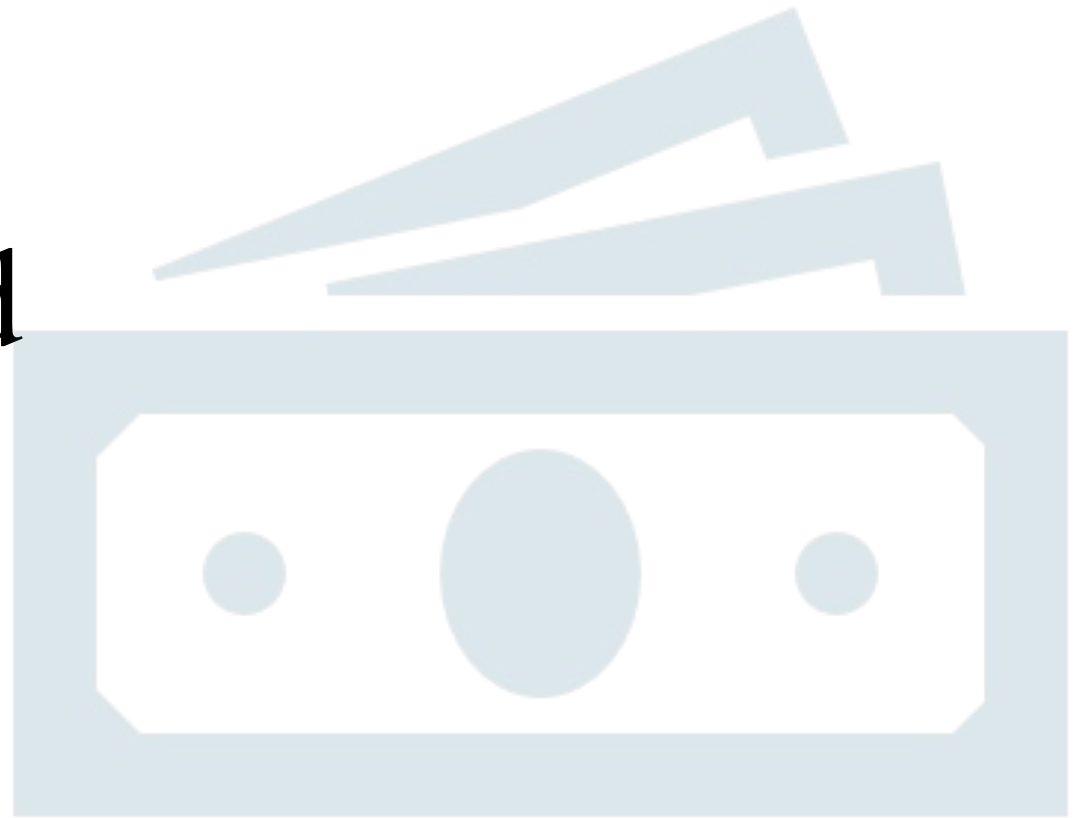


Federal Grants Financial Management and Compliance

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Overview and Objectives

Training Goal: To educate nonprofit management professionals on federal awards, the single audit, and best practices.

We will review:

- ❖ What qualifies as a federal grant
- ❖ Single audit
- ❖ Cost Principles (Direct and indirect)
- ❖ Matching and level of effort
- ❖ Subrecipients
- ❖ Procurement
- ❖ Other components

What counts?

- Any **grant** funding that is federal in origin (does not include contracts)
- Direct funding: Grants awarded directly to your organization by federal agencies (DHHS, EPA, NOAA, USDA, NSF, etc.).
- Subawards: Federal dollars flowing from states, townships, or other non-profit organizations to your organization (the subrecipient).
- Awards that are passed through multiple entities count as federal provided that's where the funding originated.
- Both the notice of funding opportunity (NOFO) and awarded contract states whether funding is federal.

Why does grants management matter?

- Ensures accountability, maximizes impact of funding.
- Minimize audit risk to safeguard the organization's reputation and financial health.
- Single audit of federal awards: Applies to entities expending more than \$1 million* in federal funding per fiscal year.
 - Selection based on Schedule of Expenditures of Financial Awards (SEFA)
 - SEFA lists all active grants in the current fiscal year, including award amounts, match commitments, and total fiscal year spending, among other data.

Repercussions of negative audit findings

Financial

- Repayment of misspent funds
- Withholding of future funding
- Fines and penalties depending on severity

Reputational Damage

- Federal Audit Clearinghouse (fac.gov)
- Negative publicity
- Loss of stakeholder confidence

Operational Challenges

- Increased scrutiny
- Internal investigations
- Compliance burden

What is Uniform Guidance?

