

This document originally presented as a PowerPoint presentation; this PDF file contains all text in the original presentation.

## **Slide One**

Grants Fiscal Management Training 2009  
For Community-Based and Faith-Based Organizations

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## **Slide Two**

Agenda

- Overview
- How to analyze allowable costs
- Time distribution
- Grants management
  - Financial management & internal controls
  - Procurement
  - Inventory

## **Slide Three**

How Do You Know When Rules Apply?

- Federal funds vs. State funds
- Type of funding
  - Cooperative Agreement
  - Direct Grant
  - Subgrant
  - Contract

## **Slide Four**

Nature of Funding

- Cooperative Agreement
  - Very similar to a grant
  - Substantial involvement is expected between the executive agency and recipient
  - Management rules
    - EDGAR part 74
    - OMB Circular A-122

## **Slide Five**

### Nature of Funding (continued)

- Direct Grant (e.g. funds received directly from U.S. Department of Education [ED])
  - Very similar to a cooperative agreement
  - No substantial involvement between agency and recipient - allowable activities based on applicable statute, approved project plan
  - Management rules
    - EDGAR part 75
    - EDGAR part 74
    - OMB Circular A-122

## **Slide Six**

### Nature of Funding (Continued)

- Subgrant (e.g. pass-through funds from state administered program)
  - Allowable activities based on applicable statute, local plan, state rule
  - Management rules
    - EDGAR part 76
    - EDGAR part 74
    - OMB Circular A-122
    - State law/policies and procedures

## **Slide Seven**

### Nature of Funding (Continued)

- Contract
  - Allowable activities based on terms and conditions of contract
  - Management rules
    - Terms of the contract
    - State contract law

## **Slide Eight**

### Subgrant vs. Contract

- Subgrantee
  - Determines who is eligible to participate in a federal program
  - Has its performance measured against whether the objectives of the federal program are met
  - Is responsible for programmatic decision making
  - Is responsible for complying with federal program requirements
  - Uses the federal funds to carry out a program as compared to providing goods or services for a program

## **Slide Nine**

### Subgrant vs. Contract (continued)

- Contractor
  - Provides the goods and services within normal business operations
  - Provides similar goods or services to many different purchasers
  - Operates in a competitive environment
  - Provides goods or services that are ancillary to the operation of the federal program
  - Is not subject to compliance requirements of the federal program

## **Slide Ten**

### Helpful Resources

- U.S. Department of Education program information:  
<http://www.ed.gov/programs/find/title/index.html?src=ov>
- OMB Circulars  
<http://www.whitehouse.gov/omb/circulars/>

## **Slide Eleven**

### Helpful Resources (continued)

- OMB Circular A-133 Compliance Supplement:  
[http://www.whitehouse.gov/omb/circulars/a133\\_compliance/07/07toc.html](http://www.whitehouse.gov/omb/circulars/a133_compliance/07/07toc.html)
- OMB Circular A-133, Part 6 (Internal Controls)  
[http://www.whitehouse.gov/omb/circulars/a133\\_compliance/07/pt6.pdf](http://www.whitehouse.gov/omb/circulars/a133_compliance/07/pt6.pdf)

## **Slide Twelve**

### Helpful Resources (continued)

- OMB Circular A-87 Implementation Guide:  
[http://www.whitehouse.gov/omb/circulars\\_a087\\_2004/](http://www.whitehouse.gov/omb/circulars_a087_2004/)
- Financial Accounting for State and Local School Systems:  
<http://nces.ed.gov/pubs2004/h2r2/index.asp>

## **Slide Thirteen**

### How to Analyze Allowable Costs

## **Slide Fourteen**

### Legal Structure of Federal Programs

- Statutes
  - Program statutes (NCLB, IDEA, Perkins)
  - General Education Provisions Act (GEPA)
- Regulations
  - Program regulations
  - Education Department General Administrative Regulations (EDGAR)
- OMB Circulars
- Guidance

## **Slide Fifteen**

### Helpful Questions to Ask

- Is the proposed cost consistent with federal cost principles?
- Is the proposed cost allowable under the relevant program?
- Is the proposed cost consistent with program specific fiscal rules?
- Is the proposed cost consistent with EDGAR?

## **Slide Sixteen**

### Additional Question

- Is the proposed cost consistent with special conditions imposed on the grant?

