

Volume No. 1—Policies and Procedures	<b>TOPIC NO.</b>	<b>20605</b>
Function No. 20000— General Accounting	<b>TOPIC</b>	<b>Federal Grants Management</b>
Section No. 20600—Federal Grants Management	<b>DATE</b>	January 2010

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## Overview

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**Introduction** This CAPP topic provides guidelines and references to assist State agencies with development of internal policies and procedures to properly account for, report, and manage federal grants in accordance with the following federal and state requirements.

**Note: Unless specifically indicated in a subtopic, higher education institutions are excluded from these policies and procedures.**

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## Policy

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**Policy** DOA provides grant-reporting capabilities to agencies through the Commonwealth Reporting and Accounting System (CARS).

State agencies are responsible for proper and accurate recording of federal grant activity through the use of CARS or an agency-based accounting system which interfaces to CARS and is fully reconciled to CARS with corrections made as needed.

Agencies must also prepare federal grants reports in accordance with federal regulations.

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## Federal Grant Management-Related Resources

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### Key Resources for Federal Grants Management

- 1) **The following OMB Circulars can be reviewed online and/or printed at [http://www.whitehouse.gov/omb/circulars\\_default/](http://www.whitehouse.gov/omb/circulars_default/)**
  - **2 CFR Part 225**, formerly OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*—Establishes principles and standards for determining allowable costs applicable to grants, contracts, and other agreements with state and local governments.
  - **OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments***—Establishes consistency and uniformity among federal agencies in the management of grants and cooperative agreements with state and local governments.
  - The **Common Rule**, formerly a part of OMB Circular A-102, prescribes the administrative requirements to be followed by all state government grant recipients (other than higher education). The *Common Rule*, as adopted by each Federal Grantor Agency, has been codified in the *Code of Federal Regulations* (CFR). The *Common Rule* for the federal agencies can be found by finding the respective CFR Code sites under A-102 at: [www.whitehouse.gov/omb/grants/grants\\_circulars.html](http://www.whitehouse.gov/omb/grants/grants_circulars.html)

*Scroll down to the “Administrative Requirement” bullet and click on “Where have Agencies Codified the A-102 Common Rule?” On the table displayed; identify the appropriate CFR codification from the listing shown for each federal agency. Enter the selected CFR codification (without spaces) in the search box located at [www.gpoaccess.gov/cfr](http://www.gpoaccess.gov/cfr) and click the “Submit” button. A listing of all CFR subparts matching the search criteria will then be displayed. The entire CFR is typically shown in a single document near the end of the listing.*

- **2 CFR Part 215**, formerly OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, establishes standards for obtaining consistency and uniformity among Federal agencies in the administration of grants to and agreements with institutions of higher education, hospitals, and other non-profit organizations.
- **OMB Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*** - Establishes audit requirements for state and local governments that receive federal aid, and defines federal responsibilities for implementing and monitoring those requirements.

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## Federal Grant Management-Related Resources, Continued

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- 2) The *Cash Management Improvement Act of 1990 (CMIA)* provides the general rules and procedures for the effective and equitable use of state and federal funds for major federal assistance programs as documented in the annual Treasury-State Agreement (TSA) between the State and the Federal government. See **31 CFR 205 Part A** for the rules governing the largest federal programs and **Part B** for all other programs. The CMIA can be researched at [www.fms.treas.gov](http://www.fms.treas.gov). The CFR can be reviewed at [www.gpoaccess.gov/cfr](http://www.gpoaccess.gov/cfr) as shown above. The TSA can be viewed at: [http://www.doa.virginia.gov/Financial\\_Reporting/CMIA/Treasury\\_State\\_Agreement.pdf](http://www.doa.virginia.gov/Financial_Reporting/CMIA/Treasury_State_Agreement.pdf)
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## Definitions

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**Allowable Costs** To be allowable under a grant program, costs must meet the following criteria:

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards;
  - Be allocable to Federal awards under the provisions of **2 CFR Part 225**;
  - Be authorized or not prohibited under state or local laws or regulations;
  - Conform to any limitations or exclusions set forth in federal guidelines;
  - Be consistent with policies, regulations, and procedures that apply uniformly to both federally assisted and other activities of the government unit of which the grantee is a part;
  - Be accorded consistent treatment and except as otherwise provided in **2 CFR Part 225**; determined to be in accordance with Generally Accepted Accounting Principles (GAAP);
  - Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation and;
  - Be net of all applicable credits and adequately documented.
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**Cognizant Agency**

The Cognizant Agency for cost allocation plans and indirect cost proposals for all governmental units or agencies not specifically identified by OMB will be determined based on the Federal Agency providing the largest amount of federal grant funds to the entity. With some exceptions, this will usually be Department of Health and Human Services (HHS).