Comprehensive guidance created by the U.S. Office of Budget Management (OMB) for managing federal awards that describes requirements for:

- Allowable activities
- Cost principles
- Cash management
- Eligibility
- Matching, level of effort, ear marking
- Equipment and property management
- Period of performance
- Program Income
- Procurement
- Subrecipient monitoring
- Reporting
- Special terms and conditions

Cost Principles

- Allocable: Costs must be assignable to the award, relevant to the scope and budget, and occur within project period.
- Reasonable: Should be comparable to market prices and be in line with your organization's own policies.
- Allowable: Specific costs vary by item.
 - Generally unallowable: lobbying, fundraising, advertising, alcohol and entertainment, fines, tax, administrative costs covered by overhead rate.
- Match: these principles also apply to expenses used as match.

Cost Principles by Budget Category

- **Personnel Costs:** Salaries, wages, and fringe benefits of employees directly involved in the program. Paid time off can be charged directly to federal grants unless fringe rate already accounts for PTO.
- **Fringe Benefits:** Allowable benefits include health insurance, retirement contributions, and vacation pay. Unallowable benefits include club memberships and social activities.
- **Travel Costs:** Expenses associated with official program-related travel, including transportation, lodging, and meals. Personal travel is not allowable.
- **Equipment Costs:** Purchase or rental of equipment essential for program implementation. Unallowable expenses include luxury items not necessary for the program. Equipment is defined as anything over \$10,000.*
- **Supplies:** Office supplies and materials directly used in program activities. Unallowable expenses include general office supplies and printing costs.

Indirect Costs

Costs necessary to the organization that are incurred for a common purpose – too time consuming to allocate to a specific cost objective. Usually include:

Facilities costs

- Rent
- Utilities
- Maintenance
- Depreciation

Administrative costs

- Administrative staff salaries and benefits*
- Office supplies
- Phone/internet expenses
- Professional services (legal, accounting, etc.)

Operational costs

- IT infrastructure and support
- Research resources
- Insurance
- Security

Indirect Costs

- Calculated by applying an indirect rate to the total direct cost base.
 - NICRA (Negotiated Indirect Cost Rate Agreement): A predetermined rate authorized by a cognizant federal agency that reflects organization's actual indirect costs.
 - De Minimis: Organizations without a NICRA can use a rate of 15%* of modified total direct costs (MTDC).
- MTDC: Common direct cost base in which the following expenses are excluded:
 - Equipment (any single item with a cost exceeding \$10k*)
 - Rental fees for off-site facilities
 - Capital expenses
 - Participant support costs
 - Stipends
 - The portion of individual subrecipient expenses over \$50k*

Direct Administrative Costs

- Indirect costs may be treated as direct if they are directly attributable to the program
 - Must be included in approved budget or have prior written approval from the awarding agency.
 - Portion of direct charge cannot be recovered as an indirect cost.
- Examples:
 - Professional services such as consultants, accountants, legal advisors directly related to the program.
 - Communication costs related directly to the program.
 - Salaries for administrative staff if the following conditions are met:
 - Administrative or clerical services are integral to a project or activity;
 - Individuals involved can be specifically identified with the project or activity.

Best Practices

- Federal grant awards should be accounted for separately from other funds, with each individual award tracked independently.
 - Avoid commingling funds! Can result in auditor selecting non-grant expenditures for testing that haven't been scrutinized internally to ensure compliance.
- Regularly monitor expenses to ensure compliance with the approved budget and cost principles, all grant expenditures are accounted for, and that none are missing.
- Review budget to actual analysis to avoid over- or under-spending.
- Communicate openly with your Grant Officer and seek clarification when needed.
- Maintain supporting documentation for 3 years after final report is submitted.

Supporting documentation

- Vendor invoices for expenses charged to grant.
- Reimbursement requests for mileage, stipends, etc.
- Travel cost documentation (flight information, approval, purpose).
- Timesheets detailing hours worked by day by employee.
 - Institutes of higher education (IHEs) can use a percent effort basis.
- Procurement records (RFPs, quotes, justification of how equipment or vendors are selected, etc.).

