

# Grants Administration and Grants Accounting

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# Session Objectives

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**01**

Discuss the Grants Management Lifecycle and identify opportunities for financial staff to effectively design controls and manage processes

**02**

Identify common areas of grant risk and noncompliance in grants accounting and discuss mitigation strategies

# Why Grants Administration and Grants Accounting?

Grants are the "new normal" for state and federal funding

- Provides flexibility to allow recipients to use it how it's needed
- Transfers responsibility and accountability to the grantee
- You define the scope
- You develop the performance objectives
- You have some flexibility in setting the budget



# Grants Management tends to be abandoned on Finance's door



**Increased Accountability**



**Increased Reporting Responsibilities**



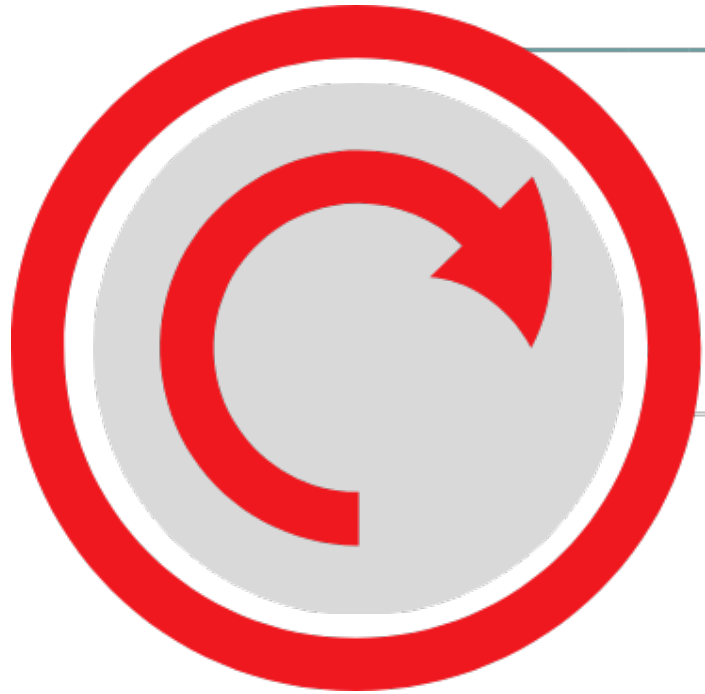
**Distractions Abound**



# The Grants Management Life Cycle

mjcpa.com

# Funding Opportunities



Application Preparation

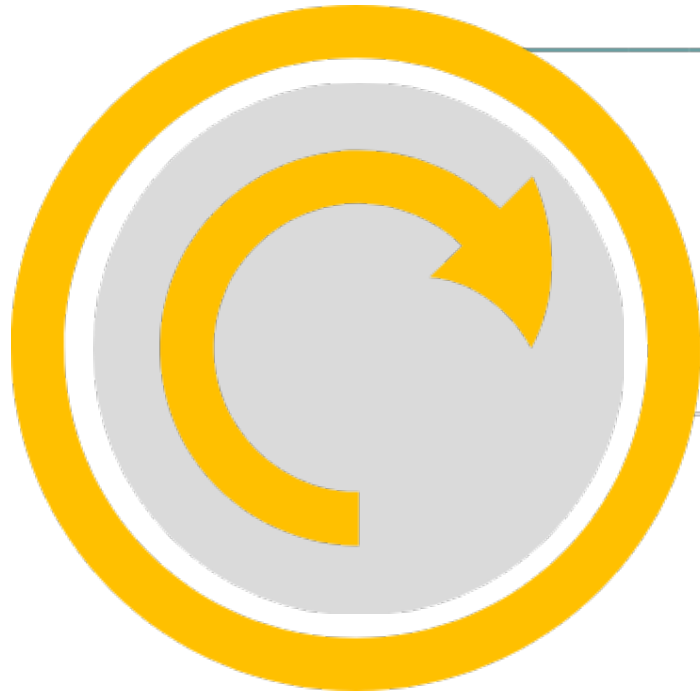
## How is your organization identifying and assessing grant opportunities?

