

CHAPTER 10 – Grant Management

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GRANT MANAGEMENT

Introduction

School districts receive monetary grants from several sources: federal and state agencies, local governments, private corporations, and individuals. Federal agencies are contributors of a variety of grants to school districts. Federal grantor agencies include the U.S. Department of Education, U.S. Department of Agriculture, and U.S. Department of Health and Human Services. Some federal grants, such as Impact Aid, may be received directly from the federal agency. Other federal grants such as Titles of the Elementary and Secondary Education Act, for example, the Title I, Part A Magnet Schools, or Head Start may be “passed through” to the district from the primary grantee recipient within the state such as the Office of Superintendent of Public Instruction (OSPI) or an educational service district (ESD). State grants may be received from various state agencies such as OSPI, Department of Social and Health Services, and the Employment Security Department. Sources of local grants include private corporations, individuals, and local governments such as cities, counties, and other taxing districts. Each grantor has its own set of rules and regulations governing the grants that it makes. The most stringent grant rules and regulations are those for federal grants. This chapter will focus on those federal regulations. Accounting systems and procedures that meet the federal guidelines will usually be sufficient to meet state and local requirements.

Included in this chapter are sections on the effective financial management of grants; purchasing and procurement under federal grants; internal controls, reporting and record keeping; state reporting and reimbursement; and audits of federal grants. There is also a section that includes a list of reference sources on grant accounting.

Financial Management of Grants

When a school district accepts a federal grant, it accepts full legal responsibility to successfully manage that grant, including following all of the granting agency’s requirements. These requirements include the sound management practices and policies that should be part of the life cycle of a grant. The grant life cycle includes the following stages: planning, budgeting, application, implementation, monitoring, and evaluation.

Planning and Budgeting

In the planning stage, each district should ensure that it has the capacity to manage the grant and to meet all of the grant requirements. During the budgeting process each district should prepare a detailed cost analysis of the program by activity and object expenditure categories, remembering to include fringe benefit costs if personnel costs are included. The budget process should incorporate a control system to guard against exceeding the grant budget or under-utilizing the full grant award. It is also important in the budgeting phase to consider recovering indirect costs (overhead and central administration costs associated with grant administration).

Federal law entitles private school students to comparable federal program services to the extent consistent with the number of eligible students identified. NCLB § 1120(b) and 34 CFR § 200.63 to further require public schools provide timely and meaningful consultation to private schools eligible to participate in federal programs prior to the time budget decisions are made. In addition, Title I, Part A requires written affirmation to the state agency (OSPI) that this consultation has occurred [NCLB§1120(b) (4)].

Expenditures Allowed under Program Grants

Program grants may be more restrictive regarding the types of expenditures allowed versus what the accounting manual stipulates.

Application and Implementation

During the application and implementation stages of the grant life cycle, it is important to meet all deadlines. Failure to adhere to the granting agency's timelines may prevent the district from receiving a grant award or all of the reimbursement due. During these stages, the district should ensure close coordination between the program staff and the business office so that no expenditures are obligated prior to the starting date of the grant or after the ending date of the grant. Coordination is also needed to ensure that timely budget revisions are made as needed and that timely grant reimbursement requests are submitted to minimize outstanding balances.

Monitoring

During the monitoring stage of the grant life cycle, districts should compare actual expenditures to budgeted expenditures. Deviations must be analyzed and justified. Based on these reviews, revisions may be required. These adjustments may necessitate a formal budget revision that should be approved before spending beyond the budget limits or in new areas of activities.

Evaluation

Internal monitoring of transactions and reviews of grant accomplishments are also beneficial during the evaluation stage of the grant life cycle. Grants should be monitored to ensure that all costs are allowable under the cost principles established in OMB Circular A-87, *Cost Principles for State and Local Governments* (see Appendix E). In general, costs are allowable if they are necessary, reasonable, and comply with the scope of the grant. Costs can be allocated to only one federal program and must be consistent with the treatment of non-federal expenditures. In addition to complying with OMB Circular A-87, districts must also adhere to any specific requirements of the granting agency, as well as state and district requirements. Federal program requirements are usually outlined in the contract and program handbooks.

Property and Procurement

Federal grants that provide for the acquisition of property have rules and standards that govern acquisition and management of the property. Property can be purchased under a grant only when authorized by the program statute, regulations, and the grant agreement. Property acquisition rules include requirements for each type of property, how to use and dispose of property, and procedures for reimbursing a federal agency for its share of the property's value. These requirements are found in Office of Management and Budget's Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements*, which are codified in the Code of Federal Regulations (CFRs) of each federal program.

Types of Property

➤ Real Property

Real property includes buildings, land (including improvements), structures, and additions to structures (excluding movable machinery and equipment).

