

Improper Payment Study and Recordkeeping

Glenna Davis: Hello, everyone, and welcome to the Improper Payment Study and Recordkeeping webcast. It is now my pleasure to turn the floor over to our OHS Director, Khari Garvin. Director Garvin, the floor is yours.

Khari Garvin: Well, thank you, and welcome, everyone, to the Improper Payment Study and Recordkeeping Webcast. I am Khari Garvin, director of the Office of Head Start. Happy New Year to everyone, and we're just very glad that you chose to spend either this afternoon or for some of you this morning with us with this webcast.

Before we get into the specifics, we do want to acknowledge that there are winter weather events happening in many states across the country, so we do want you to be careful, but thank you for carving out time to be with us today and also going far West in California, specifically in the Los Angeles metro area, we know that there are wildfires that are really consuming that area, so again, we're ... Our hearts are with you and just want you to take good care in this time of crisis. But again, thanks to all of you for being available.

Today, we are here ... We're gathered here to talk about the importance of proper fiscal stewardship, and I do want to just underscore the point that fiscal stewardship is a shared responsibility. We, the Office of Head Start, certainly have a responsibility to help safeguard these public funds that are made available to serve our nation's most precious children and families. But to do that, that requires that we maintain and oversee a regulatory compliance process. We do that through a couple different channels.

This, I'm sure, sounds familiar to you, but we have ... We conduct single audits. We have the so-called Focus Area One, or FA1, reviews, our Focus Area Two reviews, and also, we have the Improper Payment Study. Together, that kind of complements all of the ways that we make sure to do our level best to make sure that these funds are being properly safeguarded. But, of course, grant recipients have a responsibility in this process, as well.

That is to say that we are looking to grant recipients to establish and then maintain strong internal controls and not just that but also documentation that is also complete and comprehensive. Really, the strong internal controls are complemented by the documentation. Those are really the key ... the keys to demonstrating fiscal integrity. That's what we're here for to talk about today, and we hope that we will get all of your great questions answered, as well. With that, it is my great, great pleasure to turn things over to my colleague here at the Office of Head Start, Mrs. Nekeya O'Connor. Nekeya, all yours.

Nekeya O'Connor: Thank you, Director Garvin, and I just want to say thank you so much for your support at the Office of Head Start for your children and families as well as, of course, that

beautiful love letter that you wrote to everyone. It has been an honor and a pleasure to work with you. Welcome, everybody, to the Improper Payment Study and Recordkeeping Webinar.

I am one of your facilitators, as Director Garvin said, Nekeya O'Connor, and I serve as the fiscal specialist for the Office of Head Start. It is such a pleasure to be here with each of you as we embark on this journey together to look at what the Improper Payment Study is and improper payments as well as recording and recordkeeping.

Before we get started and before I go over the agenda, I want to take this opportunity to introduce my co-facilitators for today. I am joined by a wonderful team of subject matter experts who are going to lend their insight and their subject matter expertise to this discussion. The first, I would love to introduce Sharia Hall.

For those of you who have had a chance to see her at the Fiscal Facilities Institutes, Sharia serves as the facilities management specialist for the Office of Head Start. I am also joined by the wonderful director of School Readiness Grants, Stefanie Gordon. The School Readiness Grants falls under the Office of Grants Management, so they are our partners in Head Start and federal funding work, so we are grateful to have Stefanie with us today.

Then I am also joined by Natalie Williams, who is a fiscal specialist with the National Center on Program Management and Fiscal Operations. But the team doesn't just stop there. In your chat, you are also going to see Heather Wanderski, who is the program operations division director for the Office of Head Start, as well as Arnold Ramirez, who is the fiscal lead for the National Center on Program Management and Fiscal Operations.

They will be manning the chat and answering any questions that might pop up throughout, so definitely feel free to ask your questions as we move through this presentation. But we have a full agenda for us today, and I want us to be able to meet all of these different elements in the time that we have allotted.

The first thing that we're going to do is that we're going to understand the importance of improper payments as well as the improper payment study. Why do we have to do it? Why is it important? What exactly is the definition of an improper payment? As we delve into that information, we'll then give you a secret.

We're going to provide you a participant guide as to how you can actually prepare for the improper payment study. Included in that guide is that we are going to talk about some of the important aspects of internal controls because that really is a lot of what we want to make sure we drive home for you today.

In this internal controls, we are really focusing on the control activity of documentation today. We're going to look at recording and recordkeeping. We're going to talk about facilities documentation, and we're going to talk about grant management documentation as well as kind of diving a little bit into the financial management system that you should actually have in

place. At the end, we'll cue it up with some gentle reminders, and then we'll open the floor for any questions if we have time.