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## Definitions, Continued

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<b>CMIA</b>	The <i>Cash Management Improvement Act of 1990</i> (CMIA) provides the general rules and procedures for the effective, efficient and equitable use of state and federal funds on behalf of major federal assistance programs in the annual Treasury-State Agreement (TSA). See <b>31 CFR 205 Part A</b> of the <i>Code of Federal Regulations</i> for the rules governing the largest federal programs, and <b>Part B</b> for all other programs.
<b>Common Rule</b>	Formerly a part of OMB Circular A-102, the <i>Common Rule</i> prescribes the administrative requirements to be followed by all state government grant recipients (other than higher education). The websites and procedures to access the Common Rule were provided on the previous page of this CAPP topic.
<b>Drawdown</b>	A process whereby a state requests and receives federal funds.
<b>Expenditure Recording Date</b>	The date expenditures are recorded in the CARS history file. This date may be several days after the date the entry is keyed into CARS. It is also called the CARS Expenditure Posting Date.
<b>Federal Financial Assistance</b>	Assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals. Assistance includes awards received directly from federal agencies or indirectly from other state and local government units. A comprehensive listing, by federal program number, may be found in the <i>Catalog of Federal Domestic Assistance</i> (CFDA). CARS uses the Federal grantor's number as listed in the CFDA as the Commonwealth's revenue source codes. See CAPP Topic No. 60109, <i>Revenue Source Codes</i> .

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## Definitions, Continued

### Funding Techniques

Federal CMIA regulations prescribe five primary federal program funding techniques for the drawdown of federal funds. Specific funding techniques for selected CMIA programs are in Virginia’s Treasury-State Agreement (TSA). Virginia’s TSA is maintained by the Financial Reporting Unit, Department of Accounts.

- 1) **Zero balance accounting** - a Federal Program Agency transfers the actual amount of Federal funds to a State that are paid out by the State each day.
- 2) **Projected clearance** - a Federal Program Agency transfers to a State the projected amount of funds that the State pays out each day. The projected amount paid out each day is determined by applying a clearance pattern to the total amount the State will disburse.
- 3) **Average clearance** means that a Federal Program Agency, on the dollar-weighted average day of clearance of a disbursement, transfers to a State a lump sum equal to the actual amount of funds that the State is paying out. The dollar-weighted average day of clearance is the day when, on a cumulative basis, 50 percent of the funds have been paid out. The dollar-weighted average day of clearance is calculated from a clearance pattern.
- 4) **Cash advance (pre-issuance or post-issuance) funding** - a Federal Program Agency transfers the actual amount of Federal funds to a State that will be paid out by the State not more than three business days prior to the day the State issues checks or initiates electronic payments. The U.S. Treasury modified this rule, in Virginia’s TSA, to allow federal funds to be deposited not more than three business days prior to the expenditure recording date in CARS. This meets the CARS requirement for cash on hand before expenditures are recorded.
- 5) **Reimbursable funding** - a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes.

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## Definitions, Continued

<b>Federal Grant</b>	<p>An award of financial assistance, including cooperative agreements, in the form of money, or property in lieu of money, by the federal government to an eligible grantee.</p> <p>The term <i>does not include</i> technical assistance, which provides services instead of money, or other assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, insurance, or direct appropriations. Also, the term does not include assistance for which the grantee is not required to account.</p>
<b>Grantee</b>	<p>The direct recipient of a grant that is accountable for the use of the funds received. The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document.</p>
<b>Grantor</b>	<p>The Federal agency that awards a grant to an eligible grantee.</p>
<b>Pass-Through Funds</b>	<p>Funds received by a State agency or institution for subsequent transfer to other state agencies or institutions to carry out the program purpose.</p>
<b>Questioned Costs</b>	<p>Costs that, in the opinion of the auditor, may not comply with or may not be consistent with the requirements set forth in contracts, statutes, or regulations governing the allocation, allowability, or reasonableness of costs charged to awards and programs, and thus may not be reimbursable.</p>
<b>Statewide Indirect Costs</b>	<p>Indirect costs incurred by the State's central service agencies in support of other State agencies and institutions. Agencies are notified annually by DOA of their allocation of Statewide indirect costs.</p>
<b>Subgrant</b>	<p>An award of financial assistance in the form of money, or property in lieu of money, made under a grant by a grantee to an eligible subgrantee. The term includes financial assistance when provided by contractual legal agreement, but does not include procurement purchases, nor does it include any form of assistance, which is excluded from the definition of "grant."</p>
<b>Subgrantee</b>	<p>The government or other legal entity to which a subgrant is awarded and which is accountable to the grantee for the use of the funds provided.</p>

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## Federal Grants Management Accounting System

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**The Common Rule for State Agency Financial Management Systems**

**Section .20 of Subpart C** of the *Common Rule* prescribes the standards for financial management systems.

Subsection (a) says, “A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part (of the *Common Rule*) and the statutes authorizing the grant, and
- (2) Permit the tracking of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”

