FINANCIAL MANAGEMENT BEST PRACTICES

Compliance Toolkit for EPA Recipients and Subrecipients

DEVELOPED IN COLLABORATION WITH:

Environmental Protection Network

GROUNDWORK USA
GROUNDWORK CHANGING PLACES CHANGING LIVES

NRDC

LAWYERS FOR GOOD GOVERNMENT

TRC

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Introduction

The Financial Management Best Practices Handbook is designed to provide a clear and accessible introduction to managing your grant with a focus on financial compliance. It offers guidance based on the latest EPA Uniform Grants Guidance (UGG) and program-specific requirements, incorporating relevant EPA resources such as PowerPoints, FAQs, and specialized guidance documents on topics such as subawards, procurement, invoices, and reporting.

The Handbook will serve as a living resource and will be periodically updated by the Environmental Protection Network (EPN), Lawyers for Good Government (L4GG) and Natural Resources Defense Council (NRDC).

EPN, L4GG, NRDC and other partners are committed to supporting EPA grantees through building resources, developing webinars, and providing 1:1 assistance for financial and programmatic compliance; audits, investigations and inquiries; and proactive and crisis communications. Resources can be accessed on the EPN website, and requests for assistance can be submitted through this form.

Time Tracking and Reporting

Many EPA funded projects allocate grant funds to cover staff salaries for working on the project. To ensure compliance with EPA requirements for staff time tracking and reporting, grant recipients and subrecipients should maintain financial management systems that meet the following criteria:

- ❖ Time and effort reporting procedures that track actual hours worked on a grant project for each staff member[1]

- ❖ A certified payroll process for construction projects to report weekly hours worked, pay rate, and benefits received to the Department of Labor

TIME AND EFFORT REPORTING ON EPA PROJECTS

Staff time charged to EPA grant projects must be based on actual work performed, not on estimates, per CFR 200.430 (g)(ix).[2] To comply with EPA requirements, staff must accurately record their time and activities performed, distinguishing between time spent on the grant funded activities and on other work. These "time and effort" reports need to be collected for all staff that are either:

- ❖ Paid in whole or in part with EPA funds

- ❖ Used to meet an EPA match/cost share requirement – even if the match is NOT paid with EPA funds.

Additionally, reports must be certified by the staff and approved by a supervisor with firsthand knowledge of the work performed.

Time and effort reporting is most often implemented using employee timesheets. Online timesheet systems such as [Harvest](#), [QuickBooks](#), and [ClickTime](#) enable organizations to document staff time and effort by project and grant number, supporting compliance with federal grant regulations and EPA requirements.

EFFORT REPORTING FOR INSTITUTES OF HIGHER EDUCATION

Uniform Guidance Section [CFR 200.430](#) (g)(ix)[3] allows Institutes of Higher Education (IHE) to utilize an after-the-fact effort reporting system to certify charged staff salaries and cost share to federal awards, including EPA grants.[4] In this approach, the level of staff effort on a grant is first assigned in the payroll system based on anticipated activities. Actual effort expended is then certified at the end of a reporting period by a responsible person with suitable means of verification that the work was performed, generally the principal investigator. The effort certification should be a reasonable estimate of how time was expended.

CERTIFIED PAYROLL REPORTING FOR CONSTRUCTION ACTIVITIES

If your EPA project is funding over $2,000 of construction work, EPA requires your contractors and subcontractors to submit a weekly "certified payroll report" demonstrating that all hourly workers have been paid a certain minimum or "prevailing" wage.[5] Certified payroll reports are required for Davis-Bacon Act compliance and require a responsible party to certify that the information in the report is correct. The reports must include the following information for each employee:"

- ❖ Full name and staff member employee number
- ❖ Work classification[6]
- ❖ Hours worked daily
- ❖ Total hours
- ❖ Rate of pay
- ❖ Gross amount earned[7]
- ❖ Payroll deductions[8]
- ❖ Total of deductions and net wages paid for the week

These records must be filed with the U. S. Department of Labor (DOL) on a weekly basis, even if work is temporarily halted. Software is available to support certified payroll compliance for organizations, including Miter, Gusto, and Patriot Payroll.

