How to Manage a Federal Grant or Cooperative Agreement

Guidance on Federal Rules and Regulations Governing Grant and Cooperative Agreement Awards to Nonprofits
How to Manage a Federal Grant or Cooperative Agreement:
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Preface

There are significant regulatory requirements associated with managing federal grants, cooperative agreements, and contracts. However, more often than not, nonprofit award recipients lack a clear understanding of the laws and regulations that govern the use of federal funds. As a result of such ambiguity, compliance may be negatively affected. At the request of both nonprofit federal award recipients and federal agency funders, this manual has been written to:

(a) Enhance understanding of the regulations and requirements associated with accepting and using federal funds;
(b) Improve compliance with federal awards;
(c) Enhance the financial management skills of nonprofit award recipients with respect to federal reporting and audits; and,
(d) Maximize funding awards through an understanding of allowable costs.

This manual will be especially useful to nonprofit staff involved in the fiscal management of direct and pass-through federal government grants and cooperative agreements including: Executive Directors, Program Directors, Fiscal Officers, Board Treasurers, and Grant Managers.

Use of the terms Grantee, Awardee, Service Provider, and Award Recipient

Throughout this manual, the terms Grantee, Awardee, Service Provider, and Award Recipient are used interchangeably to represent the nonprofit organizations that have received federal funding under grants and cooperative agreements. References to regulations applicable under these terms should be understood to be inclusive of sub-awardees and sub-contractors under federal awards, unless otherwise specified. Federal rules and regulations generally apply to all recipients of federal funds regardless of grantee, sub-grantee, service provider, or sub-contractor status.
Introduction

Each year the federal government awards approximately $400 billion in grants and $300 billion in contracts to states and local governments; education, public housing, and nonprofit organizations; businesses; and individuals.¹ This compares to $295 billion in combined annual charitable giving by individuals (76%), foundations (12%), corporations (4%), and bequests (8%).² A typical nonprofit organization will receive 30% to 90% of their total annual funding, either directly or indirectly, from the federal government; making federal funding a critical source of revenue.

Nonprofit organizations that apply for federal grants and cooperative agreements must be familiar with the rules and regulations governing the application process and allowable uses of federal funds. If awarded federal funding, nonprofits must be ready and able to immediately implement regulatory policies governing procurement, reporting, cost allocation, and administration of funds. These regulations apply to agencies that receive funds directly from a federal agency as well as to organizations receiving federal monies indirectly through a state, county, or city governmental entity or as a subcontractor to another nonprofit organization. Noncompliance can lead to increased federal oversight, funding reductions, and even debarment. Thus, it is of importance to most nonprofits to be familiar with federal award regulations and requirements.

Course Description

This manual is designed to provide an overview of the rules, regulations, and requirements that nonprofit organizations should be familiar with when applying for, administering, and closing out a federal grant or cooperative agreement. The principal goal of the manual is to help federal grant applicants and recipients sort through the myriad of federal regulations and requirements associated with federal awards. In addition, the manual discusses frequently used federal award terminology and forms and identifies those areas of federal compliance that, if not followed, are most likely to put a nonprofit at risk of penalties, high-risk status, and/or heightened compliance oversight by Federal Program and Grants Management Officers and/or the Office of the U.S. Attorney General.

Federal regulations governing grants and cooperative agreements are outlined in informational circulars issued by the Office of Management and Budget (OMB), a Cabinet-level and the largest office within the Executive Office of the President of the United States. There are three (3) OMB circulars nonprofit organizations should pay particular attention to:

¹ http://www.grants.gov/aboutgrants/grants.jsp
² Giving USA 2007 www.givingusa.org
• **OMB Circular A-110**, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations;

• **OMB Circular A-122**, Cost Principles for Non-Profit Organizations; and

• **OMB Circular A-133**, Audits of States, Local Governments, and Non-Profit Organizations.

This manual summarizes the information in these circulars and provides examples and explanations in lay terms to help readers gain a clearer understanding of the relevancy and application of these regulations. This overview should not be regarded as a substitute for OMB Circulars A-110, A-122, or A-133, as the manual cannot and does not provide the level of detail available in the actual circulars on each subject matter. Users of this manual should read the circulars in their entirety and reference the circulars as necessary.

**Content Overview**

**Part One** of the manual discusses types of federal awards available to nonprofits; the process of applying for a federal award; and the eligibility and preparatory requirements of becoming a federal award recipient.

**Part Two** of the manual covers federal award compliance, funds management, cost allocation, and reporting requirements; includes summaries of OMB Circulars A-110, A-122, and A-133.

**Part Three** of the manual explains the process and requirements for closing out a federal award.

**Appendices** at the end of the manual provide useful links to federal websites; grant application and reporting forms; resource materials; a glossary of federal grant administration terminology; a sample time and efforts report; and a sample cost allocation plan.
Learning Objectives

PART ONE
1. Acquire a broad understanding of the regulatory requirements imposed at the various stages in the “lifecycle” of a federal award.
2. Distinguish grants, cooperative agreements, and contracts.
3. Understand the assurances and certifications required of all federal funding applicants.
4. Correctly prepare and modify a federal grant budget.
5. Identify allowed personnel expenses and matching in-kind contributions.
6. Anticipate the financial management system needed to administer a federal grant.

PART TWO
7. Become familiar with minimum reporting requirements of a federal award.
8. Understand procurement, record retention, and record access requirements associated with federal awards.
9. Identify allowed and unallowed uses of federal funds.
10. Distinguish the differences between direct, indirect, and shared costs.
11. Learn common methods for allocating shared direct and indirect costs.
12. Understand the purpose and requirements of a federal A-133 audit.
13. Recognize common federal compliance pitfalls.

PART THREE
14. Identify final reporting requirements.
15. Request an extension of time on an award.
16. Clarify your understanding of ownership rights to property and goods purchased with federal funds.
Pre-training Assessment

Indicate whether the following statements are true or false by circling your response.

1. True  False  Every nonprofit is eligible for federal funding.
2. True  False  Recipients and sub-recipients of federal funding follow the same rules and regulations regarding use of federal funds.
3. True  False  Grants and cooperative agreements are the same.
4. True  False  Budgets can be revised with the permission of the awarding agency.
5. True  False  Nonprofits with federal awards must operate on an accrual-based accounting system.
6. True  False  Award recipients may choose their method of payment from the government: advance or reimbursement.
7. True  False  Federal funds must be kept in a separate bank account.
8. True  False  A list of allowed costs under federal awards can be found in OMB Circular A-122.
9. True  False  Federal award recipients may submit financial reports prepared in EXCEL.
10. True  False  Three written bids are required for goods purchased with federal funds and valued over $5000.
11. True  False  Records related to federal awards must be retained for a minimum of three years.
12. True  False  All nonprofits with federal funding are eligible for a federal indirect cost rate.
13. True  False  Severance pay is an allowable cost under federal awards.
14. True  False  Nonprofits with $500,000 or more in federal funding must conduct and submit an A-133 audit.
15. True  False  Federal funds can be used on a short-term basis to cover expenses not related to the federal award.

Read the manual thoroughly and then check your answers on page 81 of this manual.
PART ONE - Applying for a Federal Award

Part One of the manual discusses types of federal awards available to nonprofits; the process of applying for a federal award; and the eligibility and preparatory requirements of becoming a federal award recipient.

Learning Objectives:

1. Acquire a broad understanding of the regulatory requirements imposed at the various stages in the “lifecycle” of a federal award.
2. Distinguish grants, cooperative agreements, and contracts.
3. Understand the assurances and certifications required of all federal funding applicants.
4. Be able to correctly prepare a federal grant budget.
5. Anticipate the financial management system needed to administer a federal grant.

UNIT 1: Applying for a Federal Award

Nonprofits are able to access federal funds directly as grantees and contracted service providers and indirectly as sub-grantees and sub-contractors through grants and cooperative agreements awarded by federal agencies under hundreds of governmental funding programs. By and large, federal prerequisites and compliance requirements are equally applicable to any organization using federal funds to conduct a project or program, regardless of status as directly or indirectly funded.

While complex and administratively demanding, federal awards are attractive to nonprofits as a source of often large and multiple-year awards. Before applying for federal funds, applicants should be aware of the various types of awards available and the prerequisites and requirements of both applying for and administering federal funds.
1.1 Types of Awards and Awardees

There are two sources of federal funding: discretionary funds that are awarded competitively and; non-discretionary or mandatory funding awarded to specific programs and organizations named by federal statute.

**Discretionary awards** are made “at the discretion” of the federal funding agency that determines who the award recipients shall be and the amounts to be awarded. Discretionary spending requires an annual appropriation of funds through legislation passed by Congress. Most awards funded through appropriations are for a one-year period. Almost 90% percent of discretionary grant funding is dispersed through formula grants to states, counties, and cities. Remaining discretionary grant funding of 10% or so is awarded directly to applicants through competitive opportunities listed in the Federal Register and at the Grants.gov website under Notices of Availability of Funds and Solicitation of Proposals. If your organization has received a federal award or contract, the probable funding source was this 10% or so of discretionary funds.

**Mandatory funding** largely consists of entitlement programs such as Social Security, Medicare, and Medicaid. Spending is tied to federal government benefits or services guarantee red by prior legislation. Nonprofits may occasionally obtain non-discretionary funding through an earmarked grant or secure a non-competitive discretionary grant as a result of a unique opportunity or capacity to provide services, but usually, nonprofits must seek discretionary funding through a competitive process.

There are three types of federal awards: **contracts, grants, and cooperative agreements**. The Federal Grant and Cooperative Agreement Act of 1977 distinguishes the use of federal funds for acquisition or assistance purposes. Acquisition of goods or services for the direct benefit or use by the federal government is referred to as procurement and legal agreements for procured goods and services are referred to as contracts. Contract holders are referred to as government contractors. An example of an acquisition contract would be a federal procurement award for the purchase of pencils or aircraft.

**Grants** and cooperative agreements are issued when financial assistance is provided to “accomplish a public purpose of support or stimulation authorized by federal statute”. The statutory criterion that distinguishes a grant from a cooperative agreement is that for cooperative agreements, “substantial involvement is expected between the executive agency and the State, local government, or other recipient when carrying out the activity contemplated in the agreement”. In layman’s terms, this means that programs operating under cooperative agreements can expect to receive a greater degree of government participation, oversight, and direction than programs operating under grants. Programs under the Ryan White Care Act, for example, are typically structured as cooperative

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3 The Federal Grants Process, as Discussed at the White House Conference on Faith-Based and Community Initiatives December 17, 2002 http://www.ncna.org
4 http://www.epa.gov/ogd/recipient/fgcaa.htm
5 OMB Circular A-110
agreements while awards made by HUD to promote Housing Opportunities for People with AIDS are typically awarded as grants. The federal awarding-agency determines if the award instrument will be a grant, a cooperative agreement, or a contract.

In addition to receiving funds directly from a federal agency, nonprofits may receive federal funding as a sub-recipient of a federal award made to a state, county, or local governmental agency. A nonprofit could also receive payment for services rendered as a sub-contractor under a federal grant administered by another party. For example, your organization may operate a clinic for people living with HIV/AIDS funded in part with federal monies received by your city’s local health department; or, a nonprofit funded directly by the Centers for Disease Control and Prevention (CDC) might sub-contract with your agency to provide HIV testing to your constituency. Regardless of the point of access, if you are operating with federal funding, you must be aware of and follow federal guidelines, be in good standing with the U.S. Government, and adhere to the specific provisions of your award.

### 1.2 Applying for an Award

Should your organization apply directly to the U.S. Government for funding, you will likely do so through www.Grants.gov, a federal website established in 2002 under the Bush Administration as a public portal to information on finding and applying for federal grant and cooperative agreement funds through over 1,000 programs administered by 26 federal agencies. In the 2007 federal fiscal year, over 180,000 electronic applications for federal assistance were submitted through the website. While submissions of hardcopy applications are still permitted by some federal agencies, the government’s goal is to eventually phase out paper submissions and to have all prospective federal grantees and service providers apply for and, ultimately, manage federal awards electronically via the Internet.

The introduction of electronic submissions has changed the federal award application process by adding new requirements associated with registering for authorization to submit an electronic application. Registration is free, generally takes about two weeks to complete, and is a one-time, four-step process. Prospective applicants must:

1. Obtain a Data Universal Numbering System (DUNS) number assigned by Dun & Bradstreet, Inc.;

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6 October 1, 2006 through September 30, 2007
2) Obtain a Federal Employer Identification Number (EIN) assigned by the Internal Revenue Service (IRS);
3) Register with Central Contractor Registration (CCR) at www.CCR.gov to set up account data for electronic funds transfers; and
4) Register an Authorized Organization Representative (AOR) at Grants.gov whose electronic signature will be used to sign federal documents. Only AORs may submit applications through the Grants.gov website.

All prospective vendors, contractors, and grantees must register through CCR and update their registrations annually. The registration process is complicated, so nonprofits should register 8-10 weeks in advance of the due date of the application they wish to submit. Internet links to Dun & Bradstreet, IRS, CCR, and Grants.gov are provided in Appendix A of this manual.

### 1.3 Application Forms, Assurances, and Certifications

Throughout the application process, prospective applicants sign federal documents making assurances to the U.S. Government regarding intent, authenticity of data, and commitment to fair and legal competition. Every application to the federal government for non-construction funding includes the submission of the following standard forms:

(a) Standard Form SF-424, Application for Federal Assistance
(b) Standard Form SF-424A, Budget Information for Non-Construction Programs
(c) Standard Form SF-424B, Assurances, Non-Construction Programs
(d) Certifying Document CD-511, Certifications Regarding Debarment, Suspension, and other Responsibility Matters, Drug Free Workplace Requirements and Lobbying

With the exception of the budget form SF-424A, which is submitted as an attachment to Form SF-424, each form requires the signature of the applicant’s Authorized Organization Representative. Internet links to these forms are provided in Appendix C of this manual.

(a) **Standard Form No. 424 Application for Federal Assistance**, commonly referred to as SF-424, identifies the applicant and the federal agency awarding funds, the requested funding amount and other financial support, and requires the applicant to disclose any delinquent federal audit allowances, loans, or taxes. The applicant’s Authorized Organization Representative signs the SF-424 to provide assurance that the content of the application is “true and correct” and “authorized by the governing body of the applicant”, typically the Board of Directors. The Authorized Organization Representative is usually the organization’s Board President, Executive Director, Director of Development, or other individual legally authorized to enter into agreements on behalf of the applicant. By

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7 Application for Federal Assistance Standard Form No. 424
signing the SF-424, the Authorized Organization Representative also assures and certifies that the applicant is compliant with federal rules and regulations governing lobbying, debarment and suspension, and operating in a drug-free work environment.

(b) **Standard Form No. 424A Budget Information for Non-Construction Programs** is the form applicants are required to use to provide budget data related to the requested funding. There are nine budget categories identified on the form: Personnel, Fringe Benefits, Travel, Equipment, Supplies, Contractual, Construction, Other, and Indirect Costs. All program costs must be reflected on the SF-424A within one of these expense categories. The federal budget form is discussed in greater detail in Unit 2 of this manual.

(c) **Standard Form SF-424B, Assurances, Non-Construction Programs** asks the applicant to provide assurances on 18 issues ranging from capacity to financially manage an award to compliance with federal non-discrimination laws. Key assurances include compliance with Title VI of the Civil Rights Act of 1964 that prohibits discrimination on the basis of race, color, or national origin; compliance with OMB Circular A-133 on audits; and assurances that financial and internal controls will be established to impede employees from misusing federal funds or their positions as employees under a federal award, for personal gain.