Subsection (b), paraphrased below, is generally applicable to all grantees and subgrantees:

- **Financial Reporting**—accurate, current and complete disclosure of financial results.
  - **Accounting Records**—maintenance of records, which adequately identify the source, and application of funds.
  - **Internal Control**—maintenance of effective control and accountability for all grants and subgrants.
  - **Budget Control**—comparisons of actual expenditures or outlays to budgeted amounts for each grant or subgrant.
  - **Allowable Costs**—grant expenditures determined by applying appropriate OMB cost principles, agency program regulations and the terms of grant and subgrant agreements.
  - **Source Documentation**—documentation maintained to support accounting records.
  - **Cash Management**—procedures to minimize the time elapsing between the transfer of funds from the federal government and the disbursement by the grantee or subgrantee.
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## Using CARS for Federal Grant Management

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### Recording Federal Grant Financial Information in CARS

CARS provides most agencies with an adequate system for tracking grant expenditures and assisting in cash management. It may not, however, be sufficient for some agencies with a high volume and variety of grant tracking activities. Under those circumstances, the responsible agency must provide an agency-based system that meets the financial management standards of the *Common Rule*. The primary CARS federal grants accounting tool is the **project code structure**. However, the project code should not be used in lieu of or to duplicate organizational (cost code) or state program/service area information. See CAPP Topic No. 60105, *Cost Codes*, and CAPP Topic No. 60110, *Project Codes*, for further details. State agencies responsible for CMIA interest calculations should consider using program specific project codes to facilitate the tracking of deposits and related expenditures of major federal assistance programs.

If detail information is to be identified by project code, the agency must ensure the project code, or cost code (if established), is entered on all applicable revenue and expenditure documents.

The CARS Chart of Accounts' project code structure consists of the project and two lower classification elements called task and phase. Task is a breakdown of the project code and phase is a further breakdown of project and task. For example, phase can be used to identify the federal fiscal year associated with the expenditure or receipt or a further breakdown of project/task.

Some agencies use cost codes (organizational codes) extensively. To simplify coding, a cost code can be established to reference a project structure (i.e., project, project-task, or project-task-phase) in the agency cost code table. CARS will automatically identify the project structure through the cost code table for each transaction. If an agency receives multiple grants from the same Federal source, the cost code table can be changed every Federal fiscal year to reflect the appropriate project structure. This allows the agency to retain the cost code reference to project code if desired and change only the task or phase.

Applicable program(s), service area(s), fund/fund detail(s), etc. must be coded on all expenditure documents in addition to the project code. See CAPP Topic No. 60103, *Transaction Codes*, for the required coding for each transaction.

*Additional requirements exist for federal grants funded through the American Recovery and Reinvestment Act (ARRA). The Stimulus Accounting and Reporting Information link on the DOA homepage provides more information at: [http://www.doa.virginia.gov/Stimulus/Stimulus\\_Information.cfm](http://www.doa.virginia.gov/Stimulus/Stimulus_Information.cfm)*

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## Grant Acquisition

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**Policy** Solicitation of federal grants and contracts must be undertaken in accordance with Sections 4-1.05 b.3. and 4-2.01 a. of Part 4: General Provisions of the *Appropriation Act* and Subpart B of the *Common Rule*.

State agencies and institutions are responsible for filing timely applications and program plans for new or continuing federal grants or contracts. Grant applications and program plans must be filed by the required due dates set by the respective federal grantor agencies in order to qualify. This will also help avoid delays in the receipt of federal funds.

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**DUNS Number Requirement** All federal grant applications must include a Dun and Bradstreet (D&B) Data Universal Numbering System (DUNS) number. The DUNS number is required whether the applicant is submitting a paper application or using the new government-wide electronic portal [www.grants.gov](http://www.grants.gov). The DUNS number supplements other identifiers, such as the tax identification number. It should be included on all applications for an award or renewal of an award. To obtain a DUNS number, state agencies and institutions should call the dedicated toll-free DUNS Number request line at 1-866-705-5711.

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**Government-wide Portal [www.grants.gov](http://www.grants.gov)** HHS developed this website [www.grants.gov](http://www.grants.gov) as part of the federal government’s response to the Federal Financial Assistance Management Improvement Act of 1999. It provides a “one-stop shopping electronic grants portal” for all federal grants customers and potential customer to obtain information and to apply for grants on-line.

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## Grant Acquisition, Continued

### General Procedures

Procedures to be followed in order to comply with State requirements include:

Each agency and institution must annually submit to the Department of Planning and Budget (DPB) reasonable estimates of anticipated receipts from federal grants.

These estimates are used in recommending appropriation levels for the agency. Agencies and institutions may then solicit and accept grants on the authority of the agency only up to the amount of nongeneral funds that have been so appropriated. Agencies and institutions should contact DPB for authorization to receive and expend nongeneral fund revenues in excess of the appropriated amount.

