

## **SECTION V--FEDERAL GRANTS**

### **FEDERAL FINANCIAL ASSISTANCE**

Schools which receive federal funds also inherit the responsibilities of the individual grant agreements to comply with specific federal laws and accounting requirements.

Schools, upon receiving federal funds, must have a good system of internal accounting and administrative 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 consist 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 accounting and administrative controls over expenditures consist 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 charge 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 school 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.

#### **GENERAL INFORMATION:**

The Single Audit Act requires state and local governments which spend \$500,000 or more in federal financial assistance in a fiscal year to have an A-133 audit.

Local governments that spend less than \$500,000 a year in federal financial assistance shall be exempt from compliance with the Single Audit Act and other federal audit requirements.

The auditor's report, according to Circular A-133, is to contain a schedule of federal financial assistance program expenditures. The schedule includes expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA). Examples of school CFDA numbers and programs are listed in Section II of this manual as part of the Federal Grants revenue chart of account. Therefore, the records maintained by the school should be adequate to provide the required expenditure information for inclusion in the audit report.

### **FEDERAL COMPLIANCE REQUIREMENTS**

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### **DAVIS-BACON ACT:**

All 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 and accounting 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:**

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.

### **FEDERAL FINANCIAL REPORTS:**

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

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

Administrative and accounting controls are necessary to ensure compliance with prescribed direct and indirect costs allowable for federal reimbursement.

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

Administrative and accounting controls are necessary to assure compliance with the specific types of goods or services schools may purchase with federal financial assistance.

### **ELIGIBILITY:**

Administrative and accounting controls are necessary to assure the characteristics of individuals or groups to which schools may give financial assistance.

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

Administrative and accounting controls are necessary to assure which amounts schools should contribute from their own resources toward projects for which financial assistance is provided.

### **MONITORING SUBRECIPIENTS:**

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Administrative and accounting controls are necessary to control federal funds submitted to secondary recipients. The primary recipient is responsible for determining that the subrecipient expends that assistance in accordance with applicable laws and regulations. That is, the primary recipient should:

- a. Determine whether the subrecipients have met the audit requirements of OMB Circular A-133.
- b. Determine whether the subrecipient spent the federal financial assistance in accordance with applicable laws and regulations.
- c. Ensure that appropriate corrective action is taken within six months after receipt of a subrecipient's auditor's report that identifies noncompliance with federal laws and regulations.
- d. Consider whether the results of subrecipients' audits indicate that the primary recipient should adjust its own records.
- e. Require each subrecipient to permit independent auditors to have access to their records and financial statements as necessary to comply with OMB Circular A-133.

### SPECIAL TESTS AND PROVISIONS:

Administrative and accounting controls are necessary to assure that special requirements contained in the federal grant agreement or applicable compliance supplement were complied with.

## EQUIPMENT AND REAL PROPERTY MANAGEMENT

### COMPLIANCE REQUIREMENTS

#### EQUIPMENT MANAGEMENT:

Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established.

A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State.

Local governments and Indian tribes shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. Nonprofit organizations shall follow the provisions of OMB Circular A-110. Basically the A-102 Common Rule and OMB Circular A-110 require that equipment be used in the program which acquired it

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or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. When equipment with a current per unit fair market value in excess of \$5,000 is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

The requirements for equipment are contained in the A-102 Common Rule (§\_\_\_\_.32), OMB Circular A-110 (§\_\_\_\_.34), Federal awarding agency program regulations, and the terms and conditions of the award.

### Real Property Management:

Title to real property acquired by non-Federal entities with Federal awards vests with the non-Federal entity. Real property shall be used for the originally authorized purpose as long as needed for that purpose. For non-Federal entities covered by OMB Circular A-110 and with written approval from the Federal awarding agency, the real property may be used in other federally-sponsored projects or programs that have purposes consistent with those authorized for support by the Federal awarding agency. The non-Federal entity may not dispose of or encumber the title to real property without the prior consent of the awarding agency.

When real property is no longer needed for the federally-supported programs or projects, the non-Federal entity shall request disposition instructions from the awarding agency. (For purposes of this compliance requirement, the awarding agency for recipients under OMB Circular A-110 or the A-102 Common Rule and subrecipients under OMB Circular A-110 is the Federal agency providing the funding. The awarding agency for subrecipients under the A-102 Common Rule is the pass-through entity.) When real property is sold, sales procedures should provide for competition to the extent practicable and result in the highest possible return. If sold, non-Federal entities are normally required to remit to the awarding agency the Federal portion (based on the Federal participation in the project) of net sales proceeds. If retained, the non-Federal entity shall normally compensate the awarding agency for the Federal portion of the current fair market value of the property. Disposition instructions may also provide for transfer of title in which case, the non-Federal entity is entitled to compensation for its percentage share of the current fair market value.