(d) **Certifying Document CD-511, Certifications Regarding Debarment, Suspension, and other Responsibility Matters, Drug Free Workplace Requirements and Lobbying**

**Certification Regarding Lobbying**
Federal funds cannot be used to influence or attempt to influence any federal officer or employee or Member of Congress in connection with the “making, extension, continuation, renewal, amendment, or modification”8 of any federal grant or cooperative agreement. If non-federal funds have been used for this purpose, the applicant must provide full-disclosure through the submission of Standard Form - LLL, "Disclosure of Lobbying Activities". These provisions also apply to sub-grantees, sub-contractors, and all other sub-recipients of federal awards.

**Certification Regarding Debarment and Suspension**
Funding applicants cannot be or proposed to be debarred, suspended, or “declared ineligible for federal benefits by a State or Federal court”9. Applicants cannot, within the last three years, have been criminally or civilly convicted or indicted of fraud, illegal use of government funds, violation of antitrust statutes, or the “commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property”10.

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8 Certifications Regarding Lobbying; Debarment, Suspension And Other Responsibility Matters And Drug-Free Workplace Requirements
9 Certifications Regarding Lobbying; Debarment, Suspension And Other Responsibility Matters And Drug-Free Workplace Requirements
10 Certifications Regarding Lobbying; Debarment, Suspension And Other Responsibility Matters And Drug-Free Workplace Requirements
Applicants may verify debarment and suspension status at http://epls.gov, a website maintained by the U.S. General Services Administration (GSA). The Excluded Parties List System at this website identifies entities that are ineligible to receive federal grants, contracts, and some sub-contracts. In procuring goods and services, federal award recipients should take care to ensure that ineligible entities do not benefit from purchases made with federal funds and that ineligible entities are not hired as sub-contractors.

**Assurances Regarding a Drug-Free Workplace**
Federal grantees must certify and provide assurances that federal funds support a drug-free workplace. Federal grant recipients are required to advise employees of its drug-free policy and to maintain a drug-free awareness program to inform employees about the dangers of drugs and their use in the workplace. In addition, employees hired under any federal grant must notify their employer in writing if convicted of a drug-related offense occurring in the workplace and the employer must report the incident to the federal agency that made the award. Such employees are subject to personnel actions ranging from referral to a drug rehabilitation program to termination.
UNIT 2: Preparing a Federal Award Budget

2.1 SF-424A Federal Budget Form and the Budget Narrative

Standard Form No. 424A Budget Information for Non-Construction Programs must be used to present budgeted costs related to federal grant and cooperative agreement funding applications for both new and continuing programs. In addition to award and applicant identifying information, the form captures information on projected sources of revenues, program costs, cash requirements and, when appropriate, requested budget modifications. Thoughtful preparation of the budget in your funding application is important because, should your program receive funds, you will have to deliver the proposed services within the financial parameters you have established.

Before completing SF-424A, applicants should carefully review the budget instructions and identify any additional budget information the awarding agency requires. The SF-424A is a standardized form to summarize budget data. Federal agencies usually require applicants to also provide, in the body of the funding application, budget projections and written narratives that explain budgeted costs. SF-424A has six sections:

Section A  Summary of Sources of Federal and Non-Federal Funding
Section B  Budgeted Expenses and Projected Program Income
Section C  Itemization of Non-federal Sources of Funding
Section D  Forecasted Cash Needs for Year One of the Program
Section E  Forecasted Cash Needs for Next Four Years of the Program
Section F  Unusual Costs, Explanation of Indirect Charges, and Remarks

Section A - Summary of Sources of Federal and Non-Federal Funding

Applicants must identify all sources of cash and in-kind revenues for the project/program for which federal funding is requested and must list both federal and non-federal sources of funds. If the funding opportunity requires matching funds from the applicant, these amounts are included as a non-federal revenue source. In-kind contributions allowed as matching funds for federal awards are discussed in Section 2.4 of this manual.

Revenue sources and dollar amounts reported on the SF-424A must match revenue source entries on Standard Form No. 424 Application for Federal Assistance under Estimated Funding. Total revenues should be sufficient to cover the entire amount of projected costs. Do not include non-federal sources of funding unless you are sure they
will come through; and remember, federal funds cannot be used to match a second federal award.
Section B: Budgeted Expenses and Projected Program Income

All program costs must be reflected on the SF-424A within one of the following nine cost categories: Personnel, Fringe Benefits, Travel, Equipment, Supplies, Contractual, Construction, Other, and Indirect Costs. SF-424A Section B is not a substitute for more detailed cost information requested as part of the application narrative. A budget narrative/justification is typically required in every federal application. The budget narrative must explain the individual costs that make up each of the nine broad cost categories in SF-424A Section B.

The budget narrative should distinguish cash expenses and in-kind contributions. If the funding request is multi-year, costs to be incurred in each program year should be explained. Justification requirements for each cost category are summarized below. Only costs allowed by the federal government can be included in a federal budget. Detailed explanations of allowed costs are provided in OMB Circular A-122 Attachment B and are summarily discussed in Section 5.1 of this manual.

Budget Expense Categories

(1) **Personnel:** Costs of employee salaries and wages. Do not include consultants. For each staff person to be directly charged to the program provide: position title and a brief description of their role in the program; time commitment to the project in months (e.g. 12 months); time commitment to the project expressed as a percent of or as a full-time equivalent (e.g. 1 FTE/100% or .5 FTE/50%, etc.); annual salary or wage rates; etc. Identify all program staff including the project director and the supervisor to whom the project director will report if the supervisor will directly charge a portion of their salary to the program.

(2) **Fringe Benefits:** Costs of employee fringe benefits such as health insurance, FICA, retirement, life insurance, payroll taxes, etc. For each type of benefit, identify the dollar amount and percentage of salary the cost represents. Fringe costs should not be presented as a single total cost nor computed as a flat percentage of salaries and wages without providing detail on how the single rate was computed.

(3) **Travel:** Costs of project-related travel by program staff. Do not include consultant travel. For each anticipated trip, report the number of travelers; the travel destination, duration, and purpose; and estimated travel costs including air and ground transportation, hotel, per diem or meals, etc. Local travel costs are projected by estimating annual local travel requirements and then multiplying estimated mileage times the federal mileage reimbursement rate.

(4) **Equipment:** The federal government defines "Equipment" as an article of nonexpendable, tangible personal property (as opposed to land or buildings) having a useful life of more than one year and an acquisition cost that equals or exceeds $5,000 or
the lesser of the capitalization level established in the organization’s fiscal policies and procedures. For example, if the applicant’s general policy is to capitalize, rather than expense purchased items such as computers, file cabinets, etc., which generally cost under $5,000 each, than these items should be included under “Equipment”; otherwise they should be charged to “Supplies”.

**Capitalize or Expense**
Equipment is usually carried on the Statement of Financial Position under Fixed Assets and depreciated over time. Supplies are expensed on the Statement of Activities in the period purchased.

Equipment costs include the cost of modifications, attachments, and accessories necessary to make the equipment usable for the purpose for which it is acquired, and may also include taxes, freight, and installation charges. State cost per unit; number of units to be purchased; total cost; and a plan for use and/or disposal of the equipment after the project ends.

(5) **Supplies:** Tangible property other than “Equipment” purchased in support of the project that will be expensed on the Statement of Activities; such as educational publications, office supplies, etc. Identify general categories of supplies and their projected costs. Briefly explain how the costs were computed and provide any other details that justify cost. Supplies may include the cost of computers and furnishings under $5,000.

(6) **Contractual:** All contracted services and goods except for those charged under other categories such as equipment, construction, etc. Contracts for evaluation and consulting services and contracts with sub-recipient organizations should be included here. Explain the procurement methods to be used to ensure open and free competition for contracted services or explain why a pre-selected contractor has already been identified and meets procurement regulations for sole supplier.

(7) **Construction:** Costs associated with ordinary or normal rearrangement and alteration of facilities are allowable. Building alterations, modifications, and other minor construction specifically incurred in support of the proposed program may be budgeted, but require the approval of the awarding agency. Describe the proposed construction and explain how costs are computed.

(8) **Other:** All other allowed costs not included in other categories, such as insurance; professional services; occupancy and equipment leases; printing and publication; training; accounting; and other administrative expense. Include a brief justification for each cost and explain how each cost was computed.

(9) **Indirect Charges:** Indirect costs may be included in the budget if the applicant has a current approved indirect cost rate or has submitted an indirect cost rate proposal and is awaiting approval. A copy of the indirect cost rate agreement must be included with the application. If an indirect cost rate is pending, then a copy of the indirect cost rate proposal should be submitted.
Program Income

Should you choose to include program income as a revenue source (e.g., income generated from client payments for testing or clinical services), include this figure only on line 7 of Section B on Page 1. Program income should not be included as a revenue source in any other section of the budget form. The federal awarding agency will review projected program income and determine whether or not program income should be considered as a source of revenue to offset costs.

Section C: Itemization of Non-federal Sources of Funding

In Section C on Page 2 of the budget form, applicants must detail non-federal sources of funding for the project/program from the applicant, state, and all other sources. Include both cash and in-kind contributions here.

Section D: Forecasted Cash Needs for Year One of the Program

Section D on Page 2 of the budget form allows the applicant to specify the quarterly cash requirements of the program for the first program year. This is an opportunity to identify start-up costs and working capital requirements of the program and quantify these in the column marked 1st quarter. The awarding agency will consider the quarterly cash needs of the applicant and fund accordingly. Applicants should consider the timing of other sources of funding to project the amount and timing of cash needed from the federal government. Section D only considers cash sources of revenue; so do not include in-kind (non-cash) sources of funding in this section.

Section E: Forecasted Cash Needs for Next Four Years of the Program

If the application is for multi-year funding, applicants must identify the federal funding requirements for each year of the program in Section E on Page 2 of the budget form. This helps the awarding agency plan for future funding appropriation requests to Congress.

Section F: Identification of Unusual Costs, Explanation of Indirect Charges, and Remarks

Section F – Other Budget Information asks for additional information on direct and indirect charges. Section F, Line 21, should identify any individual cost that may appear out of the ordinary. An accompanying explanation should be provided on Line 23.

Line 22 explains how indirect charges stated in Section B, if any, were computed. The applicant should enter the type of indirect cost rate used to budget indirect costs (e.g. provisional or final); the indirect cost rate (e.g. 10%); the base to which the indirect cost
rate was applied (e.g. direct salaries and wages of $200,000); and the computed indirect charges. When completed, Section F Line 22 would look something like this:

**Provisional IDCR of 10% x total direct salaries and wages of $200,000 = $20,000**

*Indirect Costs.*

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**SF 424A Page 2**

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- **Identify cash needs**
- **List cash and in-kind sources of revenue here**
2.2 Allowable Personnel Expenses

For most nonprofit service organizations, personnel costs are the largest single cost item in a program budget. Federal award applicants should be familiar with allowed personnel-related costs per Office of Management and Budget Circular A-122.

Allowable Direct Costs for Personnel

- Salaries
- Wages
- Director's and executive committee member's fees
- Incentive awards
- Pension plan costs
- Allowances for off-site pay
- Incentive pay
- Location allowances
- Hardship pay
- Cost of living differentials
- Vacation pay
- Holiday pay
- Sick leave pay
- Other paid absences such as jury duty, military leave, and maternity leave that are part of the normal cost for salaries and wages.

In calculating and budgeting personnel costs, applicants should be careful not to budget more than 100% of an employee’s time.

Allowable Fringe Benefits include:

- FICA and Social Security
- Contributions to Retirement Benefit Plans
- Group Medical Insurance
- Worker’s Compensation
- Unemployment Insurance
- Life Insurance
- Other reasonable and customary benefits

Fringe benefits must be specifically identified for each employee and charged as either direct or indirect costs in proportion to how the employee’s salary is charged; e.g., if an employee’s salary is charged as 80% direct and 20% indirect, benefits are also charged at 80% direct and 20% indirect.

2.3 Allowable In-Kind Contributions for Federal Match
Federal applications for funding sometime require matching funds. If the match must be provided in cash, the Notice of Availability of Funds and Solicitation of Proposals will specify this requirement; otherwise, non-cash contributions, referred to by the federal government as third-party in-kind contributions, are eligible as matching funds. Eligible third-party in-kind contributions include the computed dollar value of:

- Volunteer hours
- Volunteer mileage
- Loaned equipment
- Donated land and buildings
- Guest speakers
- Educational literature
- Training services
- Donated space for meetings and events
- Donated food
- Donated supplies
- Transportation of clients
- Borrowed employees
- Free publicity such as newspaper, radio, and TV advertising
- Donated clothing

Per OMB Circular A-110, both cash and in-kind contributions must meet all of the following criteria to be accepted as matching funds:

(a) Must be verifiable from the recipient's records.
(b) Cannot be included as contributions for any other federally assisted project or program.
(c) Are necessary and reasonable to accomplish project/program objectives.
(d) Are allowable under OMB cost principles.
(e) Are not paid for by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or matching.

If all of these criteria are met, contributions are recorded in the project budget and in the financial records as both income and expenses.

For example:

\[ \text{Donated rent revenue} = \$20,000 \]
\[ \text{Donated rent expense} = \$20,000. \]
Donated fixed assets may be credited as income, capitalized as assets, and depreciated normally. Donated income and expense accounts, when tracked separately from other accounts in the accounting system, can easily be excluded from the financial statements for federal reports that exclude non-cash items.

**Valuing Donated Goods, Property, and Equipment**

OMB Circular A-110 also provides the following guidance for valuing donated goods, property, and equipment:

(a) Value assessed to donated supplies must be reasonable and cannot exceed the fair market value of the property at the time of the donation.

(b) The value of donated land and buildings cannot exceed its fair market value at the time of donation as established by an independent appraiser (e.g., certified real property appraiser or General Services Administration representative) and certified by an official of the recipient.

(c) The value of donated equipment shall not exceed the fair market value of equipment of the same age and condition at the time of donation.

(d) The value of donated space shall not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately owned building in the same locality.

(e) The value of loaned equipment shall not exceed its fair rental value.

**Valuing Professional and Non-professional Services**

Volunteer services furnished by professional and technical personnel, consultants, and other skilled and unskilled labor may be used as matching funds contingent upon whether the service is an “integral and necessary” part of an approved project or program. Rates for volunteer professional services must be consistent with those paid for similar work in the applicant’s organization or consistent with those paid for similar work in the labor market (local, regional, or national) in which the recipient competes for the kind of services involved. Allowable fringe benefits may be included in the valuation.

Non-professional volunteer services may be valued at the national hourly volunteer rate developed annually by the Independent Sector\(^\text{11}\). The national volunteer rate is based on the average hourly wage for a nonagricultural worker published in the annual Economic Report of the President. This figure is then increased by 12% to include fringe benefits.

\(^\text{11}\) http://www.independentsector.org/programs/research/volunteer_time.html
In 2007, the value of nonprofessional volunteer services was $19.51 per hour. Substantiated volunteer hours can quickly add up at this rate and are worth tracking.

Internal Revenue Service publications that provide guidance on valuing and acknowledging donations include:
- Publication 526 - Charitable Contributions
- Publication 561 - Determining the Value of Donated Property
- Publication 1771 - Charitable Contributions - Substantiation and Disclosure Requirements

### 2.4 Budget Revisions

Modifications to budgeted revenues and costs are allowed, but only with good cause. The federal government assumes that in preparing budget form SF-424A, the applicant has carefully reviewed and assessed the costs associated with implementing the program proposed in the application for federal funding. If funding sources other than federal funds are included in the budget, the federal government assumes that these funds will be available to supplement federal funds and cover projected costs. Applicants should not knowingly under or over estimate revenues or expenses.

