

Improper Payment Study & Recordkeeping



Opening Remarks



Agenda

- ❑ Introduction of facilitators
- ❑ Understanding “Improper Payments” and the study
- ❑ FY 2025 Improper Payment Participant Guide
- ❑ Internal Controls
 - Recording and Recordkeeping
 - Facilities documentation
 - Grant documentation
- ❑ Gentle reminders



| | | | | | | | | | |
|------|-----|------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| 2007 | 60 | 3,029.00 | 18,174.00 | 3,654.00 | 23,312.00 | 2,342.00 | 345,532.00 | 345,534.00 | 564,523.00 |
| 2009 | 60 | 4,610.00 | 55,320.00 | 55,320.00 | 9,220.00 | 234,423.00 | 234,233.00 | 45,344.00 | 24,423.00 |
| 2011 | 60 | 2,619.00 | 31,428.00 | 31,428.00 | 31,428.00 | 31,428.00 | 534,457.00 | 45,573.00 | 3,442,344.00 |
| 2011 | 180 | 1,231.00 | 14,772.00 | 14,772.00 | 14,772.00 | 14,772.00 | 14,772.00 | 14,772.00 | 140,334.00 |
| 2009 | 180 | 1,264.00 | 15,168.00 | 15,168.00 | 15,168.00 | 15,168.00 | 15,168.00 | 15,168.00 | 114,744.00 |
| 2009 | 180 | 4,890.00 | 58,680.00 | 58,680.00 | 58,680.00 | 58,680.00 | 58,680.00 | 58,680.00 | 440,100.00 |
| 2007 | 180 | 1,142.00 | 13,704.00 | 13,704.00 | 13,704.00 | 13,704.00 | 13,704.00 | 13,704.00 | 69,662.00 |
| 2011 | 300 | 1,327.00 | 15,924.00 | 15,924.00 | 15,924.00 | 15,924.00 | 15,924.00 | 15,924.00 | 391,465.00 |
| 2009 | 300 | 4,250.00 | 51,000.00 | 51,000.00 | 51,000.00 | 51,000.00 | 51,000.00 | 51,000.00 | 1,122,000.00 |
| 2009 | 300 | 3,907.00 | 46,884.00 | 46,884.00 | 46,884.00 | 46,884.00 | 46,884.00 | 46,884.00 | 1,031,448.00 |
| 2009 | 300 | 3,156.00 | 37,872.00 | 37,872.00 | 37,872.00 | 37,872.00 | 37,872.00 | 37,872.00 | 833,184.00 |
| | | 480,000.00 | 5,120,000.00 | 5,120,000.00 | 5,120,000.00 | 5,120,000.00 | 5,120,000.00 | 5,120,000.00 | 12,938,520.00 |

Improper Payments



Defining Improper Payments (45 CFR 75.2)

- ❑ (1) Means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and
- ❑ (2) Includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

Simply put...



- ❑ OHS is a large program that disburses over \$10B in federal funding every year.
- ❑ Our job, as a federal agency, is to demonstrate that we are executing proper stewardship practices from the federal government to the local program.
- ❑ While serving our communities, we must also be the example of strong financial management.

Categorizing Improper Payments

Technically improper

Underpayment

Overpayment

Unknown

Test
Your
Knowledge



Improper Payment Study

- ❑ The Payment Integrity Information Act of 2019 (PIIA), which became law on March 2, 2020, requires agencies to identify and review all programs and activities that may be susceptible to significant improper payments based on guidance from the Office of Management and Budget (OMB).
- ❑ On March 5, 2021, OMB issued M-21-19, which provided guidance to program offices on implementing the requirements of PIIA. Based on this guidance, the Office of Head Start is required to conduct an Improper Payment Study.
- ❑ The Office of Head Start will conduct improper payment reviews of recipients to ensure Federal funding was expended and associated programs were implemented in full accordance with statutory and public policy requirements as outlined in 45 C.F.R. § 75.300.

A woman with long dark hair, wearing a white shirt, stands in a meeting room pointing at a whiteboard. The whiteboard displays a pie chart and a line graph with the number '12' circled. Several people are seated around a table, looking towards her. The room has large windows and modern furniture.