- Need Identification
- Strategic Plan Alignment
- Long-term impacts and costs

## What is included in the financial review?

- Administrative Cost Burden
- Post-Grant Costs
- Reporting Requirements and Responsibilities

# Initial Grant Award



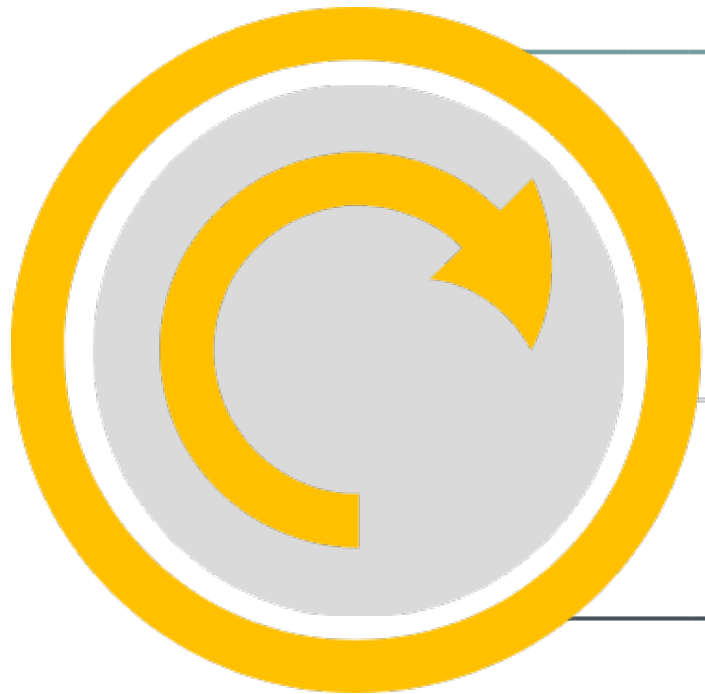
Initial Grant Award

● **Good organization and initial grants management setup is critical for effective grants management and administration**

● **Do not give programmatic staff the “green light” to start implementation until you’ve had a chance to review the grant award documents**



# Grant Award Review



Initial Grant Award

## Three Rings of Grant Award Prep and Review:

- Ring I: What you control
- Ring II: What you can impact
- Ring III: Where you need collaboration

**Review the grant award, the grant application, and any other applicable documents**

**Identify what Finance and Accounting staff can do to minimize risk and ensure an efficient and streamlined grants process**



# Grant Award Review



Administrative Costs



Post-Grant Costs



Financial Reporting and Data Collection



Unfunded Freebies



# Before You Say Go



# Designing and Assessing Your Organization's Internal Controls

- Remember, internal controls are designed to provide “reasonable assurance”
- Internal controls aren’t “one and done” activities
- Effective internal controls account for multiple types of fraud
- Not all controls live in Finance
- COSO Framework isn’t specific or tailored; don’t just go by exactly what it says



# Five Elements of COSO Framework

**Control  
Environment**

**Risk Assessment**

**Control Activities**

**Information and  
Communication**

**Monitoring  
Activities**

# COSO Element 2: Risk Assessment

**Risk Assessment:** The identification and analysis of relevant risks to achieve the entity's objectives, forming a basis for determining how the risks faced by the entity should be mitigated. This should be a perpetual process, with review and assessment of risks mirroring the dynamic conditions of the organization and its operating environment.

## Principles:

- The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives
- The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed
- The organization considers the potential for fraud in assessing risks to the achievement of the objectives
- The organization identifies and assesses changes that could significantly impact the system of internal control

# Assess the Need for New or Modified Controls

Does this grant introduce new risks?

Do you need grant-specific additional controls?

Do you need to include new departments or employees in current control processes and implementation?

What role should Finance play in program-specific controls?

- Are there new invoice reviews, approval reviews, etc. that should be implemented?