Classifying Project Partner Roles

EPA projects typically include three partner roles: the grantee (recipient), subrecipients (subaward partners), and contractors (vendors/service providers). If a grantee/recipient directs some of their funding towards a subrecipient or a contractor, the recipient is serving as a pass-through entity. EPA requires the pass-through entity to determine whether funding is going towards a subrecipient or contractor. Distinguishing between subrecipients and contractors in an EPA grant project is crucial because each has different roles, responsibilities, and compliance requirements under federal grant regulations (e.g., 2 CFR Part 200). Below are factors which can help determine if a project partner is a subrecipient or contractor.

SUBRECIPIENTS

Grantee/recipients will execute a subaward with a subrecipient and the subrecipient will receive a portion of grant funds to carry out part of the project's objectives. The subaward will include EPA terms and conditions[9] as part of the subrecipient's responsibility[10] in carrying out the project. Subrecipients can only receive reimbursement for their actual direct or approved indirect costs and are not able to profit. Subrecipients are also required to meet all performance, financial, and reporting obligations as per the grant agreement between EPA and the recipient.

Characteristics of subrecipients:

- ❖ Performance is measured by whether objectives of EPA grant funded project are met

❖ Responsible for programmatic decision-making

❖ Responsible for adherence to EPA grant requirements

❖ Implements a program for a public purpose as opposed to providing goods and services for the benefit of the pass-through entity

SUBAWARD REQUIREMENTS

Subawards can be made to subrecipients without federal competitive bid requirements or full and open competition. In general, subawards are typically made to government agencies, non-profit organizations, and institutes of higher education (IHE). It is common for subawards to be made in the following situations: 1) between government agencies; 2) between non-profit organizations for collaborative projects that further the missions of both organizations; or 3) between IHEs and government agencies or non-profit organizations involved in joint research, training, technical assistance, public education, or demonstration projects. These subawards can also be in instances where ancillary services that are widely available in the competitive market, such as accounting or technical assistance, are being provided between government agencies, non-profit organizations and IHEs. The difference is that the focus of the subaward is on carrying out the federal grant, and the missions of the organizations are aligned with the grant.

CONTRACTORS

The grant recipient will execute a contract with a contractor to obtain goods or services for the project. The contract will not include EPA terms and conditions, and the contractor is not responsible for programmatic decisions or federal compliance beyond fulfilling contract terms. Contractors (including individual consultants) provide goods and services on commercial terms and operate in a competitive environment where reasonable profit is allowed.

Characteristics of contractors include:

- ❖ Provide goods and services within normal business operations

- ❖ Provide similar goods or services to many different purchasers

- ❖ Normally operate in a competitive environment

- ❖ Provide goods or services ancillary to implementation of the federal grant

- ❖ Is not subject to compliance requirements of the federal grant

CONTRACTORS

In general, the contractual relationship between a recipient and a for-profit firm or individual consultant will be subject to federal competitive bid requirements of 2 CFR 200.319 and 2 CFR 200.320 since goods and services are being provided on commercial terms rather than carrying out a Federal grant funded project. Including contractors in an EPA grant proposal and having that proposal funded by EPA does not meet competitive bid requirements for contractors.

ADDITIONAL GUIDANCE

- ❖ Determining whether project partners should be classified as subrecipients or contractors can be challenging. EPA provides guidance on their website; there is also an updated version of GPI 16-01 EPA Subaward Policy as of October 1, 2024.

- ❖ To determine the difference between subrecipients and contractors, EPA uses 2 CFR 200.331 Subrecipient and Contractor Determinations.

- ❖ EPA also provides short guidance on this topic in their EPA Subaward Policy Appendix A: Distinctions Between Subrecipients and Contractors.

