



**National  
Endowment  
for the Arts**  
arts.gov

# **FINANCIAL MANAGEMENT GUIDE**

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

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Questions about this guide may be directed to the National Endowment for the Arts, Office of Inspector General, 400 7th Street, SW, Washington, DC 20506, Telephone (202) 682-5402.

Questions about the terms and conditions of grants and cooperative agreements may be directed to the Grants and Contracts Office, [grants@arts.gov](mailto:grants@arts.gov).

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# NEA OFFICE OF THE INSPECTOR GENERAL (OIG)

The OIG investigates reports of waste, fraud, and mismanagement involving federal funds. As an agent of positive change, the OIG strives to promote improvements in our agency's management and program operations and in our own offices. To promote efficiency and effectiveness, we conduct independent and objective audits, investigations, and other activities. We assess and report on internal controls, financial management, information technology, and other systems that affect the operations of the National Endowment for the Arts (NEA) programs and recipients.

## USE OF THE GUIDE

This guide should be reviewed by everyone in your organization who is responsible for grant<sup>1</sup> management, including those who prepare grant applications and those who record and report on grant project activities. The guide is not offered as a manual of procedures on grant administration; nor is it a substitute for the General Terms & Conditions for your NEA award, which incorporates 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*.<sup>2</sup> Rather, it is intended only to provide practical information on what is expected from recipient organizations in terms of fiscal accountability.

## ACCOUNTABILITY REQUIREMENTS

As a Federal agency, the NEA receives annual appropriations from Congress to be used for providing financial assistance to projects related to the arts. The agency is, therefore, charged with a fiduciary responsibility to ensure 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 recipient to use the funds in accordance with the terms and conditions of the grant, which reflect both Federal statutes as well as agency policies. The recipient 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, written policies and procedures, reporting and audit requirements.

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<sup>1</sup> As used in this guide, the term "grant" includes cooperative agreements and the term "recipient" likewise includes the recipients of cooperative agreements.

<sup>2</sup> Effective December 26, 2014, the OMB Circulars which governed the management of Federal assistance awards was replaced with 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The guidance supersedes and streamlines OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102, A-133 and A-50. The guidance can be found at [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl).

## Financial Management Standards - 2 CFR §200.302

Many approaches exist for implementing financial management systems, and the recipient organization should choose methods appropriate for its particular scale of operations. The following are the minimum requirements that must be met. If the recipient is unable to meet the standards that are covered here, NEA may impose additional specific award conditions, funding may be terminated and the recipient may be deemed ineligible to receive subsequent financial assistance.

- Separate accounting records must be maintained for each award. Records should identify adequately the source and allocation of funds for Federally-sponsored activities. Federal program and Federal award identification must include, as applicable, the Catalog of Federal Domestic Assistance (CFDA) title and number, Federal award identification number and year and the name of the awarding Federal agency.
- Recipients must have accounting structures that provide accurate, current and complete information about all financial transactions related to each Federally-supported project.
- 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.
- Accounting records are to be maintained on a regular basis. Financial management system must provide for comparisons of expenditures with budgeted amounts.

***Best Practice:*** Reconcile budget and accounting records, at least monthly. The budget reconciliation process serves as a control to confirm that transactions were authorized, accurate and complete.

- Records must identify payee, amount and proof of payment/electronic funds transferred. An electronic payment is any kind of non-cash payment that doesn't involve a paper check. Methods of electronic payments include credit cards, debit cards and the ACH (Automated Clearing House) network. The ACH system comprises direct deposit, direct debit and electronic checks (e-checks).

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 same costs cannot be claimed and reported on more than one Federal grant.

Submission of a credit card statement is **not** sufficient documentation of an incurred and paid cost unless you are able to provide supporting documentation such as a contract, purchase receipt or invoice **and** a subsequent statement verifying the account balance was paid in full no later than 90 days after the period of performance end date. If the credit card

account carries a balance, only the pro-rated portion of the expenditure in relation to the outstanding balance will be allowed.

For example: A performance fee of \$2,000 was charged to a credit card. The next statement shows a payment in the amount of \$5,000 on an outstanding balance of \$20,000. Therefore, only \$500 can be submitted for reimbursement.

$$\$5,000 \div \$20,000 = .25 \times \$2,000 = \$500$$

- Salary and wage expenses must be based on records that accurately reflect the work performed. The records must be supported by a system of internal controls which provide reasonable assurance that the charges are accurate, allowable, properly allocated and reflect the total activity for which the employee is compensated. If your organization plans to use personnel activity reports, sample formats can be found on NEA's Manage Your Award webpage.
- Requests for advance payment of Federal funds shall be limited to immediate cash needs and may not exceed the recipient's anticipated expenditures over the next 30-day period.
- The *Uniform Guidance*, Subpart E Cost Principles (cost principles) and the terms and conditions of the grant award must 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 the cost principles.
- To claim third-party in-kind (non-cash) contributions, these must be included in the approved project budget. These costs are not required to be recorded in the general ledger, but must be accounted for (documented), such as through the use of a memorandum ledger supported by proper documentation.
- Other Federal funds cannot be used to provide any part of the required match for an NEA grant and costs associated with those funds cannot be included in the NEA project budget or financial reports.
- Take reasonable measures to safeguard protected personally identifiable information and other sensitive information consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality
- Records must be maintained for three years following submission of the Federal Financial Report.

