

Essentials of Grants Management :
A Guide for the Perplexed
By Henry Flood

You got the grant!

The board is thrilled, the boss is proud, the staff is grateful. Everyone is jubilant until...reality bites. Someone has to be responsible for administering the project, complying with regulations, reporting to the funder. And that someone is you.

Welcome to the world of grants management.

Regardless of whether you're a seasoned professional in a large institution or a part-time volunteer at a small grassroots agency, the job of grants manager involves a difficult balancing act: ensuring that program staff have the latitude to accomplish something meaningful at the same time that every obligation to the funding source is met. The less time and energy you devote to cautious oversight, the greater the risk of running into compliance problems. The more time and energy you devote to dotting every i and crossing every t, the greater the risk of impeding progress and favoring form over substance.

How do you meet these competing demands? The answer will vary according to the operating style of your organization, the complexity of your project, and the nature of the funding source, but effective management of any grant depends on certain core principles. Adhering to those principles is especially important in the case of government grants, where compliance and reporting requirements tend to be most rigorous. But they are also valuable in managing grants from foundation and corporate sources—helping to build a relationship of trust with your funders and making the management process within your organization more orderly.

Organize for the Receipt and Management of Funding

Once your grant proposal has been funded, get ready for the paperwork to start flowing. Task number one is to create a project file that will be used to document all major actions from grant award through closeout.

I recommend using a six-part pressboard file folder—the kind with bendable prongs to hold papers that are two-hole punched. This will help your records

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stay put even with repeated use. Here's how to divide it:

Section 1 - contains a copy of the executed grant agreement, including the grant budget as approved by the funding source (even if that is a separate document).

Section 2 - contains a copy of the grant budget in a format that reflects how it will be processed through your accounting system. As you spend money, this document will be revised to show funds spent from authorized categories and the net remaining account balances.

Section 3 - contains correspondence with the funding source, in ascending order from earliest to latest.

Section 4 - contains financial reports that you have filed with the funding source.

Section 5 - contains program progress reports.

Section 6 - contains the audit and project closeout documentation. (Also include a copy of the approved grant proposal in this section. You'll probably need to refer to it during the audit and closeout, and you may also want to have it handy as your project progresses.)

It's useful to prepare a "grant profile," summarizing the business relationship between you (the grantee) and the funding source. Essential business information about a grant can usually be compiled from three sources: your grant application, the grant award documents and the project budget. For easy reference, this document should be placed on top of the grant award documents in Section 1 of the partition file folder.

When you have several grants to track, and more than one project manager, it's a good idea to have a separate managers' grant status file. A four-part file folder will serve this purpose. Section 1 should contain a tracking form for grant proposals filed but not yet awarded. Once you know a grant is awarded, transfer selected award tracking information to your list of awarded grants and place this information in Section 2. Section 3 contains one profile for each grant you hold. Section 4 is for correspondence and action items associated with identified grant administration problems.

Two more key tasks need to be performed. First, study the terms and conditions of the award and compare them to your approved grant

application. Occasionally, the grantmaker inadvertently makes mistakes or includes inappropriate terms and conditions in the final grant agreement. If you need to make corrections or clarifications, it's important to take them up with the designated officials as promptly as possible.

Second, hold a project initiation briefing with the project manager and all staff responsible for carrying out any activities set forth in the grant application. At this briefing, you should ensure that everyone understands the essential terms and conditions of the grant as well as their own responsibilities.

Develop a Task Management Plan

The initial scope of work in a grant-funded project is often very general; it may not have the specificity of a project implementation plan. Sometimes the staff participating at award time will differ from the staff mentioned in the grant proposal. There may be other reasons to refine your scope of work. You need to ensure that your project manager and staff have a reasonable plan of action for carrying out each approved activity. Having this revised work plan in place before people go off in many directions will help you with project monitoring and quality control.

Establish a System of Compliance Management

Grants are not gifts. They almost always come with strings attached—and in the case of federal grants, the requirements may be so numerous that the grant is practically indistinguishable from a contract. If your organization accepts money from a government source, expect to be held accountable in ways that may seemingly have little to do with your approved project activities.