## **Slide Seventeen**

### Practical Question

- Is the proposed cost consistent with the underlying needs of the program?
  - Data driven decision making
  - Target funds to areas of weakness

## **Slide Eighteen**

### Federal Cost Principles

- A-21 Educational Institutions
- A-87 State, Local & Indian Tribal Governments
- A-122 Non-Profit Organizations

## **Slide Nineteen**

### Cost Principles: Basic Guidelines

- All Costs Must Be:
  - Necessary
  - Reasonable
  - Allocable
  - Legal under state and local law

## **Slide Twenty**

### Basic Guidelines (Continued)

- In addition, all costs must:
  - Conform with federal law & grant terms
  - Be consistently treated
  - Be in accordance with GAAP
  - Not be included as match
  - Be net of applicable credits
  - Be adequately documented

## **Slide Twenty-One**

### Necessary & Reasonable

- Must be necessary for the performance or administration of the grant
- Must follow sound business practices:
  - Arms length bargaining (hint: procurement processes)
  - Follow federal, state, and local laws
  - Follow terms of the grant award
- Fair market prices
- Act with prudence under the circumstances
- No significant deviation from established prices

## **Slide Twenty-Two**

### Necessary & Reasonable (continued)

- Data driven decision making  
...Critical Needs...Strategic Goal...Measurable Objective...Current Performance (based on data)...Critical Needs...Strategic Goal...etc

## **Slide Twenty-Three**

### Necessary & Reasonable (continued)

- Practical aspects of “necessary”
  - Do I really need this?
    - Surplus property/existing resources
    - Lease vs. purchase
  - Is this the minimum amount I need to spend to meet my need?

## **Slide Twenty-Four**

### Necessary & Reasonable (continued)

- Practical aspects of “reasonable”
  - Is the expense targeted to valid programmatic/administrative considerations?
  - Do I have the capacity to use what I am purchasing?
  - Did I pay a fair rate? Can I prove it?
  - If I were asked to defend this purchase, would I be comfortable?

## **Slide Twenty-Five**

### Allocable

- Can only change in proportion to the value received by the program
  - Example: LEA purchases a computer to use 50% in a federal program and 50% in a state program - can only charge half the cost to the federal program
- 2 Methods of allocating costs
  - Direct cost allocation
  - Indirect cost allocation

## **Slide Twenty-Six**

### Basic Guidelines (continued)

- Practical aspects of direct allocation
  - Can I prove the program benefited?
    - E.g., time distribution records
  - Can I prove other programs are not benefiting?
    - Ensuring only authorized use
    - Incidental benefit

## **Slide Twenty-Seven**

### Basic Guidelines (continued)

- Consistently treated
  - Must follow uniform policies that apply equally to federal and non-federal activities
  - Cannot assign cost as direct cost if indirect under state programs

## **Slide Twenty-Eight**

### Basic Guidelines (continued)

- Legal under state and local law
  - If you can't do it under state law, you can't pay for it with federal funds
- Conform with federal law & grant terms

## **Slide Twenty-Nine**

### Basic Guidelines (continued)

- In accordance with GAAP
- Not included as match
- Net of applicable credits
  - Examples: purchases discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, adjustments of overpayments

## **Slide Thirty**

### Basic Guidelines (continued)

- Adequately documented
  - Amount of funds under grant
  - How the funds are used
  - Total cost of the project
  - Share of costs provided by other sources
  - Records that show compliance
  - Records that show performance
  - Other records to facilitate an effective audit
    - New trend from OIG!

## **Slide Thirty-One**

### Federal Cost Principles: Selected Items of Costs

- Special rules for specific expenses (see OMB Circulars)
- 43 specific costs detailed
- Listed in alphabetical order

## **Slide Thirty-Two**

### Selected Items of Costs (continued)

- Advertising & Public Relations Costs
  - Generally not allowable, except as specified in OMB Circular A-87 (recruitment of personnel, procurement, disposal of scrap or surplus materials acquired with Federal award)
- Alcohol: Never allowable
- Audit Costs
  - Allowable to the extent provided under A-133 (Single audit)
  - Other audit costs are allowable if included in a cost allocation plan

### **Slide Thirty-Three**

#### Selected Items of Costs (continued)

- Entertainment
  - Amusement, field trip or social activities (tickets to shows or sporting events, meals, lodging, etc.) are generally not allowable
- Fines and Penalties
  - Not allowable
- Lobbying
  - Costs of activities that are meant to influence the grant process are unallowable