Award recipients must report changes to program objectives or scope of work that impact the budget. Award recipients must report any change in key personnel identified in the proposal and the absence of a project director if the time commitment approved in the budget change by more than 25%. For example, if you do not fill a position or an individual’s time commitment to the project changes from 100% to 50% - the change must be reported and approved. The subcontracting of any part of program services or administration requires approval from the federal awarding-agency, unless the subcontract was approved in the original award contract.

Changes in program objectives are generally reported to your Federal Program Officer, while deviations from the approved budget should be reported to the Federal Grants Management Officer assigned to your award. Grants management officers monitor compliance with award terms and conditions and with broader federal rules and regulations. Your Federal Grants Management Officer is your official point of contact for award-related communications.
Award recipients usually have limited authority to modify expenditures within the nine major expense categories in budget form SF 424A\(^\text{12}\) up to a predetermined level, usually expressed as a percentage of the total award. For example, assume the federal awarding agency has indicated that discretionary changes to the budget up to 10% of the total award amount are allowed and that the total award is $235,000. A line-item change of $800 from out-of-town to local travel within the “travel” cost category would be allowed because it was within a single cost category and it did not exceed the 10% threshold of $23,500 (10% of the total award of $235,000). Thresholds are set by each awarding agency and awardees should ask their Grants Management Officer about discretionary change limits.

When a budget modification moves funds from one of the nine major expense categories to another, prior approval is required. Prior approval is also needed for any change to budgeted salaries or employee benefits. Budget form SF-424A is used to request these types of budget modifications unless otherwise directed by the awarding agency. All budget modifications must be justified in writing.

Cumulative budget changes totaling 25% or more of the approved overall original budget triggers the need for written authorization from the Grants Management Officer. Award recipients are advised to notify their Grants Management Officer when making any significant budget change and should not rely on verbal approval for budget modifications. Confirmations of changes should be documented in writing via email or signed authorization by the Grants Management Officer. Budget modification requests are usually reviewed within 30 days.

### 2.5 Continuation Funding

Notice of award for multi-year funding is not a guarantee for funding in each year of the grant. Applicants must submit requests for continuation funding to the federal awarding-agency annually. The awarding agency reviews service and financial performance to determine if continuation funding is merited.

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\(^{12}\) See Unit 2.1 Section B for detail on the nine budget categories
UNIT 3: Setting Up a Financial Management System for A Federal Award

Agencies with successful applications for funding will receive notification from the awarding agency, usually first by phone or email, followed by a formal award letter. The applicants will then receive a grant agreement or cooperative agreement and an awards package with instructions on how to accept, negotiate, and prepare for implementing your award. This section of the manual reviews key actions you can take to prepare your organization to accept and implement a federal award.

3.1 Accounting and Internal Control Standards

OMB Circular A-110 requires that recipients of federal awards have in place a financial management system with the following minimum qualities:

- Accurate, current, and complete disclosure of the financial results of each federally sponsored project or program.
- Financial records that identify the source and use of federal funds for each federal award.
- Accounting of all unspent un-obligated federal funds on hand (funds received from the federal awarding-agency that are neither spent nor owed at the time of reporting).
- Accounting of all property and assets purchased with federal funds.
- Comparison of actual expenditures with budgeted costs for each award.
- Source documents that support financial transactions.

As part of its financial management system, federal award-recipients must have written policies and procedures covering the following areas:

- Internal controls to safeguard federal funds and assets purchased with federal funds.
- Internal controls to ensure that federal funds and assets purchased with federal funds are used exclusively for authorized purposes.
- Cost allocation formulas for shared costs.
- Allowed and unallowed uses of federal funds.
- Federal procurement procedures.
- Disbursement of federal award funds to minimize the time an awardee is holding cash payments received from a federal award.
- Documentation and valuation processes for volunteer time and donated goods and services.
If the federal awarding-agency determines that a grantee's financial management system cannot meet the minimum standards described above or if an inadequate accounting system leads to delayed financial reporting, the federal awarding-agency may impose additional reporting requirements until the recipient can demonstrate that deficiencies in the system have been remedied. Inadequate financial systems can also lead to designation as a high-risk awardee and/or the loss of cash advance privileges.

Federal awards are always restricted and must be spent solely for the purposes outlined in the award agreement. Award recipients must be able to readily identify how federal funds are being spent and must be able to generate budget to actual comparison reports to demonstrate that funds are being spent as authorized. Your accounting system must be set up to accomplished these objectives.

### 3.2 Banking Requirements

Federal award recipients do not need to deposit or manage federal funds in a separate bank account, but must be able to account for all award-related deposits and disbursements. Payments of federal funds should be deposited and maintained in insured bank accounts whenever possible. Award recipients are encouraged to use woman-owned and minority-owned banking institutions.

Awards of more than $120,000 in federal funds annually must be deposited and maintained in interest bearing accounts. Award recipients may keep up to $250 per year in interest earned on federal funds as compensation for administrative costs. Interest earned in excess of $250 per year must be returned to the federal awarding-agency at the end of the grant period. Interest income is reported on Form SF-272 Report of Federal Cash Transactions.\(^{13}\)

### 3.3 After the Fact Payroll Accounting and Reporting

Federal regulations require substantiation of time and effort for work performed by personnel who are paid in whole or in part with federal funds and for personnel whose salaries are used as matching funds for a federal award. Federal award recipients must use an *After-the-Fact Reporting System* as the basis for calculating and paying salaries and wages. After-the-fact reporting requires employees to record actual time spent on federally funded work activities rather than budgeted time. **Employees can only be paid for actual time worked.** Time and effort reports must be certified by a supervisor and in the case of the Executive Director, by a member of the Board of Directors.

\(^{13}\) See Section 4.1.3
Activity reports of time worked should also reflect after-the-fact reporting of the percentage distribution of an employee’s time and effort among programs and functional departments. For example, in a 40-hour workweek, one employee might work 40 hours (100%) on Program A, while another might work 20 hours (50%) on Program A and 20 hours (50%) on Program B. An Executive Director might spend 8 hours (20%) on Program A, 20 hours (50%) on Program B, and 12 hours (30%) on general administration and fundraising. A sample Time and Effort Activity Report is provided as Appendix D.

Certified time and effort reports, certified time cards, or both may serve as source documents for payroll charges to a federal award. Once signed, information on the Time and Effort Activity Report is subject to independent audit and review by the federal government and/or other funders. Inaccurate reporting, whether knowingly or through carelessness or mismanagement, could result in errors when charging costs to the federal government and other funding sources. As such, employees and supervisors should be trained to properly complete and certify payroll reports. It is the employee’s responsibility to record time worked during each pay period on her/his Time and Effort Activity report. Time and effort records should reflect all productive (time actually worked) and nonproductive time (leave time, etc.), including overtime.

Non-compliance with after-the-fact payroll reporting is one of the most frequently cited audit findings for nonprofit recipients of federal awards. Reporting actual rather than budgeted hours requires that employees working on more than one project, track and monitor how they spend their time during each pay period. After-the-fact payroll reporting also requires that payroll be processed after the close of the pay period.

### 3.4 Electronic Payment Setup

In most cases, payments to awardees are made via direct deposit to your agency bank account. The Division of Payment and Management administers the federal Payment Management System (PMS), an online automated system that allows you to request payments on your award and receive a deposit to the agency bank account the next business day. Awardees can register for electronic payments by completing and submitting Direct Deposit Form 119A at the Payment Management System website at [www.dpm.psc.gov](http://www.dpm.psc.gov). Upon authorization from your Grants Management Officer, you will receive a user ID and password to access the PMS system.

The Division of Payment and Management provides free training classes for new awardees on how to set up and use the Payment Management System. The training is also available on an easy to follow CD. You may register for training or request a training CD at [www.dpm.psc.gov](http://www.dpm.psc.gov). Additional information on the federal Payment Management System is provided in Section 4.1.
PART TWO - Award Compliance, Funds Management, and Reporting

Part Two of the manual covers federal award compliance, funds management, cost allocation, and reporting requirements; including summaries of OMB Circulars A-110, A-122, and A-133.

Learning Objectives:

7. Become familiar with minimum reporting requirements of a federal award.

8. Understand procurement, record retention, and record access requirements associated with federal awards.

9. Identify allowed and unallowed uses of federal funds.

10. Distinguish the differences between direct, indirect, and shared costs.

11. Learn common methods for allocating shared direct and indirect costs.

12. Understand the purpose and requirements of a federal A-133 audit.

13. Recognize common federal compliance pitfalls.

Nonprofit organizations that receive federal awards must comply with rules and regulations governing a broad range of financial management issues ranging from audits to insurance. These requirements are outlined in circulars issued by the Office of Management and Budget within the Executive Office of the President of the United States. There are three especially important OMB circulars applicable to nonprofit organizations:

1) **OMB Circular A-110**, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations;

2) **OMB Circular A-122**, Cost Principles for Non-Profit Organizations; and,

3) **OMB Circular A-133**, Audits of States, Local Governments, and Non-Profit Organizations.

Recipients of federal awards are expected to be knowledgeable about the contents of these OMB circulars. Most nonprofits sanctioned by a federal agency for not following OMB guidelines were simply unaware of the provisions of these circulars; and hence, did
not implement them. Federal award recipients and sub-recipients should pay close attention to OMB circular requirements, as well as their grant and contract agreements, which may impose additional requirements.

While federal OMB Circulars A-110, A-122, and A-133 apply universally to nonprofits receiving funds from any federally funded program, many federal agencies impose additional regulations on grantees and service providers not outlined in the OMB Circulars. Thus, in addition to being familiar with OMB Circulars, federal award recipients also need to ask about and become familiar with any particular requirements of the federal agency from which they have received funds and to whom they will report.

Most federal agencies publish supplementary guidance on topics broadly covered in the OMB circulars. For example, the U.S. Department of Health and Human Services, which oversees the Federal HIV/AIDS Bureau responsible for Ryan White Care Act funding, publishes the HHS Grants Policy Statement, a supplemental policy guide for discretionary grants. A link to this handbook, which provides extensive guidance on applying OMB regulations to HHS awards, is provided in Appendix A.

Award recipients can review applicable regulations by federal department and agency by referencing the Code of Federal Regulations on the Internet at http://www.whitehouse.gov/omb/grants/chart.html. Codified regulations are based on OMB circulars and have been adapted to the specific requirements of individual federal agencies and departments. These regulations also provide details, at the agency level, on the terms, requirements, and conditions of funding awards and are an important source of information for all awardees. Many federal awarding-agencies provide workshops that will introduce you to award regulations. Be sure to inquire about and attend these workshops.

If, after reviewing OMB guidance and codified regulations specific to your awarding agency, you are still unclear about how to manage your award, contact your Federal Program Manager regarding program performance issues or your Federal Grants Management Officer regarding budget and other financial matters. Payments on your award can be delayed or withheld for failure to meet reporting or performance requirements or if your agency is found to be in material violation of OMB regulations.
UNIT 4: Key Provisions of OMB Circular A-110
- Grant Administration

OMB Circular A-110 outlines seventy-three administrative requirements related to applying for federal funds, managing federal funds, and closing out a federal award. Topics organized under pre-award, post-award, and after-the award sub-headings cover Standard Form 424; assurances and certifications; standards for financial management systems; cost sharing and matching rules; valuing donated goods and services; bank account requirements; allowable costs; use, disposition, and insurance coverage of real property acquired in whole or in part with federal funds; procurement; monitoring and reporting program performance; financial reporting; budget modifications; record retention; remedies for noncompliance; and closeout procedures. A glossary of federal award terms is also provided. Award recipients are expected to be familiar with and adhere to the provisions of OMB Circular A-110.

4.1 Financial Reporting Requirements

Throughout the life of a federal award, recipients are required to report to their federal awarding-agency on each project, program, sub-award, function, or activity supported by the award. Funded organizations are monitored by the awarding-agency on both performance toward the objectives of the award (e.g., number of clients served and impact of services provided) and appropriate use of federal funds. Some reports are submitted monthly, while most are due quarterly, semi-annually, and at the completion of the award.

Financial monitoring is structured to ensure that awardees are spending funds according to budget and within federal guidelines. Awardees are also responsible for ensuring that sub-contractors and sub-grantees use federal funds appropriately and legally. Awardees may elect either an accrual or cash basis for reporting, unless otherwise directed by the federal awarding agency. Awardees should be consistent with this basis on all reports and supporting financial statements submitted to the recipient’s Federal Grants Management Officer. All reports should indicate the grant award number.

Unless otherwise instructed by the awarding agency, all federal award recipients are required to use standardized forms to report the financial status of an award (SF-269); request an advance and/or reimbursement on an award (SF-270); and reconcile federal cash on-hand (SF-272).

- SF-269, Financial Status Report (Long Form)
- SF-269A, Financial Status Report (Short Form)
- SF-270, Request for Advance or Reimbursement
- SF-272, Federal Cash Transactions Report (Long Form)
- SF-272A, Federal Cash Transactions Report (Short Form)
Financial Status Report SF-269 is typically submitted to the awarding agency and forms SF-270 - Request for Advance or Reimbursement and SF-272 - Federal Cash Transactions Report are typically submitted electronically to the Division of Payment Management.

**On-Line Reporting and Payments**

The Division of Payment Management (within the US Department of Health & Human Services Program Support Center) is an on-line grants management system available to federal grant recipients for grant management and reporting purposes. The on-line **Payment Management System (PMS)** is authorized by the US. Office of Management and Budget to:

- Receive, review, and approve awardee requests for cash advances and reimbursements;
- Issue US Treasury checks for advances and reimbursements;
- Transmit payments via wire transfers for deposit into federal awardee bank accounts;
- Review and accept grantee reports SF-270 and SF-272; and,
- Provide on-line capability to awardees to check award balances.

The vast majority of discretionary federal grants are managed through the Division of Payment Management. Upon notice of an award, the Federal Grants Management Officer will explain the PMS system and determine which federal reports will be submitted on-line.

**4.1.1 SF-269 Financial Status Report**

Forms SF-269 and SF-269A (long and short forms respectively) are used to periodically report the financial status of an award. Award recipients may use SF-269A (short form) if no program income was generated during the award period. The Financial Status Report is designed to capture periodic and cumulative financial data on the award. Awardees must report federal funds received to-date and award-related cash outlays. SF-269 is used by the federal awarding agency to verify that expenses are recorded in the proper period and that unused funds are de-obligated at the end of the award period.

SF-269 reports are typically due semi-annually the first year of an award and then annually for years 2 through 5 of a multi-year award. Reports should be submitted not later than 30 days following the close of the reporting period, except for final reports which are due 90 days after the close of an award. Reporting schedules are determined by the awarding-agency, so it is important to verify when reports are due. Financial data reported on the SF-269 must reconcile with data reported on the agency’s financial statements and with Form SF-272 Report of Federal Cash Transactions. Federal funds used to cover indirect costs substantiated with a federal indirect cost rate are also reported on the SF-269. Failure to submit the SF-269 on a timely basis is likely to result in
suspension of additional funding outlays from the federal awarding-agency. A final SF-269 is submitted to close out an award.