The requirements for real property are contained in the A-102 Common Rule (§\_\_\_\_.31), OMB Circular A-110 (§\_\_\_\_.32), Federal awarding agency regulations, and the terms and conditions of the award.

## PERIOD OF AVAILABILITY OF FEDERAL FUNDS

### COMPLIANCE REQUIREMENTS:

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Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of the subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period (A-102 Common Rule, §\_\_\_\_.23; OMB Circular A-110, §\_\_\_\_.28).

Non-Federal entities subject to the A-102 Common Rule shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status report (SF-269). The Federal agency may extend this deadline upon request (A-102 Common Rule, §\_\_\_\_.23).

An example used by a program to determine when an obligation occurs (is made) is found under Part 4, Department of Education, CFDA 84.010 (Title I).

### PROCUREMENT AND SUSPENSION AND DEBARMENT

#### COMPLIANCE REQUIREMENTS:

##### Procurement:

States, and governmental subrecipients of States, shall use the same policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Local governments and Indian tribal governments which are not subrecipients of States will use their own procurement procedures provided that they conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule.

Non-profit organizations shall use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110. All non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110.

Requirements for procurement are contained in the A-102 Common Rule (§\_\_\_\_.36), OMB Circular A-110 (§\_\_\_\_.40 through §\_\_\_\_.48), Federal awarding agency regulations, and the terms of the award. The specific references for the A-102 Common Rule and OMB Circular A-110, respectively are given for each procedure. (The first number listed refers to the A-102 Common Rule and the second refers to A-110.)

##### Suspension and Debarment:

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to

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or in excess of \$100,000 and all nonprocurement transactions (e.g., subawards to subrecipients.)

Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principles are not suspended or debarred. The non-Federal entities may rely upon the certification unless it knows that the certification is erroneous. Non-Federal entities may, but are not required to, check for suspended and debarred parties which are listed in the List of Parties Excluded From Federal Procurement or Nonprocurement Programs, issued by the General Services Administration (GSA). The information contained on the list is available in printed and electronic formats. The printed version is published monthly. Copies may be obtained by purchasing a yearly subscription from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, or by calling the Government Printing Office Inquiry and Order Desk at (202) 783-3238. The electronic version can be accessed on the Internet (<http://www.arnet.gov/epl>). Please note that the user will be required to record their name and organization for purposes of the Computer Matching and Privacy Act of 1988.

Requirements for suspension and debarment are contained in the Federal agencies' codification of the governmentwide debarment and suspension common rule (see Appendix II for CFR cites) which implements Executive Orders 12549 and 12689, Debarment and Suspension, and the terms of the award.

### PROGRAM INCOME

#### COMPLIANCE REQUIREMENTS:

Program income is gross income received that is directly generated by the federally-funded project during the grant period. If authorized by Federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income. Program income includes, but is not limited to, income from: 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. Except as otherwise provided in the Federal awarding agency regulations or terms and conditions of the award, program income does not include interest on grant funds (covered under Cash Management), rebates, credits, discounts, refunds, etc. (covered under Allowable Costs/Cost Principles), or interest earned on any of them (covered under Cash Management). Program income does not include the proceeds from the sale of equipment or real property (covered under Equipment and Real Property Management).

Program income may be used in one of three methods: deducted from outlays, added to the project budget, or used to meet matching requirements. Unless specified in the Federal awarding agency regulations or the terms and conditions of the award, program income shall be deducted from program outlays. However, for research and development activities by colleges

and universities and other non-profit organizations, the default method is to add program income to the project budget. Unless Federal awarding agency regulations or the terms and conditions of the award specify otherwise, non-Federal entities have no obligation to the Federal Government regarding program income earned after the end of the grant period.

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The requirements for program income are found in the A-102 Common Rule (§\_\_\_\_.25), OMB Circular A-110 (§\_\_\_\_.2 (program income definition) and §\_\_\_\_.24), Federal awarding agency laws, program regulations, and the provisions of the contract or grant agreements pertaining to the program.