The Basics of Grant Management

Dorothy Hoskins

Senior Accountant, City of Roanoke

October 2017

Purpose

To improve the financial management of State and Federal grants in a way that is cost effective, time efficient, and that adds value. We seek to improve the decisions that we make in a way that leads us to better compliance with GFOA standards.

Ways to improve financial management of grants

- Management of risk
- Division of duties/Roles and responsibilities
- Understanding key concepts
- Educating staff
- Preparing for audit

Management of Risk
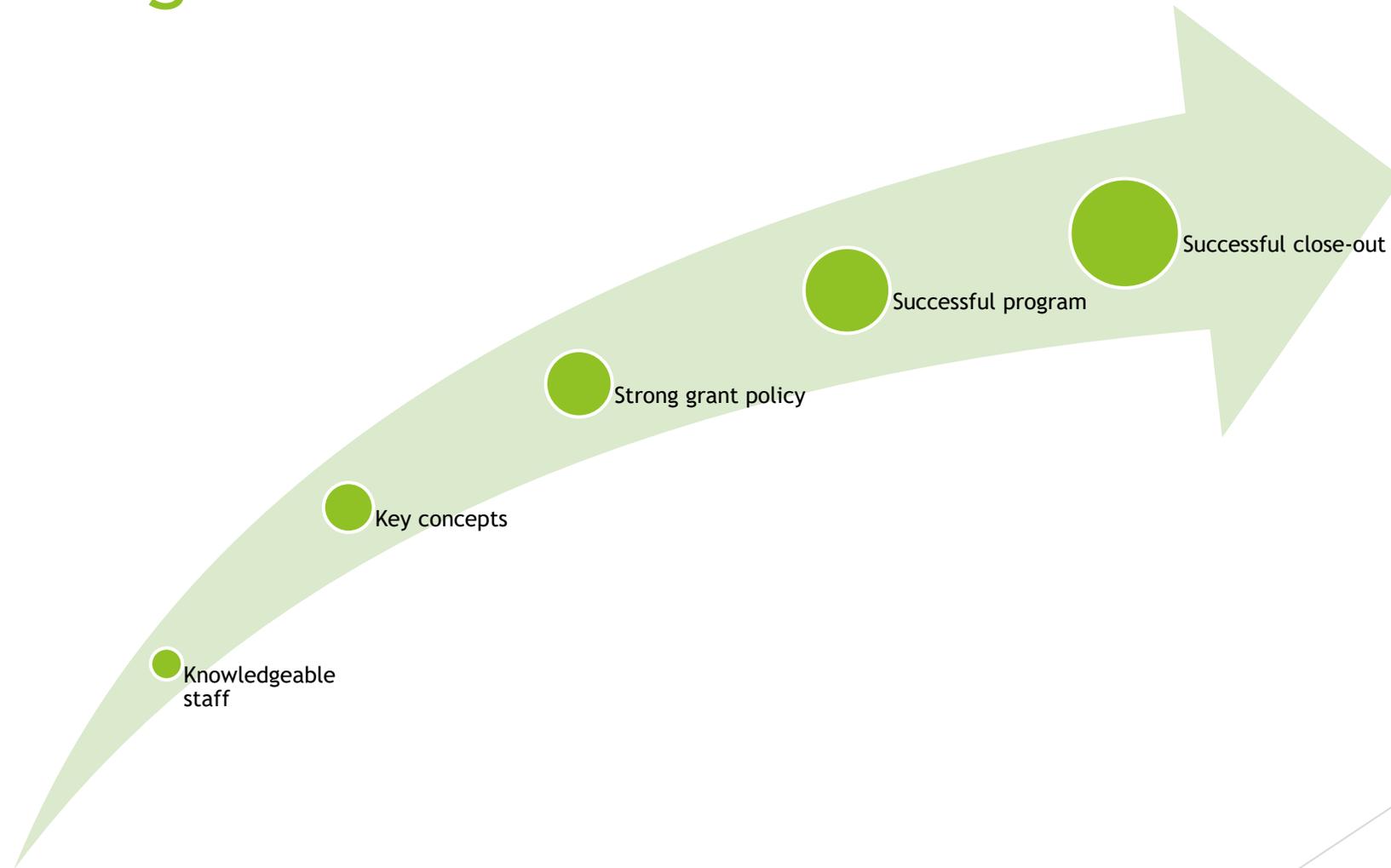
- Unallowable costs/actions
- Non-compliance
- Unrealistic use of resources
- Lack of knowledge
- Loss of future funding
- Fraud, waste, and abuse

