

FINANCIAL MANAGEMENT GUIDE FOR STATE & LOCAL GOVERNMENTS

**NATIONAL ENDOWMENT FOR THE ARTS
OFFICE OF INSPECTOR GENERAL
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USE OF THE GUIDE

This guide should be reviewed by everyone in your agency who is responsible for grant* management, including those who prepare grant proposals and those who record and report on grant project activities. The guide is not offered as a complete manual of procedures on grant administration; it is intended only to provide practical information on what is expected from grantee agencies in terms of fiscal accountability. General information on other topics related to grant administration may be obtained by referring to the relevant OMB Circulars and the documents included in the grant award package furnished to all grantees.

ACCOUNTABILITY REQUIREMENTS

The National Endowment for the Arts (NEA), a Federal agency, receives annual appropriations from the Congress to be used for granting financial assistance to projects related to the arts. NEA is, therefore, charged with a fiduciary responsibility to see that the taxpayers' money is used appropriately and to require proper accountability from the recipients of its awards.

Acceptance of a grant from the NEA creates a legal obligation on the part of the grantee to use the funds in accordance with the terms of the grant and to comply with the grant's provisions and conditions. The grantee thus assumes full responsibility for the conduct of project activities and becomes accountable for meeting Federal standards in the areas of financial management, internal control, audit and reporting to the NEA.

Financial Management Standards

Many alternative methods exist for implementing financial management systems, and the agency should choose methods appropriate for its particular scale of operations. If the grantee agency is unable to meet the standards that are covered here, NEA funding may be terminated, the agency may be deemed ineligible to receive subsequent financial assistance or may be placed on an alternative method of funding.

- Recipients must have accounting structures that provide accurate and complete information about all financial transactions related to each Federally-supported project. (We recommend that the arts agencies maintain their own sets of books and ledgers even though the state or local government accounting office may be handling the fiscal transactions.)
- Accounting records are to be maintained and reconciled on a current basis.

* As used in this guide, the term "grant" includes cooperative agreements and the term "grantee" likewise includes the recipients of cooperative agreements.

- Grant expenditure records must be at least as detailed as the cost categories indicated in the approved budget (including indirect costs that are charged to the project). Actual expenditures are to be compared with budgeted amounts.
- If the agency has two or more Federal grants with overlapping grant periods, the costs for each grant must be tracked separately to ensure that they do not include the same costs.
- Costs may be incurred only during the grant period and all obligations must be liquidated no later than 90 days after the end of the grant period.
- The records must be supported by source documentation such as canceled checks, invoices, contracts, travel reports, donor letters, in-kind contribution reports and personnel activity reports. (See attachments for sample forms.)
- Records must be preserved for three years following submission of the final financial status report.
- For every employee whose salary is charged to an NEA grant, as a whole or in part, personnel activity reports must be maintained to account for all compensated time, including time spent on other activities. (See Attachment A for sample form.)
- The applicable OMB cost principles and the terms and conditions of the grant award shall be followed in determining the reasonableness, allowability and allocability of costs.
- Contributions such as property, space or services, that are donated to a project, shall be valued in accordance with Federal cost principles.
- Third-party in-kind (non-cash) contributions are not required to be recorded in the general ledger, but must be accounted for, such as through the use of a memorandum ledger.
- Other Federal funds may not be used to provide any part of the required match for an NEA grant.
- Requests for advance payment of Federal funds shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the State. Requests must not exceed the project's anticipated expenditures over the next 30-day period.

Internal Control Standards

Agencies must provide safeguards for all grant property, whether cash or other assets, and assure that it is used solely for authorized purposes. Control will be enhanced if the duties of agency personnel are divided so that no one person handles all aspects of a transaction from beginning to end. Although a complete separation of functions may not be feasible for a small agency, some measure of effective control may be obtained by planning the assignment of duties carefully.

Many effective techniques for providing internal control are very simple. Some examples are:

- Cash receipts should be recorded immediately and deposited daily.
- Bank accounts should be reconciled monthly by someone other than the person who signs the checks.
- A petty cash fund should be entrusted to a single custodian and used for all payments other than those made by check.
- Checks to vendors should be issued only in payment of approved invoices, and the supporting documents should then be marked paid.
- The person who is responsible for the physical custody of an asset should not also have responsibility for keeping the records related to that asset.
- The person who has authority for placing employees on the payroll and establishing wage rates should not be the same person who signs the checks.

