

Financial Management of Federal Grants



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Financial Management Overview

Major Components

1. The role and responsibilities of a grant manager
2. Accounting for federal grants
3. Developing and negotiating indirect cost rates
4. Purchasing and procurement under federal grants
5. Audit of federal grants
6. Reporting, recordkeeping and property management



The Role and Responsibilities of a Grant Manager

1. Organizational planning and pre-award preparation
2. Funding opportunity research
3. Proposal preparation and BUDGETING
4. Award negotiation and acceptance
5. Post award compliance monitoring
6. Liaison with federal, state, local or community partners
7. OPERATIONAL PERFORMANCE AND COMPLIANCE
8. CLOSEOUT, EVALUATION AND AUDIT



The Role and Responsibilities of a Grant Manager

BUDGETING

1. Perform a cost analysis of program activities
2. Estimate cash-flow needs
3. Develop, negotiate and use an indirect cost rate to recover all allowable indirect costs
4. Budget costs by function or activity
5. Anticipate the need for supplies, equipment and additional staff
6. Establish a system of budget control



The Role and Responsibilities of a Grant Manager

OPERATIONAL PERFORMANCE AND COMPLIANCE

1. Evaluate measurable objectives
2. Apply appropriate management controls
3. Use a strong accounting and performance reporting system
4. Keep abreast of changes in policies or requirements
5. Request grant payments often
6. Submit allowable reimbursable costs for prompt payment
7. Prepare necessary reports
8. Keep federal grantor or oversight agency well informed



The Role and Responsibilities of a Grant Manager

CLOSEOUT, EVALUATION AND AUDIT

1. Perform or use internal audits and reviews
2. Oversee compliance with annual program or single audit requirements
3. Submit all financial, performance and closeout reports
4. Refund any balances of unobligated cash that has been advanced
5. Establish an adequate system of records retention



Accounting for Federal Grants

Basic Cost Principles

1. OMB Circulars A-87, A-21 and A-122
2. Basic Consideration of Cost
 - Costs are necessary, reasonable and allocable to the grant program
 - Costs comply with the limitation of the grant agreement as well as other applicable federal and state laws and regulations
 - Costs are allocated and accounted for consistently and in accordance with accounting principles generally accepted in the United States
 - Costs are adequately documented
 - Costs are net of all applicable credits

Accounting for Federal Grants

Basic Cost Principles

- Total cost of a grant includes the sum of allowable direct and indirect costs allocated to the grant minus any applicable credits to the extent the costs are necessary and relate to operating the grant program. Third party in-kind donations are also included if the services or items received would have been allowable had they been paid for in cash.



Accounting for Federal Grants

Basic Cost Principles

- **Direct Costs** – any cost that is identified with a specific pool, center or area established for the accumulation of costs
- **Indirect Costs** – generally these are costs incurred for a common or institution wide objective that benefits more than one grant program or project



Accounting for Federal Grants

Basic Cost Principles

- While the OMB Cost Principles apply to all grant programs, some federal agencies have issued regulations that contain more restrictive requirements. Additional restrictions for allow ability of costs may be included in the grant agreement.



Accounting for Federal Grants

Elements of Grants Accounting Systems

1. Internal Controls
2. Recordkeeping
3. Reporting
4. Valuable Resources



Accounting for Federal Grants

Internal Controls

- Operational Controls
 - Organizational charts
 - Budgetary system
 - Financial reporting system – internal and external
 - Systems for grantee compliance



Accounting for Federal Grants

Internal Controls

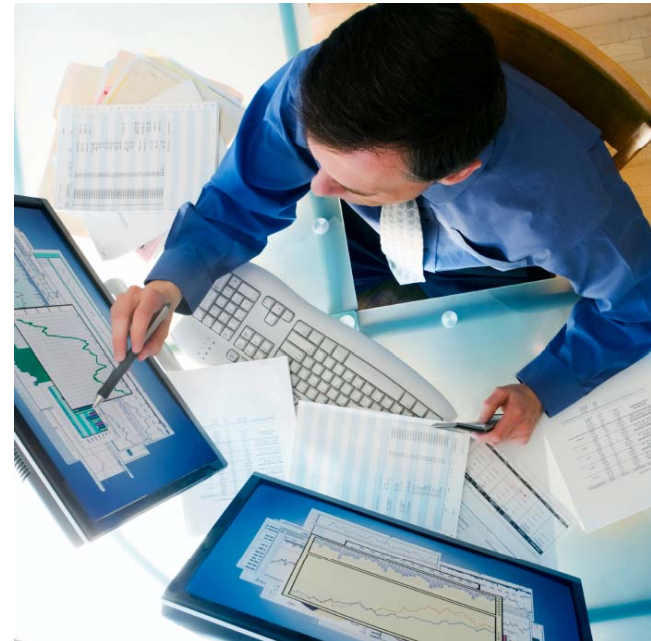
- Compliance Controls
 - Sub-grantee monitoring
 - Documentation of control system
 - Management monitoring



Accounting for Federal Grants

Recordkeeping

- Organization of the Recording System – Accrual Basis
- Cash Management Requirements
- Supporting Documentation
- Audit Trail



Accounting for Federal Grants

Financial Reporting

- The Common Rule and OMB Circular A-110 define accounting terms used in prescribed reports and provides illustrations for the reports and detail illustrations for preparation



