



## What Foundations Need to Know about Federal Funds Management

With the challenges facing the non-profit community as a result of the downturn in the economy, many foundations may be exploring additional sources of funding for their initiatives as well as their grantees. This paper has been prepared by the Council's Senior Counsel, Daniel Rader, to aid foundations in developing a better understanding of the landscape of state and federal grant opportunities and what government oversight their grantees experience if they are recipients of these government funds. Any questions or comments about this information should be sent to Atty. Rader at [raded@cof.org](mailto:raded@cof.org).

### Grants Management Rules

Federal grants are governed by Office of Management Budget (OMB) Circulars. These circulars are available from the OMB website at [http://www.whitehouse.gov/omb/grants\\_default/](http://www.whitehouse.gov/omb/grants_default/). As this page notes, specific grant programs are not identified or awarded through OMB, but through the federal departments and agencies that receive appropriations from the U.S. Congress and that run their own grants programs. Federal grant programs are also coordinated through [www.grants.gov](http://www.grants.gov). An applicant for a federal grant is required to comply with the [OMB Circulars](#) that apply to the applicant's organization type. OMB summarizes the circular requirements, and provides links, as follows:

- **Which Circular do I Follow?**

Although there are six grant circulars, you are only covered by three of them, depending on type of entity:

States, local governments, and Indian Tribes follow:

- [A-87](#) for cost principles, [Relocated to 2 CFR, Part 225](#) (362k)
- [A-102](#) for administrative requirements, and
- [A-133](#) for audit requirements

Educational Institutions (even if part of a State or local government) follow:

- [A-21](#) for cost principles, [Relocated to 2 CFR, Part 220](#) (384k)
- [A-110](#) for administrative requirements, [Relocated to 2 CFR, Part 215](#) (280k), and
- [A-133](#) for audit requirements

Non-Profit Organizations follow:

- [A-122](#) for cost principles, [Relocated to 2 CFR, Part 230](#) (362k)
- [A-110](#) for administrative requirements, [Relocated to 2 CFR, Part 215](#) (280k), and
- [A-133](#) for audit requirements

"CFR" means "Code of Federal Regulations" and the varying code sections (the number before CFR) indicate the title of the code that governs the specific department or agency). OMB also provides a [chart](#) that illustrates which departments and agencies have codified department- or agency-specific requirements. Federal departments and agencies also have specific [compliance supplements](#) for identified grant programs that auditors are required to use

in conducting the compliance testing requirements of Circular A-133; see e.g., the Corporation for National and Community Service [compliance supplement](#).

- ***Where do I find federal grant opportunities?***

When searching for federal grant opportunities, you will want to search through [www.grants.gov](#), the [Catalog of Domestic Financial Assistance](#), and the specific agency that runs the grant program; note that the CDFA site is expected to relaunch on April 21, 2009; the searchable 2008 Catalog continues to be available from the website. Grant announcements will generally be posted by departments and agencies under their procurement and/or grants pages as “Notice of Fund Availability” or “Notice of Funding Opportunities”; see, for example, the [Corporation for National and Community Service](#)’s announcements [page](#). These grants include competitive grants administered directly by the agency or department. Note also that [www.grants.gov](#) requires applicants to register in order to submit grant applications.

Federal grant funding is often distributed through the states through existing state government channels by state program, block, and formula grants. [Ohio](#) is one example of how states have approached participation in the federal stimulus recovery programs, which includes [Guidance Issued from U.S. Department of Energy for Energy Efficiency and Conservation Block Grant Program for Direct Funding to Local Governments](#). Your state may similarly feature its participation in the Stimulus Package, Stimulus Fund availability, other federal grant programs, as well as state grant programs on the state government’s homepage, generally at [www.\(insert name of state\).gov](#). Note that state subgrants to nonprofits from federal block fund grants to states are administered in accordance with state rules.

- ***How do I prepare for a federal grant?***

Anticipating that not all organizations are familiar with the rules and regulations applicable to federal grantees, federal agencies offer training and technical assistance opportunities to their grantees, including training and technical assistance grants. For example, the CNCS provides project grants through Training and Technical Assistance Cooperative Agreements to provide services to grantees including evaluation, member development and management, organization development and program management, supervisory skills training, financial management and human relations training. Additional information about this program (#94.009) and other training and technical assistance opportunities, visit the CFDA [website](#). Many state governments also offer training and technical assistance to federal grantees in their states in addition to state grants management training and technical assistance to nonprofits applying for state grant funds. You should search your state’s homepage for more information.

## Audits

One of the common concerns among members are the audit requirements associated with receiving a federal grant under OMB Circular A-133, Audits of State, Local Governments and Non-Profit Organizations. Circular A-133 requires audits for organizations receiving federal grants directly from federal departments and agencies and as sub-recipients of federal grants, such as when the nonprofit receives the federal funding through the state government.