- ❖ To further assist recipients in determining project partner roles it can be helpful to have a joint discussion to confirm these roles and to consult your EPA Project Officer (PO).

- ❖ You can also create a table of project partner roles to help lead your discussion with project partners or your PO.

Invoicing, Reimbursements, and Recordkeeping

COMMON SENSE TIPS

Establishing financial management best practices starts with common sense. Here are some key common-sense principles from EPA staff:[11]

❖ Records must tell a complete story – tracing costs from planning through drawdown and payment, showing need, approvals, proper accounting, and receipts of goods and services.

❖ There can only be one set of books, and your financial management system must be used for all accounts.

❖ Payroll records, including timesheets, must account for 100% of work time for every employee, including non-working hours and activities.

❖ Employees charged to more than one cost center (e.g., program or funder) must charge actual hours on each and cannot be paid based on a pre-determined allocation. Non-working hours must be properly prorated among all cost centers or charged to the general ledger.

❖ Charges to the grant should make sense and reflect actual costs.

PLAN FOR COMPLIANCE WITH PARTNERS

There should be an agreed upon plan to document grant related expenses with project partners. Subrecipients and contractors should be trained on federal requirements for invoicing and allowable costs. A "pay as you go" system is recommended in which recipients and their subrecipients collect invoices and documentation on costs as these are incurred, and these are included in budget tracking and financial reports (SF 425) for required quarterly or semi-annual reporting. Subrecipients who are collecting information on incurred costs should send these to the recipients as soon as they are available, on a timely basis, to ensure that records are accurate and up to date. This will enable recipients to ensure that incurred costs are aligned with the budget.

SETTING UP GRANT PROJECT FILE

A **grant project file** is essential for organization, compliance, and accountability in managing an EPA grant project. This file is a hard copy or electronic repository of program and financial information related to your grant, and should include:

- ❖ Financial records (e.g., invoices, purchase orders, proof of payments, and receipts). These must be retained for at least 3 years from when the final Financial Report is submitted unless the results of an audit require a longer retention period.[12]

- ❖ Grant records (e.g., grant application, workplan, grant agreement, all attachments)

- ❖ Changes to grant agreement or budget with written approvals and emails with EPA

- ❖ Federal financial reports and progress reports

- ❖ Purchase records and receipts for equipment, supplies, materials, or services

- ❖ Automated Standard Application for Payments (ASAP) requests with supporting documentation

- ❖ Subawards, contracts, and payments to program beneficiaries

- ❖ Property and equipment records
- ❖ Audit records or notifications
- ❖ Indirect cost rate proposals, calculations, and/or cost allocation plans

SUBRECIPIENT FINANCIAL MANAGEMENT

Subrecipients will also need to build robust financial management systems to document expenditures and payments on incurred expenses and receipt of EPA payments. Subrecipients should prioritize these elements of financial management:

- ❖ Staff time, including project hours reports and payroll documentation
- ❖ Invoices and purchase orders, including down payments, contractor/supplier agreements
- ❖ Proof of payments and/or credit card receipts for all grant reimbursable expenses paid by subrecipients

Invoices, purchase orders, credit card receipts, and payments associated with incurred expenses need to be consistent with the EPA approved workplan and budget. Subrecipients handling these items on behalf of the recipients should communicate with the recipient to confirm alignment. There should also be agreement on how these expenses are approved and paid. Some recipients may prefer to approve and handle all payments to subrecipients and contractors; other recipients may delegate some of their authority to subrecipients.

COORDINATION WITH YOUR EPA PROGRAM OFFICER

Regular touchpoints with your EPA program officer (PO) are important for maintaining grant compliance. This is particularly true for periods of significant incurred costs and active construction. You should discuss with your PO how often they would like communication and at what points during the project, and provide a summary of project activities, costs incurred, invoices, supporting documentation, and proof of payment. Your PO should provide input on whether the incurred costs are reasonable, and if the invoices, supporting documentation, and proof of payment meet EPA requirements.

