

GRANT POLICY AND PROCEDURES MANUAL

City of San Bernardino Municipal Water Department
(SBMWD)



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The San Bernardino Municipal Water Department and the Board of Water Commissioners were established on May 8, 1905, by the Mayor and Common Council of San Bernardino in accordance with the provisions specified in the City charter. The Board of Water Commissioners assembled for the first time on May 16, 1905, to meet the water supply needs of the community by providing trusted, quality service to our customers. This service has grown through the years to include: water supply, water reclamation, geothermal heating supply, and administrative support for our growing community.

The first water distribution system of San Bernardino included water supply for approximately six thousand citizens within a one square mile service area. In contrast, the water supply distribution network now encompasses over 40,000 service connections including 550 miles of water mains. Although the number of connections has increased during the past one hundred years, our commitment to trusted, quality service remains the same.

The San Bernardino service area receives its water supply from an underground aquifer called Bunker Hill Basin which is concentrated at the Northwestern end of the city. This water contained in the Bunker Hill Basin is replenished with rain and snowmelt that filters through our local San Bernardino Mountains. This local water supply ensures the customers of the San Bernardino Municipal Water Department receive high quality, inexpensive water as compared to other communities. Many communities of Southern California must import their water supplies from remote locations via the Colorado River and Northern California pipelines. Many water supplies imported from distant locations can be impacted by certain man-made and natural contaminants as the water is transported to the customer.

The San Bernardino Municipal Water Department (hereinafter “SBMWD” or the Department) is committed to providing trusted, quality service to our customers as we provide water supply, water reclamation, geothermal heating, and administrative services to our community. As part of its commitment to providing the highest quality of water and wastewater treatment, the Department will routinely apply for, and receive, federal grant monies to support current programs in addition to providing for the means with which to support future growth and infrastructure. SBMWD staff must be fully knowledgeable of all applicable federal or state requirements and regulations that may apply to any grant funded program they administer. Therefore, this guide focuses on the basic financial management and grants management principles that serve as guidance to SBMWD staff. Through adhering to applicable regulations of grant funded programs, SBMWD staff can continue to provide grant-funded, enhanced services to their customers.

IMPORTANT NOTICE: PLEASE READ BEFORE USING THIS GUIDE

This guide was developed to provide general information for those overseeing the fiscal management of San Bernardino Municipal Water Department grant funded programs. Employees should always consult the Federal and State regulations and current guidance for their respective grant programs for the most comprehensive and up-to-date information.

SECTION 1: INTRODUCTION TO GRANT FUNDING

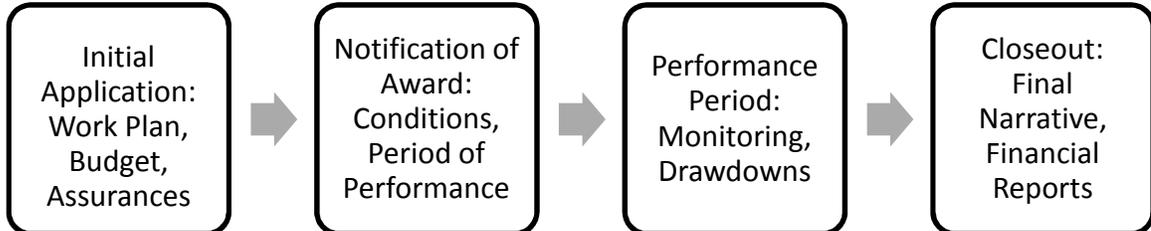
1.1 OVERVIEW OF THE GRANT LIFE CYCLE

Grant awards are funded as a result of a grant application being written in response to a “Funding Opportunity Announcement” (FOA), also known as a, “Request for Proposal” (RFP). A comprehensive list of federal grant programs can be found at www.cfda.gov.

An initial funding opportunity announcement will include the following information:

- A general description of the program
- The authorizing statute for the grant funding
- Eligibility requirements
- Length of grant term
- Cost share or matching funds requirements
- Application requirements – forms, budgets, narrative, supporting documents
- Due date for application
- Review/scoring criteria

A grant application is then written in response to this established criterion. This is the first stage of four major stages in a grant project’s life:



Initial Application – Grant application is submitted to grantor agency. Application must be complete per the requirements set forth in the Request for Application posted for the grant funding opportunity. Applications will typically contain the following information:

- Purpose of Project
- Scope of Project, including implementation plan (work plan)
- Goals and Objectives of Project
- Detailed Budget
- Funding Agency Required Assurances

Notification of Award – Grant applicant is notified of award and application. A Notice of Grant Award (NGA) will include all critical information including, but not limited to: the project and budget period, the amount of award including (if applicable) matching fund requirements, the grantee’s Federal Grant Specialist assigned to the grant, and the applicable

laws, regulations, and award conditions. The Authorized Organizational Representative (AOR) must then sign and return award documents to grantor agency. It is vital that at this time, that all requirements, standards, guidance, schedule of grant fund draw downs, and special conditions be reviewed carefully.