Let's get started. As Khari said, you know, one of the important things about having everyone here today is understanding that the Office of Head Start participates in a lot of different monitoring activities. Now, I remember when I was a CFO, and I came in, and we had all these different things, and I couldn't understand why it was that the Office of Head Start wanted to do monitoring, and they wanted to ... We also had to participate in the audit, and we had to do all these different things, and back in the day, this was when the HSICC was important, and it was relevant, and we were all participating in it.

Even at one point, our monitoring protocol had six different parts and all those different things, and ... But what's important was, in these different monitoring systems is again, is making sure that we are showing proper stewardship, as Khari said, over the federal funds. We get these dollars. We service our children and our families and our communities, but we want to make sure that we are doing it properly.

A part of the monitoring tools that are actually in place and something that we actually have to participate in is this idea of an improper payment. What exactly is it? Now, for those of you who are new to the Uniform Guidance, we know that it is in the process of transition. For right now, we are going to use what is currently in place, which is 45 CFR 75.2, which are the definitions.

Within the definitions, you can actually see what exactly an improper payment is, which is that it references any payments that should not have been made or was made in the incorrect amount or to an ineligible party. This could be a duplicate payment. It could be a payment that was made for goods and services, those things that you do on a regular basis.

Anything that can't be accounted for or there is not enough documentation presented to the reviewer in order to determine if that payment or that transaction was proper. Simply put, the Office of Head Start disburses a lot of money, over \$10 billion, for children and families across the nation every year.

Our job as a federal agency is to be able to demonstrate that are executing these proper stewardship practices from a federal level all the way down to the local program. While we are serving our communities, while we are developing these high-quality child and family outcomes, we also have to be able to demonstrate high-quality financial systems in place.

There are four types of improper payment categories, and I will go over them pretty briefly. Technically improper means that the transaction itself is actually allowable. It follows what has been outlined in the cost principles within the uniform guidance, but something seems to be missing.

For example, if your process says that for a procurement purchase, that there should be a packing slip as a part of the procurement documentation, but it is missing, or if your policies

and procedures say that your checks over \$1,000 should have two signatures, but it has only one, the transaction within itself and the payment that is made may be allowable, but it becomes technically improper because it is missing a part of what has been identified in the process.

Underpayment is exactly what it says it is. An underpayment could be that you paid an amount that was lower than what it should actually be or lower than what is correct. For example, a lot of you have teachers, and you have maintenance staff, and you have your receptionist, all who work for the Office of Head Start and do a great job. A lot of them are hourly employees.

Let's say, for example, within your system, you have a 40-hour work week, but your teacher happens to work 45 hours. However, in their documentation, you show, yes, they worked those 45 hours. The timekeeping system shows that they worked the 45 hours. But they were only paid 40. That would be considered an underpayment, unless they're salary.

An overpayment is the opposite. An overpayment is that there was something that was paid above what is the correct amount. An example here would be our beloved playgrounds and our buses. If you received a prior approval for a bus in the amount of \$45,000, which you actually paid \$50,000 without prior approval, that is considered an overpayment because the amount that was approved was up to 45,000.

Then the last category is considered the unknown. The unknown are those things that we are not able to identify because the document is ... The documentation is insufficient, and we want to make sure that, of course, we are providing as much resources to you as recipients to know what should be included in documentation.

As my Jamaican mother would say, I'm going to stick up in here because this is actually what the crux of our conversation is about today. We're going to do a quick test of your knowledge. We're going to bring up a poll on the screen, and I want you to test and see, do you know what exactly is an improper payment? Glenna, could you bring up the poll for me, please? Here we go.

I want you to identify the correct improper payment category for a \$52,000 bus purchase that received a prior approval in the amount of \$47,250. Is it, one, this is not improper because the purchase actually received a prior approval? Two, is it technically improper? Is it an overpayment, is it an underpayment, or is it unknown?

I wish I had my "Jeopardy!" music because I'd let you guys hear it, but I'll do it ... I won't do it for you but just know that I'll give you a couple of seconds to answer. You have a \$47,250 bus prior approval that you received from your regional office, but the bus was actually \$52,000, and you paid for it in full. Which improper payment category would this fall under? I'm going to give you a few more seconds. Thank you, Glenna. Let's see what the votes say.

Over 82% of you said that it is an overpayment, and that is absolutely correct. Great job. Now that you have an idea of the definition of an improper payment and why it's important, let's talk

a little bit about the study. The Payment Integrity Information Act of 2019 actually came into law right before COVID, which was March 2nd, 2020.

What it did is that it requires the different agencies to look at their ... all their programs and see which ones are at the most risk for significant improper payments. OMB issued their Memorandum 21-19, which provided guidance's for the different program offices on implementing these different requirements.

