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BLOG POST

February 29, 2024

BY:

David Clark

Assurance Practice Leader, Industry Specialty Services

Jackie Bernal

Manager, Industry Specialty Services

Back to Basics: The Foundational Concepts of Grants Management and Compliance

The “Back to Basics” blog series focuses on the critical concepts and frequently asked questions which are integral to managing and maintaining compliance with federal grants. The series is industry agnostic and can apply to nonprofit organizations, state and local entities, and higher education institutions.

Policies and procedures play a critical role in helping nonprofit organizations and federal funding recipients maintain effective internal controls and ensure compliance with federal regulations. In fact, the Office of Management and Budget's (OMB) Uniform Guidance (or 2 CFR 200.303) emphasizes written policies and procedures as a way to evidence and strengthen organizational control environments. Proper written policies and procedures will also help reduce fraud, waste, and abuse of federal funds. This article discusses key considerations, requirements, and best practices for developing policies and processes in compliance with the requirements of the Uniform Guidance.

What MUST an Organization Have in Place?

Some of the essential, and at times most complicated, compliance procedures that the Uniform Guidance requires include:

- ▶ Project Based Accounting
- ▶ Cost Treatment and Allocation (2 CFR 200.404-5, 200.412-14)
- ▶ Personnel Costs or Time and Effort Reporting (2 CFR 200.430-431)
- ▶ Purchasing and Procurement (2 CFR 200.318-20, 200.331)
- ▶ Subrecipient Monitoring (2 CFR 200.212, 200.331-2)

Below are best practices for developing and implementing federally compliant infrastructure policies and processes.

1. Evaluate An Organization's Accounting System and Internal Controls

The Uniform Guidance requires that all federal funding recipients account for costs incurred at a project level and that the recipient be able to complete project-based financial statements in accordance with US Generally Accepted Accounting Principles (GAAP). To achieve compliance with the Uniform Guidance, an organization's accounting system must have the capability to account for costs by project, to differentiate direct versus indirect cost, and to segregate

unallowable costs.

To demonstrate compliance with accounting requirements, most organizations should complete Standard Form (SF) 1408, Pre-Award Survey of Prospective Contractor (Accounting System). SF 1408 is a tool used by the government to evaluate the adequacy of an organization's accounting system to enable appropriate and accurate tracking of costs as required under a federal award. While not an absolute requirement for grant recipients, the SF 1408 can be a good point of reference for organizations to evaluate their accounting system and internal controls for federal compliance. The form considers capabilities such as:

- ▶ Proper segregation of direct and indirect costs.
- ▶ Identification and accumulation of direct cost by contract or grant (i.e., project-based accounting).
- ▶ A timekeeping system that identifies employees' labor by intermediate or final cost objectives.

2. Develop a Cost Treatment and Allocation Policy or Allowable Cost Policy

Per §200.412 Classification of Costs, §200.413 Direct Costs and §200.414 Indirect Costs, Uniform Guidance requires nonprofit organizations to develop a policy that clearly defines the following:

- ▶ Direct versus indirect costs;
- ▶ Allowable versus unallowable;
- ▶ The principles of allowability, allocability, consistency, and reasonableness; and
- ▶ Cost transfers.

The policy should also demonstrate the process the federal entity uses to consistently apply its indirect cost rate to all applicable federal awards. This indirect cost rate should be properly calculated and monitored on a frequent basis. In addition, the policy should specifically include criteria for identifying, and accounting for, allowable versus unallowable costs for federal awards. Organizations should also be able to demonstrate their compliance with specific record keeping and supporting documentation requirements for allowable costs incurred on federal awards.

Finally, this policy should outline an organization's cost transfer process, including establishing requirements around the timeline and approvals needed to transfer costs onto a federal award. It should clearly explain that costs may not be transferred on or off awards based on available budget, and that costs cannot be charged to one grant, while waiting for another to begin. Cost transfers, depending on frequency and timeliness, may be considered red flags for auditors and are often selected for additional review. Therefore, establishing well-defined policies and processes around cost transfers will help to mitigate this risk.

