this topic.

❖ **Specific Subaward Program Requirements**

In addition to the requirements listed above, each DNRC subaward program may have its own specific eligibility requirements, which are typically included in the application materials or communicated by the DNRC program officer.

3.2 Subaward Application

Most applications for DNRC subaward funding require a project narrative and proposed budget. The general content is summarized here. Note that content may vary by subaward program.

Project Narrative

A narrative typically includes a Project Description, Funding Plan, and Work Plan.

- ❖ **Project Description.** Describes the following:
 - specific activity to be undertaken,
 - goals and objectives of the project that will also contribute to accomplishing the goals of the federal award,
 - location of the project or activity,
 - key personnel, and
 - any anticipated subawarding or subcontracting activity.

- ❖ **Funding Plan.** Clarifies how award funds will be used and (if applicable) how [match](#) requirements will be met.

- ❖ **Work Plan.** Explains the work plan and timetable for specific milestones and how progress will be measured.

Project Budget

The project budget should provide realistic estimates of anticipated expenses, broken out into the budget categories provided in the application. Although budgets vary by subaward program and project, most include line items for [direct costs](#) (such as salaries, operating expenses, and contracted services) and [indirect costs](#) and clearly distinguish between award and match funds. If goods or services are to be procured, quotes from [contractors or vendors](#) may help estimate costs.

DNRC recognizes that the costs shown in a proposed budget are usually estimates at the beginning of the project and as such are subject to revision as more information becomes available. Most Subaward Agreements contain a provision allowing for minor adjustments between budget items or categories without the need for an [amendment](#) to the agreement.

When preparing the project budget for the application, subrecipients should review 2 CFR 200-Subpart E to determine the types of costs that are generally [allowable](#) and [unallowable](#). Some types of costs are allowable only under certain circumstances, while others are always unallowable. This topic is discussed more extensively in **Sections 4.1 and 4.2** of this manual.

Match (Cost Share) Requirement

Match, also referred to as “cost share,” is generally the portion of project or program costs not paid with award funds. Typically, it is the subrecipient’s contribution or donated goods or services. DNRC often requires a match commitment from subrecipients; program-specific match requirements are outlined in the subaward application materials.

If the program requires a match, the narrative must clearly explain how match funds, goods, or services will be used to support the project and who will be providing the match. Also, the budget must clearly distinguish between award and match funds.

On a final note, federal funding cannot be used as match on federal awards or subawards. Match requirements are further discussed in **Section 4.5**.

Section 4: Project Costs

4.1 Allowable Costs

General Principles for Allowable Costs

The principles for allowable costs are based on the fundamental premise that subrecipients are responsible for the following:

- ❖ administering the subaward efficiently and effectively through the application of sound management practices;
- ❖ managing subaward funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Subaward Agreement; and
- ❖ employing whatever form of organization (nonprofit, for-profit, etc.) is necessary to assure proper and efficient administration of subawarded funds.

To be considered “allowable” under a federal award or subaward, a cost must at a minimum be:

- ❖ **necessary** to accomplish the project objectives as described in the Subaward Agreement and applicable industry or program standards;
- ❖ **reasonable** for proper and efficient performance and administration of the subaward. A cost is “reasonable” if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost; and
- ❖ **allocable** to the subaward under the provisions of 2 CFR 200.405. A cost is allocable to a particular [cost objective](#) if the goods or services involved are chargeable or assignable to the cost objective in accordance with the relative benefits received.

Additional general criteria for allowability of costs require that the cost also:

- ❖ be authorized or not prohibited under state or local laws or regulations;

- ❖ conform to any limitations or exclusions set forth in cost principles established by 2 CFR 200-Subpart E, federal or state laws, terms and conditions of the subaward, or other governing regulations as to types or amounts of cost items;
- ❖ be consistent with policies, regulations, and procedures that apply uniformly to both federal and state subawards and other activities of the entity;
- ❖ be accorded consistent treatment. A cost may not be assigned to the subaward as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the subaward as an indirect cost, as further clarified in **Section 4.3**;
- ❖ be determined in accordance with [Generally Accepted Accounting Principles](#) (GAAP), except as otherwise provided for in 2 CFR 200.416-419 (applicable to states, local governments, and Indian tribes);
- ❖ not be included as a cost or used to meet match requirements for any other federal or state award in either the current or a prior period, except as specifically provided by federal law or regulation, as discussed in **Section 4.5**;
- ❖ be the net of all [applicable credits](#). Applicable credits, whether accruing or received, should be credited to the applicable award(s) as a cost reduction or cash refund, as appropriate; and
- ❖ be adequately documented, with more information provided in **Section 4.6.2**.

Allowable Costs are described in greater detail in 2 CFR 200-Subpart E.

4.2 Unallowable Costs

Unallowable costs will not be reimbursed. If a particular item is not mentioned in this manual or the Subaward Agreement, no implication should be drawn that the cost is either allowable or unallowable. If a particular item is not listed in 2 CFR 200-Subpart E, it may be possible to determine allowability based on the degree to which it shares common characteristics with another, similar item that is listed. If no similar item is discussed, the general tests of allowability described above should be applied. If cost allowability is difficult to determine, subrecipients should consult with their DNRC Program Manager prior to incurring the cost.

Examples of Unallowable Costs include, **but are not limited to**, the following:

- ❖ *Unapproved Costs.* Costs not previously approved by DNRC in the subaward application, Subaward Agreement, or subsequent subaward amendments are usually unallowable.
- ❖ *Lobbying and Political Activity.* The costs of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans are not allowable.