### 4.1.2 Form SF-270 Request for Advance or Reimbursement

At the time of the award, the federal awarding-agency will notify the award recipient if award funds will be made available through advances or reimbursements or both. Form SF-270 is used to request both advances and reimbursements on an award. To minimize reporting confusion, modified versions of SF-270, which cover only advances or reimbursements, may be provided to awardees. As such, awardees should verify with their Federal Grants Management Officer that the proper report format is being used. SF-270 can be submitted on-line through the **Payment Management System (PMS)** of the Division of Payment Management, with authorization from the Federal Grants Management Officer.

#### Advances

The federal advance award system is designed to limit the amount of funds disbursed to an award recipient for the immediate cash requirements needed to carry out the purpose of the approved program or project. Award recipients must anticipate their cash needs based on scheduled actual disbursements and the federally funded program’s share of any allowable indirect costs. Advance requests can be submitted as needed, but are usually submitted every 2 to 4 weeks, per agreement with the awarding agency. Advances are made via Treasury check or electronic wire transfer through the PMS system.

Cash advanced to award recipients should be expended within 72 hours of receipt of funds. This means that awardees must anticipate program expenditures and request federal payments accordingly. Draws should reflect actual costs, not estimates; and amounts should not be rounded. High-risk awardees may need to submit source documents for payroll and other program expenditures to their Grants Management Officer prior to submission of the SF-270 to the Payment Management System. If the recipient organization has more than one federal award with the same federal awarding-agency, recipients are asked to consolidate advance requests.

To retain the privilege of cash advances, recipients must:

1. Have written policies and procedures for immediate disbursement of funds following an advance;
2. Have a financial management system that meets the minimum standards described in Unit 3 of this manual; and,
3. Be able to reconcile on a monthly basis, funds advanced through the draw process with actual disbursements.
(4.1.1) SF-269A Financial Status Report

FINANCIAL STATUS REPORT
(Short Form)
(Follow instructions on the back)

1. Federal Agency and Organizational Element to Which Report is Submitted
2. Federal Grant or Other Identifying Number Assigned By Federal Agency
3. Recipient Organization (Name and complete address, including ZIP code)
4. Employer Identification Number
5. Recipient Account Number or Identifying Number
6. Final Report
   Yes No
7. Basis
   Cash Accrual
8. Funding/Grant Period (See Instructions)
   From: (Month, Day, Year) To: (Month, Day, Year)
9. Period Covered by this Report
   From: (Month, Day, Year) To: (Month, Day, Year)
10. Transactions:

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>II</th>
<th>III</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Total outlays</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Recipient share of outlays</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Federal share of outlays</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Total unliquidated obligations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Recipient share of unliquidated obligations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Federal share of unliquidated obligations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Total Federal share (Sum of lines c and f)</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>h. Total Federal funds authorized for this funding period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. Unobligated balance of Federal funds (Line i minus line g)</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. Indirect Expense
   a. Type of Rate (Place "X" in appropriate box)
      - Provisional
      - Predetermined
      - Final
      - Fixed
   b. Rate
   c. Base
   d. Total Amount
   e. Federal Share

12. Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation.

13. Certification: I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents.

Typed or Printed Name and Title
Signature of Authorized Certifying Official
Telephone (Area code, number and extension)
Date Report Submitted

NSN 7540-01-216-4387 269-202 Standard Form 269A (Rev. 7-87)
Prepared by OMB Circulars A-102 and A-110

March 13, 2008
Cost Reimbursements

When an award recipient cannot meet the requirements for cash advances, recipient organizations can use Form SF-270 to request reimbursement of expended funds. Reimbursements are made via Treasury check or electronic transfer within 30 days of receipt of a properly prepared SF-270. Reimbursement requests should be submitted at least monthly. Reimbursement requests should include supporting documentation for actual expenditures to be reimbursed. Cost reimbursements require the award recipient to use their own non-federal funds to fund program expenses such as payroll and overhead, until costs are reimbursed. An SF-270 reimbursement report is submitted to close out an award, if a final reimbursement is due.

Working Capital Advance

Should an award recipient prove unable to meet the criteria for cash advances and has insufficient capital to self-fund program costs while waiting for reimbursement from the federal awarding-agency, recipients may request a one-time advance payment that will serve as initial working capital during the first reimbursement period. All subsequent payments are then structured as cost reimbursements until the recipient is able to demonstrate meeting the criteria for regular cash advances. In some cases, working capital advances are also available for sub-recipients.

4.1.3 Form SF-272 Report of Federal Cash Transactions

Form SF-272 is used to monitor disbursements on awards to ensure that award recipients do not have excess federal cash on hand. This report must be completed on a quarterly basis when the payment method is Advance or Reimbursement. This report is due 15 calendar days following the end of the reporting period. SF-272 reports may also be submitted on-line using the federal Payment Management System with authorization from your Federal Grants Management Officer.

Drawing funds that will not be immediately used is not allowed. Recipients that find themselves with cash drawn on a federally award in excess of what is needed for the next three-day period, should provide a brief explanation under the “Remarks” section of the report explaining how the excess will be reduced. Recipient organizations annually receiving more than $1 million in federal funds may be required to submit Form SF-272 on a monthly basis. Federal awarding agencies may waive submission of Form SF-272 if monthly advances are less than $25,000 or if cash advances are sufficiently monitored through other reporting mechanisms.
(4.1.2) Form SF-270 Request for Advance of Reimbursement

**REQUEST FOR ADVANCE OR REIMBURSEMENT**

(See instructions on back)

<table>
<thead>
<tr>
<th>Type of Payment Requested</th>
<th>Federal Grant or Other Identifying Number Assigned by Federal Agency</th>
<th>Partial Payment Request Number for This Request</th>
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</table>

<table>
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<tr>
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<th>4. Recipient Organization Name:</th>
<th>5. Recipient Organization Number:</th>
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<tr>
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<td>Name:</td>
<td>Number:</td>
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<td>and Street:</td>
<td>and Street:</td>
<td>and Street:</td>
</tr>
<tr>
<td>City, State and ZIP Code:</td>
<td>City, State and ZIP Code:</td>
<td>City, State and ZIP Code:</td>
</tr>
</tbody>
</table>

11. COMPUTATION OF AMOUNT OF REIMBURSEMENTS/ADVANCES REQUESTED

<table>
<thead>
<tr>
<th>Programs/Functions/Activities</th>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Total program outlays for data</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>b. Less: Cumulative program income</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Total program outlays (line a minus line b)</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>d. Estimated net cash outlays for advance period</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>e. Total (Sum of lines c &amp; d)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>f. Non-Federal share of amount on line e</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Federal share of amount on line e</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>h. Federal payments previously requested</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. Federal share now requested (Line g minus line h)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>j. Advances requested by month when requested by Federal grant agency for use in making prescheduled advances</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st month</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2nd month</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3rd month</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. ALTERNATE COMPUTATION FOR ADVANCES ONLY

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Estimated Federal cash outlays that will be made during period covered by the advance</td>
<td>$</td>
</tr>
<tr>
<td>b. Less: Estimated balance of Federal cash on hand as of beginning of advance period</td>
<td>$ 0.00</td>
</tr>
<tr>
<td>c. Amount requested (Line a minus line b)</td>
<td>$ 0.00</td>
</tr>
</tbody>
</table>

Authorized for local reproduction (Continued on Reverse) according to OMB Circular A-102 and A-110.
(4.1.3) Form SF-272 Report of Federal Cash Transactions

<table>
<thead>
<tr>
<th>2. RECIPIENT ORGANIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name:</td>
</tr>
<tr>
<td>Number and Street:</td>
</tr>
<tr>
<td>City, State and Zip Code:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>16. PERIOD COVERED BY THIS REPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>FROM (month, day, year) to (month, day, year)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. FEDERAL EMPLOYER IDENTIFICATION NO.</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Cash on hand beginning of reporting period</td>
</tr>
<tr>
<td>b. Letter of credit withdraws</td>
</tr>
<tr>
<td>c. Treasury check payments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>11. STATUS OF FEDERAL CASH</th>
</tr>
</thead>
<tbody>
<tr>
<td>(See specific instructions on the back)</td>
</tr>
<tr>
<td>a. Total receipts (Sum of lines b and c)</td>
</tr>
<tr>
<td>b. Total cash available (Sum of lines a and c)</td>
</tr>
<tr>
<td>c. Gross disbursements</td>
</tr>
<tr>
<td>d. Federal share of program income</td>
</tr>
<tr>
<td>e. Net disbursements (Line f minus line g)</td>
</tr>
<tr>
<td>f. Adjustments of prior periods</td>
</tr>
<tr>
<td>g. Cash on hand end of period</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>12. THE AMOUNT SHOWN ON LINE 11J, ABOVE, REPRESENTS CASH REQUIREMENTS FOR THE ENDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>13. OTHER INFORMATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Interest income</td>
</tr>
<tr>
<td>b. Advances to subgrantees or subcontractors</td>
</tr>
</tbody>
</table>

| 14. REMARKS (Attach additional sheets of plain paper, if more space is required) |

<table>
<thead>
<tr>
<th>15. CERTIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>I certify to the best of my knowledge and belief that this report is true in all respects and that all disbursements have been made for the purpose and conditions of the grant or agreement.</td>
</tr>
<tr>
<td>AUTHORIZED</td>
</tr>
<tr>
<td>SIGNATURE</td>
</tr>
<tr>
<td>CERTIFYING OFFICIAL</td>
</tr>
<tr>
<td>TYPED OR PRINTED NAME AND TITLE</td>
</tr>
<tr>
<td>DATE REPORT SUBMITTED</td>
</tr>
<tr>
<td>TELEPHONE (Area Code, Number, Extension)</td>
</tr>
</tbody>
</table>

| THIS SPACE FOR AGENCY USE |

<table>
<thead>
<tr>
<th>OMB APPROVAL NO. 0348-0003</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Federal sponsoring agency and organizational element to which this report is submitted</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Give total number for this period</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Payment Voucher credited to your account</td>
</tr>
<tr>
<td>ii. Treasury checks received (whether or not negotiated)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ISBN:</th>
<th>978-0-16-56744</th>
</tr>
</thead>
<tbody>
<tr>
<td>272-403</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STANDARD FORM 272 (Rev. 7-87)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Precribed by OMB Circulars A-102 and A-110</td>
</tr>
</tbody>
</table>

38
4.1.4 Financial Statements

In addition to submitting financial status, advance/reimbursement, and cash transaction reports, awardees must also submit interim and year-end financial statements to the awarding agency at specified intervals. Federal Grants Management Officers review and analyze financial statements to a) assess the overall financial stability and viability of the grantee, b) evaluate the awardee’s cash position if the agency is under a reimbursement agreement and must self-fund working capital; c) evaluate federal reports against the awardee’s financial statements; and, d) verify that the awardee is operating at breakeven or profitability. Award recipients must have an accounting system in place that can generate timely and accurate financial statements and the accounting system should be able to compare budget to actual revenues and expenses. Requirements for audited financial statements are outlined in Unit 6 of this manual, but in general, are not required of recipient organizations that receive less than a total of $500,000 in federal funding annually.

4.1.5 Performance Reports

On a regular reporting schedule determined by the federal awarding-agency, recipient organizations are required to submit reports that document achievement toward programmatic goals and objectives and that tie financial data to programmatic performance. OMB Circular A-110 states that performance reports should:

(a) Compare actual accomplishments for the period with projected goals and objectives established in the award contract or that have been renegotiated with the Federal Program Officer.

(b) Quantify programmatic accomplishments, if appropriate, and relate accomplishments to cost data to calculate unit costs.

(c) Explain why projected goals and objectives were not met, if applicable.

(d) Explain cost overruns or high unit costs.

(e) Identify any problems, obstacles, or delays that have or may impede progress towards programmatic objectives and explain how these will be addressed.

Awardees should refer to their application for funding and cooperative agreement or grant agreement to identify the performance requirements associated with their award.
4.2 **Procurement Practices under Federal Awards**

To ensure proper use of federal funds, award recipients should be familiar with 1) Exhibit A of OMB Circular A-110, “Procurement Standards” that explains government procedures for purchasing goods and equipment with federal funds, and 2) the Expenditure Guide in OMB Circular A-122, which identifies allowed and unallowed expenditures.

**General Procurement Provisions:**

- Purchases shall be for necessary items and not excessive (buying too much of an item that may later be purchased at a lesser price). When at all possible, bulk purchases for multiple departments or personnel should be coordinated and purchased at volume discount.

- All procurement transactions must be necessary and reasonable.

- All procurement transactions should be conducted in a manner that provides, to the maximum extent practical, open and free competition.

- Purchases from small and minority businesses are strongly encouraged.

- Some form of cost or price analysis should be made and documented in the procurement files in connection with every procurement action.

- Where appropriate, an analysis of lease and purchase alternatives should be conducted to determine the most economical and practical procurement option.

- "Cost-plus-a-percentage-of-cost" or "percentage of construction cost" methods of pricing are not allowed.

**Competitive Bidding Requirements for Purchases over $25,000**

OMB A-110 requires that written competitive bids must be solicited for furnishings, equipment, and supplies having a cost exceeding the federal small purchase threshold, currently set at $25,000. Awardees should discuss procurement contracts over $25,000 with their Federal Grants Management Officer to determine if “sealed bid” procurement is required. Sealed bid procurement results from a pre-circulated request for proposal (RFP) where independent vendors are requested to provide the estimated cost for their services on a predetermined date, in a sealed envelope. This process is intended to ensure confidentiality of information and a competitive bidding process.

Procurement selection should give consideration to all relevant factors (i.e., quality, service, cost, etc). Selection should not be based solely on cost. Whenever the vendor selected is other than the lowest bidder, reasons for the selection must be documented via internal memorandum and attached to the disbursement documentation/contract. In certain circumstances, there may be only one potential contractor. In this case, the reason why a “sole source” agreement is awarded must be well documented.
Solicitations or bids for goods and services exceeding $25,000 require documentation in accordance with OMB Circular A-110 and should provide for all of the following:

(1) A clear and accurate description of the technical requirements for the material, product, or service to be procured, including the range of acceptable characteristics or minimum acceptable standards and the specific features of "brand name or equal" descriptions that bidders are required to meet when such items are included in the solicitation. In competitive procurements, such a description must not contain features that unduly restrict competition.

(2) Requirements the bidder/vendor must fulfill and all other criteria to be considered in evaluating bids or proposals.

(3) The acceptance, to the extent practicable and economically feasible, of products and services dimensioned in the metric system of measurement.

(4) Preference, to the extent practicable and economically feasible, for products and services that conserve natural resources, protect the environment, and are energy efficient.

Contractor/Consultant Agreements

Three bids are required when federal funding is used to retain a contractor that will provide services. This requirement does not apply when a contractor is a known expert in the field. A completed W-9 is required from contractors and consultants hired with federal funds before the first invoice is paid. Federally funded programs that need to use contractors or consultants, should receive authorization from the Federal Grants Management Officer, which is required prior to entering into agreement with the contractor when it is not previously specified in the award agreement.

Procurement records and files for contractor/consultant purchases in excess of $25,000 shall include at a minimum: (a) basis for selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price. Once the relationship has been determined as that of a contractor/consultant, all services to be performed by a contractor/consultant should be documented in a written agreement that provides the following:

a) Name, address, and Federal Employer Identification Number (EIN) or Social Security Number of the contractor/consultant

b) Dates covered by the agreement

c) Deliverables and/or services to be performed

d) Time frame for completion

e) Person in charge of the engagement

f) Dollar amount of the agreement, including expenses for which the contractor/consultant will be reimbursed

g) Rates of personnel by classification

h) Termination clause

i) Other special arrangements
While it may be necessary to develop and include a line-item budget in the contractor/consultant agreement, to the extent possible, payment should be made upon a “deliverables” basis for specific and tangible products or services. Invoices submitted by the contractor/consultant should be signed by the contractor/consultant and should detail the deliverables, hours worked, and dates of service covered by the invoice.