Performance Period - Grant applicant will manage the grant project according to requirements, standards, and guidance contained within the grant terms and conditions. Quarterly, bi-annual, or annual, narrative and financial progress status reports will be required in accordance with the frequency established in the special conditions of the award document. Any modifications to the approved implementation plan should be submitted to grantor agency. Complete all deliverables as stated in grant application.

Please note: Funding agency approval is required for any major amendments to the project, such as changes in the scope of work, budget, major personnel, and the performance period. Failure to request changes may result in cost disallowances by the funding agency or federal auditor.

Close Out - Upon completion of the performance period of the grant award, the grantee is required to submit a final report of activities and performance and the final financial report. Recipients are generally required to submit all reports required by the terms and conditions of their award within 90 days of the completion of the project period. Financial records and supporting project documents should be retained for a period of three years from the date of submission of the final report package.

1.2 TYPES OF GRANT FUNDING

For the purpose of this policy and procedure manual, the SBMWD considers the term, “grant,” to include any of the following funding:

Project Grants – Project grants fund specific projects or the delivery of specific services (also known as a work plan) for a fixed period of time. Funding is awarded through a competitive process by which the funding agency solicits applications from eligible organizations through a “Request for Proposals” (RFP) process. Applications are evaluated on a preset scoring criteria and then awarded to the applicants whose proposals best fit this criteria.

Formula Grant Funding - Formula grant funding is allocated to recipients based upon a set of pre-existing criteria. They are generally non-competitive awards which are allocated to eligible entities according to population and/or other census criteria. Applicants who meet the minimum requirements of the application process are entitled to receive money. Programs funded through these types of grants are often ongoing and serve a select group of

people such as individuals with disabilities or low-income children. Organizations are still required to submit an application to receive funding.

Block Grant Funding - Block grant funding is distributed on a formula basis. Block grants have a broad range of eligible activities which address a general, as opposed to a specific, problem area. As block grants address a broad purpose area, block grant recipients are given more discretion to identifying problems within their service area and designing programs to address said problems.

Categorical/Discretionary Grant Funding - Categorical grants have a narrow range of eligible activities and only allow funding to be used for specific defined purposes. Categorical grant funding is distributed by a pre-determined formula or at the discretion of the federal agency. These grants require administrative reporting to help ensure both financial and programmatic accountability.

1.3 GENERAL RISKS ASSOCIATED WITH GRANT FUNDING

Federal and State grants are awarded for specific “public purposes” and therefore, grantees are required to utilize funds awarded as agreed upon and stated in the grant award document. This agreement often requires adherence to additional criteria including Office of Management and Budget (OMB) Circulars and agency specific guidelines. Grant funding misuse, including fraud and waste, does occur and the consequences of these actions can include debarment from receiving future funding, administrative recovery of funds, and up to and including criminal prosecution. Misuse can be a result of simple mistakes, gross negligence, or actual criminal fraud.

Common funding misuse includes:

Conflict of Interest – Conflict of interest occurs when federal funds are used to purchase either goods or services from a party that did not participate through an open procurement process. Goods or services should be purchased through what is commonly known as an “arm’s length,” where the grantee project staff and sub-contractors or vendors are not related parties including family members, or business associates.

Misuse of Funds – Misuse of funds can include, but are not limited to, charging personal expenses as business expenses to the grant, charging for costs or services that were not incurred, not tracking personnel costs correctly, and charging items to the grant that were not approved.

Theft – Theft of funds can be accomplished through a number of ways. It can include using funds for non-grant-related purposes such as purchasing personal items with grant funds, the

theft of federally owned property acquired with grant funds, and reimbursement for expenses, goods, or services, that were not actually incurred.

1.4 BEST PRACTICES FOR EFFECTIVE GRANT MANAGEMENT

It is the responsibility of the recipient of grant funding to mitigate the inherent risks associated with the potential misuse of funds. Risk management involves actively recognizing and assessing potential risks to a grant funded program and developing a plan that includes strategies and internal controls to manage said risks. This can be accomplished by understanding some of the general best practices of effective grant management.

BEST PRACTICES FOR GRANT MANAGEMENT

1. Understand Applicable Federal Requirements and Regulations

Staff assigned to the management of an approved grant understands all of the federal requirements, including special conditions, which apply to the grant.

2. Follow the Approved Work Plan

Staff has a plan for implementation of the grant, as set forth in the approved work plan, and a process with which to track its progress and success.