- ❖ *Match (Cost Share).* Costs claimed to meet match requirements for other federal or state grants are not allowable.
- ❖ *Donations and Contributions.* The value of donated items or volunteer services is not reimbursable as either a direct or indirect cost; however, it may be used to meet match requirements.
- ❖ *Entertainment.* Costs of entertainment, including amusement, diversion, and social activities, as well as any associated costs (such as tickets to shows or sporting events, meals, lodging, rentals, transportation, and gratuities), are unallowable.
- ❖ *Goods or Services for Personal Use.* Costs of goods or services for personal use of the subrecipient's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

4.3 Direct and Indirect Costs

As noted in **Section 4.1 Allowable Costs**, costs must be consistently treated as either direct or indirect. Cost principles set forth in 2 CFR 200.412-415 state clearly that a cost may **not** be assigned to a federal award as a direct cost if any other cost incurred for the same purposes in like circumstances has been allocated to the award as an indirect cost. This practice helps to avoid possible double-charging of costs.

There is no universal rule for classifying a particular cost as either direct or indirect under every accounting system, but the following guidelines may help determine whether to treat costs as direct or indirect.

Direct Costs. Direct costs are those that can be identified specifically with a particular final cost objective, such as a federal award or subaward. Costs that are typically charged as direct costs may include, but are not limited to:

- ❖ compensation (salaries, wages, and fringe benefit costs) of employees for the time devoted to and identified specifically with the performance of the subaward;
- ❖ cost of materials acquired, consumed, or expended for the purpose of the subaward;
- ❖ cost of services performed in order to accomplish the subaward; and
- ❖ travel expenses incurred specifically to carry out the subaward.

Indirect Costs. Indirect costs are those incurred for a common or joint purpose benefitting more than one cost objective **and** not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. Indirect costs tend to be necessary for the operation of an organization as a whole, and the benefits are generally shared across all programs. Indirect costs are sometimes known as “facilities and administrative,” or F&A, costs.

The decision tree in [Appendix C](#) may help determine whether a cost should be considered direct or indirect. In general, an indirect cost pool **may** include items such as:

- ❖ facility operations and maintenance costs,
- ❖ general administration and general expenses,
- ❖ personnel and accounting administration, and
- ❖ depreciation and use allowances on buildings and equipment.

To obtain reimbursement of indirect costs for a DNRC subaward, a subrecipient's indirect cost rate percentage is applied to the direct cost base. There are two approaches to obtaining an indirect cost rate:

- ❖ ***Negotiated Indirect Cost Rate Agreement (NICRA)***. The NICRA documents an indirect cost rate negotiated with a subrecipient's federal [Cognizant Agency](#). DNRC will accept a NICRA rate in its subawards for the term stated in the agreement. If the NICRA is soon to expire, a subrecipient may apply for a one-time extension of the negotiated rate for up to four years; otherwise, a new NICRA must be negotiated with the Cognizant Agency.
- ❖ ***Non-Negotiated Rate***. Subrecipients without a NICRA may request an indirect cost rate of ten percent or less for a particular subaward. The "de minimis" rate of ten percent was established in 2 CFR 200.414 to allow for reimbursement of minimal indirect costs without the need for a negotiated rate.

4.4 Budget Categories

Budget categories for direct costs in a DNRC Subaward Agreement may include [Personnel Costs](#), Operating Expenses, [Equipment](#), Contracted Services, Payments to Beneficiaries, and Subawards to Second-Tier Subrecipients.

4.4.1 Personnel Costs

Personnel Costs, also referred to as payroll charges, include compensation paid to employees as wages or salaries and related fringe benefit costs for services provided for the benefit of the subaward project during the term of the subaward agreement. As with any cost attributed to the subaward, personnel costs must meet the general test of **allowability** in that the costs must be **necessary, reasonable, and allocable** to the award.

Personnel costs can be checked for reasonableness by comparing compensation with other organizations' pay for similar work, or if no similar work exists, with market salary standards. The charges must be consistent with other payroll charges and organizational policies, and they must not be charged elsewhere to another award or function.

Fringe benefit costs associated with payroll charges (such as the employer's portion of payroll taxes; health insurance premiums; workers' compensation insurance; contributions to retirement programs; and compensated absences such as vacation, holiday, military, and sick leave) are also allowable, provided the benefits are reasonable and required by law, employee agreement, or established policy of the subrecipient (2 CFR 200.431).

Personnel costs for vacation and leave time may only be requested for reimbursement after the period in which leave is taken, not at the time that leave is earned or accrued.

All salaries, wages, and benefits claimed as direct costs to federal awards must be based on the entity's documented payroll records. Time and attendance records (including work schedules, calendars, and time sheets) may be used to document payroll charges.

If personnel costs are claimed as part of the indirect cost pool, such as for accounting and general administrative services, and are captured in an approved indirect cost rate, they are not eligible for direct costs reimbursement.

4.4.2 Operating Expenses

The Operating Expenses budget category includes such costs as supplies and materials, utilities, travel, and training. These types of expenses may be treated as either direct or indirect costs, depending on their relative benefit to the award-funded project. More information about direct and indirect costs is provided in **Section 4.3** and [Appendix C](#).

4.4.3 Equipment (Capital Equipment)

Equipment, also referred to as "capital equipment," is defined as tangible personal property having a useful life of more than one year and a per-unit acquisition cost of \$5,000 or more. If an item costs less than \$5,000, it is categorized as "supplies" in the "Operating Expenses" category.