# Designing and Assessing Your Organization's Internal Controls

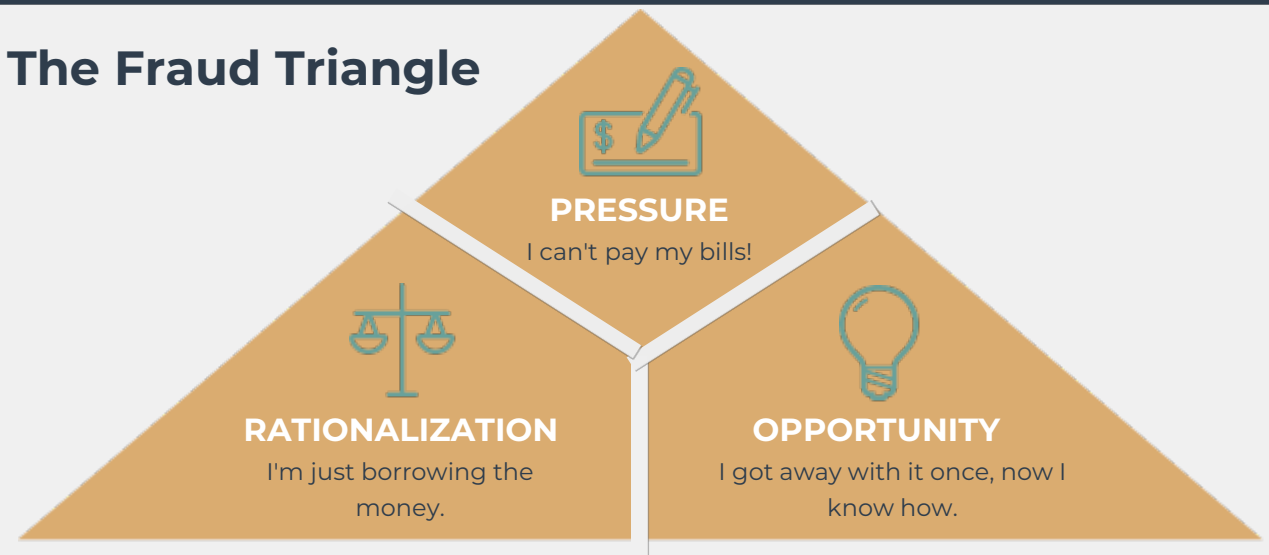


## What are the requirements for fraud?

- Motivation
- Opportunity
- Personal Willingness/Rationalization

## What causes someone to commit workplace fraud?

### The Fraud Triangle



# Who Commits Fraud?

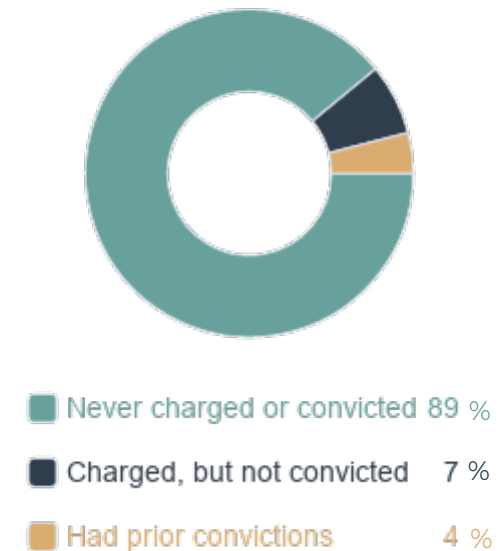
89% of fraud is committed by first timers.

- 41% Employee
- 35% Manager
- 20% Owner

How does the perpetrator's level of authority relate to scheme duration?



Do perpetrators tend to have prior fraud convictions?



Source: ACFE 2020 Report to the Nations - <https://acfepublic.s3-us-west-2.amazonaws.com/2020-Report-to-the-Nations.pdf>



# Consider Your Current Internal Controls and Your Grant Environment



**Are your controls strong enough to deter risks?**



**Are your controls well-documented?**



**Are your controls reasonable to implement?**

- Increased bureaucracy?
- Reduced productivity?
- Increased complexity?

"We have strong internal controls."

The Controls:



# COSO Element 3: Control Activities

**Control Activities:** The policies and procedures that help ensure that management's directives are carried out. These can include approvals, authorizations, segregation of duties, or security and safeguarding of assets.