These compliance requirements exist because government grants are often given to promote certain policies (and discourage others). The requirements may derive from the enacting legislation, agency regulations, executive orders or government-wide grant policy documents issued by the Office of Management and Budget (OMB). The vast majority of federal compliance requirements will be found in four places:

- OMB management and cost circulars;

- the annual compliance supplement to OMB Circular A-133;
- The Standard Assurances for Construction and Non-construction Grant Funding;
- various government-wide grant rules (codified agency adoptions—see chart on page 9).

In addition, your grant award letter and the accompanying grant agreement will contain information about applicable compliance requirements. Your award letter is a binding document. In order to be sure of the scope of your compliance responsibilities, you need to familiarize yourself with all the sources that impose conditions on your grant award.

Start by developing a written checklist of those requirements that apply to your grant and note the action required to demonstrate compliance. Often this can be accomplished by simply placing certain documents (e.g., personnel policies or procurement policies) in a compliance file so that they are available for inspection, should the funder ask to see them.

Other requirements may be more onerous to fulfill, impelling your agency to take specific actions as a prerequisite to receiving or spending funds. For example, HUD often requires its grantees to complete an environmental assessment before it will release funds for a project.

While many of the standard compliance requirements have been around for years, it is important not to let them slip through the cracks. Overlooking a critical requirement could be costly. Besides, auditors and grant monitors will not be amused if you take compliance for granted.

Maintain a Good Financial Management System

A critical aspect of grant administration is the establishment and maintenance of a sound financial management system. Good financial management has three major components:

- An accounting system that meets generally accepted accounting principles for public and nonprofit organizations;
- A system of cost management and controls that ensures proper cost allocation and that complies with cost management requirements imposed by

the funding source;

- A reporting system that fairly and accurately documents the spending of grant funds.

Don't expect that your funding source will prescribe a specific accounting system, or even insist that your accounting system be automated. What federal and state governments—as well as many larger foundations—do demand is that your accounting system meets certain minimum standards

But an adequate (or even an outstanding) accounting system is not the sole criterion for determining whether you have a sound system of financial management. How you decide to allocate, charge and document costs associated with a grant is also very important. Grant administrators, project administrators and financial managers must have a thorough understanding of how direct and indirect costs are defined, composed, allocated, and charged to one or more authorized grants.

This is especially important in administering federal grants. Using the three standard cost circulars (A-21, A-87, and A-122) and your grant agreement as guidance, it's usually safe to conclude that a cost may be charged to a grant if the cost is:

- Allowable according to the relevant circular;
- Included in your approved grant budget;
- Not excluded by the terms of your grant award letter and agreement;
- Capable of being allocated;
- Treated consistently when charged;
- Reasonable;
- Necessary to the project;
- Not otherwise disallowed by law, executive order, or agency funding regulations.

Questions involving cost allowability and charging are probably the most frequent source of headaches in administering grants. If it were simply a

matter of applying the cost circulars, allocating and charging costs accurately would be fairly easy. But costs that are allowable according to one or more of the circulars may be excluded or limited by statutes, agency grant program regulations or certain government-wide policies.

No accounting system is designed to resolve these questions. The only way to avoid problems is to thoroughly study your grant agreement, the program regulations, and any laws or other documents that limit or preclude a particular cost. Once you've done that, you may find it helpful to prepare an initial cost management memo setting forth what costs are allowable and how your staff should allocate and apply these costs within your accounting system. Having an advance cost guidance memo can prevent many cost problems from happening in the first place.

If you are a grant administrator at a college or university, there are some additional cost management rules that you must follow, including special rules concerning the treatment of overhead (now called "facilities and administrative costs"). In 1995 the federal Cost Accounting Standards Board (CASB) made parts of their rules applicable to colleges and universities through amendments to OMB Circular A-21.

Inevitably, honest mistakes are sometimes made in allocating and charging costs to a grant. When that happens, immediately correct the mistake through appropriate journal entries and correction memos. If costs were inaccurately charged to a program, reverse the charges as soon as possible and note the change in writing. Most auditors will appreciate your decisive corrective action.