Communication with your PO is also recommended before the first instance of a certain type of project expense (e.g., electric vehicle procurement) to understand what compliance requirements need to be met. Your PO may request additional documentation from subrecipients or contractors to approve these expenses. It is generally recommended to obtain this approval prior to signing contracts, drawing down from ASAP and disbursing payments. Upfront communication with your PO helps prevent costs disallowed later and enables a smoother drawdown process. Upfront communication with EPA should also minimize delays in approving future drawdowns for similar costs.

Payments

INTRODUCTION TO ASAP

The U.S. Department of Treasury operates the Automated Standard Application for Payments (ASAP) for all federal agencies, including EPA. ASAP functions as a holding account where recipients can draw down funds. All EPA recipients must use ASAP to access awarded grant funds. Once a grant has been awarded, EPA sets up the grantee's account in ASAP and notifies the grantee. The grantee's designated financial officer can then log into ASAP.gov and request funds as needed, subject to EPA rules. ASAP verifies the request, ensuring it aligns with available grant funds and authorization rules. If approved, funds are electronically transferred to the grantee's bank account, typically within 24 hours. Figure 3 below illustrates the ASAP process.

Figure 1: ASAP Process.
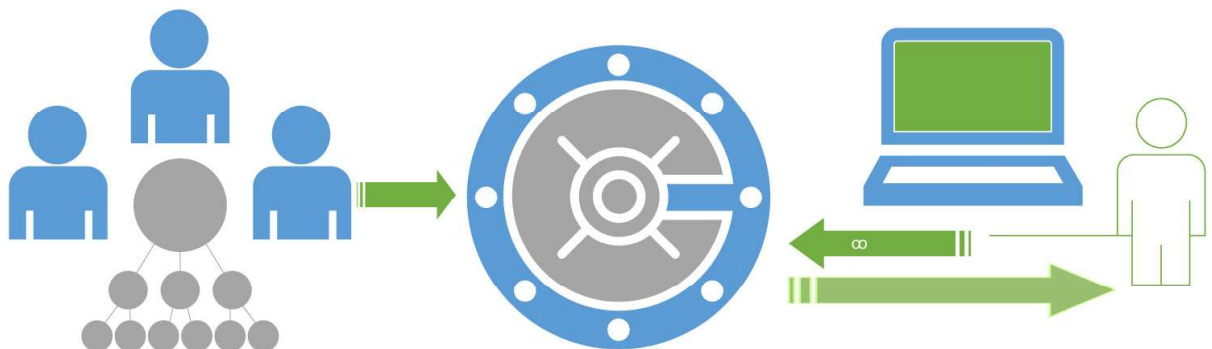
ASAP PRE-ENROLLMENT STEPS

Recipients must complete the following prior to enrolling in ASAP:

❖ Current valid registration in the System for Award Management (SAM). Instructions for registering on SAM.gov.n

❖ You will need a Unique Entity Identifier (UEI), which is a 12-character alphanumeric ID assigned to your organization by SAM.gov. A UEI is required to apply for federal funding. You should make sure that the information in SAM is updated prior to enrolling in ASAP. Entity Registration Checklist can assist you in gathering information needed for a UEI.

HOW TO ENROLL IN ASAP

Below are step-by-step instructions for enrolling in ASAP after ensuring that you have a current valid registration in SAM and a UEI. You should also ensure that your banking information is up to date, as changing your banking information after ASAP enrollment may require EPA to cancel your award, potentially resulting in loss of any remaining funding. You should contact your PO prior to changing any information in SAM.gov or proposing changes to your UEI or banking information.

