

# Thinking About Accepting a Federal Award? Read This First.

By Lisa R. Saul, Partner and Uniform Guidance Director

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The world of federal funding is vast and expanding. Federal awards (grants or contracts) can be appealing to nonprofit entities, including higher education institutions, voluntary health and welfare organizations, and churches. However, while federal funds may seem like “free” money, there are costs associated with administering these awards.

The administrative requirements for federal funds can be time-consuming and even burdensome in some cases. Before your organization decides to accept a federal award, there are some important factors we recommend thinking through first. While the following list is not all-inclusive, it provides a summary of key considerations to help you weigh the potential costs as well as the potential benefits.

## Pre-Award Considerations

There are many complex requirements for processing and reporting on governmental awards under Uniform Guidance, especially if you will be using the funds to pay for anything other than salaries and benefits. These requirements are listed in [2 CFR Part 200](#).

We recommend that you assess the following factors before accepting a federal award:

- **Cash-flow impact** – The grant may state that you will receive the funding within a set number of days (e.g., 45 days) after incurring costs. But what happens if your organization is not reimbursed within that period? Do you have the additional cash flow to finance grant activities? Calculate how long you can run the grant under your own cash flow before receiving reimbursement from the federal government.
- **Banking and cash management requirements** – Setting up banking information under grants can take time, especially if the grants stipulate that you use separate accounts. Your grant agreement will have specific cash management requirements, and you will need to have written procedures to ensure compliance per [2 CFR § 200.305](#). If the grant

activities require you to pay payroll, you can't stop making payments to your employees while working out the reimbursement details. Also consider whether you will need to hire additional employees to run the program. In that situation, not only will your payroll increase — so will your administrative support functions to handle the additional personnel.

- **Cost-share conditions** – Many grants also have cost-share conditions, known as “[voluntary committed cost sharing](#)” or a match, that require your organization to pay part of the costs associated with the grant. Evaluate whether the grant expenditures you must make from your own resources align with your organization's mission and whether internal funding is available to cover these expenditures.
- **Administrative overhead costs** – All federal grants carry administrative overhead costs. And while most grants allow you to recoup some of the costs, the indirect cost recovery billed to the grant typically does not completely cover them. The grant budget may also carry statutory restrictions or cost restrictions that won't allow you to allocate more than a certain percentage of costs for administrative functions. In those situations, your organization will have to pay the difference out of your own funds. It's important to be aware of those restrictions.

Also factor in the cost and time you will incur to have an independent audit if the total of all federal funds your organization expends exceeds \$750,000 in a fiscal year.

## Mandatory Items That Must Be in Place Before Accepting the Award

Under Uniform Guidance, there are several mandatory items you must have in place to accept a federal award. This includes:

- A Unique Entity Identifier, which you can request on [sam.gov](#). You will need this to apply for the grant.
- A financial management system that meets the requirements of [2 CFR § 200.302\(b\)](#).

- An internal control structure to ensure compliance with the terms of the agreement in accordance with [2 CFR § 200.303](#).
- A procurement policy that meets the minimum standards outlined in [2 CFR § 200.318](#), if you will be using grant funds to pay for anything other than salaries and benefits.
- A process for allocating payroll costs to the grant. This should be set up *before* you start spending money from a federal award, per [2 CFR § 200.430\(i\)](#). If your organization receives a grant that is tied to individuals performing work to earn the grant revenue, you will have salaries and benefits that will incur time and effort under that grant. Your process and methodology should clearly show how you will gather and report on the information and that you are not charging it to multiple grants at once. You will also need to be able to prove that you are not charging 100% of the employee's salary and other expenses to multiple grants at the same time. Otherwise, you will need to return all the grant funds to the government, as this is not allowed.

Next, it is important to have a policy and procedure manual that includes:

- Written procedures that determine the allowability of costs in accordance with [Subpart E—Cost Principles](#).
- The terms of the agreement
- Other program requirements such as reporting, program performance, etc.

This manual should be set up before accepting a federal grant. Ensure that you don't rely on the knowledge of any one employee to create the manual. If a key employee who has vast organizational knowledge about the steps and timeline for processing a grant leaves your organization, everyone else needs to be able to charge time and get reimbursed. Having written policies and procedures that govern the administration of the grant is a requirement for federal awards, as well as a general best practice.

