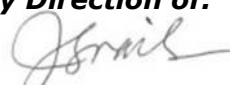


MANAGEMENT DIRECTIVE

Commonwealth of Pennsylvania Governor's Office

Subject: Accounting for Disbursement of Funds for Interagency Agreements, Memorandums of Understanding, and Notifications of Subgrant	Number: 310.19 Amended
Date: September 4, 2020	By Direction of:  Jen Swails, Secretary of the Budget
Contact Agency: Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management, Telephone 717.787.6496	

This directive establishes policy, responsibilities, and procedures for accounting for funds disbursed via Interagency Agreements, Memorandums of Understanding (MOU), and Notifications of Subgrant. This amendment updates organizational names and functions of the Office of Comptroller Operations.

1. **PURPOSE.** To establish policy, responsibilities, and procedures for accounting for funds disbursed via Interagency Agreements, MOU, and Notifications of Subgrant.
2. **SCOPE.** This directive applies to all departments, boards, commissions, and councils (hereinafter referred to as "agencies") under the Governor's jurisdiction. Agencies not under the Governor's jurisdiction should adopt similar policies and procedures.
3. **OBJECTIVES.**
 - a. To ensure that the Commonwealth does not overstate expenditures on the Schedule of Expenditures of Federal Awards (SEFA).
 - b. To ensure accountability of funds in Interagency Agreements, MOU, and Notifications of Subgrant.
 - c. To define acceptable uses of Interagency Agreements, MOU, and Notifications of Subgrant and promote the consistent use of each.
 - d. To promote effective cash management through the linking of grants in SAP for drawdown purposes.

4. DEFINITIONS.

- a. **Assistance Listing Number (ALN).** Located within the Assistance Listing, the unique five-digit number assigned to financial and nonfinancial programs administered by agencies and establishments of the federal government. The first two digits represent the federal agency that funds the program followed by a decimal point, and the remaining three digits represent the federal program funding the project within the agency.
- b. **Executive Agency.** Any executive agency as defined by the *Commonwealth Attorneys Act (71 P.S. § 732-102)*.
- c. **General Ledger (GL) Account.** An SAP accounting code used to record revenue and expenses, classify debit and credit values for accounting transactions in the SAP Financial Accounting (FI) module, and create balance sheets and income statements.
- d. **Independent Agency.** Any independent agency as defined by the *Commonwealth Attorneys Act (71 P.S. § 732-102)*.
- e. **Interagency Agreement.** A binding contractual agreement executed between two or more Commonwealth agencies, in which at least one is normally not an Executive Agency as defined in the Commonwealth Attorneys Act, 71 P.S. §§ 732-101.
- f. **Lead Agency.** In an Interagency Agreement, MOU, or Notification of Subgrant, the Lead Agency is the agency transferring or subgranting funds.
- g. **Memorandum of Understanding (MOU).** A cooperative arrangement between Executive Agencies or, if concurred with both parties, an arrangement between an Executive Agency and an Independent Agency, as defined in the Commonwealth Attorneys Act, 71 P.S. §§ 732-101, which does not create any contractual rights or obligations between the signatory agencies. This document does not require approval by the Office of Attorney General.
- h. **Notification of Subgrant.** An agreement between two or more Executive Agencies to document the transfer or subgrant of federal funds between such agencies. The agreement does not create any contractual rights or obligations between the participating agencies.
- i. **Schedule of Expenditures of Federal Awards (SEFA).** A listing of federal program expenditures by ALN for the period covered by the financial statements.
- j. **Secondary Agency.** In an Interagency Agreement, MOU, or Notification of Subgrant, the Secondary Agency is the agency to which funds are transferred or subgranted.

- k. **Secondary Cost Element.** An SAP accounting code used in the SAP Controlling (CO) module to transfer costs between agencies. Use of a Secondary Cost Element allows the payee to retain visibility of the original cost while eliminating the expense from the balance sheet, in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. Additional details regarding Secondary Cost Elements can be found in *Management Directive 310.25, Transfers of Revenues or Expenses in SAP*.

5. POLICY.

- a. An Interagency Agreement must:
 - (1) be used when a binding, contractual arrangement is made between two agencies in which at least one is not an Executive Agency;
 - (2) include the provisions of the arrangement and identify funds, if any, to be expended in accomplishing an agreed upon goal; and,
 - (3) be approved by the participating agency heads (or designees), agency counsel, the Office of General Counsel, the Office of Attorney General, and the Office of Comptroller Operations.
- b. An MOU must be used for any agreements involving the transfer of state funds for the purpose of one agency performing program-related activities on behalf of another agency, or for cooperative ventures between agencies in which state funds are transferred from one agency to another that does not create any contractual rights or obligations with respect to such agencies or any other parties. An MOU must:
 - (1) include the provisions of the arrangement and clauses required by Part I, Chapter 53 of the Department of General Services [*Procurement Handbook*](#);
 - (2) identify state funds to be expended, the SAP accounting code to be charged by the Lead Agency, and the SAP accounting code to be credited by the Secondary Agency in accomplishing an agreed upon goal; and,
 - (3) be approved by the participating agency heads (or designees), agency counsel, Office of General Counsel, and the Office of Comptroller Operations. Approval by the Office of Attorney General is not required.
- c. A Notification of Subgrant must:
 - (1) be used when federal funds are transferred or subgranted between two or more Executive Agencies;
 - (2) include the provisions of the agreement (e.g., state match, federal mandates, maintenance of effort requirements) and the method and timing of the transfer of the federal funds;

- (3) provide both the Lead Agency and the Secondary Agency the ability to manage the grant in accordance with *Management Directive 305.12, Accounting, Reporting, and Cash Management of Federal Grants and Contracts*; *Management Directive 305.20, Grant Administration*; *Management Directive 305.21, Payments to Local Government and Other Subrecipients*; the [Procurement Handbook](#); grant management rules and regulations; and the specific requirements of the federal grant; and,
- (4) be approved by the participating agency heads (or designees) and the Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management, General Accounting Division.