- ***How would my audit as a federal grantee differ from my organization’s regular audit?***

Federal grantee audits are designed to expand upon the audit of financial statements that organizations conduct which focus on whether an organization's financial statements contain materially misstatements. Rather, federal grantee audits specifically include detection and reporting of fraud, noncompliance with law, regulation, grant and contractual agreements, internal controls weaknesses, and risk.

- ***Are there award thresholds for federal grantee audits?***

Yes. Circular A-133 requires different types of audits for different types of grantees, different federal programs, and different total grant award amounts. A-133 will generally require a “single” or “program-specific” audit of non-federal entities that expend \$500,000 or more in a year in federal awards. A “single audit” is required when the entity has met the \$500,000 threshold for multiple awards under multiple federal programs. Excluding R&D awards, an entity may elect to undergo a “program-specific audit” only if it expends awards under one (1) federal program, and the agency administering such awards does not require a financial statement audit; for example, if a nonprofit expends federal grant funding equal to or greater than \$500,000 in a year under two federal programs (AmeriCorps and Federal Highways Administration), the nonprofit would not be eligible to elect a program-specific audit. A third type of audit, a “major program audit,” may be required based upon a variety of factors that affect the scope of the audit; factors considered by the auditor include but are not limited to: auditor determination that the award qualifies as a major program based on size of the program and the award to the nonprofit; the risk inherent to the program itself, risk associated with prior audit findings of the grantee that demonstrate weak internal controls; weak systems for monitoring sub-recipients; potential for significant impact on federal programs.

Entities that expend less than \$500,000 a year in federal awards are *exempt* from federal audit requirements for that year, except that federal agencies, their Inspectors General, and the Government Accountability Office are nevertheless permitted to conduct other audits of the entity (e.g., financial audits, performance audits, major program audits (discussed below), evaluations, inspections, and reviews). Where the auditor determines that the grantee is a low-risk auditee, the auditor similarly may reduce the scope of the audit, with the approval of the federal agency responsible for the grant.

- ***What are the differences between these types of audits?***

The scope of the different types of audits also varies significantly.

A single audit is an audit of the entity's financial statements and federal awards. The single audit is conducted in accordance with General Accepted Government Accounting Standards (GAGAS) and covers the *entire operations* of the entity audited *or* the auditee may elect to undergo a series of audits of those discrete parts of its operations which expended or administered the federal awards during the year, including financial statements and schedule of expenditures for the same fiscal year. The audit will include: an opinion regarding the entity's financial statements of the Federal program fairly presents and conforms with generally accepted accounting principles (GAAP) and determine whether the schedule of expenditures is fairly presented in all material respects in relation to the entity's financial statements; a report on internal controls, risk assessment, and testing results; a report on compliance in conjunction with the agency's compliance supplement, if any; a schedule of findings and questioned costs

(including but not limited to summary of auditor results, findings that GAGAS requires auditors to report). OMB has produced a general [brochure](#) that outlines single audits.

**Major program audits** are triggered under two circumstances: either (1) the auditor utilized A-133's risk-based approach to determine the federal program is a major program or (2) a federal agency or pass-through intermediary has requested an auditee to have a particular federal program audited as a major program in place of the federal agency conducting or arranging for the additional audit. As indicated above a major program audit is broader in scope than the single audit, additional requirements are detailed in A-133. An example audit that includes major program audits is the [Defense Contract Audit Agency's A-133 Audit Program](#).

A **program-specific audit** is an audit of one (1) federal program. The program-specific audit will be dictated by the terms of the federal agency's program-specific audit guide, to the extent that the agency has created one, and GAGAS.

If there is no program-specific audit guide, then the audit will be conducted as though the audit was a major program audit of a single program. In summary, the auditor will audit the financial statements of the federal program in accordance with GAGAS; evaluate and test the entity's internal controls to assign a risk level which will be used in its major program determination which will determine the scope of the audit; determine whether the entity complied with laws, regulations, and the terms of grant and contractual agreements; and the auditor will produce report(s) including an opinion or disclaimer regarding the entity's financial statements of the Federal program fairly presents and conforms with accounting policies, a report on internal controls and testing results; a report on compliance, a schedule of findings and questioned costs.

- **Who pays for these audits? Does this come out of my grant?**

Audit costs are generally allowable charges to federal awards, unless otherwise restricted. How costs are charged will be determined by the cost principles applicable to the award, i.e., OMB Circular A-122. Assuming the audit is properly chargeable to the grant as a cost, your grant proposal should include the projected cost of the audit. Note that the cost of audits conducted under the Single Audit Act Amendments of 1996, 31 USC 7501 et seq, that are *not* conducted in accordance with OMB Circular A-133 are not allowable. Audits for nonprofits that are exempt from the audit requirement as a result of not meeting the \$500,000 threshold are similarly not chargeable to the grant.

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CHECK OUT THE COUNCIL'S PUBLIC-PHILANTHROPIC PARTNERSHIP WEB SITE AT  
[HTTP://PPP.COF.ORG](http://ppp.cof.org)