### 4.3 Record Retention and Access Requirements

Federal award recipients must retain the following documents related to federal awards for a period of at least three (3) years after submission of final reports that close out an award:

- Financial records and supporting documentation
- Financial statements
- Performance reports
- Payroll records
- Indirect cost rate proposals and cost allocation plans
- Copies of all federal reports

Records for real property and equipment purchased with federal funds shall be retained for at least three (3) years following disposition of the assets, which may be before or well after the award ends. In addition, OMB Circular A-110 states that, “The federal awarding-agency, the Inspector General, Comptroller General of the United States, or any of their duly authorized representatives, have the right of timely and unrestricted access to any books, documents, papers, or other records of recipients that are pertinent to the awards, in order to make audits, examinations, excerpts, transcripts and copies of such documents. This right also includes timely and reasonable access to a recipient's personnel for the purpose of interview and discussion related to such documents.”

---

14 OMB Circular A-110.
UNIT 5: Key Provisions of OMB Circular A-122
- Cost Policies

OMB Circular A-122 is premised on two key principals: 1) federal funds must be used exclusively for allowed costs that support the purpose of the award; and, 2) correct capture and allocation of costs is the basis of accurate financial reporting. To this end, this curricular is a reference guide covering all aspects of allowed and unallowed uses of federal funds. Fifty-eight cost categories are discussed in detail in Attachment B. Attachment A outlines federal guidelines covering direct and indirect costs and provides guidance on calculating a federal indirect cost rate.

5.1 Permissible and Impermissible Uses of Federal Funds

Federal funds may be expended solely on “permissible” direct costs and a proportionate share of “permissible” indirect costs.

<table>
<thead>
<tr>
<th>Allowed Costs</th>
<th>Unallowed Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Employee benefits</td>
<td>• Contributions</td>
</tr>
<tr>
<td>• Salaries</td>
<td>• Entertainment costs</td>
</tr>
<tr>
<td>• Cell phone fees</td>
<td>• Alcoholic beverages</td>
</tr>
<tr>
<td>• Client incentives</td>
<td>• Fundraising</td>
</tr>
<tr>
<td>• Conferences/Trainings</td>
<td>• Lobbying</td>
</tr>
<tr>
<td>• Consulting/Technical Assistance</td>
<td>• Interest Expense</td>
</tr>
<tr>
<td>• Equipment Lease/Maintenance</td>
<td>• Bad Debts</td>
</tr>
<tr>
<td>• Health Insurance</td>
<td>• Legal Costs</td>
</tr>
<tr>
<td>• Rent</td>
<td></td>
</tr>
<tr>
<td>• Telephone / Internet</td>
<td></td>
</tr>
<tr>
<td>• Travel</td>
<td></td>
</tr>
<tr>
<td>• Mileage/Parking</td>
<td></td>
</tr>
<tr>
<td>• Office Supplies</td>
<td></td>
</tr>
<tr>
<td>• Postage/Delivery</td>
<td></td>
</tr>
<tr>
<td>• Printing</td>
<td></td>
</tr>
<tr>
<td>• Payroll Services</td>
<td></td>
</tr>
<tr>
<td>• Property Liability Insurance</td>
<td></td>
</tr>
<tr>
<td>• Bank Service Charges</td>
<td></td>
</tr>
<tr>
<td>• Dues/Subscriptions</td>
<td></td>
</tr>
<tr>
<td>• Audits</td>
<td></td>
</tr>
<tr>
<td>• Payroll Services</td>
<td></td>
</tr>
<tr>
<td>• Payroll Services</td>
<td></td>
</tr>
<tr>
<td>• Payroll Services</td>
<td></td>
</tr>
<tr>
<td>• Payroll Services</td>
<td></td>
</tr>
</tbody>
</table>

Supplies and services acquired from affiliates, related parties, and organizations under common control, must be based on the actual costs of the organizations providing the supplies and services. Profit and markups are NOT allowed.
List of Cost Items Covered in OMB Circular A-122 –Attachment B
There are allowed and un-allowed costs in almost every expense category, so each of the fifty-seven (57) expense categories should be reviewed in detail.

<table>
<thead>
<tr>
<th></th>
<th>Advertising and public relations costs</th>
<th>30. Memberships, subscriptions, and professional</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>Alcoholic beverages</td>
<td>31. Organization costs</td>
</tr>
<tr>
<td>3.</td>
<td>Bad debts</td>
<td>32. Overtime, extra-pay shift, and multi-shift premiums</td>
</tr>
<tr>
<td>4.</td>
<td>Bid and proposal costs (reserved)</td>
<td>33. Page charges in professional journals</td>
</tr>
<tr>
<td>5.</td>
<td>Bonding costs</td>
<td>34. Participant support costs</td>
</tr>
<tr>
<td>6.</td>
<td>Communication costs</td>
<td>35. Patent costs</td>
</tr>
<tr>
<td>7.</td>
<td>Compensation for personal services</td>
<td>36. Pension plans</td>
</tr>
<tr>
<td>8.</td>
<td>Contingency provisions</td>
<td>37. Plant security costs</td>
</tr>
<tr>
<td>9.</td>
<td>Contributions</td>
<td>38. Pre-award costs</td>
</tr>
<tr>
<td>10.</td>
<td>Defense and prosecution of criminal and civil</td>
<td>39. Professional service costs</td>
</tr>
<tr>
<td>11.</td>
<td>Proceedings, claims and patent infringement</td>
<td>40. Profit and losses on disposition of depreciable</td>
</tr>
<tr>
<td>12.</td>
<td>Depreciation and use allowance</td>
<td>41. Property or other capital assets</td>
</tr>
<tr>
<td>13.</td>
<td>Donations</td>
<td>42. Publication and printing costs</td>
</tr>
<tr>
<td>14.</td>
<td>Employee morale, health, and welfare costs and credits</td>
<td>43. Rearrangement and alteration costs</td>
</tr>
<tr>
<td>15.</td>
<td>Entertainment costs</td>
<td>44. Recon version costs</td>
</tr>
<tr>
<td>16.</td>
<td>Equipment and other capital expenditures</td>
<td>45. Recruiting costs</td>
</tr>
<tr>
<td>17.</td>
<td>Fines and penalties</td>
<td>46. Relocation costs</td>
</tr>
<tr>
<td>18.</td>
<td>Fringe benefits</td>
<td>47. Rental costs</td>
</tr>
<tr>
<td>19.</td>
<td>Goods or services for personal use</td>
<td>48. Royalties and other for use of patent and copyrights</td>
</tr>
<tr>
<td>20.</td>
<td>Idle facilities and idle capacity</td>
<td>49. Selling and marketing</td>
</tr>
<tr>
<td>21.</td>
<td>Independent research and development</td>
<td>50. Severance pay</td>
</tr>
<tr>
<td>22.</td>
<td>Insurance and indemnification</td>
<td>51. Specialized service facilities</td>
</tr>
<tr>
<td>23.</td>
<td>Interest, fund raising and investment management costs</td>
<td>52. Taxes</td>
</tr>
<tr>
<td>24.</td>
<td>Labor relations costs</td>
<td>53. Termination costs</td>
</tr>
<tr>
<td>25.</td>
<td>Lobbying</td>
<td>54. Training and education costs</td>
</tr>
<tr>
<td>26.</td>
<td>Losses on other awards</td>
<td>55. Transportation costs</td>
</tr>
<tr>
<td>27.</td>
<td>Maintenance and repair costs</td>
<td>56. Travel costs</td>
</tr>
<tr>
<td>28.</td>
<td>Materials and supplies</td>
<td>57. Trustees</td>
</tr>
<tr>
<td>29.</td>
<td>Meetings and conferences</td>
<td></td>
</tr>
</tbody>
</table>
5.2 Distinguishing Direct and Indirect Costs

Federal award recipients must be able to distinguish direct and indirect costs to be able to properly charge costs to federal awards. Federal awards will cover allowable\(^{15}\) direct program costs and a proportionate share of allowable indirect costs. Generally defined, \textit{direct costs} are costs that can be traced directly to a program or project and \textit{indirect costs} are all other costs. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.

Direct Costs

Direct costs directly support the execution of a funded program or activity and typically include salaries and fringe benefits of program staff\(^{16}\), project supplies, project publications and printing costs, telephone charges, computer, travel, rent, training costs, and contractor/consultant costs associated with a particular program. Direct costs chargeable to federal awards also cover administrative expenses directly related to the funded program or project. For example, allowable direct administrative costs would include time the Executive Director spends supervising program personnel and time the accountant spends preparing federal financial reports. These types of expenses are sometimes referred to as Direct Administrative Costs in federal manuals.

Direct costs can be exclusive to a program, or can be a portion of costs shared by two or more programs or functional departments such as administration and fundraising. Costs exclusive to a single program or function are charged in their entirety to that program or function. Examples of exclusive program costs include: 1) personnel whose salaries are charged 100\% to a program; 2) education materials distributed exclusively through that program; and, 3) supplies used exclusively for that program. Remember that fundraising costs should be charged exclusively to the fundraising function and never charged to a federal award.

---

\textbf{Test Your Understanding: Are these direct or indirect costs?}

1. Educational materials provided to a client?
2. Time spent supervising program personnel?
3. Rent for the reception area?
4. Accountant’s time to prepare a drawdown request?
5. Depreciation on the organization’s building where services are provided?
6. Purchase of fundraising software?
7. Cost of a program-specific audit?
8. Vacation time off for program staff?

---

\(^{15}\) See Unit 5 of this manual for more on allowed and unallowed costs.

\(^{16}\) See Unit 2.2 of this manual for more on allowed and unallowed staff costs.
Shared direct program costs can be directly traced back to more than one program or function. For example, two different programs might share a caseworker or an office. A logical and consistent method is needed to determine how each program will contribute to paying for these shared expenses. Allocation methods discussed in Section 5.3 can be used to distribute shared direct costs.

Indirect Costs

Indirect costs are shared expenses incurred for common or joint objectives across multiple grants and/or programs that cannot be readily identified with a particular grant, program, or function of the organization. These costs are characteristically difficult and often time-consuming to trace back to the program or function that benefits from the cost. For example, it might be very difficult or even impossible to track Internet service use back to every program or project that benefited from use of the Internet. In contrast, if only one computer had Internet access and that computer was used regularly to post important information for the clientele of Program A, Internet costs might be charged exclusively to Program A as a direct cost. True indirect costs are always shared costs and must be allocated based on a formula that fairly distributes the cost across programs and departments that benefited from the expense.

Indirect costs are generally grouped into two categories of shared costs: 1) facilities costs such as depreciation, occupancy expense, capital improvements, and interest on facilities debt; and, 2) general and administrative costs such as salaries and expenses related to general accounting and record keeping, reception and human resource functions, board-related costs, and the cost of leases and supplies for copiers and other shared equipment.

Answers to Test On Previous Page

1. Direct Program
2. Direct Admin
3. Indirect Facilities
4. Direct Admin
5. Indirect Facilities
6. Unallowed Direct Cost
7. Direct Program
8. Direct Program
5.3 Allocating Shared Costs

Nonprofits that want to charge shared costs to a federal award must be able to explain their allocation methods. These methods are documented in writing as the agency’s cost allocation polices and included as a component of the agency’s fiscal polices and procedures manual. All recipients of federal funding need written cost allocation policies that identify what types of costs will be charged exclusively; the costs that will be allocated because they are shared costs; and the methods used to distribute shared costs.

When a nonprofit has only one program with a single source of funding and all personnel and expenses of the nonprofit are associated with that one program, there are no shared costs; and consequently, an allocation plan is not needed. This scenario is rare, however. Most nonprofits have shared costs and need cost allocation policies. Here are some scenarios where it would be appropriate to have a cost allocation plan in place:

- A nonprofit has one federal program and a second program funded by foundation grants.
- A nonprofit has two or more awards from two federal agencies.
- A nonprofit has two or more awards from the same federal agency.
- A nonprofit has one federal program and a fundraising department.
- A nonprofit has one program and administrative and fundraising costs that cannot be charged to that program.

There are a variety of methods used to allocate shared costs. Every nonprofit should consider the alternatives and adopt the methods that make sense for their organization. Allocation formulas should be used to apportion shared costs both at the time program budgets are prepared and after the award has been made. Improper allocation methods and failure to allocate shared costs are common audit findings among federal award recipients.

Shared costs cannot be charged to a single program. For example, if Programs A and B share office space, it is not appropriate for Program A to cover rent expense and have Program B cover utility costs. Each program must cover its portion of shared costs. As you prepare funding proposals you must anticipate allocation requirements and budget accordingly. Keep in mind that as staff and programs are added or removed, allocation formulas must be modified to reflect these changes. For example, indirect costs expensed across two programs would be expensed across three programs if a third program were added.

A cost allocation plan should not be confused with a federal indirect cost rate. A federal indirect cost rate addresses only shared indirect costs. A cost allocation plan is broader, as it identifies which of the organization’s costs are direct and indirect and outlines how each type of shared cost, both direct and indirect, will be charged to various programs and departments. Allocation formulas must be logical and consistent and calculated
results must accurately reflect the relative degree of benefit each program and functional department derives from the allocated cost.

**Allocation Methods**

There are two types of allocation formulas: 1) formulas that allocate shared costs based on **actual usage** by each program or function; and 2) formulas that allocate expenses based on a set proportion or rate, commonly referred to as an **allocation rate** or in the case of indirect costs, an **indirect cost rate**.

**Shared direct costs**, which can be traced back to the program or department that benefited from the expense, are typically allocated using the **actual usage method**. An example would be allocating the monthly lease expense of a shared copying machine based on the actual number of copies made by each program or department. A second example would be allocating shared rent and utilities on the basis of the number of square feet each program or department occupies in the office. Work performed by shared staff that can be traced directly back to a specific program is charged to that program based on actual hours worked (not budgeted) for that program. Allocations based on actual usage work well when usage can be easily measured.

<table>
<thead>
<tr>
<th>Expense</th>
<th>Actual Usage Allocation Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>Square footage used by each program/function</td>
</tr>
<tr>
<td>Copies</td>
<td>Actual copies made by each program/function</td>
</tr>
<tr>
<td>Long-distance phone calls</td>
<td>Actual calls made by each program/function</td>
</tr>
<tr>
<td>Shared staff</td>
<td>Actual hours worked for each program/function</td>
</tr>
</tbody>
</table>

When tracking actual usage proves overly cumbersome and results in excessive record keeping, costs are probably better categorized as **shared indirect costs**. For example, it would be difficult to calculate actual usage distribution for building liability insurance, shared hallways, the conference room, or general building maintenance. In these cases, categorization as indirect costs and the use of an allocation rate is appropriate.

**CAUTION!**

The allocation of costs on the basis of the relative funding levels of various programs is not allowed under federal Office of Management and Budget guidelines. For example, a program that receives 60% of total funding is not automatically allocated 60% of shared costs.
Allocating Indirect Costs

Indirect cost allocation rates are calculated by dividing total indirect costs by a base that results in equitable distribution of shared indirect expenses. Commonly used distribution bases include modified total direct costs, total direct salaries and wages, and FTEs (number of full-time equivalent staff). Indirect expenses are charged to a “common cost pool” (an account set up in the accounting system) and then the indirect cost rate is applied to distribute costs to programs and functional departments. Distribution bases are explained in detail within OMB Circular A-122.

