

Be Prepared for a Successful Audit

As referenced in the Resilient Food Systems Infrastructure (RFSI) Grant Management Procedures Manual (GMP), all Grant Agreements are subject to a minimum of one financial compliance audit, desk review, and/or Agreed Upon Procedure (AUP). The purpose is to review financial records and documentation to ensure RFSI funds are being used for their intended purpose in compliance with federal cost principles and regulations, the Grant Agreement Terms and Conditions, and the GMP.

Establishing Best Business Practices

The list below are examples of best business practices that should be followed in order to have a successful audit:

- Become familiar with applicable regulations, policies, and procedures (including the Recipient organization's), the California Department of Food and Agriculture (CDFA)'s and the U.S. Department of Agriculture (USDA)'s policies and procedures such as:
 - the USDA, Agricultural Marketing Service (AMS) General Terms and Conditions (T&C) (https://www.ams.usda.gov/sites/default/files/media/FY2023_GeneralTermsandConditions.pdf);
 - the AMS RFSI T&C (https://www.ams.usda.gov/sites/default/files/media/RFSI_Specific_TermsandConditions_FY23.pdf); and
 - the CDFA GMP for Infrastructure Grants (https://www.cdfa.ca.gov/rfsi/docs/2024_rfsi_grant_management_procedures_manual-infrastructure.pdf) and CDFA GMP for Equipment-Only Grants (https://www.cdfa.ca.gov/rfsi/docs/2024_rfsi_grant_management_procedures_manual-equipment_only.pdf).
- Organize all accounting records
- Maintain all supporting documents, such as detailed receipts and invoices, for all amounts invoiced to the RFSI project
 - Per the AMS General T&C, Recipients must collect and maintain source documentation associated with costs incurred as a result of the Federal award and make it available to CDFA and/or AMS upon request. Source documentation includes, but is not limited to, receipts, canceled checks, paid bills, payrolls, time and attendance records, contracts, invoices, and subaward documents. If recipients pay a portion of the total amount indicated on the source document, it must appropriately identify the specific expenses and total amount charged to the grant.
- Ensure sub-award recipients are being monitored
 - Applicable cost principles are being applied
 - A process of review is in place for costs reimbursed

Applicable Regulations, Policies, and Procedures

The following resources include applicable regulations, policies, and procedures necessary for successful compliance and management of a grant project, which will assist in achieving a successful audit.

Compliance with Federal Requirements

Grant funds awarded to state, local, and tribal governments; public and private colleges and universities; and non-profit organizations are subject to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards contained in 2 CFR part 200 (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200?toc=1>) and 2 CFR part 400 (<https://www.ecfr.gov/current/title-2/subtitle-B/chapter-IV/part-400>).

Grant funds awarded to federal government entities are subject to the Uniform Administrative Requirements and Cost Principles for Federal Awards contained in in 2 CFR part 200 (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200?toc=1>) and 2 CFR part 400 (<https://www.ecfr.gov/current/title-2/subtitle-B/chapter-IV/part-400>).

Grant funds awarded to For-Profit Organizations are subject to the Uniform Administrative Requirements contained in in 2 CFR part 200 (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200?toc=1>) and 2 CFR part 400 (<https://www.ecfr.gov/current/title-2/subtitle-B/chapter-IV/part-400>) and the Cost Principles contained in the Federal Acquisition Regulation (FAR) Subpart 31.2, Contracts with Commercial Organizations, codified at 48 CFR 31.2 (<https://www.govinfo.gov/app/details/CFR-2011-title48-vol1/CFR-2011-title48-vol1-part31-subpart31-2>).

Recipients are responsible for the consistent application of the federal regulations to the RFSI funds. Recipients are responsible for ensuring their contractors/consultants comply with the Federal regulations.

The CFR is accessible on the National Archives and Records Administration (<https://www.archives.gov/federal-register>) website and in the Electronic Code of Federal Regulations at Code of Federal Regulations (www.ecfr.gov).

Compliance with the USDA AMS General T&C and the USDA AMS RFSI T&C

As a recipient of federal grant funds, the project must follow the terms and conditions outlined by USDA AMS and USDA RFSI regarding allowability, Audit Requirements, Monitoring and Management, record retention and more. AMS General T&C and AMS RFSI T&C are linked above.

Grant Management Procedures Manual

There is a GMP established for this RFSI Grant Term. The GMP is incorporated into the Recipient's executed agreement. The GMP can also be found on the California Department of Food and Agriculture's (CDFA) RFSI Recipient Resources website (<https://www.cdfa.ca.gov/rfsi/recipients/>).

Prepare Documents Before the Audit Begins

The CDFA Audit Office will contact the Recipient to schedule a date to conduct an audit of the RFSI project and will follow up with an engagement letter once the date has been confirmed by both parties. The engagement letter will specify documentation to have prepared for the auditor's review.