FY2025 Improper Payment Participant Guide

Notification of Participation



Recipients selected for the study will receive a notification, via HSES correspondence. Notification of participation is generally sent during the Winter.



Additional instructions will be provided on required items and deadlines, including documentation submission. Collection of information begins early Spring.

Participation Requirements

- ❑ Participation is **REQUIRED** for all direct recipients of an OHS federal award
 - Direct recipients must be able to speak to subrecipient fiscal activities
 - Subrecipients may be contacted directly for transaction testing
- ❑ Recipients must have financial management and standards for financial management systems in place that meet the requirements of 45 C.F.R. § 75.302, including systems that provide accurate, current, and complete disclosure of the financial results of each Federal award and records that adequately identify the source and application for funds for federally funded activities.
- ❑ Sample testing is conducted at the expenditure level (individual transactions)

FYI

- ❑ Recipients do not need to wait for notification of participation to prepare for the improper payment study.
- ❑ At some point, every program will receive a notice to participate.
- ❑ The most effective way to prepare for the study is by implementing strong internal controls and financial management systems.
- ❑ Recipients may work with their regional T/TA Network to support alignment and implementation with regulatory standards.
- ❑ Implementation of regular internal monitoring activities ensures readiness for improper payment study, focus area monitoring events, audits, and more!

Internal Controls

- ❑ Per 45 CFR Part 75.302(b)(3) Recipients are required to keep complete records that identify adequately the source and application of funds for federally funded activities
- ❑ Internal controls are intended to protect the organization's financial activities from potential fraud, waste, and abuse
- ❑ All persons, regardless of their role, play a part in maintaining and protecting the organization and mitigating risk
- ❑ Control activities, especially around documentation, support the implementation of effective fiscal practices

45 CFR 75.303(a) Internal Controls

Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).



45 CFR 75.303(e) Internal Controls

Take reasonable measures to safeguard protected personally identifiable information and other information the HHS awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality.

Recording & Recordkeeping

- ❑ Accounting records are generally used to prepare financial statements.
- ❑ Even in succession, recipients are mandated to keep proper records of financial activities for at least three years.
- ❑ Per the Performance Standards, recipients are required to maintain tracking of financial activities through an electronic accounting system.
- ❑ Records help monitor the progress of the program, allocate expenses, identify sources of income, maintain facilities and equipment, and support monitoring activities (i.e.: Audits).
- ❑ The burden of proof for the validity of the financial activity is on the recipient.
- ❑ Documentation is the key control activity that ensures compliance with the regulations.

Documentation

- ❑ Documentation must tell the story of the financial transactions, from procurement to payment.
- ❑ If it is not documented, it didn't happen (or is considered improper)!
- ❑ It is the recipient's responsibility to ensure proper documentation of all financial transactions, including those of their subrecipients.
- ❑ Documentation may include (but it not limited to):
 - Invoices
 - Executed contracts
 - Requests for reimbursements
 - Purchase orders
 - ACH or cancelled checks to confirm payment
 - Payroll reports and pay stubs

Requesting Prior Approval

- ❑ Certain transactions require prior approval before engaging in the activity
 - Equipment purchases
 - Facilities activities
 - Significant rebudgeting
- ❑ If the nature of the activity or the costs increase, recipients are required to request a revision to their original request **PRIOR** to commencement

Real Property



Facilities

45 CFR 1303.54

A grant recipient must retain records pertinent to the lease, purchase, construction or renovation of a facility funded in whole or in part with Head Start funds, for as long as the grant recipient owns or occupies the facility, plus three years.

- Facilities documentation must reflect the approval and execution of the 1303-Subpart E application.
- Recipients may use the post-approval checklist as a guide for meeting the recordkeeping requirements for facilities projects
- Recipients are responsible for ensuring that all payments made during the purchase, pre- and post-construction, and major renovation phases are accounted for.

Facilities

- ❑ Types of documentation for record keeping include:
 - All Contracts and copies of contract payments
 - Any invoices, purchase and/or change orders for construction or renovation materials, equipment, or other project related supplies
 - Purchase agreements for acquired buildings or land (with or without mortgage)
 - Mortgage statements and payments
 - Rental and/or occupancy agreements and payments
 - Payments made for architects, engineers, environmental reports, appraisals, or inspections services
 - Insurance payments
 - All State and Local licensures (Certificate of Occupancy, Inspections, etc.)