Building the foundation

- Knowledgeable staff
- Key concepts
- Strong grant policy
- Successful program
- Successful close-out

Roles and Responsibilities
Establishing effective grant policy

Discuss

Create

Formalize

Five areas are necessary for a grant policy to be effective

- Identification and application
- Strategic alignment
- Funding analysis
- Evaluation of progress
- Administrative and operational support

GFOA *Establishing Effective Grants Policy – Best Practices*

① Identification and application

Advanced notice given

- The department or agency seeking a grant provides advance notice to the appropriate leader
- The policy should identify the leader's role

Review of the Effects

- The department and leader seek to understand the characteristics of the grant (procurement rules, financial reporting, compliance requirements, legal framework, etc.)
- The policy should identify how the organization will meet this goal

② Strategic alignment

Alignment with purpose

- The government should outline a process to assess how the grant aligns with the government's mission statement, strategic priorities, and/or adopted plans
- Include the process in the policy manual even if it is an informal one

Alignment with risk

- Identify the risks that will be addressed
- The commitment of resources, future funding commitments, and loss of focus on greater goals are items that should be addressed in the strategic alignment section of the grant management policy

③ Funding analysis

These key components of the grant should be considered

Active period
- What is the required match?
- What will the government use as a funding source?
- What other overhead and in-kind costs will be incurred?
- Will there be additional audit costs?

Close-out period
- What are the close-out costs for the grant?
- What will happen to grant-funded staff?
- How will the services continue after the initial grant period ends? (Or, will the program end?)

④ Evaluation prior to renewal or continuation

Progress Made

- The government should evaluate the performance measurements, costs, and potential benefits prior to renewal or continuation
- The grant policy should assign the task of evaluation and give a broad outline of how the evaluation will be conducted

Comparison

- The government should consider other uses of the matching funds for new purposes and compare these benefits with the continuation of the grant

⑤ Administrative and operational support

These key factors of the grant should be addressed prior to acceptance of a grant, during the grant period, and at every renewal period.

Planning
- Development of the program and its objectives
- Assignment of roles

Staffing
- Availability of resources
- Training opportunities for those responsible for the grant
- Terms and conditions of grant-funded personnel

Other
- System needs for accounting for time, materials, and other measurements
- Understanding of compliance, reporting, and grant monitoring

6 Other items

The grant policy should be unique to each agency or locality, therefore, it should address specific concerns

Size
- Internal controls to minimize risks when segregation of duties is not possible

Donations
- Policies for donations, endowments, and other unique sources of funds

Joint grants
- Grant-sharing arrangements

Other
- Record keeping, fixed assets, and other administrative policies

Educating Staff

▶ Laying the foundation for grant management

  ▶ GFOA Best Practices – Effective Grant Policy

  ▶ GFOA Best Practices – Risk Management

  ▶ OMB 2017 Compliance Supplement

  ▶ COSO – Risk Management

  ▶ COSO – Internal Controls

GFOA grant policy best practices

The Government Finance Officers Association (GFOA) recommends that governments develop a five part formal grants policy. The guidance includes steps to take prior to grant application. An outline on effective grant policy is available for free on the GFOA website. Detailed guidance is also available.