Do not solicit, accept, nor expend nongeneral fund revenues from grants:

- whose specific sources have not been included in the budget submission terminology and/or have not been appropriated to the agency;
- when the federal government provides the funds and the option exists for either the State or the federal government to administer the program supported by such funds;
- if in the event that federal funds are reduced or terminated, the State would be required to absorb the cost of services not provided for in the Appropriation Act;
- when the purpose of the grant is inconsistent with an agency's legislative or administrative mandate; or
- when such grant obligates an agency to (1) additional positions, employment levels, office space, or other additional costs beyond those provided for in the *Appropriation Act*, or (2) a capital outlay project, unless same is included in the *Appropriation Act* or unless prior approval has been obtained under Section 4-4.01 of the *Act*.

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## Cash Management for Agencies & Institutions

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### Cash Management

This Cash Management section provides policy and procedural guidance in accordance with the above-referenced OMB circulars, Section 2.2-803, *Code of Virginia* and in accordance with the federal *Cash Management Improvement Act (CMIA) of 1990*:

- 1) all state agencies and institutions that receive, deposit, expend, or transfer federal funds into (or from) the State Treasury,
- 2) all state agencies and institutions that “pass through” federal funds to subgrantees, and
- 3) all state subgrantee agencies and institutions that receive federal funds from other state agencies or institutions.

The guidance is designed to ensure that neither the federal government nor the Commonwealth benefits or suffers financially as a result of the transfer of cash in support of state administered federal programs.

DOA will maintain a technical understanding of intergovernmental cash management issues and requirements, including federal and state requirements related to the federal *Cash Management Improvement Act of 1990*. The State Comptroller, in cooperation with the State Treasurer, will serve as the Governor's designated liaison between the Commonwealth and the United States Treasury Department.

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### Deposits

Deposits should be made in accordance with CAPP Topic No. 20205, *Deposits*, and drawdowns in accordance with the *Cash Management Improvement Act of 1990* as prescribed in the annual CMIA Treasury-State Agreement (TSA) and in the federal CMIA regulations (*31 CFR Part 205*).

#### Receiving Payment

State agencies and institutions should use the electronic funds transfer (EFT) method of receiving payment from federal grantor agencies or automated clearing house (ACH) payments through the federal Payment Management System (PMS) or the Automated Standard Application for Payment System (ASAP). Such an approach should include a mechanism to confirm the receipt of a specific transfer into a state bank account so that an agency or institution can properly and timely account for such funds. State agencies and institutions should work with their respective federal grantor agencies so that federal funds are received in state bank accounts within one banking day after the federal agency receives a request to draw down federal funds unless otherwise specified in the CMIA TSA.

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## Cash Management for Agencies & Institutions, Continued

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### Using Project Codes—CMIA Interest Calculations

State agencies responsible for CMIA interest calculations should consider using program specific project codes to facilitate the tracking of deposits and related expenditures of major federal assistance programs.

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#### **Advance Funded Federal Programs**

Under an advance funded federal program, the state can draw down and deposit federal funds prior to the time that the related state expenditures clear the bank. State agencies and institutions should strive to time their requests for federal funds so that they are deposited just prior to the related expenditure recording date in CARS. Since the State Comptroller recognizes that funds are disbursed on the books of the Commonwealth when expenditures are posted in CARS, this meets the state requirement that cash be on hand before funds are disbursed.

*Generally, drawdowns of federal funds should not be requested so that they are deposited more than three business days before the related expenditure recording date in CARS. When federal funding supports disbursements to vendors, drawdowns should be made frequently and timely enough to ensure (1) compliance with Prompt Payment Statutes and (2) sufficient cash is on hand in order to process the related expenditures in CARS.*

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#### **Federal Delays**

If operationally feasible, state agencies and institutions that experience a delay in the availability of federal funds at the beginning of a federal fiscal year should inquire if the federal grantor agency is authorized to operate under a continuing resolution until such time as the federal budget is signed into law. For those grants or contracts for which a continuing resolution is authorized, state agencies and institutions should request a drawdown of the required amount to process current federal expenditures.

If the federal grantor agency is not authorized to operate under a continuing resolution or if the federal grantor agency delays the transfer of funds, it may be necessary to request a Treasury loan in anticipation of federal revenue. See anticipation loan guidelines in CAPP Topic No. 20805, *Loans*.

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## Cash Management for Agencies & Institutions, Continued

### Federal Reimbursement Programs

Under a federal reimbursement program, the state is required to advance state funds for program costs, and be reimbursed with federal funds at a later date. Reimbursement funding methods are usually associated with contracts that are subject to procurement regulations, which ordinarily require a deliverable (receipts, completed project) prior to payment of funds. Any grants that require an accounting submission to accompany the drawdown request are also considered reimbursement type federal programs.