If you have doubts about the allowability of a particular cost, discuss it with your accountant. Consult industry technical references and policy guides. If necessary, take the matter up with your program officer—though you may not always get consistent answers. Government grants officials have varying levels of expertise. Some are very knowledgeable. Others are not.

Maintain a Sound Purchasing System

Substantial purchases are often made with grant funding. All the OMB grant policy circulars require that you develop and maintain a procurement system that is fair to all, ethical, and promotes full and open competition. It is also important that your procurement system reach out to minority and women-owned businesses. Several years ago, the American Bar Association

developed a model procurement code and companion regulations designed to encourage public bodies to develop professional procurement systems. With funding from the Environmental Protection Agency, the ABA also developed a model purchasing code for smaller organizations. These are good source materials to consult if you need to develop a purchasing system.

If you already have a purchasing system in place, make sure it meets the minimum standards contained in the Common Rule for States, Local Governments and Indian Tribes and OMB Circular A-110 (for nonprofits, hospitals and universities). If your present system does not meet these requirements, consider making the appropriate changes. In any event, you will still have to follow the federal procurement standards in spending federal grant money. One figure to keep in mind is the so-called small purchase threshold. Under the standards applicable to federal grantees, the threshold is \$25,000. If state or local law or your own procurement policy sets a lower threshold, you must follow the more restrictive rule.

A typical procurement system will have written procedures covering small purchases, competitive bid contracting and competitive negotiated contracting. Sole-source awards are permitted when there is written justification and where there is truly only one responsible source that can fulfill a procurement requirement.

Follow Necessary Personnel Practices

Standard Forms 424B and 424D contain standard assurances for federal non-construction and construction grants respectively. One of the main conditions set forth in these assurances is that your organization will maintain a system of personnel administration that is merit-based and substantially similar to the requirements of the federal Office of Personnel Management regulations codified at 5 CFR 900.

If you are new to the grant winner's circle and will be using federal grant funds to hire or pay for personnel, you must hire on merit and avoid practices that violate state and federal laws concerning discrimination, equal opportunity and nepotism. You must treat grant-funded personnel the same as other employees, though they may be viewed as temporary permanent employees whose employment is subject to the availability of grant funding.

Maintain a System of Property Management

If your organization acquires real or personal property with grant funds, you must record essential information about these purchases in a system of property records. Data for real estate purchases can usually be gleaned from the purchase deed. Personal property acquisitions are commonly divided into minor capital goods (items whose value is anywhere from \$500 to \$4,999) and major capital goods (items whose value is \$5,000 or greater).

Accurate and current property records help to safeguard grant program assets and document their use in grant-funded programs. Such records serve another useful purpose when project activities associated with a particular grant are concluded. The standard federal property disposition rules permit the grantee to retain property assets whose net present value is less than \$5,000. Finally, grant assets, whether retained or not, will affect your balance sheet; accurate records document asset values in audit reports.

Follow Sound Security, Health and Safety Procedures

Embezzlement of grant funds is not unheard-of. If not covered by your organization's broad form liability or other insurance, key managers and others who handle grant receipts and payments should be bonded. Expensive equipment should also be insured against loss, theft and damage.

Construction grant projects pose special risks and may require special insurance provisions. Most large-scale construction contract documents contain standard bid, payment and performance bond clauses designed to protect the grantee and funding source in the event of contractor failure to perform. Your duty as a manager is to make sure that the required clauses and proofs of compliance are documented.

Some federal grants may encompass activities involving defense or national security. Still other grant-funded activities carry elements of risk, or raise important health and safety issues that are the subject of specific compliance requirements. If you work for a college, university or other organization that will be undertaking grant-funded activities involving the use of human subjects, animals, or biohazards, you will face many compliance obligations.

Nearly 80% of the Public Health Service budget is spent on research. A substantial amount of this funding is for research involving humans and animals. All grant recipients who conduct that research must sign and file

detailed assurances of compliance concerning the management of research involving humans and animals. They must have detailed procedures and operating practices in place that protect humans and animals when conducting experimental, theoretical or applied research.

