UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

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TO: Project Directors and Fiscal Management Staff for ED Discretionary Grants

FROM: Jack Martin

SUBJECT: Key Financial Management Requirements for Discretionary Grants Awarded by the Department of Education (ED)

As part of the Department's on-going efforts to make you aware of your responsibilities associated with managing Federal funds, I am writing to remind you of important financial management requirements that apply to discretionary grant awards.

In general, the Department expects that you will administer ED grants in accordance with generally accepted business practices, exercising prudent judgment so as to maintain proper stewardship of taxpayer dollars. This responsibility includes using fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds. In addition, you may use grant funds only for obligations incurred during the funding period.

The Education Department General Administrative Regulations (EDGAR) contain the general requirements for administering discretionary grants made by this Department. The Department provides you a printed copy of EDGAR along with the Grant Award Notification. You can also read EDGAR on the Web at:

http://www.ed.gov/policy/fund/reg/edgarReg/edgar.html

The attached document, "Selected Topics in Administering ED Discretionary Grants," highlights major administrative requirements of EDGAR in parts 74 and 80. Part 74 applies to institutions of higher education, non-profit organizations, and hospitals. Part 80 applies to States, local governments, and federally recognized Indian tribal governments. In addition, a few of the topics discuss requirements that this Department imposes on its discretionary grantees under Part 75. The specific sections of EDGAR that address the topics discussed are shown in parentheses. I urge you to read the full text of these and other topics in EDGAR.

Please keep in mind that a particular grant might be subject to additional requirements of the authorizing statute for the program that awarded the grant and/or any regulations issued by the program office. You should become familiar with those requirements as well, because program-specific requirements might differ from those in EDGAR.

In closing, I recommend that the project director and the fiscal management staff of a grantee organization communicate frequently with each other about the grant budget. Doing so will help to assure that you use Federal funds only for those expenditures associated with activities that conform to the goals and objectives approved for the project.

You should direct any questions you might have about the topics discussed in the attached document or about any other aspect of administering your grant award to the ED program staff person named in Block 3 of the Grant Award Notification.

Attachment

Selected Topics in Administering ED Discretionary Grants

- **Financial Management Systems (§74.21, §80.20)**

In general, grantees are required to have financial management systems that:

* provide for accurate, current, and complete disclosure of results regarding the use of funds under grant projects;
* provide adequate source documentation for Federal and non-Federal funds used under grant projects;
* contain procedures to determine the allowability, allocability, and reasonableness of obligations and expenditures made by the grantee; and
* enable the grantee to maintain effective internal control and fund accountability procedures, e.g., requiring separation of functions so that the person who makes obligations for the grantee is not the same person who signs the checks to disburse the funds for those obligations.

State systems must account for funds in accordance with State laws and procedures that apply to the expenditure of and the accounting for a State's own funds. A State's procedures, as well as those of its subrecipients and cost-type contractors, must be sufficient to permit the preparation of reports that may be required under the award as well as provide the tracing of expenditures to a level adequate to establish that award funds have not been used in violation of any applicable statutory restrictions or prohibitions.

- **Payment (§74.22, 80.21)**

In its discussion of handling payments made under grants, EDGAR requires that:

* the Department pay grantees in advance of their expenditures if the grantee demonstrates a willingness and ability to minimize the time between the transfer of funds to the grantee and the disbursement of the funds by the grantee;

* grantees repay to the Federal government interest earned on advances; and

* grantees subject to Part 74 deposit grant funds in interest-bearing accounts.

In general, grantees should make payment requests frequently, only for small amounts sufficient to meet the cash needs of the immediate future.

The Department has recently encountered situations where grantees failed to request funds until long after the grantee actually expended its own funds for the costs of its grant. Grantees need to be aware that, by law, Federal funds are available for grantees to draw down for only a limited period of time, after which the funds revert to the U.S. Treasury. In some cases grantees have requested funds too late for the Department to be able to pay them for legitimate costs incurred during their grant periods. The Department urges financial managers to monitor regularly requests for payment under their awards to assure that Federal funds are used to pay for grant expenses at the time they are due.

- **Personnel (§§74.27, 75.511-75.519 and 80.22)**

  The rules in Part 75 cover issues such as paying consultants with grant funds, waiving the requirement for a full-time project director, making changes in key project staff, and prohibiting dual compensation of staff. General rules governing reimbursement of salaries and compensation for staff working on grant projects are discussed in the Office of Management and Budget's cost circular that applies to a particular type of entity (See **Cost Principles**, below). In all cases, payments of any type to personnel must be supported by complete and accurate record-keeping of time and effort.