Prior to accepting, or continuing, a reimbursement funding method, state grantee and state subgrantee agencies shall formally inquire of the respective federal grantor agencies or state grantee agencies if other funding methods are available that would fully, or partially, advance fund the program. Such inquiries should be made annually, several weeks before the grant or contract is renewed. Upon written request, the Department of Accounts will provide assistance to a state agency or institution in negotiating more favorable federal funding methods from the federal government or from the state grantee agency.

If the federal program is funded on a reimbursement basis, costs are to be billed to the federal grantor agency as often as feasible, at least monthly, unless otherwise prohibited by the grantor.

When negotiating cost reimbursement contracts, all State agencies and institutions are required to inquire of their federal counterparts as to the acceptability or availability of alternative drawdown procedures permitting billings more frequently than monthly.

### Recording Expenditures on State & Federal Grants

If an agency has a federal grant or contract that requires both state and federal expenditures, then established procedures preclude, whenever possible, a state agency or institution from charging the General Fund, or special funds of the Commonwealth, for the federal expenditures.

Two methods of recording "split" funded expenditures are acceptable.

#### Preferable Method

The method preferred by the State Comptroller is to establish procedures to "split code" the expenditure documents. This allocates the disbursement between the General Fund (or other state fund) and the federal fund at the matching ratio prescribed by the grant or contract.

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## Cash Management for Agencies & Institutions, Continued

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### Temporary Funding Method

A second, and temporary, funding method is to be used only if the agency deems it to be the most efficient method for processing “split” funded expenditures. This method allows the agency to charge the original expenditure to the General Fund (or other state fund) and subsequently, within seven business days, prepare and submit an Agency Transaction Voucher (ATV) to charge the federal fund for the federal portion of the original expenditure. For compliance purposes, the ATV processing time starts from the nonfederal fund expenditure posting date in CARS and ends with the related federal fund expenditure entry date in CARS. Although seven business days are allowed, emphasis should be placed on entering the ATV to charge the federal fund as soon as possible after the original state funded expenditure.

State agencies and institutions unable to comply with the above ATV processing time requirements must request that the State Comptroller approve:

- 1) a Treasury loan when federal funding delays prevent compliance, and/or
- 2) an exception when systems or work load problems prevent compliance.

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### Treasury Loans in Anticipation of Federal Funds

An anticipation loan may be requested by a state grantee or subgrantee agency or institution to provide cash in anticipation of federal revenue. A Treasury loan request with all required cash flow and federal contact documentation should be submitted to the State Comptroller at least six weeks before the funds are needed.

Follow the specific Treasury loan requirements in CAPP Topic No. 20805, *Loans*.

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### Federal “Pass Through” Money to Sub-grantees

Grantee agencies and institutions that receive federal funds and subsequently transfer or “pass through” federal funds to other agencies or institutions, or other sub-grantees, shall minimize the time between the receipt of the federal monies and their transfer to the receiving agencies or institutions, or other sub-grantees.

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## Cash Management for Agencies & Institutions, Continued

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Guidelines for grantees' payments to subrecipients should conform to standards for payments made by federal agencies to primary grantees. The timing of either advances or reimbursements to subrecipients should be as close as is administratively feasible to the actual disbursements by the recipient.

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### **Subrecipient Versus Vendor Defined**

In order to distinguish between subrecipient or vendor relationships, the following definitions and characteristics are to be considered.

These definitions and characteristics are taken from OMB Circular No. A-133, *Audits of State and Local Governments and Non-Profit Organizations*, because the most occurrences of subrecipient arrangements will occur in the administration of federal grant funds. There are occasions where a subrecipient relationship will exist outside of federal funds, and the subrecipient coding should be used in those instances also.

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### **Subrecipient Definition**

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program, but does not include an individual that is a beneficiary of such a program.

A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.

A subrecipient--

- Determines who is eligible to receive federal financial assistance.
  - Has its performance measured against whether the objectives of the federal program are met.
  - Assumes responsibility for programmatic decision making.
  - Assumes responsibility for adherence to applicable federal program compliance requirements.
  - Uses the federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass through entity.
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## Cash Management for Agencies & Institutions, Continued

### Vendor Definition

A vendor is a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program.

A vendor--

- Provides the goods and services within normal business operations.
- Provides similar goods or services to other purchasers.
- Operates in a competitive environment. (This may not be the case when one state agency *purchases* goods or services from another.)
- Provides goods or services that are ancillary to the operation of the federal program.
- Is not subject to compliance requirements of the federal program.