EXERCISE ON COST ALLOCATION

Let’s look at how we might use three common allocation methods to allocate total indirect costs in the common cost pool of $10,000 per month. Also assume that:

- Total modified direct costs are $100,000 per month.
- Total direct salaries and wages are $65,000 per month.
- There are 18 full and part-time employees that total 15 FTEs

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Number FTEs</th>
<th>Total Direct Salaries &amp; Wages Per Mth</th>
<th>Modified Direct Costs Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program A</td>
<td>7</td>
<td>$25,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Program B</td>
<td>3</td>
<td>$20,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Gen. &amp; Administrative</td>
<td>3.5</td>
<td>$15,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>Fundraising</td>
<td>1.5</td>
<td>$5,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Total</td>
<td>15 FTEs</td>
<td>$65,000</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

Each of the indirect cost allocation methods illustrated below is commonly used by nonprofits and is accepted by the federal government. A set of cost policies includes allocation methods to address shared direct costs and a specified indirect cost allocation method or federally approved indirect cost rate. Multiple indirect cost rates are not allowed. Allocation methods must be consistently applied, as they cannot vary from month to month nor can they vary from one program to another.

OMB Circular A-122 provides guidance on allowable bases for calculating a federal indirect cost rate. When calculating a federal indirect cost rate, both direct costs and indirect costs exclude capital expenditures and unallowable costs. There are other rules that pertain to federal indirect cost rates. Use OMB circular A-122 for guidance.

As you review the three indirect cost calculations below, notice that each results in different dollar allocations. The FTE and salaries and wages allocation formulas assume that shared indirect costs are most fairly apportioned on the basis of staffing levels. The
direct cost allocation method considers staffing, equipment, materials, and other direct costs and apportions indirect costs in direct relation to the sum of these.

Allocating indirect costs is a multi-step process:

1) Determine the dollar value of indirect costs to be allocated.
2) Calculate the indirect cost allocation rate.
3) Multiply the indirect cost rate times an appropriate basis for each program and functional department. For example, if you use an indirect cost rate that was calculated on the basis of FTEs, you must multiply the indirect cost rate times the number of FTEs in each program or department. If the basis of the indirect cost rate is wages and salaries, the indirect cost rate is multiplied, in this case, by the dollar value of wages and salaries for each program and department.

Remember: In the examples below our goal is to allocate indirect costs in the common cost pool of $10,000 per month.

As you review the results of the three allocation methods notice the difference in the allocation value to the fundraising department in particular. Using an FTE allocation method doubles the indirect costs allocated to the fundraising department vs. using the Modified Direct Costs method. Why does this matter?
Example One: Indirect Cost Rate Using **Modified Direct Costs** as a distribution base:

Total Indirect Costs/ **Total Direct Costs** = $10,000/$100,000 = 10% Indirect Cost Rate

**Application of Indirect Cost Rate to Indirect Costs of $10,000**

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Direct Costs</th>
<th>Indirect Cost Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program A</td>
<td>$35,000</td>
<td>$3,500</td>
</tr>
<tr>
<td>Program B</td>
<td>$35,000</td>
<td>$3,500</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td>$25,000</td>
<td>$2,500</td>
</tr>
<tr>
<td>Fundraising</td>
<td>$ 5,000</td>
<td>$ 500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$100,000</strong></td>
<td><strong>$10,000</strong></td>
</tr>
</tbody>
</table>

Example Two: Indirect Cost Rate Using **Direct Salaries and Wages** as a distribution base:

Total Indirect Costs/ **Direct Salaries and Wages** = $10,000/$65,000 = 15.4% Indirect Cost Rate

**Application of Indirect Cost Rate to Shared Costs of $10,000**

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Salaries &amp; Wages</th>
<th>Indirect Cost Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program A</td>
<td>$25,000</td>
<td>$3,846</td>
</tr>
<tr>
<td>Program B</td>
<td>$20,000</td>
<td>$3,077</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td>$15,000</td>
<td>$2,308</td>
</tr>
<tr>
<td>Fundraising</td>
<td>$ 5,000</td>
<td>$ 769</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$65,000</strong></td>
<td><strong>$10,000</strong></td>
</tr>
</tbody>
</table>

Example Three: **Indirect Cost Rate Using FTEs** (Full-time Equivalent Employees) as a distribution base:

Total Indirect Costs/ **Total FTEs** = $10,000/ 15 FTEs = $667 per FTE

**Application of Indirect Cost Rate to Share**

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Number FTEs</th>
<th>Indirect Cost Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program A</td>
<td>7</td>
<td>$4,667</td>
</tr>
<tr>
<td>Program B</td>
<td>3</td>
<td>$2,000</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td>3.5</td>
<td>$2,333</td>
</tr>
<tr>
<td>Fundraising</td>
<td>1.5</td>
<td>$ 1,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15 FTEs</strong></td>
<td><strong>$10,000</strong></td>
</tr>
</tbody>
</table>
5.4 Obtaining and Using a Pre-Approved Federal Indirect Cost Rate

Should a federal award recipient have either 1) $500,000 or more in total federal funding from more than one federal agency (e.g., the US Department of Health and Human Services and the Department of Labor); or 2) $500,000 or more in federal funding from a single federal agency and one or more non-federal programs, the award recipient must apply for a federal indirect cost rate and use this rate to allocate indirect expenses. Recall that indirect costs are shared expenses that cannot be directly traced back to a specific program or activity. The chart below will help you determine if your organization is required to apply for a federal indirect cost rate.

<table>
<thead>
<tr>
<th>Grantee with $500,000 or more in federal funding</th>
<th>Cost Allocation Requirement</th>
<th>Budgeting Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>One grant from one federal agency – Grantee has no other programs or activities and is solely organized to carryout the activities of one grant.</td>
<td>Must have cost allocation plan including a cost policy statement. An indirect cost rate approved by the federal cognizant agency is NOT required.</td>
<td>Direct cost all budget items. No indirect costs or joint direct costs charged to budget, because there are no shared costs.</td>
</tr>
<tr>
<td>Multiple grants from one federal agency - Grantee has no other programs or activities and is solely organized to carryout the activities of the grants from one federal agency.</td>
<td>Must have a cost allocation plan OR an indirect cost rate approved by the federal cognizant agency.</td>
<td>Direct cost all budget items, including joint direct costs. Indirect costs are budgeted, if an indirect cost rate is approved or pending.</td>
</tr>
<tr>
<td>Multiple grants from more than one federal agency or multiple activities/programs from federal and nonfederal sources</td>
<td>Must have a cost allocation plan AND an indirect cost rate approved by its Federal cognizant agency.</td>
<td>Use approved provisional rate to budget indirect costs.</td>
</tr>
</tbody>
</table>

Can You Answer These Questions?

Does your organization have written cost policies? ___________

If so, where are they documented? ______________________

Is your salary directly or indirect charged? ________________

Is your salary shared by two or more programs? ________________

If so, what method is used to allocate your salary? _____________
A federal indirect cost rate establishes the rate at which indirect costs will be charged to federal awards for the purpose of preparing federal budgets and requests for advances and reimbursements on awarded funds. An indirect cost rate is established on the basis of an indirect cost rate proposal and supporting documentation submitted by an award recipient to its cognizant agency—the federal agency providing a preponderance of an organization’s federal funding. All other federal agencies must honor the indirect cost rate issued by the cognizant agency. State and local government entities will honor a federal indirect cost rate on federal pass-through awards and often on non-federal awards. Non-government funders, such as foundations, also frequently allow the use of a federal indirect cost rate to budget indirect costs in their funding proposals.

There is no standardized indirect cost rate proposal format applicable to all federal agencies and departments. Awardees must follow the proposal format and submission procedure mandated by their cognizant agency. Use OMB Circular A-122 as a guide and ask your Federal Grants Management Officer to help identify the proper proposal format and a contact person who can answer questions and guide you through the indirect cost rate proposal process.

Nonprofits applying for an indirect cost rate for the first time should submit proposals within 90 days after receipt of the federal award that triggers eligibility. Nonprofits with established indirect cost rates must submit updated indirect cost rate proposals annually - within six months following the close of the nonprofit’s fiscal year.

Pre-approved indirect cost rates are designed to facilitate the budgeting, advance, and cost reimbursement processes. Indirect cost rates help ensure that organizations are reimbursed, to the extent possible, for the federal government’s share of indirect expenses. Having a pre-approved indirect cost rate, however, is not a guarantee that the federal government will cover all indirect costs associated with federal awards.

Most federal agencies place a cap on the combined amount of direct administrative and indirect expenses that can be charged to a federal award. The cap is typically 8% to 15% of the award amount. After direct administrative costs of a program are charged against

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17 Retrieved 10/30/2008
18 The Department of Health and Human Services is the cognizant agency for most nonprofits.
this cap there may not be enough funds left over to cover 100% of the federal government’s share of indirect costs. Nonprofits must frequently cover indirect program costs from unrestricted funding.

The federal government regards pre-authorized indirect cost rates used in federal budgets during the application process and those issued at the start of each annual award period as “provisional”. Provisional means that the indirect cost rate can be used to bill the federal government until a final indirect cost rate is issued. Provisional indirect cost rates are based on prior year or budgeted financial data while final indirect cost rates are based on audited actual costs. At the end of each fiscal year, nonprofits submit updated indirect cost rate calculations to their cognizant agency based on actual direct and indirect costs incurred during the year per an independent audit; and a final indirect cost rate is issued.

Nonprofits must reconcile indirect charges based on the provisional rate to the final rate. If the final indirect cost rate is lower than the provisional rate, the nonprofit may owe the federal government money. On the contrary, if the outcome is that the final indirect cost rate is higher than the provisional rate, the nonprofit may petition the federal agency for supplementary reimbursement, subject to availability of federal funding for this purpose. Supplementary reimbursement is not guaranteed, however. Most nonprofits will have already met the cap on covered administrative and indirect costs and/or the federal agency may have already obligated all available funds and cannot provide supplemental reimbursement.

A useful aspect of a pre-approved federal indirect cost rate is that in the preparation of federal budgets for new awards, a nonprofit can use their indirect cost rate to budget for indirect costs, ensuring that a portion of the award will cover indirect expenses. Having a pre-approved indirect cost rate does not, however, increase the award amount an award recipient would have otherwise received.

Example: The Center for Disease Control is offering a maximum grant of $300,000. A nonprofit has an approved federal indirect cost rate of 10% calculated using total direct costs as its basis. In preparing a grant application with estimated total direct costs of $270,000, the nonprofit can include $27,000 in indirect costs for a total project budget of $297,000.

Preparing and submitting federal indirect cost rate proposals and administering and reconciling indirect costs can be confusing. OMB Circular A-122 outlines authorized allocation methods for federal indirect cost rate proposals, but does not provide guidance on indirect cost rate proposal preparation or submission. Seek out the Division of Cost Allocation within your cognizant federal agency for support and additional clarification should there be plans to submit an indirect cost rate proposal or ask a national capacity building provider, such as PROCEED, Inc., for assistance. Contact information for the Division of Cost Allocation within the U.S. Department of Health and Human Services Program Support Center is provided in Appendix A.
Can You Answer These Questions?

Does your organization have federal funding? __________

Which federal agency is your cognizant agency? __________

Does your organization have an approved federal cost indirect cost rate? __________

If so, what is the rate? ____________________
UNIT 6:  Key Provisions of OMB Circular A-133
- Federal Audits

OMB Circular A-133 covers the general provisions of federal A-133 single audits. The circular also provides specific guidance for auditees, pass-through entities, federal agencies, and auditors. The circular broadly covers topics such as: who is subject to federal audit, audit requirements, scope of the audit, required financial statements, audit reporting, audit findings, and remedies for audit concerns. A compliance supplement to OMB Circular A-133 provides additional detailed guidance on internal controls and monitoring and audit requirements for programs within each of the Federal Departments. Supplemental guidance can be quite specific. For example, the Department of Health and Human Services offers special audit guidance in a supplementary publication just for grants awarded under the title *Outpatient Early Intervention Services with Respect to HIV Disease*. Overall, the intention of OMB Circular A-133 is to standardize the performance and content of audits for all federal award recipients.

6.1 Overview of Federal A-133 Single Audits

A federal A-133 single audit is comprised of two parts: a financial audit and a compliance audit. The term “single” makes reference to the combining of financial and compliance audits in a common effort and report. A **financial audit** is conducted to provide reasonable assurance that the **financial statements** of a federal award recipient present fairly the financial position, results of operations, and cash flows of the organization as a whole, or of the federally funded program, in conformity with generally accepted accounting principles.

A **compliance audit** considers whether the award recipient is following laws, regulations, and written agreements related to the federal award and evaluates internal control policies and practices to prevent fraud, theft, and misuse of federal funds. The auditor will issue two opinions, one on the reliability of the financial statements and another on the level of perceived risk that federal funds could be mismanaged. A “qualified” (negative) opinion regarding either the financial statements or internal controls is a “red flag” for funders and the Board of Directors.

All award recipients receiving over $500,000 in federal funds from any single federal funding source or combination of federal funding sources, including federal funds disbursed through states and localities, must undergo an independent audit that follows guidance provided by OMB Circular A-133. Federal A-133 audit costs are an allowable award-related expense when the annual award amount is in excess of $500,000 or if an audit has been required by the federal awarding-agency or its agent. Audits must be completed within nine months of the award recipient’s fiscal year-end and must be remitted to the Federal Audit Clearinghouse\(^\text{19}\) within thirty days of receipt from the auditor. Audits not submitted on time are also a “red flag” to funders that the agency is

\(^{19}\) See Appendix A for Internet Link to Federal Audit Clearinghouse
unable to produce timely financial reports. It is the responsibility of the Board of Directors to ensure that audits are prepared and submitted on time.

The Federal Audit Clearinghouse is an office within the United States Federal Government charged with receiving, processing, and distributing A-133 audits submitted by federal award recipients to the appropriate awarding federal agency. Audits submitted through the Federal Audit Clearinghouse are maintained in an electronic database that is available to all federal agencies and to the public. The database contains identifying and contact information for the auditee and auditor; information on type(s) of federal assistance received; and audit findings, if any, such as noncompliance or illegal use of funds.

**Program-Specific Audits**

If a federal award recipient has only one federally funded program and the federal awarding agency does not require a financial statement audit, the auditee may elect to have a program-specific audit, instead of a single audit. Program specific audits do not review the financial statements of the agency as a whole; rather, only the financial statements related to the program are audited.

### 6.2 When Are Audit Costs Covered By A Federal Award?

Federal A-133 audit costs are an allowable award-related expense when the auditee’s total annual federal award(s) are $500,000 or more or if an audit has been required by the federal awarding-agency. Audit costs should be anticipated and budgeted into the award to be covered.

### 6.3 Audit Requirements

The A-133 single audit is comprised of the following components, all of which must be made available for public inspection:

(a) **Cover letter** signed and dated by the auditor, stating the auditor’s opinion as to the reliability of the financial statements contained in the audit. A favorable audit will receive an Unqualified Opinion that begins, “In our opinion, the accompanying financial statements present fairly in all material respects...” Auditors do not guarantee that 100% of financial transactions have been recorded correctly. Auditors are only required to express an opinion as to whether the financial statements, taken as a whole, give a fair representation of the organization's financial picture.
(b) **Integrated Financial Statements** including:
   - Statement Of Financial Position (balance sheet),
   - Statement Of Financial Activity (profit and loss statement)
   - Statement Of Cash Flows (sources and uses of cash statement)
   - Statement Of Functional Expenses (for most nonprofits)

(c) **Notes to the financial statements**, as required by Generally Accepted Accounting Principals (GAAP), covering:
   - Depreciation schedules
   - Additional information about contributions
   - Methods used to value volunteer services and in-kind contributions
   - Sub-awardee information, if applicable
   - Other significant information not obvious in the financial statements.