Based on those requirements, the Office of Head Start actually has to participate in the study. This is not just something that is a necessary activity, but it is actually required. The Office of Head Start will conduct an improper payment review for their recipients to ensure that the federal funding was expended and associated programs were implemented in full accordance with the requirements of the Uniform Guidance.

Now that we've talked a little bit about it, let me give you some tips and tricks in order to prepare for the study. Every recipient will eventually participate in the Improper Payment Study. It's just a matter of when. When you know that you will be participating in a study, you will receive a notification through HSES correspondence.

The notification generally goes out during the winter. For those who are participating in the fiscal year 2025 study, as said in the e-blast that went out a few weeks ago, you will actually be receiving your notice before the end of the month. In that notice that you receive, we'll include additional instructions on what is required, the different deadlines and the documentation that will be required for submission.

They will begin collecting your samples within early spring. The one important thing to note is that participation in this improper payment study is required for all direct recipients of the Office of Head Start federal award. Direct recipients must be able to speak to any fiscal activities of their subrecipients, and in the event that it becomes too difficult or different things like that, there is an opportunity for us to speak with the subrecipients directly in order to complete the transaction testing.

One of the things that's important is that recipients must have a financial management system, and it should be standard and in place according to the Uniform Guidance, which Stefanie is actually going to talk to you a little bit about later. Within this system, you want to make sure that you have accurate, current and complete disclosure of your financial results for each of your different federal awards and records that can actually speak to the different transactions, their source and the application.

One of the important things to note here is that the sample testing that is conducted is actually at the transaction level. It is not at your drawdown level. It is at the individual transactions, kind of similar to what you would put together when you were running your general ledger transaction list. The cool thing is that you don't have to wait for the notification of participation in order to prepare for the improper payment study. You can do this right now.

Again, every program at some point will actually participate in that study, and the most effective way in order for you to prepare is to implement strong internal controls and have strong financial management systems. But let's say that you are new, and let's say that you are trying to make sure that you implement things correctly.

This is where you can reach out to your regional T/TA Network, and they can help you support alignment and implementation to the regulatory standards. Reach out to your grant management and your program management specialist to put in a TA request for you, and they will get you the help that you need.

It is important that we have strong implementation of these different regular monitoring systems in order to ensure that you are ready for the improper payment study, the focus area monitoring events, audits and everything else in between. Now that we've talked about the study, let's dive a little bit into internal controls and specifically around documentation.

Now, it is not a secret that internal controls are required. They are noted in the Uniform Guidance, as seen here. Recipients are required to make sure that they are able to show complete records and identify the source and application of every transaction related to federally funded activities.

The whole purpose of internal controls is not to micromanage what you're doing but more to protect you as an organization and your financial activities from potential fraud, waste and abuse. What's key here, and I think that you might have heard me say it in different sessions, is that regardless of your role in the program, everyone plays a part in maintaining and protecting the organization and mitigating risk. Whether you are a teacher, you are the education manager, you are the CFO or the cook, we all play a role in showing proper stewardship of the federal funds.

That's why control activities are put in place, especially around documentation, to make sure that we have effective fiscal practices. Within the Uniform Guidance, there is the discussion of internal controls. Internal controls are going to look different at the recipient level in different ways.

You have your control activities, which are extremely important in order to ensure that effective internal controls are in place. They should align with the Committee of Sponsoring Organizations and the Treadway Commission framework that has been identified, also known as the COSO framework. Within these are standards that can be used to ensure compliance with the federal statutes, regulations and the terms and conditions of your federal award.

The whole purpose and the way in which, again, that we make sure internal controls are done well is that we're able to take responsibility and put in place strong measures to safeguard and protect everything, not just our dollars but any personally identifiable information that may be under and covered under the HHS award. You want to be sensitive, but you also want to be

consistent because that is how you make sure that you are putting things in place to mitigate fraud, waste and abuse.

It's important that we talk about recording and recordkeeping, and this is actually where I'm going to bring in Natalie here, again, from PMFO, so ... in it, we have different accounting records and are generally used to prepare the financial statement. Even in succession with recipients ... I think there's a little bit of an echo. Even in succession, recipients are mandated to keep strong and proper records of financial activities for at least three years. Per the Performance Standards, you know, recipients are required to make sure that they have an electronic accounting system.

Natalie, one of the things that I wanted to ask you about are, what are some of the pain points or the things that you have seen in your role? Introduce yourself to folks but then talk a little bit about some of the pain points that you have actually seen in your role as it relates to recipients actually implementing strong recording and recordkeeping practices.

Williams: Thanks, Nekeya, and one thing that comes up to my mind, as you were mentioning, was payroll. When we think about payroll, let's just take it right down to one staff person. If we had Yolanda, who just is going about her work and then being able to enter her 80 hours of work into the system every 2 weeks, she then ... That closes out. Yolanda's supervisor goes ahead and approves it.