DNRC subawards rarely allow for the purchase of equipment. If it is permitted by the award program, Program Managers will work with the subrecipient during the application process to determine if there is a need to allocate subaward funds for equipment. If the purchase of equipment is determined to be an allowable cost, it will be clearly noted in the subaward budget table, and guidance related to the acquisition and disposition of the equipment will be included in the Subaward Agreement.

4.4.4 Contracted Services

The Contracted Services budget category includes costs incurred for services provided under contract in support of the award-funded project. Contracted services represent an actual procurement, or purchase, of services. As with operating expenses, contractual

expenses should be analyzed to determine whether they are more accurately treated as direct or indirect costs under the subaward.

4.4.5 Payments to Beneficiaries

Some DNRC subawards may require the subrecipient to enter into a contract or other agreement with the intended beneficiary of the federal award program to accomplish project goals and distribute subaward funds. Even though there may be a written contract governing the relationship, it is more of a cooperative agreement than a procurement situation, so payments to beneficiaries are **not** considered a “contracted service.”

4.4.6 Subawards to Second-Tier Subrecipients

Some DNRC subaward programs allow subrecipients to further subaward part of the project funds to another entity, referred to as a “second-tier subrecipient,” to perform a specific part of the project. This “second-tier subaward” represents a federal subaward relationship. It is not to be confused with contracted services (a procurement relationship) or payments to beneficiaries (a cooperative relationship). Subrecipients at all tiers of the federal award process are subject to all federal administrative requirements in this manual and 2 CFR 200.

Contractors or vendors providing goods or services in exchange for payment are not subject to all of the same rules and regulations, nor are beneficiaries who participate in and benefit from the federally funded program. A visual of the flow-down of federal grant award funding and related terms is provided in [Appendix B](#).

4.4.7 Example Project Budget Table

<i>Project Funding Summary:</i>	<i>Cost</i>
Direct Costs	
Subrecipient Salary/Wages/Benefits	\$ 50,000
Operating Expenses	\$ 10,909
Payments to Beneficiaries	\$ 15,000
Contracted Services	\$ 15,000
Subtotal – Direct Costs	\$ 90,909
Indirect Costs (10%)	\$ 9,091
Total Subaward Amount	\$100,000
Match Required (1:1)	\$100,000
Total Project Funding:	\$200,000

4.5 Match (Cost Share)

Match, also referred to as cost share, is the portion of project costs not paid with subawarded funds. It is usually the subrecipient's contribution or a third party's donated services or supplies. For subawards that require match, the subrecipient must document, according to the terms of the Subaward Agreement, that the match requirement has been met.

Costs used to meet a match requirement must be allowable under the applicable cost principles and must meet program guidance and documentation requirements. Failure to properly record match expenses may result in the termination of the Subaward Agreement or the withholding of subaward disbursements by DNRC until appropriate documentation is provided.

4.5.1 Match Ratio

In a DNRC subaward, the match requirement is often described as a ratio of federal to non-federal funds, such as, "3:1 federal to non-federal funds." In this example, for every \$3 of federal funds received, the subrecipient or a third party must provide \$1 of non-federal funds. The subrecipient should work with the DNRC Program Manager to ensure the amount of match required is clearly understood as stated in the Subaward Agreement.

4.5.2 Match Requirements

Costs claimed as match must meet all the following criteria (2 CFR 200.306):

- ❖ be verifiable from the subrecipient's records;
- ❖ not be included as match contributions for any other state or federally-assisted project or program;
- ❖ be necessary and reasonable for the accomplishment of project objectives;
- ❖ be allowable under the cost principles of 2 CFR 200-Subpart E; and
- ❖ not be paid by the federal government under another award, except where authorized by federal statute for use as match.

Costs used to meet match requirements must be supported in the same manner as those claimed as allowable costs under DNRC subawards.

4.5.3 Match Types

Cash Match (Hard Match)

Cash Match, also referred to as hard match, is the actual cash outlay contributed to the project by the subrecipient or third parties, such as project partners and beneficiaries.

In-kind Match (Soft Match)

[In-kind Match](#), also referred to as soft match, is the value of non-cash contributions provided by subrecipients or third parties. In-kind contributions may be in the form of goods, labor, services, facilities, space, personnel, materials, or equipment calculated at fair market value. Note that third-party in-kind match contributions count toward satisfying a match requirement only when, if the party receiving the non-cash contributions were to pay for them, the payments would be allowable costs.

❖ **Donated Services - Volunteers**

Volunteer services furnished by professional and technical personnel, consultants, and other skilled and unskilled labor may be counted as match if the service is an integral and necessary part of an approved subaward-funded project or program.

Values claimed for volunteer services must be consistent with costs of similar work performed in the subrecipient's organization or in the local labor market. If an entity does not have volunteer service rates readily available, an acceptable Montana-specific average cost per hour for unskilled volunteer services can be found at http://www.independentsector.org/volunteer_time.

If volunteer services are approved to be claimed as match, the subrecipient should maintain documentation on who the volunteers were, how many hours were worked, and when and what kind of work was done. To the extent it is feasible, donated services should be documented by the same methods used to support regular personnel costs, as described in **Section 4.4.1**.

❖ **Donated Services - Other**

Other examples of donated services may include printing, website maintenance or server space, telephone services, transportation costs, or administrative or accounting services provided in support of the program. These donated services should be valued at the fair market value for the services or what the entity would have to pay for the services if they were not donated.