Facilities

- ❑ A copy of the duly filed, Notice of Federal Interest in the jurisdiction of the property.

The notice should include:

- Date of Award
- Grant number
- Amount of Award
- Full, legal name of recipient
- Property address

- ❑ All documents related to ownership (Deed, Legal Description, Survey, etc.)

OHS VERSION

NOTICE OF FEDERAL INTEREST

LEGAL NOTICE: THE PROPERTY NAMED IN THIS DOCUMENT WAS ACQUIRED OR IMPROVED USING FEDERAL FUNDING. THEREFORE, FEDERAL LAW GOVERNS ITS USE, ENCUMBRANCE, AND/OR DISPOSITION. BEFORE ATTEMPTING TO PURCHASE, SELL, OCCUPY, TAKE A MORTGAGE INTEREST IN OR OTHERWISE ENCUMBER, OR FORECLOSE UPON THIS PROPERTY, YOU MUST NOTIFY THE RESPONSIBLE HHS OFFICIAL LISTED BELOW.

Federal law directs the Secretary of the United States Department of Health and Human Services to establish uniform procedures for Head Start agencies to purchase facilities to be used to carry out Head Start programs. See 42 U.S.C. § 9839(f). Real property acquired or improved with a Federal award is held in trust by the Head Start agency as trustee for the beneficiaries of the project or program under which the property was acquired or improved. See 45 C.F.R. §§ 75.323, 1303.46. Facilities acquired or renovated with grant funds may not be mortgaged, used as collateral, sold, or otherwise transferred to another party without the written permission of the responsible HHS official. See 45 C.F.R. § 1303.48(a).

On _____, the United States Department of Health and Human Services, Administration for Children and Families ("HHS/ACF") awarded Grant Number _____ in the amount of \$ _____ to _____ ("Recipient") for the purpose of operating a Head Start program in _____. These grant funds are being used in part for the purchase, continued purchase, improvement, and/or renovation of the property located at _____ and further described on Exhibit A, attached hereto ("Property"). Future grant awards may also be used for this purpose.

Through this grant award and any future grant awards made by HHS/ACF, HHS/ACF has acquired a beneficial ownership interest ("Federal Interest") in the Property. HHS/ACF's interest applies to the entire Property, including, but not limited to, the facility and land.

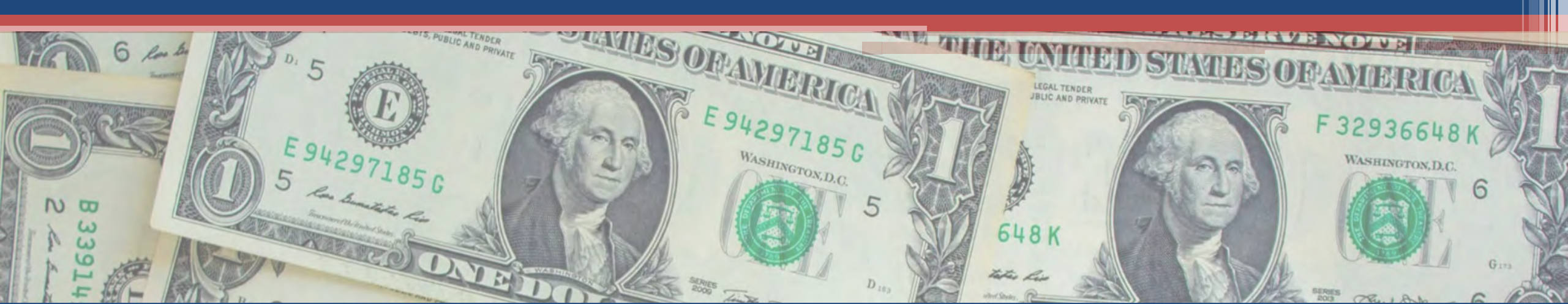
The Notice of Award for this grant includes conditions on the use of the Property and provides for a continuing Federal Interest in the Property. Specifically, the Property may not be: (1) used for any purpose inconsistent with the Head Start Act and applicable Head Start regulations; (2) mortgaged or used as collateral, sold or otherwise transferred to another party, without the responsible HHS/ACF official's (or the responsible HHS/ACF official's designee's) written permission; (3) subordinated, diminished, nullified or released through the encumbrance of the property, transfer of the property to another party or any other action the Recipient takes without the responsible HHS/ACF official's (or the responsible HHS/ACF official's designee's) written permission. See: 42 U.S.C. § 9831 et seq.; 45 C.F.R. Part 75; 45 C.F.R. Part 1303; 45 C.F.R. Part 1305; and other terms and conditions of the award, including the HHS Grants Policy Statement.