**When processing federal awards, it's vital to have the right policies and procedures in place and reinforce a culture of compliance across your organization.**

## Accepting the Award

After you accept a federal award, create a summary sheet or checklist that notes what applies. You will need to:

- Know key information for the Schedule of Expenditures of Federal Awards (SEFA), including the assistance listing number (ALN), the granting agency, and the award number.
- Understand the revenue recognition considerations, such as whether you get cash up front, which makes it a refundable advance, or spend your own money and receive reimbursement.
- Know how to account for the funds properly so you don't have to go back and adjust the accounting records at year-end.

It's also important to know:

- How to reach your primary government contact for questions and clarification about the agreement.
- How often you need to submit information to the agency (annually, monthly, or quarterly).
- What information you are required to report. There could be statistical data you need to report in addition to financial data. There also may be a template you need to complete. Many times, you must complete the reporting before you can be reimbursed for costs.

Maintaining this information in one spot will ease the process of submitting it within the required deadlines.

## Processing the Award

When processing federal awards, it's vital to have the right policies and procedures in place and reinforce a culture of compliance across your organization.

Consider:

- **Review of expenditures** – This is one of the strongest internal controls over the grant. Assign this role to an individual who is knowledgeable about and understands the grant agreement, including eligibility and allowable costs.
- **Documentation** – Retain all documentation of your decisions to ensure you comply with the terms of the grant. This will also help others find key information if there is a staffing change or absence. Develop and maintain a good record retention policy in accordance with the [record retention regulations](#) under Uniform Guidance.
- **Communication** – While your internal controls over compliance (reviews, internal audits, etc.) should promptly identify issues, it is equally important to have a formal process for communicating these

findings to the individuals responsible for addressing them.

- **Security** – In a time where identity information is so valuable on the black market, make sure you maintain adequate controls to protect any personally identifiable information (PII) you hold.

### Procurement Standards

If your organization will be spending federal award money on anything other than salaries and benefits, you will need to follow the federal procurement standards in [2 CFR § 200.317 – 200.327](#), which outline how you are allowed to purchase goods with federal dollars. This includes having a conflict of interest policy in place, per [2 CFR § 200.318\(c\)](#).

Next, you must retain documentation of the entire decision-making process whenever a procurement decision is made. This means that if you receive multiple bids, you need to keep documentation of all of them, not just the winning bid.

Based on the threshold of purchase, different methodologies are required. The [micro-purchase threshold](#) for most higher education institutions and nonprofit organizations is no more than \$10,000 with one vendor in a year, unless the organization implements a lower threshold. We recommend that you align your accounts payable processes with the federal guidelines so that if another expense is allowed under the grant, you will have applied the correct procedure and won't need to perform retroactive work. An organization's internal processes can be stricter than these federal guidelines, but not less strict than them.

### Reporting on the Award

Most awards, whether received directly from the federal government or passed through another entity, have a minimum requirement of an annual report. Many also require additional reporting during the year, including financial and program performance. The granting agency should provide the specifics.

It's also crucial to keep information about the source of the report data with the report. Establish a consistent naming convention and ensure that all pertinent staff members know the names of the reports, how each report is generated, and what each report is used for. Retain the reporting documentation so you don't need to recreate it each time or if someone leaves your organization.

### Conclusion

Federal awards can be an important funding mechanism to help organizations achieve their mission. However, because these funds have many requirements,

assessing how you will handle, account for, and perform any administrative activities before accepting and spending the funds will help minimize the risk of having to return the funds due to noncompliance. It will also reduce the risk of detrimental effects on your organization's other programs if the federal grants require additional cash and time.

Please [contact us](#) with any questions.

### About the Author

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Lisa joined CapinCrouse in 1999. She has over 20 years of experience in performing and supervising Uniform Guidance audits of Department of Education student financial aid programs and a variety of federal funding, as well as program audits and agreed-upon procedure engagements of various state-funded programs. Lisa oversees the firm's more than 80 Uniform Guidance audits.

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