❖ **Donated Goods**

A subrecipient may receive donations of supplies necessary to accomplish project goals, the reasonable value of which may be used for match requirements of the program. The value assessed must not exceed fair market value at the time of the donation. DNRC may ask subrecipients to describe their basis for determining the value of donated goods claimed as match.

4.6 Disbursements of Subaward Funds

4.6.1 Disbursement via Reimbursement versus Advance

Most DNRC subawards require the subrecipient to incur expenses for award-funded activities, process payment, and submit a request for reimbursement to DNRC.

However, in certain limited circumstances a Program Manager may approve the inclusion of language in the Subaward Agreement allowing an advance of funds. It should be noted that advances come with the following constraints:

- ❖ A request for advance funds must be submitted as close as is administratively feasible to the subrecipient's actual disbursement of funds.
- ❖ A subrecipient must maintain written procedures that minimize the time elapsing between the transfer of funds and their disbursement by the subrecipient and be able to provide these procedures to DNRC upon request.
- ❖ A subrecipient must maintain financial management systems that meet the standards for both fund control and accountability.

Advances are further described at 2 CFR 200.305.

4.6.2 Disbursement Documentation

Individual subaward programs usually have specific directions, forms, and documentation requirements for the submittal of disbursement requests. (These are usually provided in the Subaward Agreement and on the DNRC award program website.) DNRC Program Managers may require the subrecipient to use specific forms when requesting subaward funds, but in general, the following principles and procedures apply:

- ❖ Documentation required in support of subaward disbursement requests may include, but is not limited to, the following: itemized receipts, vendor invoices, project inspection certificates, financial reports that clearly show expenditures, payroll records, copies of checks, bank statements, and other forms of proof of payment. DNRC will determine whether documentation submitted adequately supports the disbursement request.
- ❖ Reimbursement of expenditures will only be made for expenses included in the approved subaward project budget and clearly supported by the subrecipient's financial records.
- ❖ Federal award terms and standard audit practices require that subrecipients maintain appropriate and adequate records showing complete entries of all

receipts, disbursements, and other transactions relating to the DNRC Subaward Agreement for three years after the termination or expiration of the agreement.

4.6.3 Disbursement Withholding

Most DNRC subaward programs require that a percentage of total subawarded funds, or of each reimbursement request, be withheld until all conditions of the agreement are met. The specific withholding schedule is outlined in the Subaward Agreement. Withheld funds are released to the subrecipient when the subaward project is concluded; any required inspections are completed; and all reports, documentation, and reimbursement requests are submitted to and approved by DNRC.

Section 5: Procurement of Goods and Services

5.1 Procurement Standards by Entity Type

Specific methods of procurement vary by situation and dollar amount. However, subrecipients are responsible for determining the most appropriate instrument for a particular procurement to promote the best interest of the project. More information about considering a cost and selecting a procurement method can be found in **Section 4.1 Allowable Costs** and **5.2 Procurement of Goods and Services**.

DNRC may also have certain requirements as to the method of procurement to be used in a given situation or program; if so, these will be communicated to the subrecipient during the application process or clearly stipulated in the Subaward Agreement.

Standards for policies and procedures governing the procurement (purchase) of goods and services with federal grant funds also vary by the type of subrecipient:

- ❖ **State Governments** are expected to follow the same policies and procedures used for procurements with non-Federal funds (2 CFR 200.317). States must also comply with procurement policy for recovered materials (2 CFR 200.322) and ensure that purchase orders or other contracts include federally required contract provisions (2 CFR 200.326).
- ❖ **All Other Non-Federal Entities** should follow their own documented procurement procedures. These must reflect applicable state, local, and tribal laws and regulations, provided they conform to federal law and the standards of 2 CFR 200.318-326.

5.2 Procurement of Goods and Services

Below are some of the requirements for procurement procedures when subrecipients are spending federal grant funds (except for states, as discussed in **Section 5.1**):

❖ **Documented Procurement Procedures**

Subrecipients must have documented procurement procedures that reflect applicable state, local, and tribal laws and regulations and comply with the standards of 2 CFR 200.318-326. Among other requirements noted in the CFR, procurement procedures must ensure that subrecipients (1) avoid unnecessary or duplicative purchases, (2) conduct some form of cost/price analysis for every procurement, and (3) award contracts only to responsible contractors who possess the ability to perform successfully under the terms and conditions of the proposed procurement.

❖ **Written Standards of Conduct**

Subrecipients must have written standards of conduct covering conflicts of interest and governing the performance of employees engaged in the award and administration of contracts. For instance, no employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a federal award if he or she has a real or apparent conflict of interest. Conflicts of interest are further clarified in 2 CFR 200.318, as well as in federal, state, or local laws and regulations.

❖ **Contract Administration and Dispute Resolution**

Subrecipients must maintain oversight to ensure that contractors perform within the terms and conditions of their contracts. Subrecipients are also responsible for the settlement of all contractual and administrative issues arising out of their procurements and therefore must have protest procedures in place to handle and resolve disputes.

❖ **Awarding Contracts**

The subrecipient must award contracts only to responsible contractors able to perform successfully under the terms and conditions of a proposed procurement. Consideration must be given to such criteria as the contractor's integrity, compliance with public policy, record of past performance, and financial and technical resources. Subrecipients should note that some DNRC Subaward Agreements may contain more specific procurement direction related to the program or project, such as requiring that a minimum of three bids be obtained and considered before procuring a certain product or service.