(d) **Schedule of Federal Awards** showing amounts awarded and expended.

(e) **Report on Internal Controls** describing the extent to which financial transactions:
   - “Are properly recorded and accounted for;
   - Permit the preparation of reliable financial statements and federal reports;
   - Maintain accountability over assets; and,
   - Demonstrate compliance with laws, regulations, and other compliance requirements.”

(f) **Report on Compliance** and an opinion expressed by the auditor on whether or not the auditee complied with the laws, regulations, and provisions of the federal award and if compliance could have a material impact on the implementation and intent of the program funded by the federal award; and, if the awardee’s internal polices and procedures provide safeguards for federal funds and for assets purchased with federal funds.

(g) **Schedule of Findings and Questioned Costs**, if any. Under the provisions of OMB Circular A-133, auditors must perform the audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States, commonly referred to as GAGAS and “the Yellow Book”.

In addition to the items above, the auditor is responsible for preparing a **Management Letter** addressed to the Board of Directors of the audited organization that outlines findings and recommendations on internal controls, material weaknesses, compliance violations, and other conditions that could signal future problems. While a nonprofit organization’s audit is regarded as public information, the Management Letter is not.

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20 OMB Circular A-133
intended for public distribution. The Management Letter should be shared with funders, if requested.

6.4 Preparing for an Audit

As part of the nonprofit’s internal “checks and balances” system, the Board of Directors forms a committee to oversee the hiring of the auditor and the audit process; to review the audit report; and to respond to audit findings, if necessary. It is the responsibility of the audit committee to ensure that the audit is completed by the required due date and submitted to the Federal Audit Clearinghouse in a timely manner. In addition, the audit committee may direct the auditor to investigate any areas of particular concern to the organization.

While federal award recipients should be able to rely on their auditors for compliance with A-133 requirements, federal award recipients should have sufficient knowledge of the contents of OMB Circular A-133 to be able to hire an appropriate auditor and monitor the activities of the auditor. The auditor should be trained and experienced in government auditing standards and nonprofit accounting, have experience performing A-133 audits with other HIV/AIDS organizations, and should be able to provide favorable references. The audit committee should clearly understand and formally approve the scope of services to be provided and time frame for completing and submitting the audit.

Nonprofit staff should prepare for the audit year-round by keeping good records of all financial transactions and their supporting documentation. The auditor will want to review the following kinds of records:

- Accounts Receivable
- Property and Equipment (Fixed Assets)
- Accounts Payables (Copies of invoices and loan agreements.)
- Deferred Revenue
- Grants and Contributions
  - Funder/donors, grant periods, amounts, etc.
  - Donated services and materials
  - Special events and benefits
- Inventory
- Payroll records, including time-sheets, federal and state payroll-related tax returns, and vacation records
- Board minutes
- Leases and other contracts
- Bank statements, bank reconciliations, checkbooks, and canceled checks
- Financial files for paid bills and deposits
- Accounting system chart of accounts, journals and ledgers, trial balance, etc.
- Annual Organizational Budget
- Federal reports
A month or two prior to the beginning of the audit serves as a good time to hold an annual employee training on internal fiscal policies and procedures and the organization’s code of ethics. The auditor will interview staff about these issues as part of the compliance inventory. The audit committee should prepare by reviewing the prior year’s audit and verifying that all previous audit findings have been resolved.

### 6.5 Responding to Audit Findings

Should the audit result in a qualified opinion or material findings, the Audit Committee of the Board of Directors must prepare a written response outlining a plan of corrective action. According to OMB Circular A-133, “the corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.”

Common audit findings include:

- Lack of a formal system for capturing costs
- Lack of or inconsistent cost allocation methods
- Unallowed uses of federal funds
- Noncompliance with tax filing laws
- Failure to meet federal reporting compliance requirements
- Inadequate record or bookkeeping practices
- Inadequate preparation for the audit

#### Can You Answer These Questions?

Does your organization have audited financial statements? _________

Does your organization have more than $500,000 in annual federal funding? _________

Is your organization subject to an A-133 audit? _____________
UNIT 7: Common Compliance Pitfalls

Failure to comply with the terms and conditions of a federal award can lead to increased oversight, withholding of payments, disallowed costs, termination of the award, debarment, and legal proceeding, if necessary. This section discusses common compliance pitfalls that award recipients should be aware of.

7.1 Inappropriate Use of Restricted Funds

Federal grant funding is “restricted” for pre-approved and authorized uses only. Federal funds may not be used for any unallowed cost identified in OMC Circular A-122 Cost Principals, nor may funds from one federal award be used to cover costs from a different federal award or any other program. Common misuses of federal funding include payment of debt, payment of interest expense on debt and credit cards, loans and advances to employees, payment of unapproved employee bonuses, and use of federal funds for fundraising activities.

7.2 Commingling Of Funds

Commingling of funds is defined as depositing funds into a general account without the ability to identify the specific source of funds used to cover each expenditure. Occurring less frequently, but also regarded as commingling of funds, is the mixing of federal funds with money belonging to an employee or board member of the recipient organization in a common bank account. Commingling of federal funds is generally not allowed.

An award recipient’s accounting system should have the capacity to segregate revenues and direct costs associated with each federal award in a unique account within the financial accounting system. Fund accounting systems have this capacity by design. Commercial accounting systems, such as QuickBooks, QuickBooks for Nonprofits, and Peachtree, must be deliberately manipulated to accomplish matching of revenues and expenses by fund, which requires proper account setup as well as an experienced and knowledgeable accountant or bookkeeper.

Fund accounting systems have the capacity to generate a separate general ledger, revenue, expense, and balance sheet reports for each source of funding and to produce combined reports for the entire organization. Fund accounting systems are not required of federal award recipients, but the lack of fund accounting capacity frequently results in commingling of funds.

There is no federal requirement that each federal award be maintained in a separate bank account, but federal grant recipients may not use federal funds from one award to pay for costs associated with other programs and services. In addition, internal funds transfers

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21 This is NOT a reference to bank accounts
from a designated federal award account are not allowed; except as necessary to correct bookkeeping or clerical errors. Corrective cost transfers should be made as soon as possible following an error and within 90 days, unless otherwise authorized by a Federal Grants Management Officer. Transfers must be supported by documentation that fully explains how the error occurred and with a statement certifying that the new charge is correct. An explanation merely stating that a transfer was made “to correct an error” or “to transfer [funds] to the correct project” is insufficient. Transfer documentation is subject to audit.

7.3 Contractor vs. Employee Status

To reduce costs, nonprofits may hire individuals as contractors or consultants, rather than utilize staff, to deliver services related to a federally funded program. Prior to entering into a contractor/consultant agreement, federal award recipients must determine that the hire relationship meets the criteria outlined by the Internal Revenue Service (IRS) for contractor/consulting relationships. IRS requires employers to “withhold federal income taxes, withhold and pay Social Security and Medicare taxes, and pay unemployment tax on wages paid to an employee”22. Employers do not withhold or pay taxes on compensation to independent contractors and consultants. Reclassification by the IRS of a contractor or consultant to employee status can result in unexpected, additional payroll taxes, penalties, and interest.

Internal Revenue Service Publication 15-A23 provides guidance on distinguishing employees from independent contractors and consultants. The fundamental difference between an employee and an independent contractor/consultant is how much control the employer has over the employee/contractor and conversely how much independence the employee/contractor has. Nonprofits should reference IRS Publication 15-A for more in-depth coverage of this topic, but generally the differences between employees and contractors/consultants are as follows:

<table>
<thead>
<tr>
<th>Employees</th>
<th>Contractors/Consultants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time workers who are usually economically dependent upon the employer.</td>
<td>Contractors are generally not employed full-time and are not economically dependent on the payer.</td>
</tr>
<tr>
<td>Employers control how, when, and where work results are achieved.</td>
<td>Contractors control when, where, and with what tools, personnel, and methods work is done.</td>
</tr>
<tr>
<td>Employers generally provide training to employees.</td>
<td>Contractors have the necessary skills, tools, and equipment to provide services.</td>
</tr>
<tr>
<td>Employee/employer relationships are governed by common law.</td>
<td>Payer/contractor relations are contractual.</td>
</tr>
<tr>
<td>Employers generally provide training and benefits such as insurance, vacation, or sick pay to employees.</td>
<td>Contractors do not generally receive benefits from the payer.</td>
</tr>
</tbody>
</table>

22 http://www.irs.gov/charities/article/0,,id=128602,00.html
7.4 Improper or Lack of Cost Documentation

Federal award recipients must be able to produce proper documentation for all expenditures using federal funds, including payroll and assets acquired through the procurement process. Awardees must adhere to procurement documentation requirements and properly record the disposition of assets purchased with federal funds. Failure to properly record these transactions in the accounting system or to obtain and retain source documents such as invoices, contracts, and receipts can lead to questioned costs during the annual audit or to a determination by the federal awarding-agency of unallowable costs under OMB cost principals. Finally, documentation for matching funds must meet federal standards\(^{24}\) or matching funds could be disallowed.

7.5 Insufficient Working Capital for Cost Reimbursement Awards

Federal award recipients that do not meet the criteria for cash advances (see Unit 4.1.2) must be able to provide from their own unrestricted cash resources, sufficient working capital to meet payroll and operating expenses associated with the federally funded program until these expenditures are reimbursed by the federal awarding-agency. Federal Grants Management Officers monitor the cash position of federal awardees to ensure that award recipients are able to execute program requirements and meet performance objectives.

As a rule of thumb, working capital should be sufficient to cover 45 days of operating costs. One day of operating costs is calculated by dividing annual operating cost by 365 days. To calculate 45 days working capital, multiply one day’s operating cost by 45. Working capital is generally sourced from unrestricted contributions or a bank line-of-credit. Organizations with insufficient working capital run the risk of being placed on high-risk status or being released from obligation if the federal awarding agency determines that the organization cannot sustain the program.

Working Capital Calculation:

\[
\text{Annual operating costs} = 600,000 \\
\frac{600,000}{365 \text{ days}} = 1,644 \text{ Operating Cost per Day} \\
1,644 \text{ Op Cost per Day} \times 45 \text{ Days} = 73,980 \text{ Working Capital Need}
\]

\(^{24}\) See Unit Two of this Manual for more information on federal matching funds.
UNIT 8: Closing Out a Federal Award

8.1 Final Reports and Audit

To close out an award, funding recipients must submit the following final reports within 90 calendar days following the end of the award period:

(a) SF-269 Financial Status Report;
(b) SF-272 Report of Federal Cash Transactions;
(c) SF-270 Request for Advance or Reimbursement, if the agency is owed a final reimbursement;
(d) Final performance report; and,
(e) Report on disposition of assets purchased with federal funds.

Reports must cover the term of the award period from the start date through the end date, including any extensions.

Grantees may request an extension to file final reports, if warranted. Any unspent funds advanced to the award recipient should be returned, unless those funds were previously authorized for use in other projects. Final reports must identify cumulative indirect cost charges against the award.

The federal funding-agency may or may not elect to conduct an internal compliance audit of the award recipient’s financial transactions and service records, depending on concerns, if any, with reports submitted over the course of the grant period. At the end of
an award, if the federal awarding-agency has not yet performed a closeout audit, the awarding agency may hold reimbursable funds to cover any disallowed costs that might be uncovered in the final audit.

At the end of the award, if matching funds or cash contributions required by the funding recipient are insufficient, the federal funding agency reserves the right to adjust the final award amount at closing.

### 8.2 Request for an Award Extension

Award recipients should be monitoring cumulative actual expenditures of federal funds against the total approved award amount. If it appears that the grantee may not be able to expend all of the awarded funds within the award period, grantees may request a one-time extension of the federal award’s expiration date up to a period of 12 months. The award recipient must submit a written request to the Federal Grants Management Officer no later than 10 days before the expiration date of the federal award. The request should explain why an extension is necessary.

Requests made with the submission of final reports, after the expiration date has passed, cannot be granted. Extensions that require additional federal funding or that modify approved program objectives or the scope of the award are not permitted.

Requests for extensions are fairly common, as many awards get slow starts or experience delays as a result of having to hire staff, secure resources, and/or adjust programmatic methodologies. Most federal agencies prefer to grant an extension rather than have funds returned, contingent upon whether an extension supports the recipient organization’s effort to complete program objectives and goals.

### 8.3 Disposition of Equipment/ Inventory After the Award Ends

At the time of budget submission, recipients of federal awards have an opportunity to recommend a disposition plan for non-expendable assets (such as vehicles, large copiers, etc.) purchased with federal funds. Upon acceptance of the plan, the disposition plan is written into the award contract. The title to physical property purchased with federal funding is typically vested with the award recipient over the life of the award and, thereafter, for as long as the property is used for its original purpose. Award recipients must provide insurance coverage for equipment and real property purchased with federal funds.

Unless specified in the award contract, at the end of a federal award, the recipient organization must request disposition instructions from the federal awarding-agency for assets and equipment purchased with federal funds. The federal awarding-agency shall dictate one or more of the following disposition instructions, per OMB Circular A-110:
(1) The recipient organization may retain title to the asset after compensating the federal government for that percentage of the current fair market value of the property attributable to the federal participation in the project.

(2) The recipient organization may sell the property under guidelines provided by the federal awarding-agency and pay the federal government for that percentage of the current fair market value of the property attributable to the federal participation in the project after deducting reasonable sales-related costs.

(3) The recipient organization may transfer title to the property to the federal government or to an eligible third party. In such cases, the recipient organization is entitled to compensation for that percentage of ownership attributable to recipient organization.
Post-Training Assessment

Check your response to the Pre-Assessment Quiz on Page 9

1. True False Every nonprofit is eligible for federal funding.
2. True False Recipients and sub-recipients of federal funding follow the same rules and regulations regarding use of federal funds.
3. True False Grants and cooperative agreements are the same.
4. True False Budgets can be revised with the permission of the awarding agency.
5. True False Nonprofits with federal awards must operate on an accrual-based accounting system.
6. True False Award recipients may choose their method of payment from the government: advance or reimbursement.
7. True False Federal funds must be kept in a separate bank account.
8. True False A list of allowed costs under federal awards can be found in OMB Circular A-122.
9. True False Federal award recipients may submit financial reports prepared in EXCEL.
10. True False Three written bids are required for goods purchased with federal funds and valued over $5000.
11. True False Records related to federal awards must be retained for a minimum of three years.
12. True False All nonprofits with federal funding are eligible for a federal indirect cost rate.
13. True False Severance pay is an allowable cost under federal awards.
14. True False Nonprofits with $500,000 or more in federal funding must conduct and submit an A-133 audit.
15. True False Federal funds can be used on a short-term basis to cover expenses not related to the federal award.
Conclusion

_Congratulations!_ You’ve completed “How to Manage a Federal Grant or Cooperative Agreement”. Hopefully, you have read and absorbed a substantial amount of information related to federal awards. Please regard this manual as a basic guide to administering a federal award; designed not to replace written federal guidelines or to answer every question, but to stimulate your desire to want to understand and properly execute federal regulations associated with your federal awards.