- **Equipment (nonexpendable personal property)**
This includes equipment having a useful life of more than one year with a cost of \$5,000 or more per unit. **Note:** This is the *federal maximum* capitalization threshold. Districts may set any capitalization limit. If the district has a lower capitalization limit, the lower amount must be used for all property, including federal. If the district capitalization policy sets a threshold higher than \$5,000, federally purchased property must use the \$5,000 limit.
- **Supplies (expendable personal property)**
This includes consumable supplies and items having a useful life of less than one year or a cost less than \$5,000 per unit.
- **Excess Property**
Federal property no longer needed by the federal grantor agency.
- **Surplus Property**
Property no longer needed by the federal program, declared surplus by the U.S. Federal Services Administration, and available for donation for authorized purposes.
- **Exempt Property**
Property for which the federal agency has statutory authority to vest title in the grantee with no further obligation or accountability to the federal government for its use or disposition.
- **Intangible Personal Property**
Personal property that has no physical existence (for example, patents, inventions, and copyrights).

Requirements for Use and Disposition of Property

- **Real Property**
Real property acquired must be used for the original authorized purpose per the original grant project as long as it is needed for that purpose. Districts may use real property for other purposes only with the prior approval of the granting agency. Approval generally is given if the property is used for another federal project or a nonfederal project that has a purpose consistent with the authorizing grant. If a district can no longer use the real property, the federal agency will direct the district to do one of the following:
 - Sell the property and pay the federal agency its share of the proceeds according to matching or cost-sharing ratios.
 - Retain the property and pay the agency its share of the market value of the property.
 - Transfer title to the federal agency and receive its share of the market value.
- **Equipment**
Equipment acquired may be used for its authorized purpose per the original grant project as long as it is needed, whether or not the project continues to be supported by federal funds. When no longer needed for the original purpose, the equipment may be used for other projects currently or previously sponsored by the federal government provided that the use will not interfere with the original project. First preference for other use shall be given to other projects supported by the granting agency.

When acquiring replacement equipment the district may use the equipment being replaced as a trade-in or sell it and use the proceeds to offset the cost of the new equipment.

When disposing of surplus equipment with a current market value of less than \$5,000, the district may sell or retain it without compensating the federal government. If the property is worth \$5,000 or more, a district can either keep it and pay the federal agency the agency's share of the market value or do one of the following with the property:

- Sell it and pay the federal agency its share of the proceeds (less the greater of \$100 or 10 percent of the total proceeds to cover the district's selling costs).
- Ship it elsewhere (a district will be paid for the nonfederal share of the market value plus shipping costs).
- Dispose of it (district will be paid any costs involved in disposing of equipment).

If a federal agency does not issue instructions within 120 days, districts should retain the property and pay the federal agency the agency's share of the market value.

➤ **Supplies**

Districts should not maintain an inventory of supplies with a total value exceeding \$5,000. These costs could be disallowed under the cost principles, which state that costs must be reasonable and necessary. If the value of supplies is \$5,000 or less at the close of the grant, the district can either retain or sell the property without compensating the federal agency.

If an inventory with a market value exceeding \$5,000 exists at the end of a grant, and if the supplies are not needed for any federally sponsored project, the district may retain or sell the supplies and pay the granting agency the agency's share of the market value or sale proceeds. If sold, districts may deduct from the federal share the greater of \$100 or 10 percent of the proceeds for selling expenses.

➤ **Patents and Inventions**

Districts must notify the granting agency if any invention that can be patented is developed or actually reduced to practice. Districts can retain title to any inventions developed under a federal grant; however, there are some exceptions.

➤ **Copyrights**

Districts are generally free to copyright any book, publication, film, or other copyrightable material developed under the grant. However, such material is subject to a royalty-free, nonexclusive and irrevocable license that permits the federal government to reproduce, translate, use, and dispose of it or authorize others to do so for government purposes.

Rules Governing Property Management of Equipment

Districts purchasing equipment with grant funds must comply with federal standards for equipment management. Districts can follow their own property management practices if they comply with the following requirements:

- Retain property records that provide:
 - a. Description.
 - b. Manufacturer's serial and model numbers or other identification numbers.
 - c. Source of the property, including grant or agreement number.
 - d. Whether title rests with the grantee or the federal government.
 - e. Acquisition date and cost.
 - f. Percentage (end of year) of federal participation in the cost of the property.
 - g. Location, use, condition, and the date the information was reported.

- h. Unit acquisition cost.
 - i. Date of disposal, sale price, or method used to determine fair market value where a district compensates the agency for its share.
- Take a physical inventory at least every two years and reconcile the results with property records. The inventory should verify the existence, current use, and continued need for the property.
 - Develop adequate maintenance procedures to ensure that property is kept in good condition.
 - Establish selling procedures that result in the highest possible return on the sale.
 - Retain records for equipment acquired under a grant for three years after disposition of the property.