Federal agencies closely monitor compliance with these policies. Violations and lapses can be sanctioned harshly. In fact, Johns Hopkins University—one of the world’s most prestigious research institutions and a top recipient of government funding—recently had its right to conduct research involving humans suspended following the death of a patient in a research study.

If your organization is undertaking any research involving humans, animals or biohazards, study the recommended practices contained in Principle VI of Managing Externally Funded Programs at Colleges and Universities, published by the Council on Government Relations (<http://www.cogr.edu>). Principle VI-2 covers human subjects; Principle VI-3 covers animal care and Principle VI-4 covers biohazards. The COGR guide is a good introduction to the subject. Details pertaining to specific projects are contained in the various federal rules and guidelines issued by the Department of Health and Human Services, the Public Health Service, the National Institute of Science and the Department of Education.

Establish an Audit Management and Resolution Process

Regular audits are a sound business practice for any public organization. State or local law usually mandates annual audits for municipalities and state-supported institutions, and many of the larger foundations are reluctant to award grants to organizations that do not have a current audit report.

Recipients of federal funding are required to have a “single audit” if federal funding exceeds \$300,000 within a single year. A “single audit” is an audit of your entire organization. Your most significant sources of grant funding are included in the organization-wide audit. The auditor will conduct a financial examination of your grant receipts and expenditures as well as a compliance review to determine whether you are meeting grant terms and conditions.

You are exempt from the single audit requirement if your federal funding falls below the \$300,000 threshold. However, an awarding agency can require that you obtain an audit in circumstances where project performance is deemed unsatisfactory. As it pertains to grant funding, an audit examines

the income and expenditures associated with the grant to determine whether the financial transactions are properly recorded and documented according to generally accepted accounting principles. The technical review, or compliance audit, focuses on how well a grant project is managed.

At the conclusion of the single audit, the auditor is required to present a report that follows audit industry standards and the federal standards contained in OMB Circular A-133 and the compliance supplement. A typical audit report will contain an opinion letter, a series of financial statements with footnoted explanations, a compliance statement and a separate opinion letter concerning compliance with grant terms and conditions.

Sometimes an auditor will identify problems or issues related to how you spent grant funds or complied with the terms and conditions of a grant. These are called audit findings. Audit findings are classified as “material” and “non-material.” Some auditors will use the alternative language of “significant” and “non-significant” to characterize their findings.

A non-material finding means that you did not follow the best or preferred practice in handling grant funds or a compliance requirement. Minor and technical violations of accounting procedures or compliance conditions may be included here.

A material finding is something that affects the financial or compliance integrity of your awarded grants. Examples of material findings include questioned costs and failure to comply with important terms and conditions in a grant award, such as failure to conduct a required environmental assessment, making an illegal purchase, or not meeting your matching funds commitment. Material findings are serious matters that the independent auditor must report to your designated audit agency and ultimately to your funder. Once reported, you must formally respond to all audit findings through the federally established audit follow-up and resolution process. Failure to respond can lead to serious financial and program penalties for your organization.

Given its importance, how do you find a competent accounting firm to conduct the audit? If you're new to the grants arena and most of your income is from grants, this decision is vital. When engaging an auditor:

- Issue a request for qualifications through targeted letters and a public advertisement. Make it clear that the auditor must demonstrate substantial experience with and knowledge of the single audit process. If possible, give

some idea of the nature of your organization and the scope of grant programs to be covered by the audit engagement.

- After receiving and analyzing the qualifications of those who respond, develop a short-list of three to five firms. If your regular accountant is not also your auditor, have this person help you evaluate the qualification responses. Have the short-listed firms interviewed by a selection panel. Ask questions designed to confirm each firm's understanding and experience conducting single audits. How does the firm handle complaints? What about auditor suits? Ask about peer review response to their past audit work. Check each firm out with your designated audit agency and the single audit clearinghouse. Is each firm in good standing with its state board of accountancy? During the interviews, you will also want to assess how comfortable you will likely be with each firm. Can you work with them? Do they really care about you and their ability to serve your needs? What do their letters of reference say? Then contact some of their clients to get a feel for what it was like to actually work with each firm.