❖ **Contract Provisions**

All contracts obligating federal grant funds must contain certain specific provisions, depending on the contract amount or project activities. Possible provisions include, but are not limited to, the Davis-Bacon Act and the Contract Work Hours and Safety Standards Act. Subrecipients should consult 2 CFR 200-Appendix II for specifics.

❖ **Competition**

All procurement transactions must be conducted in a manner that provides full and open competition, as described in 2 CFR 200.319. Some situations to be avoided, as they are considered to be restrictive of competition, include (1) placing unreasonable requirements on firms in order for them to qualify to do business, (2) requiring unnecessary experience and excessive bonding, (3) noncompetitive pricing practices between firms or affiliated companies, (4) noncompetitive contracts to consultants on retainer contracts, (5) organizational conflicts of interest, (6) specifying only a "brand name" product instead of

allowing “an equal” product to be offered in describing the performance or other relevant requirements of the procurement, and (7) any arbitrary action in the procurement process.

❖ **Cost/Price Analysis**

Some form of cost or price analysis should be made in connection with every procurement action. Cost/price analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability, as described in **Section 4.1 Allowable Costs**.

As with competition, discussed above, there is not one set procedure to follow in every circumstance. The analysis may be accomplished in a variety of ways, such as by comparing quotes, market prices, and discounts in the process of making a reasonable decision. In the course of a cost/price analysis, subrecipients should, where applicable, also assess lease versus purchase alternatives to determine which would be the most economical and practical procurement alternative.

❖ **Solicitations**

Federal grant regulations go into greater detail on specific solicitation requirements, but at a minimum a solicitation must present (1) a clear and accurate description of the technical requirements for the material, product, or service to be procured; (2) any other requirements that the bidder/contractor must fulfill; and (3) all other factors to be used in evaluating bids or proposals. 2 CFR 200.320 provides more information about this topic.

❖ **Preference for Small and Minority Businesses, Women’s Business Enterprises, and Labor-Surplus-Area Firms**

Subrecipient entities are required to take affirmative steps to assure that small businesses, minority-owned businesses, women’s business enterprises, and labor-surplus-area firms are used when possible. These steps are outlined in 2 CFR 200.321.

❖ **Procurement Documentation**

The subrecipient must maintain records sufficient to detail the history of procurement. Records include, but are not necessarily limited to, the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and basis for the contract price. This documentation may be requested and reviewed by DNRC in the course of subrecipient monitoring activities or by independent auditors during an audit.

Documents must be held for three years after the termination or expiration of the Subaward Agreement. For award-funded procurements that exceed the federal simplified acquisition threshold (currently \$150,000), additional conditions apply, detailed in 2 CFR 200.324. If procurements of this size are anticipated in the course of DNRC’s award-funded activities, DNRC and the subrecipient will discuss acceptable methods and procedures prior to executing the Subaward Agreement.

❖ **Suspension and Debarment**

All subrecipients and contractors to be paid with federal grant funds must complete form AD-1048, “Certification Regarding Debarment, Suspension, Ineligibility, and Voluntary

Exclusion, Lower Tier Covered Transactions.” The form can be found at <https://www.rd.usda.gov/files/AD1048-F-01-92.PDF>.

Signed AD-1048 forms must be kept on file. Subrecipients may also use the System for Award Management website, <http://www.sam.gov>, to double-check that debarred, suspended, or otherwise ineligible contractors are not paid with federal funds. More information about suspension and debarment is provided at 2 CFR 200.212.

Section 6: Subrecipient Monitoring

According to the requirements for Pass-Through Entities (PTE) in 2 CFR 200.331, DNRC is responsible for monitoring its subrecipients and subaward-funded projects to verify that project goals are achieved and subrecipients are in compliance with state and federal laws, program regulations, Subaward Agreement terms and conditions, and administrative requirements. Subrecipient monitoring must be sufficient to accomplish the following objectives:

- ❖ verify that expenditures have been charged to the cost categories and within the cost limitations specified by the Subaward Agreement and applicable laws and regulations;
- ❖ determine that the subaward project is progressing properly and in compliance with applicable laws and regulations, contracts, Subaward Agreements, and 2 CFR 200; and
- ❖ provide technical assistance as necessary.

Periodic monitoring provides DNRC with information about the programmatic and financial health of the subrecipient and helps ensure successful grant administration at all levels of the federal award and subaward process. Monitoring procedures that are clearly documented and consistently followed also protect both DNRC and subrecipients in the event of an audit.

6.1 Monitoring Methods

The monitoring methods used by DNRC depend on the specific award program, amount of the subaward, scope and complexity of the project, and a subrecipient’s financial and organizational history. Typical monitoring procedures include:

- ❖ performing a risk assessment to estimate the potential for noncompliance and determine an appropriate level of monitoring;
- ❖ engaging in regular communications, such as telephone conversations, email correspondence, and site visits;
- ❖ reviewing subrecipient project performance reports;

- ❖ reviewing subrecipient financial reports and documentation supporting subaward expenses and procurement practices;
- ❖ reviewing Single Audit findings and confirming that corrective actions have been taken;
- ❖ performing desk reviews of subaward-related documents, policies, and procedures;
- ❖ conducting site visits to verify project progress;
- ❖ providing training or technical assistance to help subrecipients understand and comply with applicable laws and regulations; and
- ❖ staying informed of subrecipient coverage in the news and media outlets.