### **Slide Thirty-Four**

#### Selected Items of Costs (continued)

- Salaries and Wages
  - Allowable if proper time distribution records
- Travel Costs
  - Transportation, lodging, subsistence, and related items, when traveling on business are allowable with certain restrictions
- Training

### **Slide Thirty-Five**

#### Selected Items of Costs (continued)

- Defense and Prosecution of Criminal and Civil Proceedings and Claims
  - Legal expenses required in the administration of federal programs are allowable (including defending audit costs before program determination letter)
  - Legal expenses for “prosecution of claims” against the federal government are not allowable

### **Slide Thirty-Six**

#### Time Distribution

### **Slide Thirty-Seven**

#### Compensation for Personnel Services

- Includes all compensation paid for services rendered during the award period
  - Salaries
  - Wages
  - Fees
  - Incentive awards
  - Fringe benefits

- Pension costs
- Allowances for off-site pay
- Incentive pay
- Location allowances
- Hardship pay
- Cost of living differentials

### **Slide Thirty-Eight**

#### Compensation for Personnel Services

- May pay costs as long as they:
  - Are reasonable for the work performed

### **Slide Thirty-Nine**

#### Allocating Payroll Costs: Time Distribution

- Rules set out in OMB Circular A-122
  - Must demonstrate that employees paid with federal funds actually worked on the specific federal program
  - Applies to all employees who are paid with federal funds

### **Slide Forty**

#### Important Note for IHEs

- OMB Circular A-21 provides substantial flexibility - may set up own system for distributing costs as long as it meets the following standards:
  - Incorporated into institution's official records
  - Reasonably reflect activity under federal programs
  - Include federal and non-federal activities
  - Provide for an independent internal evaluation

### **Slide Forty-One**

#### Time Distribution

- Overview of process:
  - Estimate how employee will work
  - Pay based on estimate
  - Reconcile estimates to how actually worked
- Necessary documentation:
  - Payroll records
  - Personnel activity reports

### **Slide Forty-Two**

#### Payroll Records

- Payroll records must be:
  - Documented
  - Approved by a responsible official of the organization

### **Slide Forty-Three**

#### Personnel Activity Report

- Must be maintained for all employees whose salaries are:
  - Paid in whole or in part with federal funds
  - Used to meet a match/cost share requirement

### **Slide Forty-Four**

#### Personnel Activity Report (continued)

- Must meet the following standards
  - After the fact
  - Account for total activity
  - Signed by employee or supervisor with first hand knowledge
  - Prepared at least monthly and coincide with one or more pay periods

### **Slide Forty-Five**

#### Personnel Activity Report (continued)

- Time increments reported on PARs should be sufficient to recognize:
  - Number of different activities performed
  - The dynamics of these responsibilities

### **Slide Forty-Six**

#### A sample Personnel Activity Report

### **Slide Forty-Seven**

#### Grant Management Systems

### **Slide Forty-Eight**

#### Grant Administration

- Three major “systems” in grants management:
  - Financial management (§ 74.21)
  - Procurement (§ 74.40 - 74-48)
  - Inventory management (§ 74.34)

### **Slide Forty-Nine**

#### Threshold Standard

- Must use fiscal control and fund accounting procedures that will ensure the proper disbursement of, and accounting for, federal funds
  - Section 411 of GEPA (general assurances)
  - Section 9306 of NCLB (program assurances)
  - Section 76.702 of EDGAR

## **Slide Fifty**

What Does that Mean?

- All recipients of federal funds must be able to:
  1. Spend federal money correctly; and
  2. Prove that they spent federal money correctly.

## **Slide Fifty-One**

Financial Management

## **Slide Fifty-Two**

Standards for Financial Management

- 7 Requirements:
  - Financial Reporting - adequate, current, complete
  - Accounting Records
  - Internal Control
  - Budget Control
  - Allowable Cost
  - Source Documentation
  - Cash Management

## **Slide Fifty-Three**

Accounting Records

- Must identify source and application of funds (expenditure level detail)
- Must contain information related to:
  - Award amount
  - Authorizations
  - Obligations
  - Unobligated Balances
  - Assets
  - Liabilities
  - Outlays or Expenditures
  - Income