- Negotiate with the top-rated firm and see if you can arrive at a scope of work and price that is fair and reasonable in relation to the size of your organization and number of grant programs that will have to be reviewed. Study the proposed audit engagement letter carefully. Watch out for the open engagement clause that is often inserted into these letters. This can be a means for expanding an audit or adding unnecessary work. On the other hand, if your books are a mess and the financial records are in shambles, the auditor will want this protective language.

One of the best resources for help with selecting an auditor is the Government Finance Officers Association (<http://www.gfoa.org>). They publish an excellent guide to selecting an independent auditor.

Follow Sound Ethical Principles

While most organizations are honest and run clean grant-funded programs, a few do not. Then too, there are individuals within organizations who are prone to bend the rules, if not commit outright fraud or larceny. Ethical issues vary according to the program and focus of the grant.

Organizational and personal conflicts of interest are matters that can affect every class of grant-funded program. Your organization must have written policies that preclude your employees and contract personnel from personal

gain associated with federal funding. Employees who work on funded programs—especially those involving research—should be required to disclose any personal or organizational relationship that might compromise the integrity of a funded project.

Research integrity is an equally important issue. Although relatively rare, some researchers misrepresent their research or, worse yet, concoct fraudulent data. In the medical, scientific, engineering and educational fields, research fraud can have devastating consequences. If you manage research grants, make sure that your institution has established appropriate systems of integrity and abides by any mandated rules of research integrity incorporated into your grant agreement. For more information, consult the section on “Research Ethics, Integrity and Conflicts” in the previously mentioned booklet, *Managing Externally Funded Programs at Colleges and Universities*, published by the Council on Government Relations.

Procurement is another area where ethical problems are likely to arise. The major ones involve favoritism in awarding contracts, unfair solicitations, kickbacks for favorable award decisions, exclusionary practices that limit competition, and failure to help minorities gain a fair share of contract awards. The Common Rule on Grant Administration, applicable to state and local governments and Indian tribes, and OMB Circular A-110, applicable to nonprofits, contain clear guidance on matters of procurement integrity.

Construction grants can pose special problems, such as bribery and kickback schemes associated with construction bidding and award. Once awarded, construction contract payments must be monitored to guard against shakedowns of workers and to ensure contractor compliance with the Davis-Bacon prevailing wage requirements. In addition, you must see to it that the retained architect-engineer is fully qualified to handle the monitoring of construction as it progresses. This function is so important that some agencies, such as the Environmental Protection Agency and the Agriculture Department’s Rural Development Administration, may require you to hire an independent resident project inspector to monitor construction activity.

Establish a System of Quality Review and Control

Principle #2 advised you to prepare a detailed post-award task management plan once your grant is officially awarded. That plan can serve as the foundation for establishing a system of program quality review and control. For federal grants, the Common Rule and OMB circular A-110 require that

you monitor program performance as a whole as well as the completion of your funded activities. Your job as a manager is to create performance measures pertaining to project management and activity completion.

With an ongoing process of quality review, you will be able to make appropriate program and budget changes to a grant-funded activity, if necessary. Under the so-called “10% rule,” most federal funders will allow you to make minor budget reallocations. But, major budget changes require advance approval from a grants management official. Program and budget changes should also be coordinated with your program officer. It is always a good practice to ensure that both your program officer and the grants management officer are aware of your need to make program or budget changes to your grant agreement.

Monitor Current Grant Administration Trends

Traditionally, the process of reforming federal grant administration has moved at a glacial pace. But technology is beginning to change that, and the Federal Financial Assistance Management Improvement Act of 1999 is bringing about substantial alterations in the way federal grants are administered.

Since passage of this act, several federal funding agencies have implemented (or are implementing) mechanisms for the electronic submission of grant applications. The National Science Foundation’s “Fastlane” has been at the forefront of this movement. The Office of Justice Programs within the Department of Justice has already initiated an electronic grants receipt and management system. And the Department of Education is currently testing a comprehensive electronic grant system.

It’s important to keep abreast of these new developments. It’s also important to make your voice be heard, by participating in the federal rulemaking process and letting policy-makers know what you think works best. After all, those who manage federal grants have a vital stake in shaping the regulations that they will ultimately have to follow.

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