## Principles:

- The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels
- The organization selects and develops general control activities over technology to support the achievement of objectives
- The organization deploys control activities through policies that establish what is expected and procedures that put policies into action

# COSO Element 3: Control Activities

## COSO Element 3: Control Activities

### Preventive Controls

- Prevent errors from occurring
- May be less “obvious” or “noticeable” especially if they’re doing their job

### Detective Controls

- Detect errors, ensure prompt correction

### Corrective Controls

- Taken to repair damage, correct errors or issues



# COSO Element 3: Control Activities

## Preventive

- Prior approval of transactions (travel authorizations)
- Physical controls (safes, locked doors/drawers, etc.)
- Access controls (financial system passwords, user access levels, etc.)
- Employee background checks and credit checks
- Data Backup for Disaster Recovery
- A/P entry system errors

## Detective

- Monthly bank reconciliation
- Grant budget-to-actual reviews
- Physical inventory counts
- Internal audit

# COSO Element 4:

## Information & Communication

**Information and Communication:** The process of identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities. Employees must have a clear understanding of management's expectations and management must hear and understand employees' concerns.

**Principles:**

- The organization obtains or generates and uses relevant, quality information to support the functioning of internal control
- The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control
- The organization communicates with external parties regarding matters affecting the functioning of internal control

# COSO Element 5: Monitoring

**Monitoring:** A process that assesses the quality of internal performance over time

**Principles:**

- The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning
- The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate



# Internal Control Failure: Correcting Controls

## **Increase oversight and monitoring**

- More frequent reviews
- Random assessment

## **Introduce additional controls**

- Additional separation of duties
- Additional authorization
- Accept the inherent risk





# Compliance Requirements and Common Issues



# Disclaimer: There is no one right way to do things

Grants Admin is like IT

- “Yes, but sometimes”
- “Yes, unless”

Won't be discussing special provisions or conditions



# Audit and Monitor Perspective:

Monitors and Auditors review differently

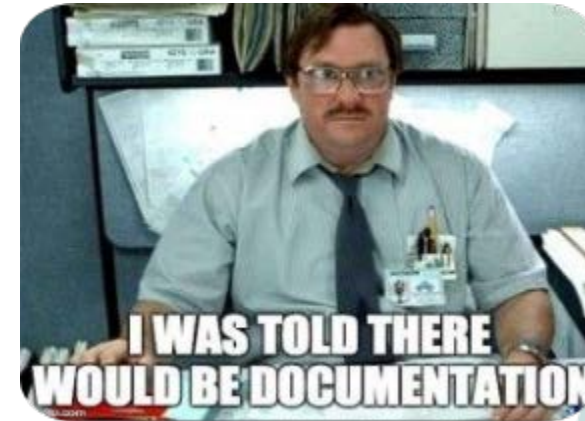
Agency-Specific regulations – Subtitle B of 2 CFR 200

- USDOT: Chapter XII
- HUD: Chapter XXIV
- SBA: Chapter XXVII
- DOE: Chapter XXXIV

200.451: Lobbying Costs

Costs in cost allocation plans, indirect cost pools

- Impermissible personal benefits



# Allowable Activities & Allowable Costs

**Allowable activities:** ones that can be funded under a specific program or grant

**Allowable costs:** does it meet the cost accounting requirements

## **Single Audit:**

- Disbursement testing
- Controls – manager approvals

## **Monitoring:**

- Disbursement testing
- Indirect cost rates
- Unallowable cost pool expenses
- Methodology documentation
- Inconsistent treatment of costs

# Salary and Timekeeping



# Salary and Timekeeping: Common Issues & Areas of Concern

## Single Audit:

- Written policies and procedures
- Confirming allocations represent total activity
- Adjustment of estimate to actual
- Control: manager approvals

## Monitoring:

- Lack of detail
- Lack of staff knowledge/training
- Bonus pay
- Leave and holiday time not allocated appropriately
- Overtime pay misapplication

# Cash Management and Revenue Recognition

Reimbursement versus advance

Are you tracking interest and recording it?