Then Yolanda receives her electronic payroll, her electronic check, on that Friday, and that's a pretty normal scenario, and that sort of ... We've ... We don't think about that. But let's really try to dig into that audit trail. First, when we went and we wanted to look at that, we would ask, did Yolanda submit her time sheet in according to her own ... to your agency's internal policies and procedures?

If it was supposed to be submitted on a Monday, was it submitted on that proper Monday? Then, did the supervisor go ahead and approve it based on policy and procedures, and of course we know that goes to HR, as well. Then we ask, was the electronic check for the correct amount? I think you brought up an example where something wasn't paid in the correct amount. But if she's an hourly employee, 80 hours, was she actually paid for that 80 hours? Then we think, were all of her necessary deductions taken, even?

There is all sorts of things, the standard Social Security, FICA, but even down to their health insurance and life insurance that may be coming out of that. Then, not only did we send a check to her, but did she actually receive it? Do we have confirmation from the payroll company, external, internally that we could say the ACH transfer actually went through?

Then I also may look at, did Yolanda get paid out of the right funding streams? If she's an hourly employee, does she work for Head Start and Early Head Start, but does she have another ... Is she cost-allocated against maybe another funding stream. We want to see that. Essentially, we would just follow what I talk about as that breadcrumb trail all the way back to that one person,

and then we could repeat that on several ... We could test that on several other individuals in the program.

O'Connor: That's great, Natalie, because when I'm sitting here, and I'm thinking about what you're talking about, you spoke on cost allocation. You talked about documentation. You talked a little bit about being able to provide the source documentation, especially for an underpayment or even an overpayment.

The truth is that the burden of proof of that financial activity is actually on the recipient. I love that you gave an example about payroll because that is one of the key places where we actually see where there are gaps in the documentation. It's important to know that documentation is a key control activity that ensures compliance with the regulations, and we want to, again, do everything we can to support our recipients in that effort.

Within the list of documentation, remember that documentation actually tells the story of your different financial transactions from procurement to actually the payment. If it is not documented, it didn't happen. Consider the definitions that we talked about of an improper payment. It would be considered improper if there isn't sufficient documentation to support that transaction.

It is ultimately the recipient's responsibility that all the proper documentation is ready and available for each of their financial transactions including those of their subrecipients. No, we're not asking you to go and dive into their general ledger or anything. But when it comes time, if you participate in the improper payment study, you will be responsible for making sure that your subrecipients are also in compliance with the regulatory standards.

There are different types of documentation that you can include, right, to ensure that you are implementing strong internal controls, and these are where you can actually take a look at internally. You can look at your invoices. You can look at the different types of executed contracts that you actually have in place, and when we say "Executed," are they actually signed?

Have they started? You can look at your request for reimbursements. You can look at your purchase orders again. That was one of the examples that I provided or technically improper payment. You can look at any canceled checks or direct deposits or ACH payments that have been made or even some payroll reports and pay stubs. Natalie, I'm going to bring you back in here because I know that, again, documentation is a high-risk area for recipients. What input do you have to share with us on this?

Williams: I think of another example, and we'll take an equipment example maybe with the purchase of a bus. If the basic plan here is for the program wants to purchase a bus for \$120,000, but it's not already approved in their annual budget, they just have learned that they have this need, and they may have some additional funding available that they still ... or they may need supplemental funds, so let's look.

First, they want the bus, if I'm going to look at it from an audit standpoint, I'm going to say, "How was the need for the bus determined? What data did the program look at?" It just didn't pop into somebody's head one day and say, "Oh, we're going to buy a bus." Was it talked about? Do we see it at the executive level saying, "We need Center A, B, C to have a new bus. We're having ... It's getting broke down. We're not able to transfer children?"

Then, did the program get that approval from the governing body? Was there good governance involved? Do we see that, of course, in minutes? We want to see that in the minutes. Again, Nekeya said if it's not written down, it didn't happen. Well, we want to see that board approval in the minutes and that ... and thinking about the governing body and even the policy council or tribal council.

Then I want to see, did the program submit a request if they needed supplemental money to the regional office and say, "This is what we're doing," and, again, provided that robust narrative to actually explain the need and how it's going to impact their program when they get that bus? OK. Now, they've received that, in a way, and they've got that approval, and they've got the bus.

Now, what about, did they follow internal policies and procedures around procurement to actually purchase the bus? Do we see that? Are they written down? What was their process? We should be able to pull that from their file. Then, did the purchase of the bus cost \$120,000 or less based on the approval amount, approved amount in their NOA? If not, did they go back to the regional office and say, "Hey, there's been a little bit of a price increase, and now it's going to be \$123,000?" which I know is a small amount, but it's still over the amount of the 120.