▶ https://www.gfoa.org/establishing-effective-grants-policy

GFOA risk management best practices

The Government Finance Officers Association (GFOA) recommends "that governments develop a comprehensive risk management program that identifies, reduces or minimizes risk to its property, interests, and employees". An outline on effective risk management program is available for free on the GFOA website. Detailed guidance is also available.

- http://www.gfoa.org/creating-comprehensive-risk-management-program

OMB 2017 Compliance Supplement

The US Office of Management and Budget (OMB) issues a comprehensive guide, the 2 CFR Part 200, subpart F, that describes the government's responsibility for managing Federal assistance programs. It also outlines the auditor's responsibility with respect to the scope of the audit. The compliance supplement is available for free on the whitehouse.gov website.

▶ https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A133/2017/Compliance_Supplement_2017.pdf

OMB 2017 Compliance Supplement (continued)

Part 4 of the Compliance Supplement describes the government's specific responsibilities for each Federal program. It also outlines the auditor's responsibility with respect to that program.

▶ https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A133/2017/Compliance_Supplement_2017.pdf

Learn the COSO risk management cube

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) commissioned and published the enterprise risk management (ERM) framework, which is widely accepted as an effective tool for overall risk management. Information about this framework is available through online training resources, by printed publication, and is often included in risk management seminars

Learn the COSO internal control cube

The COSO internal control integrated framework is a useful foundation for auditors, accountants, and other financial professionals. An online program is available through the Institute of Management Accountants (IMA)
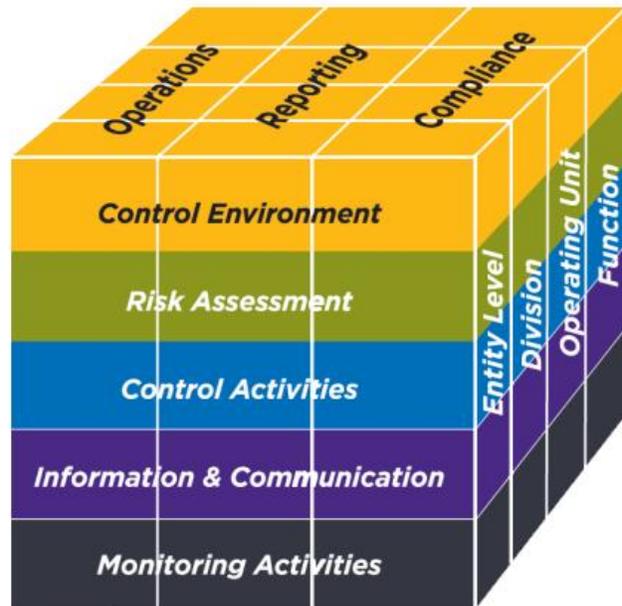
Download the Executive Summary and a poster of Internal Control - Integrated Framework Principles at http://coso.org/IC.htm

Understanding Key Concepts

- Federal programs
- Supplanting
- Commingling
- Subrecipient vs. contractor
- Cost principles

Is it Federal?

Sometimes we don't think of funds as being part of a Federal program, but Federal funds that are passed through another agency are still considered to be Federal funding.

Let's explore some common examples of funds that don't "look" like Federal funds

Is it Federal?

- Disaster relief – which may pass through a State agency before reaching your locality

- VDOT transportation grants – many of these programs have the same look and feel of an allocation program that pays for street paving or other construction, but the awards that are project specific <u>usually</u> have an 80%/20% split between Federal and State funding

- One-time grants from colleges, universities, performing arts organizations, and environmental groups. Federal agencies often choose these organizations to spread out medium size awards to multiple subrecipients within their specialized area of interest

- Small educational programs that pass either to or from the school system

- The USDA food commodities programs. This is the program that often provides food to our schools, juvenile detention centers, and others – If it's not already on your SEFA, it's time to take another look

- Some equitable sharing programs are reportable on the SEFA like grant awards

- Sometimes the source of funding is unclear, particularly when the funds are included in large fund-to-fund transfers from other organizations

- Always ask before you say yes! Check with the organization and get it in writing!