- **Cost Principles (§74.27, §80.22)**

  All costs incurred under any grant are subject to general requirements found in the specific circular that the Office of Management and Budget (OMB) publishes for the grantee's particular type of organization. Each circular provides a list of selected items of allowable and unallowable costs. These cost circulars, which EDGAR legally makes part of the grant regulations at §§74.27 and 80.22, can be found on the Web at the following URLs:[1]

  OMB Circular A-21 (for institutions of higher education, non-profit organizations, and hospitals):

  http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html

  OMB Circular A-87 (for States, local governments, and federally recognized Indian tribes):

  http://www.whitehouse.gov/omb/circulars/a087/a87_2004.html

  OMB Circular A-122 (for non-profit organizations):

  http://www.whitehouse.gov/omb/circulars/a122/a122_2004.html

- **Procurement Standards (§§74.40-48, §80.36)**

  EDGAR contains detailed specifications for procurement actions that grantees undertake with grant funds, including requirements for codes of conduct for grantee staff, competition, cost and price analysis, record-keeping, contractor compliance with certain Federal laws and regulations, and various mandatory provisions that must be included in contracts and sub-contracts. Under §80.36, States are required to follow the procurement rules the State has established for purchases funded by non-Federal sources.

- **Indirect Costs (§§75.560-564)**

  Grantees may receive reimbursement for allowable indirect costs under a grant award only if they have a current indirect cost rate approved by a cognizant agency of the Federal Government or an authorized State agency. In general, a cognizant agency is the one that provides the most funding to a grantee organization. In some cases, OMB may assign

[1] Those who have difficulty accessing these Web pages directly may go to the main Web page (http://www.whitehouse.gov/omb/circulars/) for all OMB circulars, listed in numerical sequence, and use the links shown to access a particular circular.

cognizance for a particular grantee or type of grantee to a specific Federal agency. For example, this Department is the cognizant agency for negotiating indirect cost rate agreements with all State Education Agencies. The cognizant agency for institutions of higher education is usually the Department of Health and Human Services or some component of the Department of Defense. The indirect cost rate negotiated by the cognizant agency must be honored by all other Federal agencies unless another agency has specific authority to limit the rate.

A grantee's federally negotiated indirect cost rate is established for only a defined period of time (usually a grantee's accounting year) and must be renegotiated and updated on a regular basis (e.g., annually). This procedure means that different indirect cost rates could apply to different budget periods of multi-year awards.

The Department imposes limitations on indirect cost rates for certain types of grants, depending on the nature of the grant or the program under which the grant was funded. For example, grantees in specific programs with legislation containing "supplement-not-supplant" provisions are subject to applying a "restricted" rate to the grants. The restricted rate is lower than the usual negotiated indirect cost rate because the calculation excludes certain items of general management and fixed costs from the indirect cost rate charged to a grant. Sections 75.563 and 76.564-569 in EDGAR discuss restricted rates in more detail. The ED program officer for any grant program can verify whether that program is covered by restricted rate requirements.

Section 75.562 of EDGAR limits the indirect cost rate to 8% for training grants, regardless of the rate negotiated with the cognizant agency. (This 8% limitation does not apply to federally recognized Indian tribes or agencies of States or local governments.) The difference between the 8% limit and the grantee's negotiated rate may not be used for cost sharing or matching purposes, charged to direct cost categories, or charged to another Federal award.

Some programs contain prohibitions against recovery of any indirect costs. Under grants received from one of these programs, a grantee may not charge to a direct cost category in its budget a cost that would be treated as an indirect cost in other situations, nor may those unrecovered indirect costs be charged to other Federal awards.

In connection with reporting indirect costs under a grant, grantees will need to review the cover sheet of the ED Grant Performance Report (ED 524B). The section, "9. Indirect Costs," contains four questions related to claiming indirect costs under a grant. Grantee personnel should be sure to answer these questions accurately so that the Department can exercise properly its responsibility for fiscal oversight of its grant awards.

More extensive discussion of indirect cost rates and their relationship to ED grants can be found on the website of the Office of the Chief Financial Officer (OCFO) at:

http://www.ed.gov/about/offices/list/ocfo/fipao/icgindex.html

- **Audit Requirements (§74.26, §80.26)**

The Single Audit Act requires that grantees obtain a non-Federal audit of their expenditures under their Federal grants. OMB Circular A-133 contains the requirements imposed on

grantees for audits done in connection with the law. The full text of the most recent version of the circular can be found at:

http://www.whitehouse.gov/omb/circulars/a133/a133.html

The Department recommends hiring auditors who have specific experience in auditing Federal awards under the circular and the Compliance Supplement, which can be found at:

http://www.whitehouse.gov/omb/circulars/a133_compliance/01/01toc.html

OTHER CONSIDERATIONS

Some other topics of financial management covered in EDGAR that might affect particular grants include program income (§§74.24, 80.25), cost sharing or matching (§§74.23, 80.24), and equipment (§§74.34, 80.32).

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