## **Internal Control Standards - 2 CFR§200.303**

Recipients 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 the staff of the recipient organization are divided so that no one person handles all aspects of a transaction from beginning to end. Many of the most 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 or authorizes payment.
- A petty cash fund should be entrusted to a single custodian and used for small payments where it is not sensible to pay by check or other payment.
- Payments to vendors should be issued only in payment of approved invoices and the supported document should be marked invoices “paid” to avoid duplicate payments. supporting documents should then be cancelled (verification of completion of transaction).
- The person who is responsible for the physical custody of an asset should not have responsibility for keeping the records related to that asset.
- Access to the financial data should be clearly defined, ensuring single users do not authorize, process, and record financial transactions within the organization.
- The person who has authority for placing employees on the payroll and establishing wage rates should not also be signing the checks or authorizing pay.
- If the recipient organization is so small that you can’t separate duties, require an independent review of work being done and financial reporting, for example, by a board member.

## **Written Policies and Procedures - 2 CFR §200.302; .318; .474**

The *Uniform Guidance* requires recipients of Federal assistance to have written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the Federal cost principles and the terms and conditions of the award. Written policies and procedures enhances an employee’s knowledge on the management of Federal awards and may avoid potential systematic problems. This documentation should contain policies and procedures relating to financial management, grants management, internal controls, budgeting, allocation of costs, employee conduct, etc. An addendum to the manual could include publications such as the *General Terms*, this *Financial Management Guide*, the *Uniform Guidance* and other publications on Federal and State requirements.

Examples of policies that should be addressed include:

- Written policies that ensure that all employees, board members, officers or agents engaged in the selection, award, and administration of contracts and grants, avoid conflicts of interest.
- Written procedures to ensure that contractors or recipients are not debarred or suspended prior to the award or payment of Federal funds (2 CFR 180 Subpart C).
- Written procedures for determining the allowability of costs and for managing payments in accordance with the cost principles and the terms and conditions of the award.

## **Reporting Standards**

The basic requirements for reporting to the NEA are described in the *General Terms & Conditions*, the *Reporting Requirements* document, and the *How to Manage your NEA Award Handbook*. This material is available on NEA's *Manage Your Award* webpage at <http://arts.gov/grants/manage-your-award>.

Narrative reports should be specific in describing the project activity supported by the Federal award within the approved period of performance for the award. Financial reports should reflect actual and allowable expenditures corresponding to the approved project budget. All expenditures reported on payment requests and financial reports for the award are subject to review by auditors; proper documentation must be maintained to support all costs supported with Federal or matching funds.2 CFR §200.302(b)(2)(3).

It should be noted that failure to submit 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, recipients who are required to conduct Single Audits or program-specific audits, must submit the requisite audit reports thirty days after receipt of the auditor's report(s), or nine months after the end of the fiscal year end date—whichever comes first, to the Federal Audit Clearinghouse (FAC).

### **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 award recipient is responsible for ensuring that subrecipients expend their awards in accordance with the laws, regulations, and provisions of the underlying grant. These organizations should refer to the *Uniform Guidance*, in particular 200.331, as well as the *General Terms & Conditions for Partnership Agreements* for more detailed information about responsibilities.

## Audit Requirements

Recipients 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 by appropriate officials of the NEA, a pass-through entity (such as a state or regional arts organization making subawards comprised of Federal funds, and the Government Accountability Office (GAO)). Failure to provide an auditor with reliable documentation could lead to questioned costs and potentially result in cost disallowances requiring the return of funds to the NEA.

The *Uniform Guidance, Subpart F* provides additional standards for non-Federal entities that expend \$750,000 or more in Federal awards during the non-Federal entity's fiscal year, including: the requirement to have a single audit or program-specific audit conducted for that year in accordance with the *Single Audit Act Amendments of 1996*, as implemented by the *Uniform Guidance Subpart F*.

- Single audits are performed by independent public accounting firms engaged by the recipient.
- Costs for single audits are borne by the recipient and are allowable as charges to a Federal award, either as a pro-rated portion of direct costs or as included under a Federally-negotiated indirect cost rate agreement.

Recipients that expend less than \$750,000 in a year in Federal awards are not required to have a single audit or program-specific audit for that year, however:

- Recipients may be selected by NEA's Office of Inspector General or by GAO for audits, evaluations or other reviews to be performed by Federal auditors or by public accounting firms under contract to the Federal Government.
- Costs for audits, evaluations or other reviews sponsored by Federal authorities are not chargeable to recipients.