Audit Standards

Grantees are expected to maintain a state of audit readiness. This means that records pertinent to the financial and programmatic aspects of their grants must be readily accessible for audit. Failure to provide the auditor with reliable documentation could lead to questioned costs and possibly result in cost disallowances requiring refunds to the NEA.

OMB Circular A-133, the Federal regulation that addresses audits of state and local governments, as well as non-profit organizations, bases the requirements for audit on specific dollar amounts. The requirements applicable for fiscal years ending on or after June 30, 1997, are discussed below. The entire Circular should be reviewed to assure proper implementation. (Note: Dollar thresholds for earlier periods were different, and information pertaining to fiscal years ending prior to June 30, 1997, may be obtained from the NEA's Office of Inspector General.)

- Governmental agencies that expend \$300,000 or more in a year in Federal awards must have an audit conducted for that year in accordance with the provisions of Circular A-133. (State arts councils are generally included in the state government's audit, and local arts agencies that are associated with a local government are generally included in the local government's audit.)
 - A-133 audits are performed by independent public accounting firms or state auditors engaged by the governmental agencies.
 - Costs for A-133 audits are borne by the governmental agencies but are allowable as charges to federal awards; the charges may be considered either direct costs or allocated indirect costs as determined by the Federal cost principles.
- Governmental agencies that expend less than \$300,000 in a year in Federal awards are not required to have an A-133 audit for that year.
 - Agencies that are exempt from A-133 audits and even agencies that have had A-133 audits need to be aware that they may be selected by NEA's Office of Inspector General or by the General Accounting Office for audits or other reviews to be performed by Federal auditors or by public accounting firms under contract to the Government.
 - Costs for audits or other reviews sponsored by Federal authorities are not chargeable to state and local governmental agencies.

Reporting Standards

The basic requirements for reporting to the NEA are spelled out in the two documents, "General Terms and Conditions for Grants and Cooperative Agreements to Organizations" and "Reporting Requirements," both of which are included in the grant award packages furnished to all grantees. An "Addendum" will be included along with the "General Terms" to those grantees that were awarded partnership agreements. It should be noted that the failure to submit accurately prepared reports on a timely basis may result in delayed payments and/or denial of eligibility for future grants from the NEA.

In addition to the basic reporting requirements, those agencies that are required to have A-133 audits must submit the requisite audit reports within nine months (13 months for fiscal years ending before June 30, 1998) following the end of the audit period.

Subgranting

Only state arts agencies, regional arts organizations, and designated local art agencies are eligible to subgrant any portion of a NEA award. The NEA grantee is responsible for ensuring that subrecipients expend their awards in accordance with the laws, regulations, and provisions of the underlying grant. The grantee must perform the following functions for the Federal funds it provides to subrecipients:

- Inform the subrecipient of Federal funds and identify the Federal grant number, CFDA title, and Federal agency.
- Advise subrecipients of requirements imposed on them by Federal laws and grant terms.
- Monitor the activities of subrecipients as necessary to ensure that Federal funds are used in accordance with the terms and conditions of the primary grant.
- Request the NEA to extend the grant period whenever a subrecipient's project cannot be completed and reported on time.
- Require subrecipients to give the pass-through entity and auditors access to the records and financial statements as necessary to comply with OMB Circular A-133.
- Keep subrecipient's report submissions on file for three years from the date of receipt.

Consortium Projects

For consortium projects, the lead member is legally, financially, administratively and programmatically responsible for all aspects of the award. The lead member submits the cash requests, prepares the reports, and if need be, handles the requests to amend the terms of the award. Furthermore, should the project require the application of indirect costs, the lead member should contact the NEA's Office of Inspector General for guidance. Please note also that the pass-through funds retain their Federal identify for A-133 audit threshold determinations.