Did they go back and look on that and get an adjusted NOA? Then, you receive the bus. Yay, right? This is a great day. What was that intake policy for the bus? Did finance receive a copy of the paperwork so they can add it to their capital asset schedule, so they could add it to their federal equipments list, so they could eventually add it to their depreciation schedule that they work on when we file all of our financial documents at the end of the year?

Then I think of the best practice, and I know as a CFO I always wanted to be audit-ready at any time. I wanted to have everything ready if somebody popped in on me to be able to do that. Now, of course, when I know an audit is happening, I spruce up all my things. I go through it. I make sure things are more organized. But I know that for my ... In best practice in my world, I like to have a single file electronically ... Now, I'm old-school, so I had an actual paper file.

You could have this electronically. But if I had 14 buses, I had buses one through 14, and every bit of paperwork that went with that bus from the time of approval from the time of the quote and the procurement was in that file, and the copy of the NOA with the grant number on it that I purchased it under was right there, and I could pull it out and say, "Sure. There's bus number 114, and there you go." That's a little bit of what I think around documentation, and again, I just call it that breadcrumb trail back to, how did we start, and where did we end?

O'Connor: Natalie, that is an actual excellent segue to what I actually want to talk about next, and I'm just going to bring in our Director of School Readiness, Stefanie, into this part of the discussion because, Stefanie, Natalie talked a lot about there may be a change in a transaction or something that requires prior approval, and we know that those things occur. For those of you who don't know, there are certain transactions that actually do require prior approval before you engage with it. It includes our equipment purchases. That's definitely one.

Facilities activities, which Sharia is going to talk about next, is one. But there is this idea of significant rebudgeting, and in the nature of activities, if there's a cost increase, recipients are required to request a revision of their original request prior to the commencement of the type of activity. But for you, Stefanie, we see these different prior approval activities, and I know that sometimes people have questions about what exactly significant rebudgeting is. Would you mind shedding a little bit of light on that?

Stefanie Gordon: Yeah. Thanks, Nekeya, and just before we jump into that, I do want to say that the documentation Natalie is talking about, she really did maintain that very successfully because I met Natalie when she was a CFO of a program, and I was her Grants Management Specialist. I can attest that she had that exact equipment register for her buses. Yeah.

Significant rebudgeting does have a definition that we utilize from the grants policy statement right now. As folks know, we are transitioning to CFR 200. There is a new Grants Policy Statement, and with that, we are kind of getting clarification on what the definition will look like moving forward. But right now, to the awards that attest to the old Grants Policy Statement, we're looking at that 25% overall shift from our budget, or \$250,000.

But actually, all the prior approval requirements are found in 45 CFR 75407, and in that regulation, you're going to find 26 prior-approval other regulations, so it will point you to other regulations that also include a prior-approval requirement. Traditionally, all prior approvals require an application in the Head Start Enterprise System, and again, that HSES application will contain a lot of the information that Natalie had previously mentioned in her bus example.

Applications should be submitted before, and recipients should wait to receive that written approval from ACF, which usually comes in the form of a notice of award prior to undertaking any activities of incurring any cost to be ... That will help you avoid improper payments. As Nekeya and Natalie mentioned earlier, underpayments and overpayments are considered improper payments, so for recipients, it's not incur costs or undertake activities in full compliance with the original prior approval. The recipient will need to request a budget revision.

One of the common pitfalls we see with recipients is you really need to read those remarks on your Notice of Award. As Natalie mentioned, with a onetime request, if you're receiving that approval for a bus, if the remarks indicate a very specific type of bus, model seats on a bus, and you buy something different, not complying with that would constitute an improper payment. You really need to pay attention to the full prior approval, which you have been granted. Ensure

you're working in accordance with that prior approval, and if you're not, you need to reach back out your regional office to get the proper prior approvals in place to support what is actually happening at your agency.

O'Connor: Thanks, Stefanie. That actually leads me to one of our required prior approvals, which is real property and facilities activities. I'm going to bring Sharia in here again. Sharia is the facilities management specialist for the Office of Head Start. Hi, Sharia.

Hall: Hi, Nekeya. Thank you so much. Real property is such an important part of the work that we do at Head Start and the facilities that we provide for the children and families that we are serving. We are going to look at 45 CFR 130354, and we're going to talk about the requirements around real property. Next slide, please.

Grant recipients must retain records pertinent to the lease, the purchase, construction or renovation of a facility that is funded in whole or in part with Head Start funds for as long as that recipient owns or occupies that facility and an additional 3 years. All of your facilities' documentation must reflect the approval and the execution of 1301 subpart E application, and similar to what Stefanie shared, your documentation must reflect what was approved.