Figure 2: Organizational ASAP Approval Process.
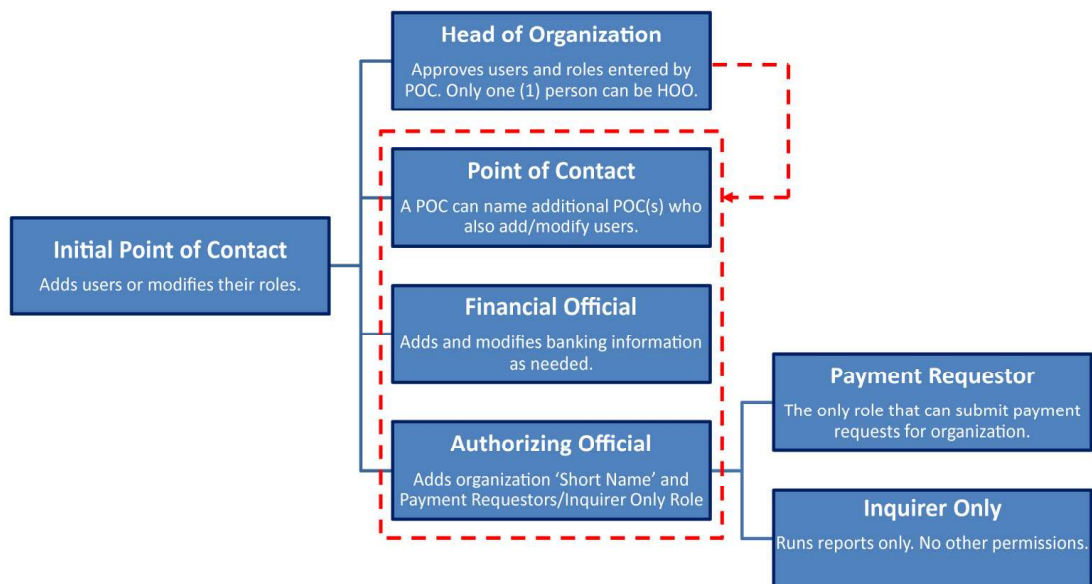
1. EPA will send an email to the grant recipient to enroll in ASAP.
2. Log into ASAP and enroll online. It is recommended that the same person serve as the Point of Contact, Head of Organization, Authorizing Official, and Financial Official to expedite setup. These roles can be revised after setup (ASAP approval process in Figure 2 above).
3. Once recipient enrollment is complete, EPA will finish enrollment and fund the ASAP account.
4. The recipient will receive notification that the ASAP account is ready.

ASAP REQUIREMENTS

ASAP has no requirements for frequency of drawdowns. Recipients are not required to submit documentation for drawdowns, but it is recommended that invoices and supporting documentation of incurred costs be retained for recordkeeping and potential requests by EPA or auditors. After making an ASAP request, payments will be deposited in the recipient's banking account either the same day or next business day. You should maintain your ASAP account by logging in at least every 90 days.

ASAP is limited to amounts covering anticipated cash needs, and payments must be disbursed within five business days (or returned to EPA). These payments must generally be deposited and maintained in insured interest-bearing accounts unless one of the following applies: 1) recipient or subrecipient receives less than $250,000 in federal funding per year, 2) the best available interest-bearing account would not reasonably be expected to earn interest in excess of $500 per year on federal cash balances, or 3) an average or minimum balance would be unrealistically high given the expected federal and non-federal cash balances. Recipients may retain up to $500/year of interest earned on federal funds. If there is program income from the project, recipients or subrecipients must disburse funds from program income and interest earned on Federal funds before requesting drawdowns from ASAP. Any interest above $500 needs to be returned to EPA.

As an alternative to ASAP, recipients can also receive EPA funds on a Working Capital Advance Basis with EPA approval or as reimbursement (typically applies to construction projects). EPA requires that payments should be disbursed within 5 business days of receiving payment from EPA to subrecipients or contractors incurring costs on a federal grant funded project. Hence EPA requires recipients to enroll in ASAP to allow EPA payments to be received within 24 – 48 hours of request.