Items that should be prepared and organized for the audit include, but are not limited to:

1. General ledger/Object expenditure report
2. Organization chart
3. Flowchart and narrative of the accounting process
4. Contract files including:
 - a. Contracts
 - b. Billing documents, invoices, and all supporting documentation for costs charged to the grant award
5. Personnel Service costs for employees and contractual partners (where applicable for Track 1: Infrastructure Grants):
 - a. Payroll information including signed and approved timesheets, employee distribution registers, employee hourly rates, and hours charged to award agreement
 - b. Employee daily activity reports
6. Direct Expenses with supporting documentation for the following:
 - a. Travel expense claims (supporting documentation includes, but is not limited to, mileage logs, receipts for: lodging, airfare, rental vehicle, fuel for rental, parking, tolls, etc.) (where applicable for Track 1: Infrastructure Grants)
 - b. Vendor/Supplier invoices and receipts with sufficient detail to support costs requested
 - c. Contractor invoices and receipts with sufficient detail to support costs requested
7. Agreements with contractors/consultants and supporting documentation for payments made to contractors/consultants
 - a. Written agreements at a minimum must cover: beginning and ending dates, total dollar amount, description of services or deliverables, payment provisions, and a budget.
8. Other supporting documentation and records related to the grant award.

Please note the CDFA Audit Office may request additional documents not listed above.

The Federal awarding agency, Inspectors General, the Comptroller General of the United States, and the pass-through entity, or any of their authorized representatives, must have right of access to any documents, papers, or records of recipients and sub-recipients which are pertinent to the Federal award, in order to make audits, examinations, excerpts, and transcripts. The right also includes timely and reasonable access to the recipient's and subrecipient's personnel for interview and discussion related to such documents.

Basic Considerations When Reviewing Expenses

The most basic consideration for whether an expense can be billed to the RFSI project is whether the cost is allowable. Allowable costs must be adequately documented, reasonable, and allocable to the project. Refer to the GMP for additional detail.

Allowable:

- Cost must not be prohibited by regulations
- Cost must be adequately documented, reasonable, and allocable to the federal award

Adequately Documented:

- Expenses transparently tracked
- Compliant personnel timekeeping and payroll records kept
- Invoices, receipts, and agreements maintained
- Invoices, particularly those from contractors and/or consultants, must be sufficiently detailed

Reasonable:

- Cost or price analysis performed and documented to establish expense is reasonable, as defined in the GMP
- Ordinary and necessary for award performance, as well as prudently incurred

Allocable:

- Cost incurred for the purpose for which the funding was granted or benefits the award project to a determinable degree and is charged to the award on that specifically calculated basis
- Cost consistently treated as either a direct or indirect cost

Common Audit Findings

Please note these are common audit findings, but the list is *not* all inclusive.

Personnel (Track 1: Infrastructure Grants only)

Salaries & Wages

Lack of proper support for hours billed to the award such as a timecard or timesheet.

- No daily activity reports that account for the entire hours paid to the employees when required
- Time records not signed by employee
- Hours worked on the award project not clearly delineated on time records
- Time records indicated that hours belong on a different project rather than the award project billed
- Estimated rates used instead of actual pay rates and were not adequate approximations of actual cost

Benefits

Estimated rates used that exceeded actual and were not adequate approximations of actual cost.

Approved Direct Costs

Travel

- Travel costs exceeded maximum allowable by applicable policies
- Itemized support for the cost not maintained (particularly a problem when a credit card is used - credit card receipts are not adequate itemized support)
- The award project purpose of the travel not clearly indicated

Supplies

- Invoices, receipts, or other documentation to support the costs not maintained
- No written procurement procedures in place
- The award project purpose not clearly indicated

Contractors/Consultants

- No procedures for reviewing and monitoring expenses of sub-award recipient/contractor costs for allowableness
- No cost or price analysis performed and documented to establish that the contractor expense is reasonable
- No agreements or contracts entered into for the services performed
- Contracts/agreements not including the required federal language (including beginning and ending dates, dollar amount of the contract, a budget, etc.)
- Rates paid to contractors/consultants exceeded the GS-15 step 10 (<https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/>) without prior approval
- Contractor costs incorrectly reported in another category of cost
- Support for contractor costs not detailed enough to determine the basis for the amounts charged by the contractor
- No written contracting procedures in place

Other Direct Costs

- Costs incorrectly reported to the category when properly classified elsewhere
- No cost or price analysis performed and documented to establish that the expense is reasonable

General Issues

- Costs misclassified to fit into a budget rather than requesting a Line Item Shift
- Lack of an accounting system that properly tracks the source and application of the funds
- Lack of written policies
 - Competitive bidding policy to promote open and free competition for the solicitation (required for costs above \$250,000)

- Personnel policy stating the type of fringe benefits for exempted and non-exempted employees
- Travel policy stating reimbursement of actual travel expenditures
- Personnel record keeping policy stating the documentation of hours for activities performed (total hours not just hours towards the project)
- Policy stating how the organization calculates direct vs. indirect charges

Working Together

Working together is a key component to ensuring, 1) the success of the RFSI project, 2) federal funds are used for their intended purpose, and 3) state and federal regulations are being followed.

The Grant Analyst assigned to the project is available to provide technical assistance and guidance. Please do not hesitate to contact the Grant Analyst with questions, including if a cost is allowable or how to properly document a cost.