Recipients can use the post-approval checklist as a guideline for meeting the recordkeeping requirement for all of your facility projects. As Natalie and Nekeya have so eloquently shared with us, this creates a paper trail of the facility project. Recipients are also very much responsible for ensuring that all payments made during your purchase, whether it is pre- or post-construction or major renovation, that all the phases of this construction work is accounted for.

That means that you need to have a specific type of documentation now, as we move to the next slide, the next slide outlines the types of documentation that you should be keeping for your recordkeeping, and this includes all of your contracts, copies of your contract payments, any invoices, purchase or change orders for construction or renovation materials, equipment or other project-related supplies.

It is especially important when we are looking at change orders for construction because as you know, this can increase the cost of the project. Purchase agreements for buildings that you're buying or for the land with or without mortgage, your mortgage statements and payments, rental or even occupancy agreements and payment, you should keep a collective collection of all these documents as well as any payments that you make for architects, engineers, if you are conducting an environmental report, your appraisal or any other type of inspection services.

You want to keep documentation of all of these documents. In addition, if you are doing any ... all of your licensure, state, local, your certificate of occupancy, your inspections, your insurance payments, all of that should also be included with the documentations that you are keeping to show how your facility project activity moves forward. Then one of the most important things, which, you're going to see an example on our next slide, is about the Notice of Federal Interest.

If you've ever heard me speak at any of the facility events that we've had, the fiscal and facility conferences in your region, you know that the Notice of Federal Interest must be filed in the jurisdiction of the property, the area, the county, of which you have purchased this property or you're doing renovation in.

The documentation on this notice should include the date of your award, the grant number, the amount of the award the full legal name of the recipient and the property address. You want to always have relevant copies of your federal interest that you could always use, or show should anyone ask for a copy of your federal interest, as well as you need to have all documents related to your ownership. That's your deed, the legal description, your survey.

All of these documents should be something that you are retaining. You might ask the question, "Well, why do we need to do this?" Well, in essence, as you will see on the next slide, you are creating a facility file, and this file is basically something that you can easily put your hand on so that should any questions be asked about payments or anything with regards to the project, you have it available.

Similar to what Natalie was saying, I suggest that you do it digitally, that you have an electronic copy of this, but you are certainly welcome to keep a paper copy if you're more comfortable with that. My suggestion is that when you are creating this file that you create it by the project name, the type of project, maybe the date of the project or even the area of the property.

When you think about that file, the file should include the following documents: a copy of the approved grant application, a copy of the grant award, your post or pre-construction appraisals, your construction work documents, which is basically your request for quotes or your request for information. We refer to them as RFQs, RFIs.

Any of the bids that you receive, contracts, construction meeting notes, and you should also keep a copy of your program's policies so that you can reflect on why you did it this way, who approved it, who gave the go-ahead, the okay, for this project, as well as your payroll reports and your payment requests.

Finally, as I stated before, your Notice of Federal Interest and all current and up-to-date licenses, certificates and policies of the contractors that you may be using. That's your engineering, plumbing, your insurance. All of these things should be in this file. Again, what you are doing is basically creating an audit-ready file so that this way, should any questions arise, should anything be questioned, you have it handy that you can easily pull it out and reference what is happening with your project. Thank you. Nekeya?

O'Connor: Thank you, Sharia. That is an extensive ... That's not even an exhaustive list. There are a lot of other documentation that recipients might want to consider. Thank you so much for that, and if you have any questions about facilities, definitely reach out to Sharia. She's available. Or you can also speak to your Grant Management Specialist or your Program

Specialist about it because we want to, again, make sure that your documentation is solid as it relates to these different facilities activities.

Transitioning from facilities now, back over to you, Stefanie, it's important under the grant management realm that we really look at the financial management systems that our recipients put in place. We know that documentation is key. We know that it's important. But all of that ultimately speaks to the system that they should be implementing, so you want to walk us through some of that?

Gordon: Yeah, great. Thanks, Nekeya.

O'Connor: Yeah.

Gordon: I can also attest to ... I have been an audience member to Sharia's Notice of Federal Interest presentation, and I think I involuntarily got up to give her a standing ovation. It was ... It's an amazing event, so if you get to ... If you see her on the agenda at one of your institutes, I highly recommend it.

We're going to dig into the financial management system regulation, which is 45 CFR 75 302, and starting with A, the first sentence of A, it only applies to the states. Basically, it says that if you are a state agency, you need to make sure that you're expending your federal funds in accordance with the way you spend your state funds, so consistency is key, as we heard earlier.

The rest of the regulation is applicable to all recipients who adhere to the Uniform Guidance, including the states. A recipient must maintain records that demonstrate compliance with all federal requirements, which can be found on your Notice of Award. The records document in compliance must be sufficient to not only prepare the required reports such as the SF 425 or, as Sharia was mentioning, an SF 429. But the financial management system, and I guess even Natalie, the SF 428, we can bring in there, too. But the financial management system must trace the funds to the level of expenditure to demonstrate the expenditure complies with all of OHS and OGM requirements.