Facilities

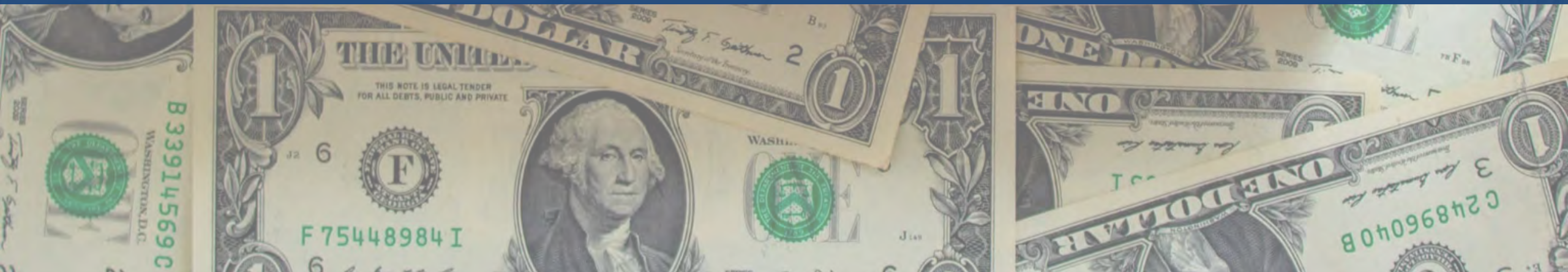
❑ Creating Your Facility File

Recipients should create and maintain a facility file to track each individual project. This can be created by project name, type of project, date, or area of the property, etc. Your facility file should include:

- A copy of the Grant Application for that project
- A copy of Grant Award for the project
- Pre & post construction appraisals
- Construction Work documents
 - RFQ/RFI (request for quote/information), Bids Received, Contracts, construction meeting notes, etc.
- Payroll reports, payment requests
- Notice of Federal Interest (NOFI)
- All current and up to date licenses, certificates and policies (engineering, plumbing, insurance, etc.)



Grants Management



Financial Management Systems

§ 75.302 Financial management and standards for financial management systems.

(a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. See also [§ 75.450](#).



Financial Management Systems

- ❑ (b) The financial management system of each non-Federal entity must provide for the following (see also § § 75.361, 75.362, 75.363, 75.364, and 75.365):
- ❑ (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the HHS awarding agency, and name of the pass-through entity, if any.
- ❑ (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in § § 75.341 and 75.342. If an HHS awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.

Financial Management Systems

- ❑ (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
- ❑ (4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § 75.303.
- ❑ (5) Comparison of expenditures with budget amounts for each Federal award.
- ❑ (6) Written procedures to implement the requirements of § 75.305.
- ❑ (7) Written procedures for determining the allowability of costs in accordance with subpart E of this part and the terms and conditions of the Federal award.

Test
Your
Knowledge





don't
forget

Gentle Reminders

Recap

- ❑ The Improper Payment Study is the OHS's demonstration of accountability and transparency.
- ❑ Participation in the study is not optional—it is **REQUIRED!**
- ❑ Recipients must be responsive to the requests for documentation. Failure to do so may lead to further action, including funding restrictions and potential disallowances.
- ❑ It is all of our collective responsibility to be proper stewards over federal funds.
- ❑ **DOCUMENT! DOCUMENT! DOCUMENT!**
- ❑ When in doubt, phone a Fed!



Closing Remarks