## **Slide Fifty-Four**

Internal Controls

- Preventative controls
- Detective controls
- Corrective controls

## **Slide Fifty-Five**

Internal Controls (continued)

- Internal controls are tools to help program and financial managers achieve results and safeguard the integrity of their programs
  - Includes processes for planning, organizing, directing, controlling, and reporting on agency operations
- Objectives of Internal Controls
  - Effectiveness and efficiency of operations
  - Reliability of financial reporting
  - Compliance with applicable laws and regulations
  - Safeguarding assets

### **Slide Fifty-Six**

#### **“New” Development**

- Stricter audit standards beginning Fiscal Year 2007!
  - For every compliance requirement selected for audit, the auditor must assess the likelihood of whether agency’s internal controls can prevent and detect noncompliance that is “more than inconsequential” from occurring in a timely manner
  - Materially threshold lowered  
Bottom line: More internal control findings!

### **Slide Fifty-Seven**

#### **Cash Management**

### **Slide Fifty-Eight**

#### **Obligations: Definition**

- Obligation = Transaction that requires payment

### **Slide Fifty-Nine**

#### **Obligations: Definition**

- Acquisition of Property - Date of binding written agreement
- Personal Services by Employee - When services are performed
- Personal Services by Contractor - Date of binding written commitment
- Travel - When travel is taken

### **Slide Sixty**

#### **Obligations: Period of Availability**

- Every grant has a “period of availability” = period in which grantee can obligate funds
  - Therefore, must be able to relate all costs to a specific transaction that occurred during the period of availability
- Substantial difference between discretionary and formula funds

### **Slide Sixty-One**

Obligations: Period of Availability

- Grantees and subgrantees may begin to obligate funds when:
    - Statutory start date (usually July 1<sup>st</sup>)
- AND
- Awarding agency approves application; or
  - Awarding agency determines application is “substantially approvable”
    - Reimbursement subject to final approval

### **Slide Sixty-Two**

Obligations: Period of Availability

- Tydings Amendment
  - Allows extra year to obligate funds
  - Does not apply to all grants
- Under Tydings, funds are available for 24-47 months:
  - 12-15 months under the grant award (July 1, 2006 - September 30, 2007)
  - Plus 12 months (October 1, 2007 - September 30, 2008)

### **Slide Sixty-Three**

Obligations: Carryover

- Under Tydings, unobligated funds can usually be “carried over” from first year
  - Statute may impose limitations on carryover

### **Slide Sixty-Four**

Bottom line: Why is This Important?

- Must be able to document that all transactions relate to timely obligation
  - Date of transaction
  - Payee
  - Invoice number
  - Purchase Order number
  - Amount of transaction
  - Accounts debited and credited

### **Slide Sixty-Five**

Liquidation: Definition

- Liquidation = Settle an obligation by paying funds

## **Slide Sixty-Six**

### Liquidations: Timeline

- Must liquidate all obligations within 90 days after the end of the period of availability
  - Example:
    - Period of availability: July 1 - September 30
    - Liquidation period ends: December 30
  - State may impose shorter deadline
- ED may extend this deadline
  - But only to liquidate valid & timely obligations

## **Slide Sixty-Seven**

### Procurement

## **Slide Sixty-Eight**

### Conflict of Interest

- Must have written standards of conduct governing the performance of employees engaged in the award and administration of contracts - standards must include sanctions for violations
- Conflict situations:
  - Financial interest
  - Acceptance of items of monetary value from contractors (can except unsolicited gifts on nominal value)

## **Slide Sixty-Nine**

### Written Procurement Procedures

- Must have written procurement procedures that include (at a minimum):
  - Measures for avoiding the purchase of unnecessary items
  - Measures to compare lease vs. purchase (where appropriate)
  - Drafting solicitations that include all of the information a bidder needs to respond to the solicitation (technical descriptions, evaluation factors, etc.)