At the end of the regulation, we do see 45 CFR 75.50 listed there. That brings you to the Cost Principal for Lobbying, so please note that lobbying and other influencing activities are unallowable. A lot of the times, you want to make sure that when you may have an indirect cost full or you are cost allocating that you're making it very clear within that documentation that you are not spending, in this case, OHS funds on any lobbying activities.

As we continue with the regulation, part B tells us about the record retention and the access requirements. Those are found in 75.361 through 365. I think the most notable part of that regulation is that records must be maintained for a period of 3 years from the date of submission of the final SF 425, or in facilities' case, from when ... 3 years past the disposition date. But I really urge you to review all of those regulations in their entirety.

To comply with b1, recipients must ensure that they can tie an expenditure to a PMS document number, so what a PMS document number is is that that is your grant number and the budget period, so you basically need to be able to tie back every expenditure you make to the grant award and the budget period from which it was made.

A great way to do this that many recipients utilize is sub accounting, but you are free to find unique and different ways to be able to do it. In b2, it explains that the drawdowns performed must be accurately reported on the SF 425 or any other financial documentation you're submitting to OHS and any other OHS forms that may require that information.

There are some accrual requirements within that regulation, and please note that OHS allows recipients to report on either the accrual or the cash basis of accounting, so most of that is not applicable to OHS recipients. To finish out the regulation, in b3 and b4, these were mentioned earlier in the presentation, and Nekeya really gave us a great explanation on how to implement internal controls that will promote only spending federal funds on allowable activities.

Make sure you are documenting how you implement these regulations. I think Natalie mentioned that earlier, that if you're in your policies and procedures, mentioning that you are going to include specific items with that ... if you're including the purchase order as an attachment to that general ledger transaction, then you better make sure you have it.

You really need to make sure that you're following those policies and procedures you create. Then you need to make sure that those records can clearly demonstrate that the authorizations, obligations, unobligated balances, assets, expenditures, income and interest are applicable to the funding from the budget period.

You also need to have accountability for all real property, equipment, supplies and assets purchased with all OHS funds. In b5, b5 requires comparison of expenditures with budgeted amounts. Comparing actuals to budgets is key to financial success. It provides many benefits including identifying areas of overspending and underspending, making informed business decisions based on real data, improving future budget accuracy by learning from your past variances, proactively addressing potential financial issues and enhancing the overall financial accountability by clearly showing how closely spending aligns with your plan projections.

Then to round out the regulation, again, we're back to our written policies and procedures, and b6 and 7 require that you have written procedures for how your agency makes drawdowns from the payment management system and how your agency determines that the drawdown contains only allowable items as identified in the cost principles and through your notice of award.

O'Connor: Thank you, Stefanie. Put those financial management systems in place. Also, make sure you have your facilities file. Implement strong internal controls, and make sure that you guys are doing what you're supposed to do in accordance to the regulation. We're going to test your knowledge real quick.

Another poll is going to pop up. Glenna, if you would be so kind, this one is actually talking about documentation, and Natalie kind of gave you a little bit of a hint. Natalie did, and Stefanie a little bit earlier, so which type of documentation would be appropriate to support biweekly payroll? Is it time sheets or the pay stubs, your payroll journal? This is the one that you would download from your system and import possibly, direct deposit confirmation. This is making sure that the payment actually went through or all of the above.

I'm going to give you guys a few seconds to answer. All right, Glenna. Let's see the results. For the 91%, the answer is yes. It is all of the above. Good job, guys. You guys are on it. Excellent, excellent, excellent. Let's hit you with a couple of gentle reminders that hopefully you will be able to take away from this presentation.

One, again, the improper payment study is the Office of Head Start's demonstration of accountability and transparency, which is ultimately what we want to do. Again, we want to show that we understand what is required and that we are in compliance with the regulations.

The participation in this study is not optional. It is absolutely required, so if you receive a notice to participate in the study, you are required to respond appropriately within the timelines. As recipients, you must ... You are responsive to the request for the documentation. Failure to do so, unfortunately, may lead to further action, which could include funding restrictions and potential disallowances.

It is all of our, again, collective responsibility to be proper stewards over the federal funds. Remember, we're implementing high-quality child and family outcomes. We want to be able to demonstrate that we are doing that and that we are properly managing these funds. Again, you want to document, document, document. If it's not documented, it didn't happen.

If you ever have any questions, definitely reach out to your regional office. We are here to support you and to help you through that. Now, really quickly, what I'm going to do is we have just a few minutes. We can allow for some questions that may have popped up. Heather and Arnold, any questions that popped up that we can answer?