If the assigned Grant Analyst for the project is unknown, please contact the CDFA Office of Grants Administration at (916) 657-3231 or grants@cdfa.ca.gov.

Timesheets (Track 1: Infrastructure Grants Only)

The method of supporting hours charged to the RFSI grant must comply with the federal requirements and the GMP. The timesheet procedures must include a process of authorization and approval. CDFA also requires that timesheets used by RFSI recipients must account for the total activity for employee salaries and wages covered by RFSI grant funds, as well as other programs and sources. All timesheets must contain the following information:

- Employee Name
- Employee Title
- Time base / number of hours worked per month
- Project / program identifier (RFSI and non-RFSI programs)
- Hours worked per day
- Time period (month/year)
- Description of activities performed for each identified project / program
- Signature by both employee and supervisor

An example of an adequate timesheet is shown on the next page. Please contact the assigned Grant Analyst to obtain the excel file used in this example. The Recipient does not need to use this timesheet; rather, it is a tool to use if the organization does not already have timesheets that meet all RFSI grant requirements.

GRANT MANAGEMENT																																	
MONTHLY FUNCTIONAL TIME REPORT																																	
STAFF NAME:						TITLE:									REPORTING PERIOD:																		
PROJECTS	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	TOTAL	
EXAMPLE: 18-0001-020-SC Project Title																																	0.0
Number and Title of other project																																	0.0
Number and Title of other project																																	0.0
Administration																																	0.0
																																	0.0
																																	0.0
																																	0.0
																																	0.0
																																	0.0
																																	0.0
REASON FOR WORKED PERFORMED																															TOTAL	0.0	
18-0001-020-SC: EXAMPLE (Outreach, data sampling, grant report, billing, held events, etc)																																	
Number and Title of other project:																																	
Number and Title of other project:																																	
Administration:																																	
I certify that the hours identified above are accurate and valid.																																	
STAFF SIGNATURE					DATE					APPROVED					DISAPPROVED					SIGNATURE OF SUPERVISOR					DATE								

Procurement of Contractors

A competitive bid process must be utilized, and the compensation of the proposed contractor must not exceed GS-15 step 10 (<https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/>) without prior approval from CDFA.

Documentation of a competitive bid process must be provided in order to select a contractor, such as the number of bids received (at least three bids are required), the names of bidder and amount bid, and a statement explaining why the specific vendor was chosen.

- Federal regulations require all procurement transactions be conducted in a manner that provides full and open competition and is consistent with the standards of 2 CFR 200.317 – 200.326 (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-D/subject-group-ECFR45ddd4419ad436d?toc=1>).
- The recipient must have a written agreement with each contractor/consultant. The written agreement must include at a minimum: beginning and end dates, dollar amount, description of services or deliverables, a budget, specific language identified in the GMP, payment provisions, and the policies and requirements that apply to the contractor/consultant.
- Contractor/consultant invoices must include sufficient detail and information to determine that the expenditures invoiced are project-related, reasonable, and allowable.

In addition to a competitive procurement, federal RFSI rules also prohibit compensating contractors/consultants in excess of GS-15 step 10 (<https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/>), for the locality, excluding travel and subsistence costs, unless a justification is provided and approved.

Note: Procurement through a competitive process does not constitute an approved justification for exceeding the GS-15 step 10 rate; conversely, approval of a rate exceeding GS-15 step 10 does not eliminate the requirement to conduct a competitive procurement process. Contractors/consultants must comply with federal requirements regarding timekeeping.

For more detailed information regarding the procurement of contractors, please refer to the GMP.

Direct/Indirect Costs

Indirect Cost Rate

Indirect costs may not be increased from the originally approved budget amount. This also applies to the Recipient's Contractors/Consultants. Acceptable documentation for indirect costs includes rent or mortgage bills, utility bills and similar.

Charging Direct and Indirect Costs Consistently

Recipients are responsible for charging direct and indirect costs incurred for the project consistently and appropriately. It is not allowable to charge an indirect cost as a direct cost.

Direct costs are costs that can be identified specifically with a particular project or can be directly assigned to a project activity relatively easily with a high degree of accuracy. Typically, direct costs include, but are not limited to, compensation for employees who work directly on the project, and travel, equipment, and supplies directly benefiting the project.

Indirect costs are costs incurred for a common or joint objective that cannot be identified specifically with a particular project. Typically, indirect costs include, but are not limited to, compensation for executive officers, and administrative and clerical staff, costs of operating and maintaining facilities (such as rent, utilities, janitorial, maintenance), general administration expenses (such as supplies that cannot be identified specifically with a particular project), accounting and personnel services, depreciation, and insurance.

Direct charging of these costs may be appropriate where all of the following conditions are met:

1. Administrative or clerical services are integral to the project or activity;
2. Individuals involved can be specifically identified with the project or activity;
3. Such costs are included in the approved budget or have prior written approval of the USDA;
4. The costs are not also recovered as indirect costs; and
5. The CDFA RFSI program has a written policy on charging direct and indirect costs.

All five criteria above must be met before a determination can be made whether the costs are allowable as direct costs. Compliance with other requirements, such as timekeeping requirements, must also be met.