ASSISTANCE WITH ASAP

If you have issues with your ASAP enrollment or wish to enquire about the status, you can contact the ASAP help desk at asaphelpdesk@fiscal.treasury.gov or by phone at 855.868.0151 (option 2, option 3). Typically, email has a faster response time. The ASAP help desk is available Monday through Friday except on federal holidays from 7:30am to 6:00pm EST.

Multiple federal agencies have created resources[13] to assist in enrolling in ASAP. Note that the U.S. Department of Treasury will validate the banking account information which may take 7 – 10 days, after which EPA will finalize the ASAP enrollment.

Reporting

Depending on the requirements of their EPA grant program, recipients must submit either quarterly or semi-annual program[14] and financial reports.[15] Your PO may provide a program report template. These reports are due 30 days after the end of the reporting period.

QUARTERLY/SEMI-ANNUAL FINANCIAL REPORTS

The SF-425 (Standard Form 425) is often the required format for EPA grantees to report on the financial status of their awards. SF-425 includes the following financial inputs:

- ❖ Federal Cash Transactions
- ❖ Expenditures & Obligations
- ❖ Unobligated FundsCurrent valid registration in the System
- ❖ Recipient Share (if applicable)
- ❖ Program Income
- ❖ Indirect Costs

When completing the SF-425, be sure that the reported numbers match your financial system. It is also important to maintain records of invoices and receipts to support the data provided. Multiple federal agencies including the U.S. Economic Development Administration, U.S. Department of Justice Community Oriented Policing Services, and National Park Service have provided detailed guidance on filling out the SF-425 form.[16] TRC staff[17] are available to assist on the SF-425 form.

QUARTERLY/SEMI-ANNUAL PROGRAM REPORT

Program reports should provide a summary of project activities and should assist in creating the final report at the end of the project. Below are common information requests included in program reports, which are often provided in an Excel template:

- ❖ What occurred during this project period?
- ❖ Challenges – what was not completed on schedule?
- ❖ How to resolve problems or seek guidance from EPA
- ❖ What is planned for the next project period?
- ❖ Any press releases or media events in this project period?
- ❖ Data collection – progress towards project outputs or outcomes (separate tab)

Recipients and their subrecipients are responsible for federal award oversight and should be contributing program and financial reports. These reports should include a comparison of accomplishments to objectives in their workplan; any interim data analysis; why objectives were not met, if applicable; and an explanation of any cost overruns or schedule delays. Projects with construction activities should include construction performance reports including on-site technical inspections and monitoring or progress. Your PO may choose to conduct site visits and may waive construction performance reports if deemed to be unnecessary.

FINAL PROGRAM AND FINANCIAL REPORT REQUIREMENTS

The final program and financial reports are due no more than 120 days after the end of the project.[18] Subrecipients must provide final program and financial reports no more than 90 days after project end so that recipients can include these reports into their project closeout reporting to EPA. This closeout process occurs after the completion of required work. All financial obligations must be liquidated within 120 days after the end of the project. There also needs to be a property inventory and disposition to account for all property acquired using federal funds. EPA will determine ownership of acquired property based on its residual value at the end of the project. Property may be determined to be of de minimis value, or EPA may provide approval for the property to continue to be used for the same purpose as the project. These would require no further action for property disposition. EPA must not delay final project payments and must complete all closeout actions within 1 year after the end of the project. If recipients fail to comply with closeout requirements, this is reported to Sam.gov.