Arnold Ramirez: Yeah, Nekeya. There's one question that kind of repeated itself related to equipment, and it had to do with, if the proposed cost, let's say, was \$50,000, and it came in at 60 ... but non-federal funds are used to pay for the difference, is that considered an improper payment?

O'Connor: I'm going to kick that question to Stefanie because I think that that's an excellent grant management question.

Gordon: I guess it would depend if the non-federal funds were being charged to the grant or not. In that prior approval, you were provided \$50,000 to buy a bus to support the Head Start

program. That is what Head Start is finding the proper payment to make. You would be able to use the \$50,000.

If you then charge the additional \$10,000 as non-federal match to the grant, you would, yes, need prior approval because we need to treat non-federal match consistently with federal funds. But if you did not charge the non-federal source to the grant, you would be able to purchase the bus because it would be the \$50,000 charge to the Head Start program, and as long as the Head Start program is also receiving the bus that was originally indicated through that prior approval. You can't modify the bus. You cannot modify the bus that was priorly approved to.

O'Connor: [Indistinct]. Thanks, Stefanie. Arnold and Heather, are there any other questions that we can answer?

Ramirez: Just a quick question that came up in terms of the definition of underpayment, now, that ... and I'm asking the question because it came up in the chat. An underpayment is a transaction that occurs with an agency and a vendor, not if you get something for less than what the approved cost was. If you put in for \$60,000 for a bus, it came in at \$50,000, that is not an underpayment.

O'Connor: No.

Ramirez: That is a savings.

O'Connor: That is a savings. That is considered a savings. That's different from, for example, someone who actually ... the payroll example that we provided. If someone actually worked 45 hours, but they were only paid for 40 hours, think of it in that context. Then that would be considered an underpayment, because those were hours and work that was earned during that time.

Gordon: Could I just add something to that, that we do see sometimes? Say there is a prior approval to buy the bus for \$50,000, and you do get the bus for \$48,000. The \$2,000, you would need to come into the regional office to request prior approval to use the \$2,000 on something else.

The cost savings that we just mentioned, although not an underpayment, the cost savings, unless there is that ... Unless the notice of award contains language that says the recipient is free to modify in accordance with 45 CFR 308, if you have certain language on there that permits a budget revision, you can do it. If not, you would need to seek a new budget revision. I think I go back to Nekeya's previous slide that said Phone a Fed, so if that happens, where you're spending a lower amount, you do want to continue to use the money on other things. Please reach out to a regional office.

Ramirez: Just one other quick thing for Sharia, does Notice of Federal Interest apply to leased facilities?

Hall: Thank you, Arnold. Yes, federal interest can exist on a leased facility of the federal funds were used to significantly renovate or construct improvements on that leased property, meaning that we have the right ... The government has the right to retain a claim on that property even though it's not owned by the federal agency. Of course, there's some more things that go into that with regards to the implications of the government being able to recoup a portion of that value of the improvements if the lease is terminated early or the property is sold. But we don't really have a lot of time to go any deeper than that today.

O'Connor: Reach out to your Grant Management Specialist or your Program Specialist for more information with that, definitely. Thank you.

Hall: Thank you, Nekeya.

O'Connor: No problem. Thank you, Sharia and Stefanie and Natalie, so much for participating in this, and I'm going to actually turn this back over to our director, Khari. Khari?

Garvin: I am here. Thank you so much, Nekeya, and to the team for the great presentation today and to all of you who chose to just carve out some time to be with us today. Again, we know that there are lots of things going on, and we certainly could have been doing other things, but what we hope that what we presented today will be helpful not just to you today but as you go forward through the years to come.

I'm just going to repeat a couple of points here that we want to make sure that you leave with. Again, proper stewardship of funds, federal funds, that's a shared responsibility. It requires some intentionality there, so we hope that we've shared some things that really will help resonate with you as we all aspire to reach that goal.

Then, also, just a reminder that fiscal oversight and proper management of fiscal funds, it's not just about complying with the regulation, but it really does help contribute to every program's ability to deliver on high-quality outcomes. It's not just a financial matter, but it ultimately translates into our ability to serve children, families and communities in the ways that we hope to do so. There is a real connection there.

We want to make sure that you understand that, as well. Then on behalf of Nekeya and Sharia and Natalie and Stefanie and Heather and Arnold and just the Office of Head Start overall, thank you for joining this important discussion. We hope that you have a great rest of the week, and again, be safe out there to those who are with the weather, storm and dealing with all of the winter weather and, again, to all of our colleagues and friends out in California. We see you, and we're with you, and we bid you godspeed, as well. So long, everyone. Thanks so much and have a good week. We'll see you soon. Bye.