Single Audit: Written Procedures

- Written procedures
- Reviewing drawdowns
- Controls: Manager approval, budget to G/L reviews

Monitoring

- Recording to correct grant
- Matching to reporting

# Eligibility

**Grant requirements for services or benefits provided to groups/individuals**

- Referenced or specifically required

**Single Audit:**

- Re-perform eligibility determination
- Controls: manager approval, control sheets

**Monitoring:**

- Compare eligibility to disbursements
- Inconsistent treatment



# Program Income

**Income generated by the grant during the grant period**

- Fees for services, use or rental of property, license fees and/or royalties

**Single Audit:**

- Review grant documents
- Review G/L for expenditures, transfer of funds
- Controls: budget development, management review of budget to actual

**Monitoring:**

- Reporting
- Eligible use



# Matching/Earmarking

## Match:

- Amount or percentage of funds/contributions that must be provided by the grantee
- Can be in-kind contributions or cash
- Must meet grant accounting and documentation standards

## Earmark:

- Maximum or minimums for specific purposes
- Can include participants, activities, or costs

## Level of Effort

- Specified service or expenditure levels that must be maintained period to period

# Matching/Earmarking

## Single Audit:

- Recalculations
- Confirmation of source eligibility
- Controls: budget to actual, manager review, inclusion of requirements in budget development

## Match:

- Adequate supporting documentation
- Cost allocation methodologies
- Ineligible costs
- Reporting time in excess of paid time for exempt employees



*"...and by tomorrow, I'll need a list of specific unknown risks that we'll encounter with this project."*

# Period of Performance

Period in which grant funds can be used

Only costs incurred during the period eligible for grant

## Single Audit:

- Expenditure review
- Grant documents, extension approvals
- Controls: budget development, manager approvals

## Monitoring

- Benefit received
- Good/ Service receipt date

# Procurement

States follow their state procurement statutes or policies

Other governments must follow the procurement methods in Uniform Administrative Guidance

- Requirements apply to federal awards, not to nonfederal programs, indirect costs pool

# Procurement

## Single Audit:

- Expenditure review
- Policies and Procedures review
- Contract review
- Controls: checklists, appropriate workflows and approvals
- Suspension and Debarment certifications, Excluded Party Listings

## Monitoring:

- Cost-benefit analysis
- Sole source justification

# Equipment and Capital Assets Inventory

## Inventory must contain:

- Description
- Serial number or other identification number
- Source of property (including FAIN)
- Title holder
- Acquisition date
- Cost
- Percentage of federal participation
- Location
- Use
- Condition
- Disposition data (as applicable)

# Equipment and Capital Assets Inventory

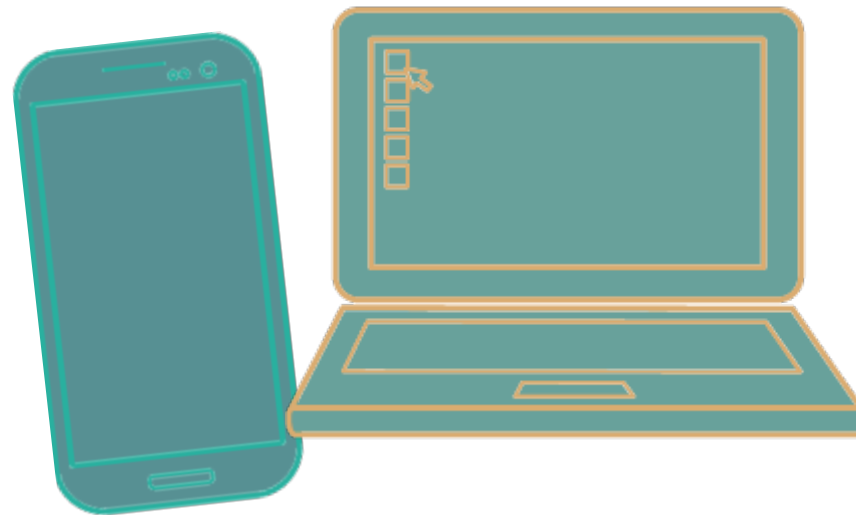
## Single Audit:

- Review expenditures
- Review inventory
- Review sales information
- Controls: approvals, workflows that include grant/program personnel