3. Implement Effective Management and Administration Systems

Staff has management and administrative systems in place that provide for accountability and ensure that grant deliverables are met in a timely manner.

4. Implement Effective Budget and Finance Systems

Staff understands financial management principles, including Generally Accepted Accounting Principles (GAAP) requirements for grant fund management and has a system for organization, management, and documentation of said funds.

5. Ensure Proper Documentation

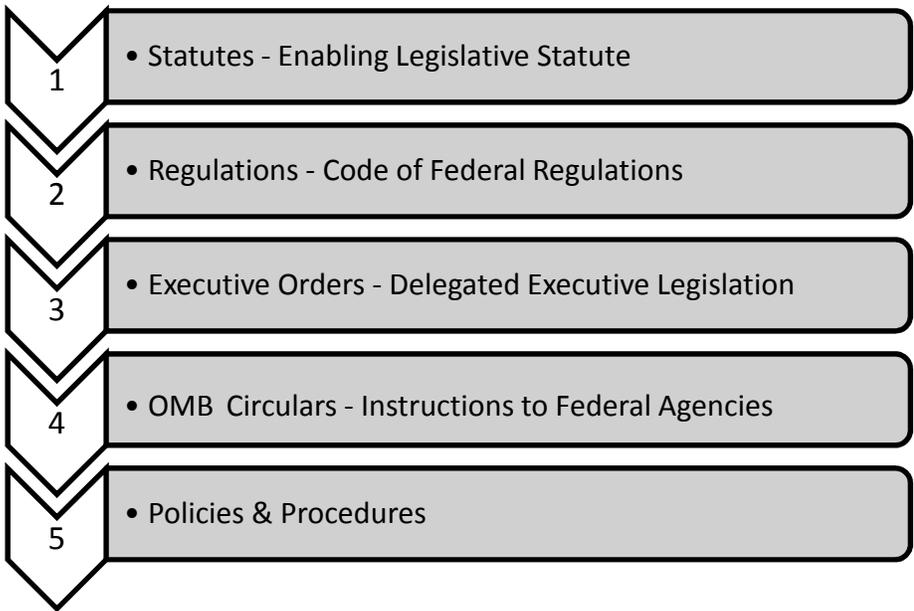
Staff ensures grant related documents are organized and accessible for auditors.

SECTION 2: APPLICABLE REGULATIONS AND REQUIREMENTS

2.1 ORDER OF PRECEDENCE

As a recipient of grant funding, it is a requirement to work in compliance with the rules and regulations that are set forth in the award documentation. In order to understand the legal requirements, including federal and state regulations, OMB circular rules, and special conditions and provisions which apply to grant funding, it is important to understand the “order of precedence” or the hierarchy of laws and regulations which apply to a funded program.

The following order of precedence applies to federal and state grants:



2.2 APPLICABLE REGULATIONS & OMB CIRCULARS

Determining which regulations and corresponding cost principles apply to a particular recipient entity is governed by the type of recipient. SBMWD is considered a “state and local government” agency, and therefore, any Federal and State grant monies received by SBMWD will need to follow the regulations as set forth by the funding agency.

Code of Federal Regulation

The *Code of Federal Regulations* (CFR) lists the general and permanent rules published in the Federal Register by each of the executive departments and agencies of the Federal Government. The CFR is a systematic collection of rules that are published in the Federal Register by the executive departments and agencies within the Federal government. It is

divided into 50 different Titles which represent areas subject to Federal regulation. Regulations are created through an enabling statute of Congress and serve as administrative law.

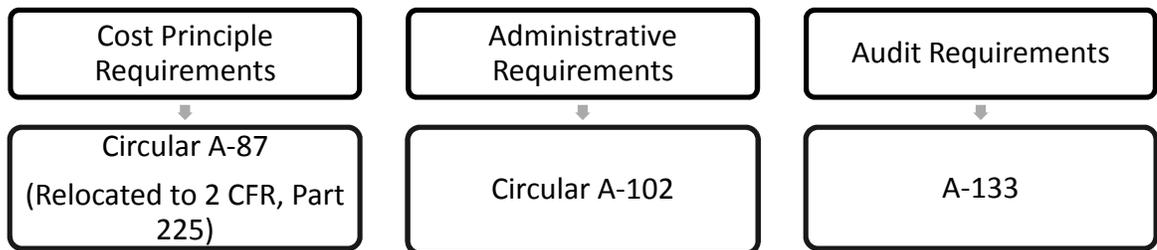
An electronic version of the most recent version of the Code of Federal Regulations (CFR) is available at the U.S. Government's Printing Office website at: www.gpo.gov.