Special Conditions for Equipment and Supplies

In some instances, the federal agency may reserve the right to transfer equipment that costs more than \$1,000. In this case, the terms of the grant award will stipulate so and specifically identify the property affected. This right expires 120 days after the end of the grant or when the equipment is disposed of in another manner. If the grantor agency exercises this right, the district must be paid for the nonfederal share of the market value plus shipping costs. In certain circumstances, recipients of research grants can vest title to equipment and supplies without obligation to the government (exempt property). This authority exempts the property from all rules, except the federal agency's right to require transfer if the property costs more than \$1,000.

Procurement Standards

Districts will use their own procurement procedures (purchasing processes) that include applicable state and local laws and regulations provided they conform to federal laws and standards. If state law is more restrictive than federal restrictions, as with competitive procurement practices for supplies and equipment, state law, specifically RCW 28A.335.190, must be followed. If local board policy is yet more restrictive, local policy must be followed.

If the type of item procured is not covered under state law (e.g. professional services), districts default to Circular A-102 guidance. A-102 requires quotes from an adequate number of vendors for purchases up to \$100,000 and formal bids or competitive negotiation for procurements over \$100,000. In limited situations, sole source designation may be an option.

Districts must also ensure that vendors and subrecipients are not suspended or debarred from participating in federal programs. To comply with these requirements, for any vendor contracts over \$25,000 and all subrecipients, districts must perform one of the following: check the Excluded Parties List System (EPLS) at <http://www.epls.gov/> or subscribe to the hard copy (be sure to print out the search); collect a certification from that person; or add a clause or condition to the covered transaction with that person. In addition to checking the status of a lower tier party (e.g., contractor or subrecipient), districts must also inform the lower tier party that they must ensure that any of their covered transactions meet these rules and that they must communicate these rules to the next lower tier.

Time and Effort Record Keeping for Federal Programs

School districts that charge salaries and benefits to federal grants may be subject to time and effort record keeping under certain conditions. Time and effort requirements are set forth in OMB Circular A-87, *Cost Principles for State and Local Governments*, Attachment B (h). The type of documentation to be maintained depends on whether an employee works on a single cost objective (program) or multiple activities/cost objectives (programs).

Single Cost Objective

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semi-annually and must be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Multiple Cost Objectives

When employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that meets the standards discussed below (unless a substitute system or schoolwide plan is implemented).

Documentary support is required when employees work on:

- More than one federal award (e.g., Title I and Special Education).
- A federal award and a non-federal award (e.g., Title I and Basic Education).
- An indirect cost activity and a direct cost activity (e.g., part-time as the business manager [indirect] and part-time as the Title I director [direct]).
- Two or more indirect cost activities that are allocated using different allocation bases (this would not normally apply to a school district, because OSPI calculates an indirect rate for each district using the same base for all programs and districts).
- An unallowable activity (e.g., time spent writing grants [unallowable] and a direct or indirect cost activity and the rest of the time processing vouchers [indirect] or teaching Title I children [direct]).

Personnel activity reports or equivalent documentation must meet the following standards:

- They must account for the total activity for which each employee is compensated.
- They must be prepared at least monthly and must coincide with one or more pay periods.
- The employee must sign them.
- They must reflect an after-the-fact distribution of the actual activity of each employee.

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that:

- The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed.
- At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the

quarterly comparisons show the differences between budgeted and actual costs are less than ten percent.

- The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Schoolwide Plans

If a school district has incorporated a schoolwide plan in any of its school buildings, time and effort records do not need to be maintained for the employees in that building who meet the criteria stated above. This provision only applies to the school building in which a schoolwide plan has been incorporated. This **does not include** the administrative offices of the district. The regulations for schoolwide plans state that a school operating a schoolwide program does not have to:

- Show that federal funds used within the school are paying for additional services that would not otherwise be provided.
- Demonstrate that federal funds are used only for specific target populations.
- Separately track federal program funds once they reach the school.

It is important to keep in mind that, although the school building does not need to keep track of the funds allocated to their schoolwide plan by program, the district is still responsible for tracking dollars for the entire district (including schoolwide buildings) for budgeting and expenditure reporting purposes for each individual program that passes through OSPI.

Substitute Systems

Substitute systems for allocating salaries and wages may be used in place of activity reports. Such systems must be approved in advance of use by OSPI. [A-87, Attachment B, (h)(6)].

Refer to the OSPI website <http://www.k12.wa.us/bulletinsmemos/> for the most current OSPI Bulletin for guidance on time and effort record keeping.

State Reporting and Reimbursement

Many federal flow-through grants are processed through the Office of Superintendent of Public Instruction. Detailed instructions for grant award payment processes, expenditure reports, indirect cost rates, budgets, budget revisions, and carryover fund policies are provided in annual OSPI Financial Resources bulletins. Districts may report expenditures monthly using an automated electronic system available through the Washington School Information Processing Cooperative (WSIPC). Funds are distributed to districts through the monthly apportionment process.