6.2 Subrecipient Risk Assessment

DNRC may apply special subaward conditions and use additional monitoring techniques for subrecipients, depending on their estimated level of risk of noncompliance with laws and rules. Factors commonly considered in determining a subrecipient's level of risk are as follows:

- ❖ prior experience with the same or similar subawards;
- ❖ results of previous audits;
- ❖ whether the subrecipient has new personnel or substantially changed systems;
- ❖ the extent and results of federal agency monitoring (if the subrecipient also receives federal awards directly from a federal agency);
- ❖ the amount of the subaward(s) being administered by the subrecipient; and
- ❖ the complexity of the award(s), project(s), or subaward(s) requirements.

6.3 Single Audit

Subrecipients expending \$750,000 or more in federal funds during the subrecipient's fiscal year must have a Single Audit or Program-Specific Audit conducted in accordance with the provisions of 2 CFR 200-Subpart F. As a primary recipient and pass-through entity, DNRC is tasked with ensuring subrecipients are in compliance with this requirement, even if DNRC has only supplied a portion of the \$750,000 federal funding threshold. DNRC will review the results of audits and follow up with subrecipients as necessary.

For-profit entities are exempt from the audit requirement, as are any subrecipients spending less than \$750,000 a year in federal funds. However, DNRC may require a subrecipient to conduct an

audit according to federal government auditing standards if warranted by the subrecipient's risk level or past noncompliance.

6.4 Desk Review

DNRC may perform a desk review in an attempt to assess the soundness of a subrecipient's internal controls and administrative policies and determine whether a subrecipient is complying with applicable laws and financial, administrative, and regulatory requirements.

In the desk review process, the subrecipient may be asked to submit supporting documentation that may not have been included in previous payment requests or project and financial reports. For example, DNRC may request copies of payroll documentation or ask the subrecipient to explain the process it followed for a particular procurement. Desk reviews may also be conducted on a group of subrecipients to target a specific area of compliance review.

6.5 Site Visit

Site visits provide DNRC with a more in-depth look at a subrecipient's project or organization. Although areas under review may vary according to the purpose of the visit, subrecipients should generally view the site visit as a chance to demonstrate their project accomplishments to date and discuss any issues, obstacles, or opportunities for improvement.

After a site visit, DNRC may provide feedback to the subrecipient that includes its observations, any recommendations for improvement, or expectations for corrective action.

6.6 Corrective Action Plan

In the process of subrecipient monitoring, DNRC may work with the subrecipient to create a corrective action plan to address significant issues. At a minimum, this entails:

- ❖ identifying significant issues,
- ❖ describing corrective actions to be taken, and
- ❖ establishing a date by which each corrective action will be completed and the person responsible for implementation.

The corrective action plan should be agreed to by the subrecipient and DNRC, and specific activities should be completed by the subrecipient by the due date. If corrective actions are not undertaken as specified, the subrecipient may be out of compliance with the terms of the Subaward Agreement or federal requirements.

6.7 Monitoring Follow-Up

The follow-up to issues raised in DNRC monitoring of subrecipients varies depending on the extent and severity of the issues raised and how the corrective action process is managed. Follow-up may include communication with the subrecipient after the review of the corrective action plan, additional desk reviews, and announced or unannounced site visits.

6.8 Agency Remedies

If a subrecipient does not complete items described in a corrective action plan or correct known violations, DNRC may seek remedies to enforce the terms of a Subaward Agreement. Remedies sought or imposed on noncompliant subrecipients are based on the severity of the violation and may include:

- ❖ temporarily withholding cash disbursements pending correction or submission of additional documentation;
- ❖ disallowing expenditure of funds for activities that do not comply with the law, regulations, or Subaward Agreement;
- ❖ classifying the recipient as “high-risk” and adding special terms and conditions to current and future Subaward Agreements to increase monitoring levels;
- ❖ requiring the recipient to conduct and pay for independent auditing;
- ❖ refusing to extend the term of the subaward;
- ❖ terminating the subaward;
- ❖ initiating proceedings to suspend or debar the recipient from participating in federal programs;
- ❖ pursuing recovery of funds; and
- ❖ pursuing criminal penalties.

DNRC works with subrecipients as necessary to facilitate understanding of and compliance with subaward requirements. Subrecipients with concerns or questions should contact their Program Manager or other appropriate DNRC representative for direction on the administration of their subaward.

Section 7: Subaward Agreement

7.1 Period of Performance

Allowable costs must be incurred, though not necessarily paid, within the period of performance, also called “the term of the Subaward Agreement.” Unless other dates are specified in the Subaward Agreement, the period of performance begins on the date of the last signature to the agreement and ends on the agreement’s expiration date. In some cases, the term of a Subaward Agreement may be extended via written amendment.

7.2 Subaward Modifications (Amendments)

Permission to substantially modify the substance or scope of subaward projects must be requested in advance from the DNRC Program Manager. 2 CFR 200.308 and the Subaward Agreement provide guidance on determining what type of project modifications must be submitted for approval. Modifications that commonly require prior approval include significant changes in project scope or objectives, extensions to the term of the Subaward Agreement, or budget modifications.

Requests to modify an existing subaward should include a written narrative describing the reason for the changes and an itemized, revised budget (if applicable). Requests must be submitted and approved prior to the anticipated changes taking place.