***Best Practice:*** To demonstrate a commitment to financial accountability and transparency, recipients obtain an annual independent financial statement audit, when practical. Small recipient organizations, where an independent financial statement audit is not financially beneficial, could consider an independent review of its financial condition or compilation report. Recipients also produce internal financial statements at least quarterly, at a minimal, income statement and statement of financial position (balance sheet), which are monitored by leadership and the board. *An organization may have a variety of financial reporting requirements imposed by donors, state, Federal, or its governing board, therefore, it's best to consult an experienced attorney or accountant to determine the specific needs of your organization.*



## SHORTCOMINGS TO AVOID

Audits, evaluations and other reviews conducted by the Office of Inspector General have disclosed some common deficiencies in the administration of NEA grants. Among these were:

- Personnel costs charged to grant projects were not supported by adequate documentation that show the actual activity of each employee, whose compensation was charged, in whole or in part, to NEA projects.
- Reported grant project costs that did not agree with the accounting records, i.e., the Federal Financial Reports were not prepared directly from the general ledger or subsidiary ledgers or from a worksheet and could not be reconciled to the accounts.
- Section 504 Self-Evaluation was not on file or updated as required.
- Recipient did not maintain supporting documentation for expenses charged to the award.
- In-kind contributions of goods and services charged to the NEA grant supported projects were not supported by adequate documentation for establishing valuations of the contributions.
- No documented basis (methodology) to support the amount allocated to NEA grant supported projects for common (also known as indirect or overhead) costs which benefitted all projects and activities of the recipient organization.
- Recipients' 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).
- Unallowable costs (e.g., alcohol, entertainment, miscellaneous expenses) were included in the reported total outlays. (See applicable cost principles and the terms and conditions of the award for guidance.)
- Expenses incurred outside the award period were included in the reported total outlays.
- Recipient had a liability with the Internal Revenue Service (IRS). NEA cannot make any payments to the recipient nor can any new grants be awarded until the liability has been paid or an agreement has been reached with the IRS.
- Recipient did not have policies and procedures in place to ensure that contractors or recipients were not debarred or suspended from receiving Federal assistance prior to the payment or award of Federal funds.
- Recipient did not have written policies and procedures for the management of Federal awards.

These shortcomings can be avoided by ensuring that all personnel, both programmatic and administrative/financial, are aware of the Federal award, understand the specific project it is intended to support, and have carefully reviewed all documentation related to the award, including but not limited to the *General Terms & Conditions*, the *Uniform Guidance*, the *Reporting Requirements*, the *How to Manage Your NEA Award Handbook*, and this *Financial Management Guide*.

## UNALLOWABLE COSTS

To determine the allowability of costs refer to the terms and conditions of the award and the *Uniform Guidance* Subpart E - Cost Principles. The following are some examples of unallowable costs.

### Costs Always Unallowable for Federal Funding

- Bad debts - Any losses arising from uncollected accounts and other claims, and related costs.  
(§200.426)
- Contribution and donations - Costs of contributions and donations, including cash, property and services from the recipient to other entities.  
(§200.434)
- Certain depreciation or use allowances - Unallowable on any portion of the buildings and equipment purchased with Federal funds or contributed to meet statutory matching requirements.  
(§200.436)
- Fines and penalties - Resulting from violations of, or failure to comply with Federal, State and local laws and regulations, except when incurred as a result of compliance with specific provisions of the Federal award, or with prior written approval of NEA.  
(§200.441)
- 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.  
(§200.442). However some fundraising costs specific to the project, and approved by the federal awarding agency, may be allowable.
- Lobbying costs - Includes direct legislative lobbying and grassroots lobbying.  
(§200.450)
- Losses on other awards - Any excess of costs over the income under any other award or contract of any nature is unallowable.  
(§200.451)
- Unnecessary travel costs - Travel costs may not exceed the value of the basic least expensive unrestricted accommodations class offered by a commercial carrier.  
(§200.474)

## 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. (§200.438)
- Interest - Costs incurred for interest on borrowed capital temporary use of endowment funds or the use of the non-Federal entity's own funds are unallowable. (§200.449)

## Costs Requiring NEA Approval

- Items of equipment costing more than \$5,000 with a useful life of more than one year (§200.33) - 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. (§200.439)
- 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.

## REFERENCES

- The *Uniform Guidance* can be found at [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl..](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl..)
- **Government Auditing Standards and Single Audits** – This American Institute of CPAs (AICPA) Audit Guide presents guidance for the audits of financial statements conducted in accordance with Government Auditing Standards. It also presents recommendations for the conduct of audits in accordance with the Single Audit Act. <http://www.cpa2biz.com/>
- **OMB Guidelines to Agencies on Governmentwide Debarment and Suspension**  
You must comply with requirements regarding debarment and suspension in Subpart C of 2 CFR part 180, as adopted by the Arts Endowment in Title 2 CFR, Chapter 32, Part 3254  
<http://www.gpo.gov/fdsys/pkg/FR-2007-02-09/html/07-576.htm> and  
<http://www.gpo.gov/fdsys/pkg/CFR-2011-title2-vol1/pdf/CFR-2011-title2-vol1-part180.pdf>