## **Slide Seventy**

### Role of Cost/Price

- Must perform a cost or price analysis in connection with every procurement action:
  - Price analysis generally means evaluating the total price - compare price quotes, market prices or similar information
  - Cost analysis generally means evaluating the separate cost elements that make up the total price (including profit)
  - Goal is to determine reasonableness

## **Slide Seventy-One**

### Competition

- All procurement transactions must be conducted in a manner to provide full and open competition to the maximum extent possible:
  - Entity involved in drafting solicitation may not complete for procurement
  - Solicitations must clearly establish all requirements the bidder must fulfill in order for the bid to be evaluated

## **Slide Seventy-Two**

### Noncompetitive Contracts

- Generally, noncompetitive proposals appropriate only when:
  - The good or services is available only from a single source (sole source)
  - There is a public emergency
  - The awarding agency authorizes
  - After soliciting a number of sources, competition is deemed inadequate

## **Slide Seventy-Three**

### Noncompetitive Contracts (continued)

- As a practical matter, noncompetitive contract raises “red flags”
  - Ensure persuasive and adequate documentation to facilitate audit
  - Role of cost/price analysis even more important

## **Slide Seventy-Four**

### Awards

- Awards must be made to the bidder whose bid is:
  - Responsive to the solicitation; and
  - Is most advantageous to the recipient considering price, quality and other factors
- Awards must be made to responsible contractors who possess the potential ability to perform successfully:
  - Contractor integrity
  - Past performance
  - Financial and technical resources

## **Slide Seventy-Five**

### Suspension/Debarment

- Cannot contract with vendor who has been suspended or debarred
- Must verify if contract is \$25,000 or more  
<http://www.epls.gov/>

## **Slide Seventy-Six**

### Contract Administration

- Must maintain a contract administration system that ensures contractors perform in accordance with the terms, conditions, and specifications of the contract

## **Slide Seventy-Seven**

### Contract Administration (continued)

- As a practical matter:
  - Must have written contracts (purchase order OK)
  - Contract should include clearly defined deliverables
    - Description of services to be performed or goods to be delivered
    - Description of dates when services will be performed or goods delivered
    - Description of locations where services will be performed or goods delivered
    - Description of number of students/teachers/etc. to be served (if applicable)

## **Slide Seventy-Eight**

### Contract Administration (continued)

- As a practical matter (continued):
  - Must have written invoice
    - Description of services performed or goods delivered
    - Description of dates services were performed or goods delivered
    - Description of location services were performed or goods delivered
    - Description of students/teachers/etc. served (if applicable)
  - Invoice should be reviewed & approved before payment
    - Segregation of duties

## **Slide Seventy-Nine**

### Inventory Management

## **Slide Eighty**

### Inventory Management

- Different rules for equipment and supplies
- Equipment
  - Federal Definition of Equipment
    - Tangible personal property
    - Useful life of more than one year

- Acquisition cost of \$5,000 or more
  - State many use another definition as long as it includes all property described above
- Supplies
  - Everything else

### **Slide Eighty-One**

#### Use of Equipment

- Must use for the program for which it was acquired - even after federal funding for program ceases
  - May use other programs if such use is incidental and does not interfere with the original program
- If no longer needed:
  - First transfer to another federal program
  - Disposition instructions from U.S. Department of Education

### **Slide Eighty-Two**

#### Tracking Equipment

- Property Records
  - Description, serial number or other ID, source of the equipment (specify federal grant award), title information, acquisition date, cost, percent of federal participation, location, use and condition, and ultimate disposition
- Physical inventory
  - At least every two years
  - All discrepancies must be investigated
- Control system to prevent loss, damage, theft
  - All incidents must be investigated

### **Slide Eighty-Three**

#### Supplies

- Must use for the program for which it was acquired
- If no longer needed, and if residual value of unused supplies is more than \$5,000 (aggregate value):
  - First transfer to another federal program
  - Compensate U.S. Department of Education for its share

### **Slide Eighty-Four**

#### Tracking Supplies

- EDGAR does not set out any specific tracking requirements

- But, as a practical matter, ED expects subgrantees to track all property purchased with federal funds in order to prove there has been an allocable benefit to the federal program

### **Slide Eighty-Five**

Practical Help: Determining Level of Control

- NCES Manual - Financial Accounting for State and Local Schools Systems: <http://nces.ed.gov/pubs2004/h2r2/appendixE.asp>
  - Needs assessment - risk of loss, value of item
  - Divide assets into categories
    - Little control needed
    - Group control
    - Individual control

### **Slide Eighty-Six**

Practical Help: Tracking non-equipment items

- Small and attractive item list:
  - Washington - State Administrative and Accounting Manual: <http://www.ofm.wa.gov/policy/30.40.htm>
  - Conduct risk assessment to identify items susceptible to loss
  - Implement specific measures to control such items

### **Slide Eighty-Seven**

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