

FINANCIAL MANAGEMENT GUIDE FOR NON-PROFIT ORGANIZATIONS

**NATIONAL ENDOWMENT FOR THE ARTS
OFFICE OF INSPECTOR GENERAL
SEPTEMBER 2008**

Questions about this guide may be directed to the National Endowment for the Arts, Office of Inspector General, Room 601, 1100 Pennsylvania Avenue, NW, Washington, DC 20506, Telephone (202) 682-5402. Questions about the terms and conditions of grants and cooperative agreements may be directed to the Office of Grants and Contracts, Room 618, Telephone (202) 682-5403.

Table of Contents

	<u>Page</u>
Use of the Guide	1
Accountability Requirements	1
Financial Management Standards.....	1
Internal Control Standards	2
Audit Standards.....	3
Reporting Standards.....	4
Subgranting	4
Consortium Projects.....	4
Shortcomings to Avoid	5
Accounting Manual	6
References.....	6
Unallowable Costs	7
Costs Always Unallowable for Federal Funding	7
Costs Usually Unallowable for Federal Funding.....	7
Costs Requiring NEA Approval	7
Sample Documentation Forms	8
Sample Personnel Activity Report	Attachment A
Sample In-Kind Contribution Report.....	Attachment B
Sample Travel Expense Report.....	Attachment C

USE OF THE GUIDE

This guide should be reviewed by everyone in your organization 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 organizations 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 organization should choose methods appropriate for its particular scale of operations. If the grantee organization is unable to meet the standards that are covered here, NEA funding may be terminated and the organization 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.
- 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 current basis and balanced monthly.
- Costs may be incurred only during the grant period and all obligations must be liquidated no later

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

than 90 days after the end of the grant period.

- The records must be supported by source documentation such as cancelled checks, invoices, contracts, travel reports, donor letters, in-kind contribution reports and personnel activity reports. The same costs cannot be claimed and reported on more than one Federal grant. (See attachments for sample forms.)
- For every employee whose salary is charged, in whole or in part, to a grant that is \$50,000 or more, personnel activity reports must be maintained to account for all compensated time, including time spent on other activities. (See Attachment A for sample form.)
- Records must be preserved for three years following submission of the final financial status report.
- 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.
- Requests for advance payment of Federal funds shall be limited to immediate cash needs and must not exceed the grantee's anticipated expenditures over the next 30-day period.
- 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.

Internal Control Standards

Organizations 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 members of the organization 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 the small organization, some measure of effective control may be obtained by planning the assignment of duties carefully.

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.
- 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 cancelled.

- 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.

Office of Management and Budget (OMB) Circular A-133, the definitive Federal regulation concerning audits of non-profit organizations, bases the requirements for audit on specific dollar amounts. The requirements are discussed below. The entire Circular should be reviewed to assure proper implementation.

- Non-profit organizations that expend \$500,000 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.
 - A-133 audits are performed by independent public accounting firms engaged by the grantee organizations.
 - Costs for A-133 audits are borne by the grantee organizations but are allowable as charges to grant projects; they may be considered either direct costs or allocated indirect costs as determined by the Federal cost principles.
- Non-profit organizations that expend less than \$500,000 in a year in Federal awards are not required to have an A-133 audit for that year.
 - Organizations that are exempt from 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, evaluations or other reviews to be performed by Federal auditors or by public accounting firms under contract to the Government.
 - Costs for audits, evaluations or other reviews sponsored by Federal authorities are not chargeable to grantee organizations.

Reporting Standards

The basic requirements for reporting to the NEA are spelled out in the two documents, "General Terms and Conditions for Grants to Organizations" and "Reporting Requirements," both of which are included in the grant award packages furnished to all grantees. It should be noted that the 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, those organizations, who are required A-133 audits, must submit the requisite audit reports within nine months 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 its 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, 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. (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 were not prepared directly from the general ledger or subsidiary ledgers or from worksheets reconciled to the accounts.
- Section 504 Self-Evaluation workbooks were not on file as required.
- 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 benefitted all projects and activities of the organization.
- Independent audits required by OMB Circular A-133 were not performed or did not meet the standards for audits of Federal grants.
- 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).
- Federally-supported cash reserve accounts were not reimbursed within the time allowed.
- Funds were borrowed from Federally-supported permanent endowment accounts in violation of fund restrictions.
- Grantee had a liability with the Internal Revenue Service. Until the liability has been paid or an agreement has been reached with the IRS, the NEA cannot make any payments to the organization nor can any new grants be awarded.

ACCOUNTING MANUAL

Although having a formalized accounting manual is not a NEA or OMB requirement, we believe that individual employee's knowledge would be further enhanced and potential systematic problems could be avoided if grantees formalized many of its own policies and procedures, and guidance available on other grants and accounting matters. This formalized accounting manual could contain policies and procedures relating to financial management, grants management, internal controls, budgeting, etc. An addendum to the manual could include publications such as the General Terms and Conditions for Grants, the Financial Management Guide for Non-profit Organizations, the OMB Circulars and other publications on Federal and State requirements.

REFERENCES

- **OMB Circular No. A-110** - Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-profit Organizations. This Circular establishes the Federal standards for grant administration applicable to all non-profit organizations. The OMB Circulars are available online at: www.whitehouse.gov/omb/circulars
- **OMB Circular No. A-122** - Cost Principles for Non-profit Organizations. This Circular establishes the principles for determining the allowability of costs for grants to non-profit organizations, 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.
- **Government Auditing Standards and Circular A-133 Audits** – This 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 and OMB Circular A-133.
- **Federal Acquisition Regulation (FAR) at 48 CFR Part 31** – This FAR is for commercial organizations, individuals, and those nonprofit organizations listed in Attachment C to OMB Circular A-122. The FAR is available online at www.arnet.gov/far

In addition to the above, there are different guides and manuals on nonprofits that have been published by the AICPA, Thompson Publishing, Commerce Clearing House and others. The internet also is a great source for information.

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 or any similar provision 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-122, Attachment B, Sections 11 and 25, for certain exceptions related to meetings, conferences and employee morale.)
- Interest - Costs incurred for interest on borrowed capital or temporary use of endowment funds are unallowable. (However, interest on debt may be allowed provided the grantee performs a lease/purchase analysis which shows that purchasing through debt financing is less costly to the Federal Government than leasing. See paragraph 19.a of Attachment A to OMB Circular A-122.)

Costs Requiring NEA Approval

- 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:	===== %
Employee's Signature _____	Date: _____
Supervisor's Signature _____	Date: _____

In preparing personnel activity reports, please note the following:

- 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 based on notes from personal calendars and/or reasonable estimates.
- All of the employee's compensated time must be accounted for. 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).**
- Reports must be signed by the employee or a responsible supervisory official.
- Reports must be prepared at least monthly and must coincide with one or more pay periods.
- 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 less than \$50,000.

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:

		VALUE
Services rendered:		
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 basis for the valuation of each item and any supporting documentation.

SAMPLE TRAVEL EXPENSE REPORT

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