3. Develop a Personnel Costs or Time and Effort Reporting Policy and Process

Per §200.430 Compensation - Personal Services, personnel costs on federal awards must be based on records that accurately reflect the work performed, whether that be through timesheets or an effort reporting and certification process. An organization's policy should outline an appropriate methodology for the allocation of labor expenses, time entry requirements for staff working on federal awards, required approvals for time entered, and a process for timekeeping revisions for federal awards.

Organizations should remind their members that in its policy, all time and effort charged to a grant, and therefore associated fringe benefits, must be allocable to the grant. Meaning, employees should only be charging time actually spent working on grant activities and objectives. The grant-allocable activities should be defined in an organization's cost allowability and allocation policy. Costs charged may not be based on budgeted amounts, nor charged as a result of available remaining budget on a specific grant.

Refer to our article [Back to Basics: The Foundational Concepts of Grants Management & Compliance](#) for more information on how organizations can establish a compliant time and effort reporting process.

4. Develop a Purchasing and Procurement Policy and Procedures

Per §200.318 General Procurement Standards, organizations should document both their procurement policy and procedures. For most organizations, the policy and procedures documents should be separate and distinct from one another for two reasons. First, policies and procedures have distinct purposes. Policies are meant to provide guiding principles and

expectations that reflect an organization's values and philosophy. Procedures are the specific steps and activities required to accomplish a task or achieve an end result in compliance with policy. Essentially, policies explain "why," while procedures detail "how."

Second, separating the policy and procedure documents can protect an organization from potential audit findings resulting from procedural exceptions that are unnecessarily included in policy documentation.

A well-developed procurement policy should:

- ▶ Define the various purchase thresholds;
- ▶ Specify allowable methods of procurement;
- ▶ Detail the approvals required for purchasing goods and services;
- ▶ Include a written method for conducting technical evaluations of the proposals received and for selecting recipients;
- ▶ Identify all requirements of offerors and evaluation factors;
- ▶ Differentiate between a subrecipient and a contractor, and establish the requirement to make a case-by-case determination; and
- ▶ Speak to the requirement for free and open competition.

Finally, an organization's procurement policy should clearly define unallowable purchases, per the explicitly unallowable costs defined in Subpart E – Cost Principles. Procurement procedures should also address the need to perform [SAM.gov](https://www.sam.gov) checks for all vendors and contractors that are being paid with federal funds, to check that they are not debarred.

5. Develop a Subrecipient Monitoring Policy and Process

Organizations that operate as a pass-through entity and grant funds to subrecipients should establish a formal policy and process for performing risk assessments and managing and monitoring subrecipients. A subrecipient monitoring policy should include, at least, the following:

- ▶ The distinction between a subrecipient and a subcontractor, as well as the procedures and documentation required to support that determination;

- ▶ The information required to be included in a subrecipient agreement, including the program's Federal Award Identification Number (FAIN), period of performance, award project description, total amount of federal funds obligated, and more; and
- ▶ The requirement that prior written approval be received by the awarding agency prior to granting fixed amount subawards up to the Simplified Acquisition Threshold.

In addition, an organization's processes should include the reporting of all subawards above \$30,000 in accordance with the Federal Funding Accountability and Transparency Act (FFATA). Organizations should also establish a robust risk assessment process to determine each subrecipient's risk of noncompliance with federal statutes and regulations, and the terms and conditions of the subaward. A risk assessment process should be used to inform an organization's monitoring procedures.

Conclusion

As is clear, the federal requirements for grant recipients are complex. It is important that federal funding recipients, or those who intend to receive federal funding in the future, take the time to develop policies and processes that are not only Uniform Guidance compliant, but realistic and achievable for their organizations. Just as common as audit findings resulting from non-compliance with Uniform Guidance requirements, are findings related to non-compliance with internal policies and procedures.

For more help developing right-sized and compliant policies and procedures, please reach out to BDO's Grants Management Advisory Team.

Have Questions? Contact Us