Please do explore the Internet links to additional resources in Appendix A and do read OMB Circulars A-110, A-122, and A-133. Above all, when in doubt about a federal rule or regulation, contact the federal awarding-agency directly for guidance.
Appendices

Appendix A  Internet Links and Resources
Appendix B  Glossary
Appendix C  Federal Award Application and Reporting Forms
Appendix D  Sample Time and Effort Activity Report
Appendix E  Sample Cost Allocation Policy
APPENDIX A
Internet Links to Federal Forms and Other Resources

Link to Grant Application Forms and Budget Guidelines
www.ago.noaa.gov/grants/pdf/

Link to Grants.gov
www.grants.gov

Link to OMB Circulars A-110, A-122, and A-133
www.whitehouse.gov/omb/circulars/index.html

U.S. General Services Administration Excluded Parties List System
http://epls.gov

Link to HHS Grants Policy Statement
www.ahrq.gov/fund/hhspolicy.htm

Link to Dun & Bradstreet, Inc. (DUNS Number)
www.dnb.com/

Link to Federal Guide on Obtaining a Dun & Bradstreet, Inc (DUNS Number)
www.whitehouse.gov/omb/grants/duns_num_guide.pdf

Link to IRS Employer Identification Number (EIN)
www.irs.gov/

Link to Central Contractor Registration (CCR)
www.CCR.gov

Link to Code of Federal Regulations (CFR)
www.gpoaccess.gov/cfr/index.html

Link to Federal Audit Clearing House
http://www.dpm.psc.gov/

Link to HHS Division of Cost Allocation
http://rates.psc.gov/fms/dca/map1.html

Link to ExpectMore.gov was established by the federal government to allow the American people to see how well Federal programs are performing. Agencies and OMB post assessments of Federal programs in jargon-free language for nearly 800 Federal programs, representing over 80 percent of the Federal budget.

Link to Results.gov provides detailed information on the President's agenda for improving Federal agency management and tracks agencies' progress in meeting their goals.
APPENDIX B

Glossary

Allowed costs means those expenses charged to a federal award allowed under federal cost principals established in OMB Circular A-122.

Authorized Organizational Representative is the designated representative of the applicant/recipient organization with authority to act on the organization’s behalf in matters related to the award and administration of grants. In signing a grant application, this individual agrees that the organization will assume the obligations imposed by applicable Federal statutes and regulations and other terms and conditions of the award, including any assurances, if a grant is awarded. These responsibilities include accountability both for the appropriate use of funds awarded and the performance of the grant-supported project or activities as specified in the approved application.

Award means financial assistance that provides support or stimulation to accomplish a public purpose. Awards include grants and other agreements in the form of money or property in lieu of money by the Federal Government to an eligible recipient. The term does not include: technical assistance, which provides services instead of money; other assistance in the form of loans, loan guarantees, interest subsidies, or insurance; direct payments of any kind to individuals; and contracts, which are required to be entered into and administered under procurement laws and regulations.

Cognizant Agency is the federal agency providing a preponderance of an organization’s federal funding.

Commingling of funds is depositing funds into a general account without the ability to identify each specific source of funds used for an expenditure. Commingling of federal funds is generally not allowed. Also defined as the mixing by a fiduciary, trustee, or lawyer of the money or property of a customer or client with his own without a detailed and exact accounting of which part of the common funds and property belong to the customer or client.

Corrective Action is action taken by the audited entity that: 1) corrects identified deficiencies; 2) produces recommended improvements; or, 3) demonstrates that audit findings are either invalid or do not warrant auditee action.

Cost Allocation Plan is the documentation of identifying, accumulating, and distributing allowable costs under grants together with the allocation method used.

Direct Costs are identifiable to a particular program, and charged to a particular state or federal program award. Direct costs are the opposite of indirect costs.

Disallowed costs means those charges to an award that the Federal awarding-agency determines to be unallowable, in accordance with the applicable Federal cost principles or other terms and conditions contained in the award.

Equipment means tangible nonexpendable property charged directly to an award having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. However, consistent with recipient policy, lower limits may be established.
**Federal Awarding Agency** means the Federal agency that provides an award directly to the recipient.

**Federal Indirect Cost Rate** is a device for determining fairly and conveniently, within the boundaries of sound administrative cost principles, what proportion of indirect cost each one of the entity programs or funding sources should bear.\(^{25}\) This pre-established rate is used by the federal government to determine the level of indirect costs that should be reimbursed on federal grants and contracts.

**GAGAS** means generally accepted government-auditing standards issued by the Comptroller General of the United States, which are applicable to financial audits.

**Generally Accepted Accounting Principles** has the meaning specified in generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA).

**Indirect Costs** are costs incurred for a common or joint purpose benefiting more than one cost objective, which is not readily assignable to a specific program being benefited. Indirect costs are charged to various programs and “pooled”.

**Indirect Cost Rate** is the ratio, expressed as a percentage, of an organization's total indirect costs to its direct cost base (commonly direct salaries and wages).

**OMB** is US Office of Management and Budget within the Executive Office of the President of the United States.

**Pass-Through Entity** is a nonfederal entity that provides a federal award to a sub-recipient.

**Questioned Cost** is a cost questioned by an auditor because an audit finding indicates: 1) a possible violation of a law, regulation, contract, grant, or other agreement covering use of federal funds, including use of nonfederal funds used to match federal funds; 2) costs which were not supported by adequate documentation at the time of audit; or, 3) costs incurred seem unreasonable to charge to the grant.

**Sub-award** means an award of financial assistance in the form of money, or property in lieu of money, made under an award by a recipient to an eligible sub-recipient or by a sub-recipient to a lower tier sub-recipient. The term includes financial assistance when provided by any legal agreement, even if the agreement is called a contract, but does not include procurement of goods and services.

**Single Audit** is an audit in accordance with OMB Circular A-133 that covers both the entity’s financial statements and the federal awards.

**Sub-Grant** is an award of money or property made under a grant by a grantee to an eligible sub-grantee. It does not include vendor payments.

**Sub-Grantee** is the government or other legal entity to which a sub-grant is awarded. A sub-grantee is accountable to the grantee for use of the funds provided under a sub-grant.

\(^{25}\) OMB Circular A-122.
Sub-Recipient means the legal entity to which a sub-award is made and which is accountable to the recipient for the use of the funds provided.

Supplies means all expendable property, excluding equipment, charged directly to a federal award.

Working capital advance means a procedure whereby funds are advanced to the recipient to cover its estimated disbursement needs for a given initial period.

Principal Investigator/Program or Project Director is the individual designated by the recipient who is responsible for the scientific, technical, or programmatic aspects of the grant and for day-to-day management of the project or program.

Grant is generally used to mean both grants and cooperative agreements, unless otherwise specified.

Grants Management Officer (GMO) is the federal official responsible for the business management and other non-programmatic aspects of a federal award. These activities include, but are not limited to, evaluating grant applications for administrative content and compliance with statutes, regulations, and guidelines; negotiating awards; providing consultation and technical assistance to applicants and recipients, including interpretation of grants administration policies and provisions; and administering and closing out grants. The Grants Management Officer is the focal point for receiving and acting on requests for prior approval or for changes in the terms and conditions of award. The GMO is the only official authorized to obligate the expenditure of federal funds or to change the funding, duration, or other terms and conditions of an award.

Federal Project Officer is the federal official responsible for the programmatic, scientific, and/or technical aspects of assigned applications and grants whose responsibilities include, but are not limited to, development of programs; preparation of funding opportunity announcements; provision of programmatic technical assistance; and post-award monitoring of project/program performance, including review of progress reports and making site visits.

Recipient is used to refer to the organization to which a grant or cooperative agreement award has been made.

Unexpended Funds are amounts of an award that are not obligated by the end of the project period. Unexpended funds must be refunded at the end of the project period.

Un-obligated Balance is that portion of the award that has not been obligated by the grantee or sub-grantee. The determination is made by subtracting the cumulative obligations from the funds authorized by the award.
APPENDIX C
Federal Award Application and Reporting Forms

- SF-424, Application for Federal Assistance
- SF-424A, Budget Information - Non-construction Programs
- SF-424B, Assurances - Non-construction Programs
- SF-269, Financial Status Report (Long Form)
- SF-269A, Financial Status Report (Short Form)
- SF-270, Request for Advance or Reimbursement
- SF-272, Federal Cash Transactions Report (Long Form)
- SF-272A, Federal Cash Transactions Report (Short Form)
- SF-LLL, Disclosure of Lobbying Activities
- Form CD-511 Certifications Regarding Debarment, Suspension, and other Responsibility Matters, Drug Free Workplace Requirements and Lobbying.
Sample Monthly Time & EFFORT Record Monthly Payroll

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Status: Full-Time _______ Part-Time _______

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| Program B             |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |     |
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| Other                 |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |     |
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(Approved by Supervisor or Program Director) __________________________  (Signature of Employee) __________________________  (Date) ________
**Instructions for Completing Monthly Time & Effort Record**

1. Time records are required by federal regulations to substantiate work of personnel on payroll who are paid in whole or in part with federal grant funds to substantiate time and effort of those whose salaries that are used as matching funds.

2. Record all hours worked in whole hours only and where multiple accounts are involved, segregate hours by account number. Use the appropriate symbol from the following list for days not worked. Occasional circumstances may necessitate use of both number and symbol on the same day.
   - **X** – Non-work days (Saturdays & Sundays)
   - **H** – Holiday
   - **V** – Vacation (paid)
   - **S** – Sick Leave (paid)
   - **Z** – Other (explain by footnote, i.e.: Leave without pay, jury duty, etc.)

3. It will be the responsibility of the Program Director and his/her supervisor to insure that appropriate personnel on his/her program payroll submit the reports. If for valid reason the salaried individual who should prepare the report is not available, it should be prepared and signed by a responsible person having first hand knowledge of the services performed. Time records are to be maintained on a daily basis and submitted promptly at the end of the each pay period.
SAMPLE COST ALLOCATION POLICIES

POLICIES

- Costs are allocated on the basis of an established cost allocation plan
- Indirect costs are charged to an indirect cost pool and allocated on the basis of FTEs.
- Federal funds shall not be expended on unallowed costs per OMB guidelines

DEFINITIONS:

Direct costs: Direct costs can be identified specifically with a project and therefore are charged to that project. The accounting system records these costs as they are incurred within the series of accounts assigned for that purpose and further distribution is not required. Direct costs include the value of volunteer services.

Indirect costs: Indirect costs are costs incurred for common or joint objectives and therefore cannot be readily and specifically identified with a particular project or activity. These costs are grouped into a common pool and are distributed to benefiting activities by a cost allocation process.

PROCEDURES

Each government grant/contract provides specific contract compliance guidelines to which our organization is held accountable. Federal funding guidelines are based on the stipulations provided by United States Office of Management and Budget OMB Circular A-110 and A-122 and by the U.S. Department of Health and Human Services Grants Policy Statement. These circulars outline the basic principles that indicate the allowability of costs and hence are integral reference documents when carrying out programs funded by federal agencies.

Indirect Cost Allocation Methodology

Indirect costs are charged to an indirect cost pool consisting of administrative salaries and related fringe benefits, and non-salary expenses. Indirect costs are allocated on a set proportion or rate, with each program charged its share of the indirect cost pool based on each program’s relative share of FTEs. Each program is allocated its relative share of indirect costs – including the program areas of fundraising and administration.

Unallowed Costs

The following costs, as defined in OMB Circular A-122, cannot be charged to Federal awards. Internal controls are in place to insure that such costs are not charged to Federal awards or used in the calculation of the indirect cost rate.

- advertising and public relations
- entertainment/alcoholic beverages
- capital expenditures (unless authorized by the funder)
- defense claims by the Federal Government
- interest expense
- lobbying and fundraising.
Charging Expenses to Programs and Grants

Program costs are charged as either direct or indirect costs on the basis of the following cost policies:

1. **Salaries and Wages**
   - **Direct Costs** – The following employees direct charge their salary and benefits costs, as their work is identifiable to specific programs/grants.
     - Heath Educators
     - Project Director
     - Program Manager
   - **Indirect Costs** – There are no staff that charge 100% of salary/wages indirectly.
   - **Mixed Charges** – The following employees charge their salary and benefits costs to both direct and indirect activities.
     - Executive Director
     - Administrative Secretary

2. **Fringe Benefits**

   Our accounting system tracks the following fringe benefit costs by individual employee and charges those costs directly or indirectly in the same manner as salary and wage costs are recorded.
   - Unemployment insurance
   - Worker's compensation
   - F.I.C.A
   - Medicare
   - Dental insurance
   - Health insurance

**Treatment of Paid Absences** - Release time costs (vacation leave earned, sick leave used, and holiday pay) are considered part of salary costs. Paid absences are recorded in the accounting system as a direct or indirect cost in the same manner that salary costs are recorded. Vacation leave earned, but not used during each fiscal period, is recorded as a cost in the period earned.

3. **Travel**

   Travel costs are charged as either direct or indirect costs depending on the purpose of the trip.

4. **Board Expenses**

   Board expenses are absorbed by the agency and are not charged either directly or indirectly to Federal contracts or restricted grants, except for those board-related expenses itemized and authorized in a grant budget.

5. **Supplies and Material**

   To the maximum extent possible, office supplies and materials are direct charged to the contract/grant that uses the supplies or materials. Supplies and materials that cannot be traced to a specific program are charged to the indirect cost pool and allocated on the basis of FTEs.
6. **Occupancy Expenses**

Our rental lease provides for equal monthly payments during the term of the lease. Monthly rental cost is charged as either direct or indirect based on space usage by direct and indirect personnel. Common spaces, shared by both direct and indirect personnel are charged to the indirect cost pool and allocated on the basis of FTEs.

**Direct Rental Cost:** The offices of direct charge employees, counseling and intake areas, and training facilities are charged directly to the programs that benefit from these resources. The actual dollar amount charged is calculated by multiplying the allocation percentage (calculated by dividing the number of direct charge FTEs by total FTEs) times the monthly rental cost.

**Indirect Rental Cost:** The cost of office space occupied by staff whose salaries are indirectly charged full or in part is charged to the indirect cost pool and then allocated to the agency’s various programs based on the FTE. The actual dollar amount charged is calculated by multiplying the allocation percentage (calculated by dividing number of indirect charge FTEs by total FTEs) times the monthly rental cost.

7. **Utilities**

Utilities are included in the monthly rental cost and as such, are allocated in direct proportion to rent expense.

8. **Communications**

**Postage:** The postage meter has been programmed to identify the specific program or activity to charge costs against. Express mail costs are also specifically identified to the program or activity incurring the cost. If an item cannot be identified to a specific program, it is classified as an indirect cost.

**Office Telephone:** Shared direct cost charged to program on a basis of FTEs.

**Cell Phones:** Individual phones are direct charged to the programs that use them.

9. **Photocopying and Printing**

Photocopying and printing expenses are directly charged to the benefiting activity. Photocopying and printing expenses that cannot be directly traced to a benefiting program are charged to the indirect cost pool and then allocated using an FTE-based allocation rate.

10. **Capital Items**

Capital expenditures are charged directly to programs only in cases where a contract or grant specifically authorizes such charges. No capital asset is charged indirectly. The cost of capital assets purchased with non-Federal funds are recovered through depreciation charges.

11. **Depreciation**

The cost of capital assets purchased with non-Federal funds are recovered through depreciation charges using straight-line depreciation methods in accordance with generally accepted accounting principles. Depreciation is charged directly or indirectly in accordance with the use of the asset.