### Pass Through Procedures

The following procedures are to be used for recording PASS THROUGH (SUBRECIPIENT) TRANSACTIONS between State agencies and institutions, **except transactions with Decentralized Higher Education Institutions.**

Step	Action	Action by Pass Through (Paying) Agency	Action by Subrecipient (Receiving) Agency
1	Determine whether the transaction is a vendor or subrecipient relationship.	Agree on relationship in conjunction with the receiving (sub-recipient) agency	Agree on relationship in conjunction with the paying (pass through) agency
2	Document the basis for the determination of subrecipient relationship.	File documentation with federal grant workpapers, to be available for single audit	File documentation with grant workpapers to be available for audit

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## Cash Management for Agencies & Institutions, Continued

<b>Step</b>	<b>Action</b>	<b>Action by Pass Through (Paying) Agency</b>	<b>Action by Subrecipient (Receiving) Agency</b>
3	For <b>federal subrecipient relationship transaction</b> - receiving (subrecipient) agency, have the appropriation to spend federal funds	<ul style="list-style-type: none"> <li>• Use appropriate Federal fund</li> <li>• TC 497</li> <li>• GLA 989 Cash pass thru out</li> <li>• Record no expenditures</li> <li>• IAT MUST include CFDA number(s)</li> <li>• Transfer appropriation, if it is not with the receiving (subrecipient) agency, by submitting FATS request to DPB</li> </ul>	<ul style="list-style-type: none"> <li>• Use appropriate Federal fund</li> <li>• TC 116</li> <li>• GLA 988 Cash pass thru in</li> <li>• IAT MUST include CFDA number(s)</li> <li>• Record as expenditure using appropriate subobject codes</li> <li>• If needed, submit FATS request to DPB to establish appropriation.</li> </ul>
4	For <b>non-federal subrecipient relationship transaction</b> —receiving (subrecipient) agency, have the appropriation to spend funds  <b>Note: This is not applicable for General Funds</b> – General Funds must be handled by an appropriation transfer through DPB.	<ul style="list-style-type: none"> <li>• Determine appropriate fund/fund detail</li> <li>• TC 497</li> <li>• GLA 989 Cash pass thru out</li> <li>• IAT MUST include identification of source of funds – CARS code or other id</li> <li>• Record no expenditure</li> <li>• Transfer appropriation, if it is not with the subrecipient agency, by submitting a FATS request to DPB.</li> </ul>	<ul style="list-style-type: none"> <li>• Determine appropriate fund/fund detail</li> <li>• TC 116</li> <li>• GLA 988 Cash pass thru in</li> <li>• IAT MUST include identification of source of funds – CARS code or other id</li> <li>• Record as expenditure using appropriate subobject codes</li> <li>• If needed, submit FATS request to DPB to establish appropriation.</li> </ul>

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## Cash Management for Agencies & Institutions, Continued

### Pass Through Procedures DHEI

The following procedures are to be used for recording PASS THROUGH (SUBRECIPIENT) TRANSACTIONS **between decentralized higher education institutions (DHEI) and other State agencies and institutions.** *While Tier III higher education institutions may use different transaction codes and general ledger accounts (from those shown in the table below and on the following page) to process the pass through subrecipient transactions, Tier III higher education institutions are required to implement adequate controls to ensure that pass through subrecipient transactions are properly identified and reported as necessary.*

Step	Action	Action by Pass Through (Paying) Agency	Action by Subrecipient (Receiving) Agency
1	Determine whether the transaction is a vendor or subrecipient relationship.	Agree on relationship in conjunction with the subrecipient agency	Agree on relationship in conjunction with the pass through agency
2	Document the basis for the determination of vendor / subrecipient relationship.	File documentation as appropriate (i.e., if subrecipient, file with grant workpapers) to be available for audit	File documentation as appropriate (i.e., if subrecipient, file with grant workpapers) to be available for audit
3	Federal subrecipient relationship transaction – Decentralized Higher Education Institution (DHEI) receives funds from another state agency by EDI. (Remittance data can be obtained by logging on to REDI Virginia. See EDI button on the DOA web-site at <a href="http://www.doa.virginia.gov">www.doa.virginia.gov</a> )  Receiving agency should have the appropriation to spend federal funds	<ul style="list-style-type: none"> <li>• Use appropriate Federal fund</li> <li>• TC 371 to record disbursement</li> <li>• GLA 993 Cash transfer out-DHEI</li> <li>• Remittance advice must include CFDA number.</li> <li>• Transfer appropriation, if it is not with the Receiving DHEI</li> </ul>	<ul style="list-style-type: none"> <li>• Use appropriate Federal fund</li> <li>• TC 002 to deposit check (GLA 550)</li> <li>• Prepare month end ATV using TC 402 to reverse deposit, then TC 130, GLA 992, Cash transfer in –DHEI, to record the “transfer”</li> <li>• ATV MUST include CFDA number(s)</li> </ul>

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## Cash Management for Agencies & Institutions, Continued