Accounting for Federal Grants

Financial Reporting

- Multiple Grant Recordkeeping
 1. Maintain a separate set of records for each grant which then reconcile to the total general ledger OR
 2. Establish a separate set of accounts for each grant with its chart accounts and general ledger



Accounting for Federal Grants

Valuable Resources

- American Institute of Certified Public Accountants – www.aicpa.org
- Governmental Accounting Standards Board – www.gasb.org
- Financial Accounting Standards Board – www.fasb.org
- Government Finance Officers Association – www.gfoa.org
- General Services Administration – www.gsa.gov
- Office of Management and Budget – www.whitehouse.gov/omb
- Government Accountability Office – www.gao.gov

Developing an Indirect Cost Rate

- Grantees seeking to recover full indirect costs in accordance with negotiated rate agreements and documented indirect cost plans may encounter some difficulty. Even when policies do not restrict such costs, substantial effort may be required to clarify the legitimacy of indirect costs and their importance in providing fully institutional support.



Developing an Indirect Cost Rate

Terms to Know Concerning Developing and Negotiating Indirect Cost Rates

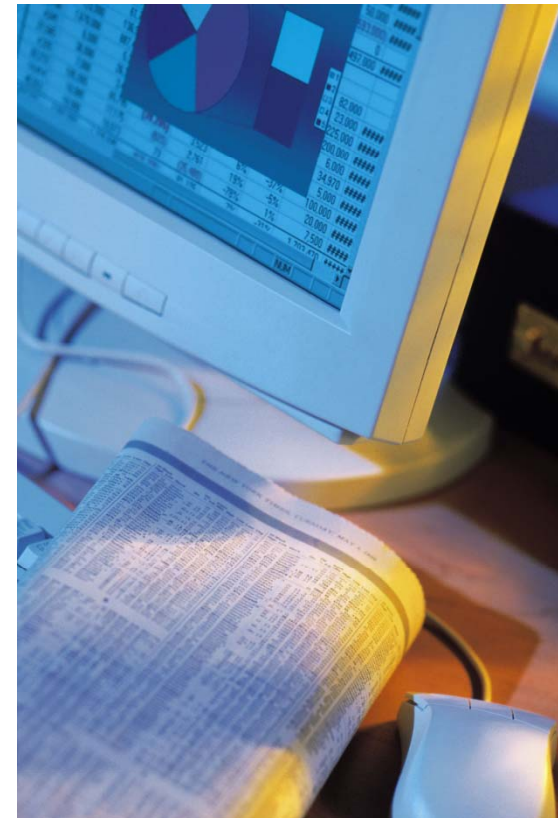
1. Indirect Costs
2. Cognizant Agency
3. Provisional Rate
4. Predetermined Rate
5. Fixed Rate with Carryforward



Developing an Indirect Cost Rate

Indirect cost proposals range from the simple to the complex in terms of preparation. The degree of complexity and difficulty depends on the following factors:

1. The complexity of the organization
2. The aggregate level of federal funding
3. The dollar amount of the grant award
4. Seeking all indirect costs
5. Sophistication of the grantee accounting system



Developing an Indirect Cost Rate

Long Form versus Short Form Methods

- Short Form Method
 1. Less time to prepare
 2. Prepared using the grantee's annual financial statements
 3. Negotiations with cognizant agency are typically over the phone
 4. Only has one indirect cost pool
 5. Departmental administrative costs have a limit but no cap
 6. Only uses one allocation base
 7. Direct charge equivalent calculations are not required

Developing an Indirect Cost Rate

Long Form versus Short Form Methods

- Long Form Method
 1. Preparation is a long and laborious process
 2. Requires detailed analysis and preparation of reports other than financial statements
 3. Federal onsite visits are likely
 4. Multiple costs pool development is required
 5. Departmental administrative costs are capped
 6. Requires multiple allocation bases
 7. Direct charge equivalent calculations are required

Developing an Indirect Cost Rate

Types of Indirect Cost Rates

1. Provisional / final rates
2. Predetermined rate
3. Fixed rate with carryforward



Developing an Indirect Cost Rate

Procedures for Developing Indirect Cost Rates

- The three methods most commonly used by nonprofit organizations under Circular A-122 for completing indirect cost rates:
 1. Simplified method
 2. Multiple distribution base method
 3. Direct allocation method



Competitive Contracting Processes

- Grantees should develop a procurement process that maximizes competition
- The major elements in a competitive procurement process:
 1. Develop a procurement plan
 2. Solicitation
 3. Evaluate submissions
 4. Notify offerors
 5. Negotiate and award contracts
 6. Monitor contract performance



Competitive Contracting Processes

Governmental Requirements for Procurement Under Grants

1. Responsibilities
2. Federal Agency Review
3. Code of Conduct
4. Competition
5. Economic Purchases
6. Accurate and Fair Description
7. Small and Minority Business Opportunity



Audits of Federal Grants

1. Single Audit Requirements
2. Sub-recipient monitoring
3. Auditing Standards and Submission Responsibilities



Reporting and Recordkeeping

1. Recordkeeping
2. Matching and Cost Sharing
3. Financial Reporting
4. Time and Effort Reporting