DNRC Program Managers will review all modification requests and either approve or disapprove the request in writing. Significant revisions may require a written amendment to the Subaward Agreement signed by both parties. DNRC will not approve any modification inconsistent with the purpose or terms and conditions of the federal grant awarded to DNRC.

7.3 Subaward Reporting

DNRC is responsible for implementing grant-funded programs efficiently and effectively. Both recipients and subrecipients of federal and state grant funds are held accountable for performance and required to report regularly on accomplishments. DNRC incorporates subrecipients’ reported data in its reports to the federal awarding agency. Accurate and timely reporting at all levels helps the federal agency link funding to accomplishments, increasing the likelihood of future funding opportunities.

Subrecipient project performance reports should describe the status of the project, accomplishment of project goals and objectives, and any problems or obstacles encountered. According to 2 CFR 200.301, performance should be measured in ways that will help the federal awarding agency, pass-through entity, and subrecipients improve program outcomes, share lessons learned, and spread the adoption of best practices.

Financial reports should provide an overview of the project's financial status, total expenditures, program income earned, and match provided. Reporting requirements for subrecipients vary by program; further reporting requirements are outlined in the Subaward Agreement.

7.4 Subaward Closeout

Closeout of Subaward Agreements occurs when the following steps have been completed:

- ❖ All financial and performance reports and other required documentation have been submitted by the subrecipient and approved by DNRC.
- ❖ All approved expenses under the subaward have been reimbursed by DNRC.
- ❖ The DNRC Program Manager has certified that all required actions have been completed.
- ❖ DNRC has issued guidance to the subrecipient regarding the proper disposition of equipment or residual inventory of unused supplies purchased with subaward funds.

7.5 Record Retention

As the primary recipient of federal grant funds, DNRC is obligated to maintain award and subaward records according to federal and state record retention requirements. Subrecipients must comply with the federal requirement in 2 CFR 200.333 that documents be retained for a minimum of three years after the expiration of the subaward.

Appendix A: Definitions

Allowable Costs

In order to be considered allowable under an award or subaward, a cost must, at a minimum, be allocable, reasonable, and necessary. **Section 4.1** provides more criteria.

Amendment

An amendment is a formal modification to a subaward agreement. It is written, signed by both DNRC and the subrecipient, and legally incorporated into the subaward.

Applicable Credits

Applicable credits are receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the award as direct or indirect costs. Examples include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the organization relate to allowable costs, they shall be credited to the federal or state award either as a cost reduction or cash refund, as appropriate.

Beneficiary

Beneficiaries are the persons, groups, organizations, or other entities that are intended to ultimately benefit from the award. Beneficiaries are not considered subrecipients and therefore are not subject to the same regulatory and administrative requirements as subrecipients.

Cash Match (Hard Match)

Cash match, also referred to as hard match, is the subrecipient's or others' actual cash contribution to an award program, including the outlay of money to the project by third parties.

Code of Federal Regulations (CFR)

The CFR is the codification of the rules and regulations published in the Federal Register by the executive department and agencies of the federal government of the United States. The CFR is divided into 50 titles that represent broad areas subject to federal regulation. Title 2 (part 200) contains instruction for recipients and subrecipients of federal grant awards to facilitate stewardship of and accountability for federal funds. The CFR can be viewed at www.ecfr.gov.

Cognizant Agency (for indirect cost rate negotiation)

A cognizant agency is the federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals for a non-federal entity on behalf of all federal agencies. Instruction for the assignment of cognizant agencies varies by entity. Further clarification is provided at 2 CFR 200.19 and associated appendices.

Contractor or Vendor

A contractor or vendor is a dealer, distributor, merchant, or other seller providing goods or services required to carry out the objectives of a state or federal program. The goods or services may be for use by an organization or by the beneficiaries of the state or federal program. Note that in 2 CFR 200, the term "vendor" has been eliminated in favor of "contractor."

Cost Objective

Cost objective means a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. A cost objective may be a major function of the non-federal entity, a particular service or project, a federal award, or an indirect cost activity.

Direct Cost

A direct cost can be identified specifically with a final cost objective, such as a subaward project.

Equipment (Capital Equipment)

Equipment entails an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost that equals or exceeds \$5,000.

Generally Accepted Accounting Principles (GAAP)

GAAP is a widely accepted set of rules, conventions, standards, and procedures for reporting financial information, established by the American Institute of Certified Public Accountants (AICPA). More information is provided at www.aicpa.org.

Indirect Cost

An indirect cost is a cost incurred for a common or joint purpose benefitting more than one cost objective and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. Indirect costs may also be referred to as “Facilities and Administrative,” or F&A, costs.

In-kind Match (Soft Match)

In-kind match, also referred to as “soft match,” is the value of non-cash contributions provided by subrecipients or third parties. In-kind contributions may be in the form of goods, services, land, facilities, space, personnel, materials, and equipment calculated at fair market value that directly benefits and is specifically identifiable to a project or program.

Match (Cost Share)

Match, also referred to as Cost Share, is generally the portion of project or program costs not paid with award funds. It is usually the subrecipient’s contribution or a third-party’s contribution.

Pass-Through Entity

A pass-through entity is a non-federal entity that provides a subaward of federal funds to a subrecipient to carry out part of a federal program.

Personally Identifiable Information (PII)

PII refers to items that can be used to distinguish or trace an individual’s identity, such as first and last name, address, email address, telephone numbers, or Social Security Number. PII must be safeguarded by the subrecipient as part of its internal controls.