Resources

- ❖ Utilize Technical Assistance Resources:
  - o [Inquire Here – Environmental Protection Network](#)
  - o [epa-support@TRCcompanies.com](#)
  - o [Fund Protection Legal Guidance Request — Lawyers for Good Government](#)
  - o [Join EPN for Office Hour Opportunities – Environmental Protection Network](#)

- ❖ Consult: [EPA Uniform Grants Guidance](#)
  - o [Financial Management](#) 2 CFR §200.302
  - o [Internal Controls](#) 2 CFR §200.303
  - o [Federal Payment Requirements](#) 2 CFR §200.305
  - o [Financial Reporting](#) 2 CFR §200.328
  - o [Monitoring and Reporting Program Performance](#) 2 CFR §200.329
  - o [Record Retention Requirements](#) 2 CFR §200.334
  - o [Allowability of Costs](#) 2 CFR §200.403

- ❖ Consult EPN Resources by Program: [CCG](#), [Community Air Monitoring](#), [EJ TCGM, SFA](#)

- ❖ Consult EPA Resources by Program: [CCG](#), [CPRG](#), [SFA](#)

- ❖ Nonprofit Financial Management Resources:
  - o [Finance & Accounting - Candid - OverDrive](#)
  - o High Rock Accounting: The Basics of Tracking Restricted Grants
    https://highrock.co/2022/01/the-basics-of-tracking-restricted-grants/
  - o [Streetsmart Financial Basics for Nonprofit Managers](#), Thomas A. McLaughlin
  - o Nonprofit Finance Fund: https://nff.org/learn/fundamentals-nonprofits
    - • Scenario plan. Funding is under threat for many of us with direct or pass-through federal funding. Model out different scenarios, assessing the risk level to different funding streams, and the implications and options should they cease. We offer a free scenario planning tool here that can be helpful; it is part of a series of resources on building resilience during uncertain times.
    - • As we saw last week, we may experience fits and starts to funding. Cash flow planning is critical. Our cash flow projection template (also free) is another valuable tool as organizations plan for uncertainty.
  - o Propel Nonprofits: Financial Resources: https://propelnonprofits.org/resources/
  - o Stronger Nonprofits Toolkit: https://wallacefoundation.org/toolkit/strongnonprofits-toolkit

Resources

❖ **Endnotes**

1. Timesheet needs to identify specific EPA grant number when hours are logged in

2. CFR 200.430(g)(ix) states that "It is recognized that teaching, research, and administration are often inextricably intermingled in an academic setting. Therefore, a precise assessment of factors contributing to costs is not required when IHEs record salaries and wages charged to Federal awards."

3. CFR 200.430(g)(ix) states that "It is recognized that teaching, research, ad administration are often inextricably intermingled in an academic setting. Therefore, a precise assessment of factors contributing to costs is not required when IHEs record salaries and wages charged to Federal awards."

4. Executive order reduces IHE indirect overhead rate to 15% for National Institute of Health grants. This may be subject to legal challenge.

5. Prevailing wage determination website: https://sam.gov/wage-determinations

6. Work classification includes exempt or non-exempt employees as well as whether an individual should be considered an employee or independent contractor under applicable federal and state laws.

7. Hours worked daily includes day, date, and straight time and overtime hours

8. Payroll deductions are wages withheld from total earnings for the purpose of paying taxes, garnishments and benefits.

9. EPA Subaward Policy Appendix D: Subaward Agreement Template

10. EPA Subrecipient reporting requirements

11. Procurement, Subawards, and Participant Support Costs Webinar. March 27, 2024.

12. EPA record retention requirements per 2 CFR 200.334 are three years from final report submission unless audit requirements have a longer retention requirement. All records in the grant project file should be retained.

13. NPS: Getting Started in ASAP.gov (U.S. National Park Service)
    o ASAP: https://fiscal.treasury.gov/asap/
    o NOAA: ASAP-Instructions.pdf
    o Bureau of the Fiscal Service: PowerPoint Presentation

14. Monitoring/Reporting Program Performance requirements. 2 CFR 200.329

15. Financial Report requirements. 2 CFR 200.328

16. U.S. Economic Development Administration. Department of Justice. Completing the SF-425 - Historic Preservation Fund (U.S. National Park Service)

17. Patricia Kwon at TRC. Email: epa-support@trccompanies.com

18. EPA closeout requirements. 2 CFR 200.344