# Other Recommended Inventory

## Monitoring:

- Prepaid Program Items
- Items more than \$1,000 that are likely to be stolen or misused
  - Phones
  - Laptops
  - Cameras
  - Televisions





# Subrecipient Monitoring

**Must ensure that every subaward is clearly identified as such to the subrecipient**

**Provide certain subaward information at the time of subaward**

- Must communicate changes in subaward information in subaward modifications

**Evaluate subrecipient risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward**

- To determine the appropriate subrecipient monitoring, based on provided criteria

# Monitoring Subrecipients: At a minimum:

- Reviewing financial and programmatic reports
- Verify that audit is performed (if necessary)
- Issue management decision on audit findings



# Monitoring Subrecipients:

## Single Audit:

- G/L review for existence of subrecipients
- Agreement review
- Documentation of monitoring
- Controls: manager approval, consideration in budget, written policies and procedures

## Monitoring:

- Inconsistent risk assessment
- Monitoring not in compliance with risk assessment
- Failure to monitor corrective actions

# Monitoring Subrecipients: Example Tool

Review Requested Information to Identify the following:	Contract One:	Contract Two:	Contract Three:	Finding Area	Citation:
Contracts for more than the simplified acquisition threshold must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms; and provide for such sanctions and penalties as appropriate.				Failure to include required assurance	2 CFR 200.326
Termination for Cause (over \$10,000)				Failure to include required assurance	2 CFR 200.326
Equal Employment Opportunity (over \$10,000)				Failure to include required assurance	2 CFR 200.326
Copeland "Anti-Kickback" Act (construction or repair)				Failure to include required assurance	2 CFR 200.326
Davis-Bacon Act, as amended (construction over \$2,000)				Failure to include required assurance	2 CFR 200.326
Contract Work Hours & Safety Standards Act (constructions over \$100,000 that involve the employment of mechanics or laborers)				Failure to include required assurance	2 CFR 200.326
Agency reporting requirements				Failure to include required assurance	2 CFR 200.326
Rights to Inventions Made Under a Contractor Agreement				Failure to include required assurance	2 CFR 200.326
Access to records				Failure to include required assurance	2 CFR 200.326
Three year retention				Failure to include required assurance	2 CFR 200.326
Conflict of interest				Failure to include required assurance	2 CFR 200.326
Clean Air Act and the Federal Water Pollution Control Act, as amended (over \$150,000)				Failure to include required assurance	2 CFR 200.326
Byrd Anti-Lobbying Amendment (Subrecipients; \$100,000)				Failure to include required assurance	2 CFR 200.326
Profit is a distinct line item that is separately managed and negotiated.				Failure to include required assurance	2 CFR 200.326

# Monitoring Subrecipients:

Real-time reviews are part of monitoring process too, if they're documented

- Reviewing cash requests prior to processing
- Budget to actual, allowable costs, etc.
- Create interim benchmarks, use to guide monitoring, identify need for additional reviews

Vendor:

Invoice Amount:

Invoice Period:

PLEASE COMPLETE EACH ROW	YES	NO	N/A	NOTES
Did the vendor provide supporting documentation for all requested reimbursements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Are all costs reasonable and necessary?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Are all costs allocated correctly?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Are costs allowable under Uniform Administrative Guidance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Are costs allowable under [REDACTED]?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Are costs allowable under the entity's contract with [REDACTED]?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Do costs have all appropriate reviews and approvals?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Are all costs appropriately supported by backup documentation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

# Monitoring Subrecipients: Subrecipient Audit Review

Required to submit to you if meet federal audit threshold \$750,000 in expenditure of federal awards (from all sources)

- Does not include contracts in calculation

Due earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

Audit must be from Federal Audit Clearinghouse (<https://facweb.census.gov/>)