Districts should consult the granting agencies for those grants not processed through OSPI. Payment and reporting procedures vary widely among governmental and private grantors.

Audits of Federal Grants

Reference: Chapter 392-115 WAC, OMB Circular A-133, Subpart D, Section .400[d] [5], RCW 28A.300.175.

What is a Single Audit?

A single audit encompasses a district's:

- Financial statements;
- Schedule of expenditures of federal awards;
- Internal controls over federal programs;
- Compliance with laws and regulations applicable to federal programs.

When is a Single Audit Required?

Grantees that expend \$500,000 or more in a year in federal awards are required to have a single audit conducted in accordance with the federal Office of Management and Budget (OMB) Circular A-133. Grantees that expend less than \$500,000 in federal awards are exempt from Circular A-133 for that year, but records must be available for review or audit by appropriate officials of the federal agency, pass-through entity, and General Accounting Office (GAO).

Grantee Responsibilities

The following are the primary responsibilities for grantees under OMB Circular A-133:

- Identify all federal awards received and expended in its accounting system and Schedule of Expenditures of Federal Awards (SEFA).
- Maintain internal control over federal programs.
- Comply with laws and regulations.
- Prepare financial statements.
- Prepare the Schedule of Expenditures of Federal Awards.
- Ensure audits are conducted in accordance with A-133.
- Follow-up and take corrective action on audit findings.
- Mail the Data Collection Form and reporting package.
- OSPI and/or the ESDs participate in some of these responsibilities.

The Auditor's Responsibilities Under OMB Circular A-133

- Express an opinion on the grantee's financial statements.
- Evaluate the grantee's internal controls as they relate to its financial accounting systems.
- Determine if there were any instances of noncompliance with laws and regulations that have a material effect on the grantee's financial statements.
- Express an opinion on the grantee's Schedule of Expenditures of Federal Awards.
- Evaluate the grantee's internal controls as they relate to its major federal programs.
- Determine if there were any instances of noncompliance with federal laws and regulations that have a material effect on the grantee's federal programs.

A-133 Compliance Supplement

In addition to OMB Circular A-133, the auditor uses the A-133 Compliance Supplement to conduct an audit of federal awards. The purpose of the Compliance Supplement is to:

- Assist auditors in planning and performing audits in accordance with OMB Circular A-133.
- Identify 14 compliance requirements that OMB expects the auditor to consider as part of an audit. (See list below.)
- Provide audit objectives and suggested procedures for each type of compliance requirement.
- Provide examples of internal controls for each compliance requirement.

The auditor will consider the following compliance areas when conducting a federal single audit:

- Activities allowed or unallowed.
- Allowable costs/cost principles.
- Cash management.
- Davis-Bacon Act (contracting).
- Eligibility.
- Equipment and real property management.
- Matching, level of effort, earmarking.
- Period of availability of federal funds.
- Procurement and suspension and debarment.
- Program income.
- Real property acquisition and relocation assistance.
- Reporting.
- Subrecipient monitoring.
- Grant-specific special tests and provisions.

Audit Follow-Up and Resolution

Single audit reports are reviewed by federal granting agencies and OSPI. Any findings related to an award provided directly by a federal agency must be resolved to the satisfaction of the granting agency. In Washington State, the audit resolution process is handled by OSPI for both state and federal findings related to pass-through awards. Districts with findings and/or questioned costs must take corrective action to resolve the findings.

References

Guidance and regulations for federal and state grants, along with websites where available, are provided below.

American Institute of Certified Public Accountants (AICPA)

<http://www.aicpa.org/>

- Statement of Position (SOP) 98-3—*Audits of States, Local Governments, and Not-For-Profit Organizations Receiving Federal Awards*.
<http://www.aicpa.org/pubs/cpaltr/nov98/suppl/firms.htm>.
- Audit and Accounting Guide—*Audits of State and Local Government Units*. (2007). Not available online, except for purchase.

General Accounting Office

<http://www.gao.gov/>

- *Government Auditing Standards* (2007) <http://www.gao.gov/govaud/ybk01.htm>.

Governmental Accounting Standards Board (GASB)

<http://www.gasb.org/>

- GASB Statement 24—*Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* (1994). <http://www.gasb.org/st/stpg.html>.

U.S. Office of Management and Budget (OMB)

- OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.
<http://www.whitehouse.gov/omb/circulars/a087/a087-all.html>.
- OMB Circular A-102 Common Rule, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
<http://www.whitehouse.gov/omb/circulars/a102/a102.html>.
- OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.
<http://www.whitehouse.gov/omb/circulars/a133/a133.html>.
- Catalog of Federal Domestic Assistance (CFDA). <http://12.46.245.173/cfda/cfda.html>.