Matching, Level of Effort, Earmarks

- Match: Non-grant funds required to be used for the program
 - Match commitment must be fulfilled
 - Cannot use federal funding
 - Expenses must adhere to cost principles
- Level of effort: Maintain same level of spending from its own resources
 - Supplement, don't supplant
 - Cannot use federal funding to pay for resources already covered by other sources
- Earmarking: Federal funding for a specific activity or program

Eligibility

- Auditors assess the eligibility of individuals, groups of individuals, and subawards per the program specifications, whether those eligible received programming, and whether there were systems in place to monitor and prevent those who are not eligible from receiving services
- Individuals: Direct beneficiaries or participants of a program.
 - Patients with specific health risk factors receiving health education programming
- Groups of individuals: Populations, schools, etc.
 - Title 1 schools that receive educational programming
- Subawards: Project partners receiving funding
 - Nonprofit organization in Massachusetts

Subrecipient Monitoring

- Subrecipients are nonfederal entities that receive grant funds from a pass-through entity (PTE) - the primary recipient of the funding.
- PTE monitors subrecipients to assess financial management and programmatic performance, ensuring compliance with Uniform Guidance and other terms.
- Strategies to monitor subrecipients include:
 - Risk assessment: Forms regarding subrecipient's financial management system and internal controls. Ensure they have a UEI. Review prior year audits. Check clearinghouse for audit findings.
 - Reporting: Establish clear and regular reporting requirements. Consider requiring more frequent reporting for subrecipients that carry more risk.
 - Desk audits: Request and review supporting documentation for expenses charged to subaward to determine whether expenses have appropriate backup and meet cost principles.

Subrecipients vs. Contractors

Subrecipients are responsible for a portion of the programmatic work as defined in the proposal

Subrecipient	Contractor
Responsible for a portion of the Statement of Work (SOW) or contribute substantially to the programmatic work.	Provide services in support of the program, usually within normal business operations
Retain some element of programmatic control	Do not contribute to program design
Subject to audit. Uniform guidance and other grant-specific requirements are passed through to the sub	Not subject to uniform guidance, other requirements may apply such as: <ul style="list-style-type: none">• Build America, Buy America (BABA)• Disadvantaged Business Enterprises (DBE)
Cost reimbursable agreement	Vendor agreement. Can pay partially or fully in advance.

Procurement: DBEs

- All recipients of federal funding (especially from the EPA) must make good faith efforts to partner with Disadvantaged Business Enterprises (DBEs).
 - Business 51% owned by a socially and economically disadvantaged individual
 - Database of registered DBEs can be found [here](#).
 - We are not required to use them but are required to report on spending.
- Good faith efforts include:
 - Ensuring DBEs are made aware of contracting opportunities by including them on solicitation lists where applicable.
 - Using the DBE database and other resources from the Small Business Administration.
 - Passing down good faith effort requirements to partners.

Procurement: Micro- and Small Purchases

Micro-purchases (under \$10k)

- Competitive quotes not required
- Selection based on quality and cost

Small purchases (\$10k-\$250k)

- Obtain price quotes from an adequate number of sources. (EPA requires 3)
- Can be formal, submitted quote or informal (phone calls/web searches).
- Do not need to base decision on price.
- Quotes from all prospective sources and justification for selection should be documented and kept in the grant records.

Procurement – Option 1: Sealed bids

- Over \$250k
- Usually for construction, equipment, bulk supplies.
- Firm, fixed-priced contract awarded based principally on price.
- Two or more responsible bidders are willing and able to compete.
- Invitations for bids must:
 - Be opened at the time and place prescribed in the invitation for bids;
 - Be posted for 30 days;
 - Include clear specifications and attachments that define items/services for bidder to properly respond;
 - Be shared with Small Business Administration and Minority Development Agency.

Procurement – Option 2: Competitive Proposals

- Over \$250k
- Fixed-price or cost-reimbursement.
- Requests for Proposals (RFPs) must be publicized and identify all evaluation factors and their relative importance.
- Need written method for conducting technical evaluations of the proposals received and making selections.

Other components

- Allowable Activities: Activities necessary to achieve the grant objectives and are authorized under the specific terms and conditions outlined in the grant agreement.
 - Only expenses related to allowable activities can be charged to a grant.
- Reporting: Financial and progress reporting must be completely on time and accurately reflect the expenses for the reporting period.
- Period of performance: Allowable costs may only be incurred during period of performance (unless preaward costs allowed)

Other components

- Equipment and property management: Must maintain records, use the equipment/property for the grant, and accurately dispose after grant period ends according to funder guidelines
- Special terms and conditions: Specified on grant award, certain funders have different requirements.

Questions?

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Resources

Federal Audit Clearinghouse:

<https://www.fac.gov/>

Subrecipient vs. Contractor Checklist:

<https://www.agacgfm.org/Resources/intergov/SubrecipientvsContractor.aspx>

Directory of Disadvantaged Business Enterprises:

<https://www.diversitycertification.mass.gov/BusinessDirectory/BusinessDirectorySearch.aspx>

FDP Subaward Templates: Good starting point for templates of agreements, amendments, and risk assessments

<https://thefdp.org/demonstrations-resources/subaward-templates-and-tools/>