- Search by organizational EIN

Auditee EIN	Auditee Name	City	State	Fiscal Year End Date	MDL Start Date <sup>1</sup>	Date Received <sup>2</sup>	File Name	Form	Audit ⓘ	Download ⓧ
580973190	STATE OF GEORGIA/STATE ACCOUNTING OFFICE	ATLANTA	GA	06/30/2019	03/13/2020	03/09/2020	13682920191	<a href="#">Form</a>	<a href="#">Audit</a>	<input checked="" type="checkbox"/>
580973190	STATE OF GEORGIA/STATE ACCOUNTING OFFICE	ATLANTA	GA	06/30/2018	03/27/2019	03/25/2019	13682920181	<a href="#">Form</a>	<a href="#">Audit</a>	<input checked="" type="checkbox"/>
580973190	STATE OF GEORGIA/STATE ACCOUNTING OFFICE	ATLANTA	GA	06/30/2017	03/29/2018	03/27/2018	13682920171	<a href="#">Form</a>	<a href="#">Audit</a>	<input checked="" type="checkbox"/>
580973190	STATE OF GEORGIA/STATE ACCOUNTING OFFICE	ATLANTA	GA	06/30/2016	03/23/2017	03/22/2017	13682920161	<a href="#">Form</a>	<a href="#">Audit</a>	<input checked="" type="checkbox"/>
580973190	STATE OF GEORGIA/STATE ACCOUNTING OFFICE	ATLANTA	GA	06/30/2015	03/25/2016	03/24/2016	13682920151	<a href="#">Form</a>		<input type="checkbox"/>
580973190	STATE OF GEORGIA/STATE ACCOUNTING OFFICE	ATLANTA	GA	06/30/2014	03/23/2015	03/20/2015	13682920141	<a href="#">Form</a>		<input type="checkbox"/>

# Reporting

Typically using standard financial reporting forms

**Make sure you review and understand:**

**Due Date**

**Programmatic reporting**

- Similar submission timeline?
- Is there overlap in report data?

**What information is included?**

- Can you generate all of the required information from your ERP/financial system?

**Is there subrecipient or contractor data included?**

**Is there a subsidiary workbook or ledger?**

- How are you reviewing/validating the data?

**How do you confirm submission and/or receipt?**

**How do you submit the report?**

- Is the submitter separate from the approver?

# Reporting: Common Issues and Areas of Concern

## Single Audit:

- Copies of reports, supporting documentation for accurate and timely submission
- Controls: manager approval and written policies and procedures

## Monitoring:

- Unable to recreate reported data
- Stand-In Cost documentation, methodology



# Grant Implementation



Grant Implementation

## Programmatic Staff Handoff

- Proposal and workplan must become reality
- How do you support programmatic success?

## COSO Monitoring Implementation

- Are you monitoring your controls?
- Are your detective and preventive controls functioning as designed?

# Creating Grant Administration Manuals

**Best Practice 1:** Documenting additional controls applied to all grants

**Best Practice 2:** Creating unique manuals for grants with significant/material differences in internal controls

Regardless of how you choose to implement, make sure you clearly differentiate between policy and procedures

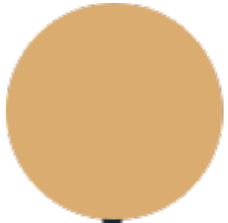
- Policy: The “why”
- Procedures: The “how”

**Create Change Logs**

# Grant Award Implementation: Get on the Same Page with the Program Staff

- **Budget Amendment Process and Timeline**
  - Scope Level and Category Level
- **Period of Activity/Performance**
- **Requirements for Supporting Documentation**
- **Cost Allocation Methodologies**
- **Payroll and Timekeeping**
- **Equipment Maintenance Costs**
- **Internal Controls and Grant Controls**





Document the “why” as well as the “how”



Continual staff training and review



Cross-reference as appropriate; don’t repeat or duplicate

**Single Document Repository**

**Review early, review often**

**Document internal  
controls testing or  
reviews; even informal  
reviews**

**“Practice Makes Pattern”**



# Grant Closeout Preparation



Grant Closeout

# Grant Closeout: Common Issues and Areas of Concern

- No formal contractor/subrecipient closeout
- Finalizing cost allocation plans, provisional indirect cost rates, timekeeping allocations
- Identifying timely home for maintenance or continuing costs
- Not running final financial reports
- Forgetting to update payroll codes

# Final Questions or Comments?

Thank you for your time!

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