DATE: January 13, 2021

TO: All AHCCCS sub-recipients receiving SAMHSA grant funding

FROM: AHCCCS/Division of Grants Administration

SUBJECT: SAMHSA Update for Standards of Financial Management

As a recipient of SAMHSA funds, sub-recipients are required to meet the standards and requirements for financial management systems as delineated in 45 CFR Part 75 Subpart D. The financial systems must ensure that the recipient has the capacity to maintain adequate records to identify the sources of funds for federally assisted activities and the purposes for which the award was used. Activities that must be tracked are authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and any program income. The system must also enable the recipient to compare actual expenditures with the approved budget for the award.

SAMHSA funds must retain their award-specific identity – they may not be commingled with state funds or other federal funds. Commingling funds means depositing or recording funds in a general account without the ability to discern which specific funds were used for any given expenditure. Below are common mistakes related to commingling funds and general guidelines to help avoid these issues:

- **Commingling of Cost Centers**
  - Examples of cost centers include: a federal grant, a state grant, a private grant, matching costs for a specific grant, a self-funded project, fundraising activities, membership activities, lines of business, unallowable costs, indirect costs, etc.
  - Recipients must establish a unique account(s) in the accounting system to capture and accumulate expenditures of each cost center, apart from other cost centers.

- **Commingling of Cost Categories**
  - Recipients must avoid budget fluctuations that violate programmatic restrictions.
  - Recipients must avoid applying indirect cost rates to prohibited cost categories, such as equipment, participant support costs and subcontracts/subawards in excess of $25,000.
  - As a result, recipients must establish unique object codes in the accounting system to capture and accumulate costs by budget category (i.e., salaries, fringe benefits, consultants, travel, participant support costs, subcontracts, etc.).
● **Commingling of Time Worked and Not Worked**
  ○ Recipients may not directly charge a grant for employees’ time not spent working on the grant. Therefore, *Paid Time Off* (PTO), such as vacation, holiday, sick and other paid leave, is not recoverable directly from grants, but rather must be allocated to all grants, projects and cost centers over an entire cost accounting period through either an indirect cost or fringe benefit rate.

● **Unsupported Labor Costs**
  ○ To support charges for direct and indirect salaries and wages, recipients maintaining hourly timesheets must ensure that timesheets encompass all hours worked and not worked on a daily basis.
  ○ The timesheet should identify the: (a) grant, project or cost center being worked on; (b) number of hours worked on each; (c) description of work performed; and (d) Paid Time Off (PTO) hours. The total hours recorded each day should coincide with an individual’s employment status in accordance with established policy (i.e., full-time employees work 8 hours each day, etc.).

● **Inconsistent Treatment of Costs**
  ○ Recipients must treat costs consistently across all federal and non-federal grants, projects and cost centers.
  ○ For example, recipients may not direct-charge federal grants for costs typically considered indirect in nature, unless done consistently.
  ○ Examples of indirect costs include: administrative salaries, rent, accounting fees, utilities, etc. Additionally, in most cases, the cost to develop an accounting system adequate to justify direct-charging of the aforementioned items outweighs the benefits. As a result, use of an indirect cost rate is the most effective mechanism to recover these costs and not violate federal financial requirements of consistency, allocability and allowability.