Is it a Federal asset?

If a Federal program will help your organization buy an asset, such as a vehicle or a piece of equipment, find out more.

Is it a Federal asset? (continued)

- Is it:

  - A restricted use item throughout the life of the program?

  - Does it require special storage?

  - Restricted from being used in certain locations and/or restricted to only being used by specific personnel?

  - Required to be retained for a certain period of time and, if so, what happens if your organization decides to sell or donate the asset?

  - Transferable for non-governmental use once the program has ended?

  - Does the acquisition of the asset create an unnecessary burden on the organization? (Ex. The renovation of a non-handicap accessible building; changing the communication software of a police cruiser to create a new joint taskforce)

Commingling of Funds

- The accounting systems of all recipients and subrecipients must ensure that Federal agency funds are not commingled with funds from other Federal agencies. Each award must be accounted for separately although the Federal agencies do not require physical segregation of cash

- Funds from one project may not be used to support another

Supplanting

▶ Supplanting is the reduction of funding specifically because Federal funds are available.

▶ Federal law prohibits recipients of federal funds from replacing state, local, or agency funds with federal funds. Existing funds for a project and its activities *may not* be displaced by federal funds and reallocated for other organizational expenses.

▶ However, a locality or agency can supply documentation that demonstrates that a reduction in non-Federal funding occurred for reasons other than the receipt or expected receipt of Federal funding.

Subrecipient vs. Contractor

Subrecipient	Contractor
A sub-award relationship	A procurement relationship
Determines who is eligible to receive what	Provides goods or services during the normal course of business
Has performance measured based on Federal program objective(s)	Provides similar goods or services to many others
Has responsibility for programmatic decision making	Has no programmatic control
Is responsible for adhering to the Federal program requirements of the award	Normally operates in a competitive environment
Provides goods or services <u>to carry out a Federal program</u> in accordance with its agreement with the locality	Is <u>not</u> subject to compliance requirements of Federal program as a result of this agreement

2 CFR 200.300

Why it matters

Governments have a special responsibility for subrecipients

Governments must subject subrecipients to monitoring to ensure that all Federal regulations are met.

Tools for subrecipient compliance

▶ Strong contracts. Include the Federal regulations, performance measures, and permission to monitor the subrecipient in the contract or MOU

▶ Require that all funds pass through your government, are subjected to the same scrutiny as other invoices, and are reviewed by the program manager prior to payment

▶ Financial Monitoring of subrecipients that directly receive Federal funds

▶ Desk reviews by staff

▶ Onsite visits of construction sites/client files

▶ Annual risk assessment of each subrecipient

Cost principles of Federal Funding

Costs must be allowable, reasonable, necessary, and advisable

▶ *2 CFR 225 (OMB Circular A-87)*

Cost principles of Federal Funding

Allowable

- Is not prohibited by Federal, State, or local regulations AND is allowable under the specific grant and the Federal organization that issued the award

Reasonable

- Cost does not exceed sensible limits; the grant recipient is responsible for researching the market for the cost of comparable goods and having procurement procedures in place that match Federal/State guidelines

Cost principles of Federal Funding

Necessary

- All costs must meet a clear, documented need and an objective of the program or initiative

Advisable

- The cost should be aligned with a governments goals and objectives, meet a community or departmental need, match the strategic direction of the organization, and should only be incurred if there is sufficient time, personnel, and funding to fully carry out the initiative.

Preparing for audit

Project Manager	Financial Manager	Procurement Department
☐ Award documents	☐ Financial records	☐ Contracts
☐ Program records	☐ Reimbursement records	☐ Procurement policies
☐ Client files	☐ Reconciliations	
☐ Performance measures	☐ Audit documents	
☐ Time sheets of staff	☐ Financial policies	
☐ Site visit logs	☐ Grant policy	
☐ Subrecipient information		
☐ Grant policy		

Questions and Discussion