SHORTCOMINGS TO AVOID

Audits and other reviews conducted by the Office of Inspector General have disclosed a few instances when deficiencies occurred in the administration of NEA grants. Among these were:

- Personnel costs charged to grant projects were not supported by adequate documentation. (For example, personnel activity reports should be maintained that show the actual activity of each employee whose compensation was charged, in whole or in part, to NEA projects.)
- Reported grant project costs did not agree with the accounting records, i.e., the financial status reports and the requests for advance or reimbursement were not prepared directly from the general ledger or subsidiary ledgers or from worksheets reconciled to the accounts.
- Financial status reports for Partnership Agreement grants did not break out the project costs including match for the separate categories, namely: the Basic State Plan; the Arts-in-Education component; and the Underserved Communities Set-Asides. State arts councils also must track expenditures separately for the Folk Arts Infrastructure and any other project for which they serve as the lead consortium member or fiscal agent. Starting with fiscal year 1999 grants, the Totals Page of the Final Descriptive Report must include the total amount of matching funds for each grant component. A grantee may not use excess match from one component to match another.
- The agency closed out its books at the end of the fiscal year and moved the remaining Federal funds into the next year's grant to cover future activities. What should have been done was to extend the project period and leave the project's books open until the project was completed and the funds were expended.
- In-kind contributions of goods and services charged to the NEA grant projects were not supported by documentation adequate for establishing valuations of the contributions.
- No documented basis was provided to support the amount allocated to NEA grant projects for common (indirect) costs which benefited all projects and activities of the agency. Generally, any indirect cost rate must be renegotiated annually.
- Grantees' financial management systems lacked adequate internal controls (for example, proper segregation of duties to safeguard resources or procedures for comparing actual outlays with the budget).

REFERENCES

- **OMB Circular No. A-102 - Grants and Cooperative Agreements with State and Local Governments**. This Circular establishes the Federal standards for grants administration applicable to all State and Local Governments.
- **OMB Circular No. A-87 - Cost Principles for State and Local Governments**. This Circular establishes the principles for determining the allowability of costs for grants to State and Local Governments, and specifies the documentation required.
- **OMB Circular No. A-133 - Audits of States, Local Governments, and Non-Profit Organizations**. This Circular requires certain grantees to have an independent audit in accordance with Government Auditing Standards and provides for financial statement, compliance and internal control reviews.

UNALLOWABLE COSTS

Costs Always Unallowable for Federal Funding

- Lobbying - Includes direct legislative lobbying and grassroots lobbying.
- Fund-raising - Includes costs of organized fund-raising, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions.
- Bad debts - Any losses arising from uncollected accounts and other claims, and related costs.
- Contingencies - Contributions to a contingency reserve for unforeseen events.
- Fines and penalties - Resulting from violations of, or failure to comply with Federal, State and local laws and regulations.
- Losses on other awards - Any excess of costs over the grant amount and required matching on any Federal award is unallowable as a cost for any other Federal award.
- Unnecessary travel costs - Difference between first-class air accommodations and less than first-class accommodations when less than first-class is available.
- Contribution and donations - By the organization to others.
- Certain depreciation or use allowances - Unallowable on buildings and equipment purchased with Federal funds or contributed to meet statutory matching requirements.

Costs Usually Unallowable for Federal Funding

- Entertainment - Costs for amusement, social activities, ceremonials, hospitality and activities relating thereto, such as meals, lodging, rentals, transportation and gratuities are unallowable. (However, review OMB Circular A-87, Attachment B, Section 17, for certain exceptions related to employee morale, health, and welfare.)
- Interest - Costs incurred for interest on borrowed capital or on the use of a governmental unit's own funds are unallowable except as provided in paragraph 26.b of OMB Circular A-87.

Costs Unallowable Unless NEA Approves

- Items of equipment costing more than \$5,000 with a useful life of more than one year - If equipment over \$5,000 was not identified in your grant application, it is unallowable unless written approval is given in advance by the NEA.
- Foreign travel - If foreign travel was not identified in your grant application, it is unallowable unless written approval is given in advance by the NEA.