Step	Action	Action by Pass Through (Paying) Agency	Action by Subrecipient (Receiving) Agency
4	<p>Non-Federal subrecipient relationship transaction – Decentralized Higher Education Institution (DHEI) receives funds from another state agency by EDI. (Remittance data can be obtained by logging on to REDI Virginia. See EDI button on the DOA web-site at <a href="http://www.doa.virginia.gov">www.doa.virginia.gov</a>) Receiving agency should have the appropriation to spend funds.</p> <p><b>Note: This is not applicable for General Funds</b> – General Funds must be handled by an appropriation transfer through DPB.</p>	<ul style="list-style-type: none"> <li>• Determine appropriate fund/fund detail.</li> <li>• TC 371 to record disbursement</li> <li>• GLA 993 Cash transfer out-DHEI</li> <li>• Remittance advice must include CFDA number.</li> <li>• Transfer appropriation, if it is not with the Receiving DHEI</li> </ul>	<ul style="list-style-type: none"> <li>• Determine appropriate fund/fund detail</li> <li>• TC 002 to deposit check (GLA 550)</li> <li>• Prepare month end ATV using TC 402 to reverse deposit, then TC 130, GLA 992, Cash transfer in–DHEI, to record the “transfer”</li> <li>• ATV MUST include source of funds</li> </ul>

## Indirect Cost Recovery

### General Obligation Bond Interest Expense

The Department of Accounts successfully negotiated with the U. S. Department of Health and Human Services (DHHS) to allow the inclusion of General Obligation Bond (GOB) interest expense in the College and Universities’ Facilities and Administrative indirect cost allocation plans. State agencies will also be allowed to allocate the GOB interest expense to Federal Grants and Contracts.

Although the General Fund pays this interest expense, current plans call for institutions and agencies to retain these recoveries in accordance with current law. The GOB interest expense will be submitted annually with the Statewide Indirect Cost Allocation Plan for approval by DHHS. Once approved, agencies and institutions will be notified of the amounts that may be included in their indirect cost rate plans.

### Cross Reference

See CAPP Topic No. 20705, *Indirect Cost Recovery*.

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## Cash Management Improvement Act (CMIA) Procedures

### Cash Management Improvement Act of 1990 (CMIA)

The federal CMIA regulations (*31CFR 205*) prescribe the rules and procedures for the timely transfer and expenditure of funds between the federal government and the states for all federal programs listed in the *Catalog of Federal Domestic Assistance*.

Part A of the regulations applies to major federal assistance programs. The materiality threshold for major federal assistance programs subject to CMIA is prescribed in Table A to §205.5 of *31 CFR Part 205*. Depending on funding technique and the terms of the Treasury-State Agreement (TSA), interest liabilities may be incurred, and interest calculations may be required, by Part A programs.

Federal programs that are not included in the TSA are subject to Part B of the CMIA regulations, which advise that the timing and amount of federal cash advances should be as close as administratively feasible to actual cash outlay by the State. Interest liabilities are not incurred, and interest calculations are not required, by Part B programs.

### Comptroller's Authority for CMIA Interest Calculations

Virginia's *Appropriation Act* contains the authority for the Comptroller to determine the amount of interest that may be owed to the federal government under the CMIA requirements and provides a sum sufficient appropriation for the payment of this interest. DOA publishes and distributes interest calculation requirements to affected agencies annually.

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## Financial Reporting

### Financial Reporting Guidance

This section provides reporting policy and procedural guidance in accordance with the Office of Management and Budget Circulars and Section 2.2 – 803, *Code of Virginia*, for all State agencies planning to accept or currently administering a grant or contract.

CARS provides agencies with an automated system to track grant revenues and expenditures. Agencies should use CARS reports to manage federal cash, reconcile records, calculate indirect cost recoveries, prepare federal financial reports, and monitor grant activity. Included in this topic is an index of CARS Reports that can be used for Federal Grants Management.

*Additional requirements exist for federal grants funded through the American Recovery and Reinvestment Act (ARRA). The Stimulus Accounting and Reporting Information link on the DOA homepage provides more information at: [http://www.doa.virginia.gov/Stimulus/Stimulus\\_Information.cfm](http://www.doa.virginia.gov/Stimulus/Stimulus_Information.cfm)*

### Federal Policy on Reporting and Auditing Financial Information

The *Common Rule* specifies form types used by grantees to report financial information to the federal grantor. In October 2008, OMB developed a consolidated Federal Financial Report Form, known as the Standard Form 425. Federal grantor agencies must adopt this form in their regulations by October 1, 2009, to collect financial information from grantees. The SF-425 will replace the four traditional financial reporting forms (SF-269, 270, 271, and 273).

OMB Circular A-133, dated 6/24/1997 and the 6/27/2003 revisions, *Audits of States, Local Governments, and Non-Profit Organizations*, define the audit requirements for State and local governments receiving federal assistance, including audit-reporting requirements.