NOTE: Agencies must use the Notification of Subgrant document for all [Notifications of Subgrant](#).

- d. All funds expended through Interagency Agreements, MOU, or Notifications of Subgrant must be charged to the appropriate GL Accounts or Secondary Cost Elements in SAP.

6. RESPONSIBILITIES.

a. Agencies shall:

- (1) Establish policies and procedures to ensure compliance with this directive;
- (2) Prepare Interagency Agreements, MOU, or Notifications of Subgrant in collaboration with agency counsel and in accordance with mutually agreed upon terms, the requirements of the [Procurement Handbook](#), and this directive;
- (3) Circulate Interagency Agreements, MOU, and Notifications of Subgrant to the appropriate parties for review and approval;
- (4) Park a funds commitment document in SAP for any Interagency Agreement or MOU that requires an agency to encumber funds; and
- (5) Monitor the commitment and expenditure of funds in each program, grant, or appropriation in an Interagency Agreement, MOU, or Notification of Subgrant.

b. Office of the Budget, Office of Comptroller Operations, Bureau of Payable Services shall:

- (1) Review Interagency Agreements and MOU for compliance with the [Procurement Handbook](#) and this directive;
- (2) Send a copy of any Interagency Agreement or MOU to the chief counsel for the Office of the Budget;

- (3) Approve and sign any Interagency Agreement or MOU that complies with the [Procurement Handbook](#) and this directive and has been approved by the chief counsel for the Office of the Budget; and
- (4) Approve funds commitment documents using SAP workflow when the Interagency Agreement or MOU requires an agency to encumber funds.

c. Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management, General Accounting Division shall:

- (1) Review and approve Notifications of Subgrant and Interagency Agreements that comply with this directive and other applicable Commonwealth or federal laws, rules, or regulations pertaining to the subgranting or transferring of federal funds;
- (2) Review Notifications of Subgrant and Interagency Agreements to ensure the use of correct SAP accounting code; and
- (3) Review the SEFA for accuracy and make additions, changes, or deletions as needed in SAP.

d. Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management, Financial Reporting Division shall coordinate the preparation and issuance of the SEFA.

7. PROCEDURES.

a. Interagency Agreements and MOU.

(1) Action by: Agency.

- (a) Prepare the Interagency Agreement or MOU in accordance with the mutually agreed upon terms, the requirements of the [Procurement Handbook](#), and this directive.
- (b) Circulate the Interagency Agreement or MOU to the appropriate parties for review and approval.
- (c) Park a funds commitment document in SAP, if necessary, according to the terms of the Interagency Agreement or MOU.

(2) Action by: Office of the Budget, Office of Comptroller Operations, Bureau of Payable Services.

- (a) Verify that the Interagency Agreement or MOU includes signatures of appropriate parties, a correct SAP vendor number, and any information required by this directive.

Contact the Lead or Secondary Agency as needed to resolve any issues that may prevent approval.

- (b) Forward to the Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management, General Accounting Division any Interagency Agreement that includes the transfer of federal funds.

(3) Action by: Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management, General Accounting Division.

- (a) Verify that the Interagency Agreement complies with this directive and applicable Commonwealth or federal laws, rules, or regulations pertaining to transferring of federal funds, and ensure the use of correct SAP accounting code. Contact the Lead or Secondary Agency as needed to resolve any issues that may prevent approval.
- (b) Notify the Office of the Budget, Office of Comptroller Operations, Bureau of Payable Services when an Interagency Agreement has been approved.

(4) Action by: Office of the Budget, Office of Comptroller Operations, Bureau of Payable Services.

- (a) If the Interagency Agreement or MOU meets the requirements in section 7.a.(2)(a) of this directive and, if necessary, has been approved by the Bureau of Accounting and Financial Management, General Accounting Division, send a copy of the Interagency Agreement or MOU to the chief counsel for the Office of the Budget.
- (b) Upon approval by the chief counsel for the Office of the Budget, sign the Interagency Agreement or MOU.
- (c) Approve the funds commitment document using SAP workflow when the Interagency Agreement or MOU requires an agency to encumber funds.

b. Notifications of Subgrant.

(1) Action by: Agency.

- (a) Prepare the Notification of Subgrant in accordance with mutually agreed upon terms and conditions.
- (b) Circulate the Notification of Subgrant to the appropriate parties for review and approval.

(2) Action by: Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management, General Accounting Division.

- (a)** Verify that the Notification of Subgrant is complete, including the ALN; federal grant title, number and authorization; amount of funds subgranted; effective and termination dates; correct SAP accounting code; signatures of authorized officials from each agency; and mutually agreed upon terms and conditions. Contact the Lead or Secondary Agency as needed to resolve any issues that may prevent approval.
- (b)** Approve or disapprove the Notification of Subgrant on behalf of the Office of the Budget, Office of Comptroller Operations.
 - 1** If approved, sign the Notification of Subgrant.
 - 2** If disapproved, return the Notification of Subgrant to the Lead and Secondary Agencies with an explanation of the disapproval.

This directive replaces, in its entirety, *Management Directive 310.19* dated October 27, 2010.