SAMPLE DOCUMENTATION FORMS

Attachment

Sample Personnel Activity Report.....	A
Sample In-Kind Contribution Report.....	B
Sample Travel Expense Report.....	C

**SAMPLE PERSONNEL ACTIVITY REPORT
(TIME AND EFFORT REPORT)**

Organization Name: _____	
Employee's Name _____	Week Ending _____
<u>Activity</u>	<u>Distribution of Time</u>
Arts Endowment	
1. Grant	_____ %
2. Grant	_____ %
Other	
3. Project name.....	_____ %
4. Project name.....	_____ %
5. Project name.....	_____ %
Administrative	_____ %
Fundraising.....	_____ %
Leave	
Sick.....	_____ %
Vacation/annual	_____ %
Other (specify).....	_____ %
TOTAL:	<u>100</u> %
Employee's Signature _____	Date: _____
Supervisor's Signature _____	Date: _____

In preparing personnel activity reports, please note the following:

- The reports must be based on an after-the-fact determination of the employee's actual activities (i.e., these cannot be estimated in advance). For example, the distribution of time might be determined based on notes from personal calendars and/or reasonable estimates of time spent on various activities.
- All of the employee's compensated time must be accounted for in these reports. This would include time spent on activities in addition to the Endowment-supported project(s), as well as leave (sick/vacation/holiday), administrative duties, etc. **NOTE: For nonprofessional employees, grantees must also maintain records indicating the total number of hours worked each day in conformance with the Fair Labor Standards Act (29 CFR Part 516).**
- The reports must be signed by the employee or a responsible supervisory official.
- Reports must coincide with one or more pay periods and be used to reconcile salary and fringe benefit costs to appropriate accounts on a regular (preferably monthly) basis.
- Unless otherwise specified in the grant award letter, the Endowment waives the requirement to maintain personnel activity reports for nonprofit organizations and institutions of higher education receiving a grant of \$25,000 or less.

SAMPLE IN-KIND CONTRIBUTION REPORT

Report of
SERVICES RENDERED, GOODS DONATED, FACILITIES PROVIDED
to the

_____ (Name of Government Organization) _____

Project: _____

Donor Organization: _____

Address: _____

Donor's Signature: _____ Phone: _____

Position: _____

_____ **_____**
Date(s) services were performed, goods were donated, or facilities provided for project:

Services Rendered: **VALUE**

by _____ hours _____ \$ _____

by _____ hours _____

by _____ hours _____

by _____ hours _____

by _____ hours _____

Others listed on reverse; amount from reverse: _____

Total Services \$ _____

Goods Donated:

Item _____ \$ _____

Item _____

Item _____

Others listed on reverse; amount from reverse: _____

Total Goods \$ _____

Facilities Provided:

Place _____ \$ _____

Place _____

Place _____

Place _____

Others listed on reverse; amount from reverse: _____

Total Facilities \$ _____

TOTAL VALUE \$ _____

APPROVED BY:

Name: _____

Title: _____

Date: _____

Note: Please attach an explanation of the bases for the valuation of each item and any supporting documentation.

SAMPLE TRAVEL EXPENSE REPORT

(Name of Government Organization)

Name of Traveler

Purpose of Trip

Account to be charged

Departure		Point of Travel		Arrival	
Date	Hour	From	To	Date	Hour

Schedule of expenses claimed in addition to or in lieu of per diem allowance:

(ATTACH SUPPORT DOCUMENTATION FOR HOTEL AND OTHER ITEMS)

Date	Hotel	Meals	Tips	Taxi	Other		Total
					Amount	Description	
	\$	\$	\$	\$	\$		\$

Per diem allowance claimed in lieu of actual expenses for hotel, meals, and tips: _____ days @ _____ per day

Actual expenses (from above) _____

Transportation by employee's car _____ miles @ _____ per mile _____

Transportation by common carrier (attach duplicate of tickets) _____

Cost _____

Less amount already paid by employer (_____) _____

Total expenses claimed: _____

Travel advance given: Yes ___ No ___ Amount (_____)

Amount due traveler (or refund) \$ _____

I certify that this report, the amounts claimed and attachments are true and complete to the best of my knowledge and belief, and that payment for the amount claimed has not been received.

Date

Signature of Traveler

Date

Approved by