OMB publishes an annual Compliance Supplement to Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Each year, the Supplement updates program compliance requirements and related audit procedures. It focuses on requirements that could have a direct and material effect on a major program.

*For example, the 2009 Compliance Supplement provides guidance to auditors on Recovery Act awards.*

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## Financial Reporting, Continued

### Schedule of Federal Assistance

OMB Circular A-133 requires that a Schedule of Federal Assistance be prepared to show the total expenditures for each federal assistance program as identified in the *Catalog of Federal Domestic Assistance*. This schedule should include funds received directly from federal agencies and “pass through” funds from other state agencies and institutions.

State agencies are responsible for preparing a Schedule of Federal Assistance as part of the annual financial reporting requirements.

## Property Acquisition & Management

### Property Acquired with Federal Grant Funds

Property acquired, in whole or in part, with federal grant funds should be acquired and managed in accordance with the federal *Common Rule*, the *Agency Procurement and Surplus Property Manual*, and OMB Circulars A-102 and 2 *CFR Part 215*, (formerly OMB Circular A-110).

State agencies should have a procurement system that complies fully with appropriate federal and state requirements to minimize financial risks such as cost disallowance and safeguard all property acquired with federal funds.

### Capital Assets Acquired with Federal Grant Funds

Capital assets acquired in full or in part with federal grant funds are subject to the same capitalization and control criteria as any other assets.

#### Further Reference Detail

- CAPP Topic No. 30305, *Capitalized or Controlled Assets*.
- Additional specific requirements related to assets purchased with federal funds (e.g., depreciation, recovery of indirect cost, disposition, etc.) can be found in CAPP Topic No. 31105, *Federal Requirements*.

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## Property Acquisition & Management, Continued

### **Making Purchases with Federal Funds**

The *Common Rule* allows states to follow their own laws and regulations when making purchases with federal funds. These rules are explained in the *Agency Procurement and Surplus Property Manual*.

Federal policy relies on the adequacy of state procurement systems and practices without imposing additional requirements. The *Common Rule*, however, does require state governments to ensure that all purchase orders and contracts include any contract clauses required by federal laws, Executive Orders, and their companion implementing regulations.

## Grant Closeout

### **Grant Closeout**

State agencies and institutions are responsible for filing timely financial, performance, and other reports required by the federal grantor agency as a condition of the grant. Final reports must be filed by the required due dates set by the respective federal grantor agencies to avoid jeopardizing future grants or delaying the receipt of final reimbursement of federal funds.

### **Procedures**

The *Common Rule* provides guidance for complying with grantor agencies' requirements for closing out grants.

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## Internal Controls

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### Internal Control

Each agency and institution should implement internal control procedures to ensure that:

- Federal grant acquisition and management policies and procedures are in accordance with federal and State requirements, clearly stated, and systematically communicated through manuals, handbooks or other media.
  - Required federal reports are accurately prepared and submitted by the required due date.
  - All grant transactions are properly and accurately recorded and accounted for in CARS, either through direct input or interface of an agency-based accounting system, with subsequent reconciliation or correction, as needed.
  - Requests for advance or reimbursement funds are submitted on a timely basis with accurate and appropriate documentation, minimizing the amount and time federal funds are held.
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## Records Retention

### Records Retention

Records related to fiscal activity and other supporting documentation should be retained for a period of at least three years. The retention period generally starts at the close of the fiscal year covered by the grant. Refer to OMB Circulars A-102 and *2 CFR Part 215*, (formerly OMB Circular A-110) for a detailed discussion of record-keeping and documentation requirements.

For pending, ongoing or unresolved litigation, audits, or claims, retain documentation until completion, resolution, or negotiation of settlements and retain according to standard schedules.

Destruction of records must be in accordance with policies and procedures of the Records Management Section, Library of Virginia.



## Contacts

### CMIA & Statewide Single Audit Report

#### Cash Management Improvement Act

CMIA Coordinator  
 Financial Reporting Unit  
 (804) 371-7808  
 [cmia@doa.virginia.gov](mailto:cmia@doa.virginia.gov)

#### Statewide Single Audit Report – Schedule of Prior Year Audit Findings Statewide Single Audit Report – Schedule of Federal Assistance

Financial Reporting Unit  
 (804) 225- 2257 or (804) 225- 3804  
 [finrept@doa.virginia.gov](mailto:finrept@doa.virginia.gov)

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## Subject Cross References

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### Subject Cross References

CAPP Topic No. 20205—*Deposits*

CAPP Topic No. 20315—*Prompt Payment*

CAPP Topic No. 20705—*Indirect Cost Recovery*

CAPP Topic No. 20805—*Loans*

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CAPP Topic No. 70260—*CARS Reports*

CAPP Manual Function No. 30000—*Fixed Asset and Lease Accounting*

*Agency Procurement and Property Surplus Manual*

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