

## SECTION XIII--FEDERAL GRANTS

### FEDERAL FINANCIAL ASSISTANCE

Municipalities which receive federal funds also inherit the responsibilities of the individual grant agreements to comply with specific federal laws and account requirements. **These audit requirements are contained in OMB Circular A-133.**

Municipalities, upon receiving federal funds, must have a good system of internal controls. the controls need not be in writing, but should be well established to assure the public and federal government that assets are safeguarded. The controls which should be established are:

#### REVENUES:

Internal controls over revenue should be established over the proper collection, recording and reporting of revenue and the related cash. Considerations to be made include items such as segregation of duties, receipting functions using prenumbered receipts, depositing procedures, cash reconciliation procedures, etc. Internal administrative controls over revenue also consists of establishing an adequate chart of accounts to control local and federal funds. Each type of federal grant should have a specific revenue account.

#### EXPENDITURES:

Internal controls over expenditures consists of the proper authorization and payment of expenditures in accordance with South Dakota, federal regulations and with the approved appropriation ordinances. Considerations include items such as approved vouchers, proper signatures, proper segregation of duties and an established chart of accounts, etc. Each federal expenditure should have a specific expenditure account in which to identify each specific grant. It is the responsibility of the municipality for compliance of expenditures in accordance with federal regulations. Some instances may also require an additional grant file to support that expenditures are in compliance with the grant requirements.

#### DAVIS-BACON ACT:

**Most** construction programs are required to follow the provisions of the Davis-Bacon Act, which in general requires that laborers and mechanics employed by contractors of federally funded projects be paid at wages not less than those established by the Secretary of Labor as the prevailing regional rate. **Administrative** controls should exist to properly follow and document compliance.

#### CASH MANAGEMENT:

Some federal programs receive funds in advance from the grantor agency. Funds should be drawn only in amounts necessary to meet immediate needs or to cover disbursements already made. Cash management would not apply to federal programs which are on a reimbursement basis. **Administrative controls and accounting** controls should be established to control cash flow of federal funds.

#### RELOCATION ASSISTANCE AND REAL PROPERTY ACQUISITION:

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Some federal programs involve the acquisition of property and subsequent displacement of households and businesses and provide that such recipients carry out certain actions. **Administrative** controls should be established to control any relocation and acquisition procedures.

### **REPORTING:**

**Administrative and accounting** controls are necessary to prepare and submit reports required by the federal government.

### **ALLOWABLE COSTS/COST PRINCIPLES:**

**Administrative and accounting** controls should be established to assure that federally assisted programs bear their fair share of recognized costs as determined by allowable cost principles. The cost of a federally-supported program is comprised of the allowable direct cost of the program plus its allocable portion of allowable indirect costs less applicable credits. OMB Circular No. A-87 "Cost Principles for State and Local Governments," establishes principles and standards for determining costs applicable to grants, contracts, and other agreements with state and local governments and federally-recognized Indian tribal governments.

### **EQUIPMENT AND REAL PROPERTY MANAGEMENT:**

The title for equipment and real property acquired with federal dollars is retained by the municipality. However, you must have controls in place to ensure that:

- a. the equipment and property was acquired in accordance with state law;
- b. the federal government gets its proportionate share of the sale of real property and equipment valued at \$5,000 or more when sold, that was acquired with federal dollars;
- c. prior permission is obtained from the federal government before selling any real property acquired with federal dollars;
- d. property equipment records are maintained for any equipment acquired with federal dollars;
- e. all equipment acquired with federal dollars is used in the program for which it was acquired; and,
- f. a physical inventory of all federal equipment is taken at least once every two years.

### **PERIOD OF AVAILABILITY OF FEDERAL FUNDS:**

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**Controls must be maintained** to ensure that federal funds were obligated within the period of availability and that obligations were liquidated within the required time period.

### **PROCUREMENT AND SUSPENSION AND DEBARMENT:**

You must have controls in place to ensure that all procurements are made in accordance with state law. You also must have controls in place to ensure that no contracts for goods or services equal to or in excess of \$100,000 are made with parties that are suspended or debarred and that no grant money is given to any subrecipients that are suspended or debarred.

### **ADMINISTRATIVE REQUIREMENTS:**

Administrative and accounting controls should be established to assure that the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule) are complied with as applicable to the type of grants received.

### **PROGRAM INCOME:**

Program income is defined as "...gross income received that is directly generated by the federally funded project during the grant period." It includes fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds. You must have controls in place to ensure that program income is used in one of the three approved methods:

- a. deducting it from outlays;
- b. adding it to the project budget; or
- c. using it to meet the matching requirements.

### **ACTIVITIES ALLOWED OR UNALLOWED:**

Administrative and accounting controls are necessary to assure that the municipality is properly meeting the allowable cost requirement of each specific grant as noted in the Compliance Supplement.

### **ELIGIBILITY:**

Administrative and accounting controls should be established to determine the eligibility of the grantee, if applicable by the requirements of each specific grant as noted in the Compliance Supplement.

### **MATCHING, LEVEL OF EFFORT, EARMARKING:**

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**Administrative and accounting** controls are necessary to assure that the municipality is meeting the matching, level of effort, and/or earmarking requirements of each specific grant as noted in the Compliance Supplement.

### MONITORING SUBRECIPIENTS:

**Administrative and accounting** controls should be established to control federal funds submitted to secondary recipients. Federal requirements still exist for money passed on and the granting government is ultimately responsible for noncompliance in accordance with the Single Audit Act and OMB Circular A-128.

### SPECIAL TESTS AND PROVISIONS:

**Administrative and accounting** controls should be established over special tests and provisions of the grantee, if applicable by the requirements of each specific grant as noted in the Compliance Supplement.

### GENERAL INFORMATION:

Federal guidelines require state and local governments which spend \$500,000 or more in federal financial assistance in one year to have an A-133 Audit. **Local governments that spend less than \$500,000 in federal financial assistance a year shall be exempt from compliance with federal audit requirements; however, SDCL 4-11-4 requires municipalities to be audited once every two years.**

However, SDCL 4-11-4 requires municipalities with more than six hundred thousand dollars in annual revenue to have an audit once every two years and municipalities with less than six hundred dollars in annual revenue, but which expend \$500,000 or more in federal financial assistance, be audited for that year in accordance with federal guidelines.

The auditor's report, according to Circular A-133, is to contain a Schedule of Expenditures of Federal Awards which is to be prepared by the municipality as required by Subpart C, paragraph .300(d) of Circular A-133. The schedule includes expenditures for each federal financial assistance program as identified in the Catalog of Federal domestic Assistance (CFDA). Examples of municipal CFDA numbers and programs are listed in Section II, Table 3 of this manual as part of the Federal Grants revenue chart of accounts. Therefore, the records maintained by the municipality should be adequate to provide the required expenditure information for inclusion in the audit report.

A copy of OMB circular A-133 is enclosed in this section.