Personnel Costs

Personnel costs include compensation paid to employees as wages or salaries and related fringe benefit costs for services provided during the period of the award for the benefit of an award project.

Primary Recipient

The primary recipient is a non-federal entity that receives federal awards directly from a federal awarding agency to carry out a federal program.

Program-Specific Audit

A program-specific audit, described in 2 CFR 200-Subpart F, examines the financial and compliance components of an individual program. It is less rigorous than the single audit, which examines the financial and compliance components of an entire entity.

Single Audit

The Single Audit, described in 2 CFR 200-Subpart F, is a rigorous, organization-wide audit or examination of an entity, required for entities that have expended \$750,000 or more of federal funds in the previous fiscal year. Usually performed annually, the Single Audit's objective is to provide assurance to the U.S. federal government as to the management and use of federal funds by recipients such as states, cities, universities, and nonprofit organizations. The audit is typically performed by an independent certified public accountant (CPA) and encompasses both financial and compliance components.

Subaward

A subaward is an award provided by a pass-through entity to a subrecipient to carry out part of a federal award received by the pass-through entity. It does not include payments directly to a contractor or payments to an individual that is a beneficiary of a federal program.

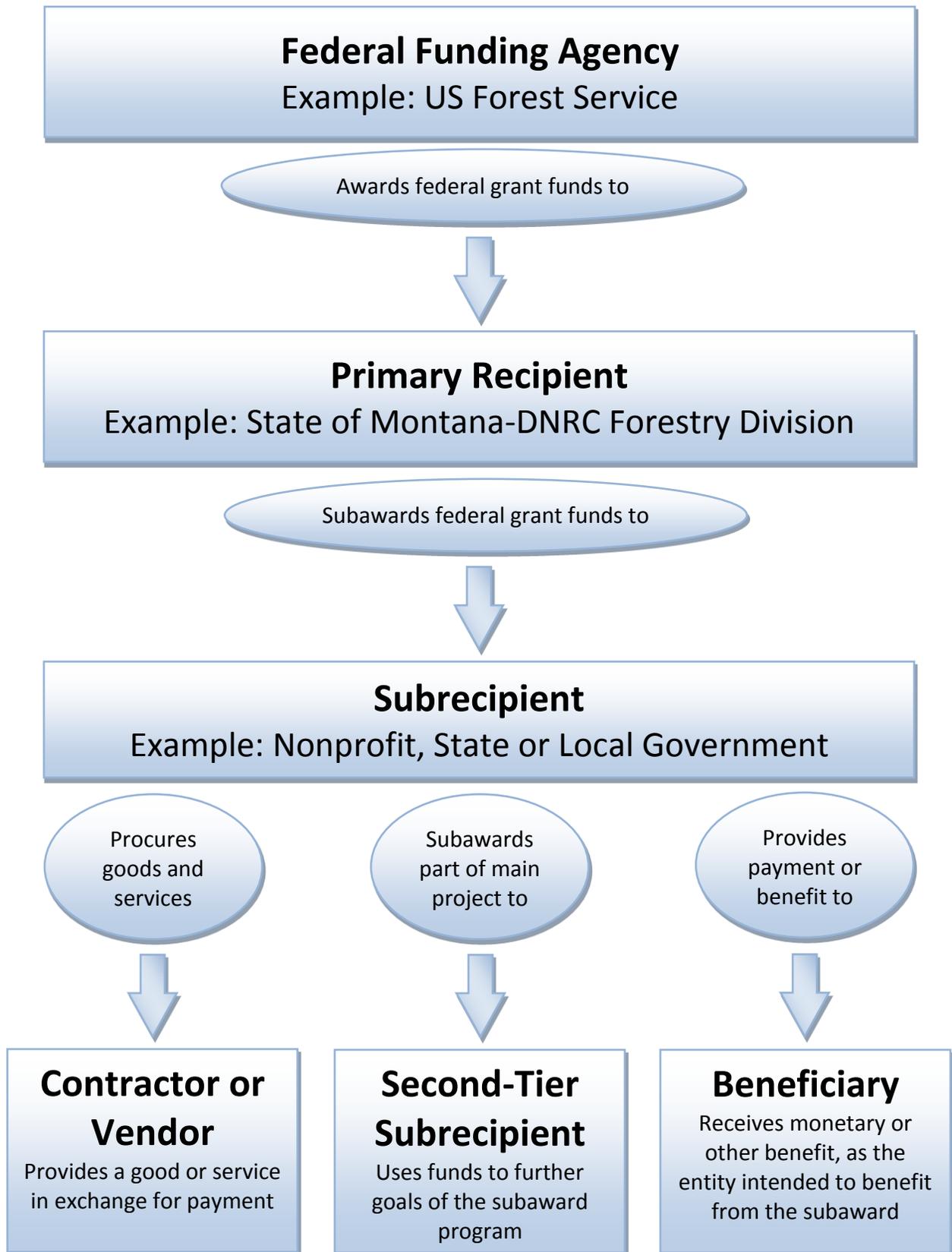
Subrecipient

A subrecipient is a non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal program. It does not include the beneficiaries of the program. A subrecipient may also be a primary recipient of other federal awards directly from a federal awarding agency.

Unallowable Costs

Unallowable costs are costs that the federal government or the DNRC deem inappropriate per the federal Office of Management and Budget (OMB) guidance and will not reimburse.

Appendix B: Flowchart of Award Funding



Appendix C: Direct and Indirect Costs Decision Tree

Should this cost be allocated as a direct or indirect cost to the subaward?