The *Federal Register* is published every business day by the National Archives and Records Administration (NARA) and contains the most up to date Federal Agency Regulations.

OMB Circulars

The Office of Management and Budget (OMB) is charged with the responsibility of the oversight and preparation of the Federal budget, in addition to the supervision of the budget of the various Federal agencies. OMB oversees and coordinates the Administration's procurement, financial management, information, and regulatory policies and serves on behalf of the President of the United States in developing government wide policies which aid in ensuring that Federal grants are managed properly and that Federal grant monies are spent in accordance with applicable laws and regulations. A key part of this process is the issuance of OMB circulars, which serve as instructions to federal grant making agencies. Although legislation and regulations will be federal agency program specific, there are regulations that the Office of Management and Budget publish through their Circulars that apply to many federal grant programs.

The following are applicable requirements to SBMWD grant funded projects:



2.3 FEDERAL ACCOUNTABILITY FUNDING AND TRANSPARENCY

On September 26, 2006, the Federal Funding Accountability and Transparency Act (FFATA) was signed into law. The purpose of this Act was to ensure that the United States government was more transparent in its spending and to reduce waste in spending. Due to this legislation, federal awards and related expenditures are made public via the following website: www.USASpending.gov.

To support this Act, the FFATA has created an online reporting system that requires prime contract awardees to report their awarded sub-contracts. This website can be found at www.fsrs.gov.

Important Note: All new direct federal grant awards in the amount of \$25,000.00 or more are subject to FTATA reporting. SBMWD is required to complete the required subaward reporting for hired subcontractors.

2.4 DEBARMENT & SUSPENSION

Executive Order 12549 established a government-wide system of accountability that was meant to curb waste, fraud, and abuse in the spending of Federal program dollars. In addition, it was meant to increase agency accountability for dollars spent. This order requires Federal financial assistance recipients to ensure that grant assistance monies are not paid to contractors that are debarred, suspended, or otherwise excluded from participating in Federal programs.

As a recipient of grant funding, SBMWD will ensure that there is a process in place to check the status of any vendor or subcontractor prior to engaging that vendor or subcontractor for services. This will be done through SBMWD Contract Analysis or Project Management staff checking the Excluded Parties List (EPL) which can be found at www.sam.gov.

**Please note the EPL data was moved from www.epls.gov to the www.sam.gov site effective November 2012.*

SECTION 3: APPLICABLE REGULATIONS AND REQUIREMENTS

3.1 SBMWD GRANT ROLES AND RESPONSIBILITIES

Each SBMWD grant application work plan will designate an individual as the Project Manager (or Project Director). This designated staff member will be tasked with day to day management and oversight of the grant funded project as laid out in the funded work plan. Furthermore, they are responsible for ensuring that grant deliverables are met in the time set forth in the approved work plan. The Project Manager will work in collaboration with the SBMWD Finance Director, or designee, on grant related reimbursements, draw-downs, and required federal reporting.

The roles and responsibilities of the Project Manager are as follows:

1. Provide the Finance Director with a copy of the grant award immediately upon award of the grant to the Department. The Project Manager will also suggest that the Department's audit firm be contacted to provide the critical compliance requirements that will be evaluated in the Single Audit.
2. Be the primary SBMWD point of contact for Federal Grant Specialist personnel.
3. Serves as liaison between Federal Grant Specialist personnel and SBMWD project personnel.
4. Understand the administrative and fiscal grant requirements as set forth in the Notice of Award document.
5. Ensure that sub-contractors utilized are not currently suspended or debarred.
6. Develop an internal process to provide for continuous review and evaluation of the grant work plan throughout the span of the grant project.
7. Maintain a complete hard copy file of all grant required grant information.
8. Work in collaboration with the SBMWD Finance Division to ensure project expenditures are within the scope of the approved grant budget.
9. If required, submit recommendations for the changes to the approved work plan, deliverables, and budget to the SBMWD General Manager, and if approved, submit said requests to the grantor agency.
10. Work collaboratively with SBMWD Finance Division staff on submission of required financial reports.

11. Create and submit to grantor agency all required narrative reports.
12. Work collaboratively with SBMWD Finance Division staff on submission of final grant close out report.

The roles and responsibilities of the Finance Director and Finance Division are as follows:

1. Immediately upon the award of a grant to the Department, will contact the Department's audit firm so that the audit firm can provide to the Department the critical compliance requirements that will be evaluated in the single audit.
2. Create and submit all reimbursement/draw down requests to grantor agency.
3. Monitor all grant charged costs and cost allocations.
4. Ensure proper charging of costs to grant activities.
5. Conduct regular financial compliance reviews of grant fund activities and associated costs.
6. Prepare internal financial reports for SBMWD Grant Project Managers detailing grant expenditures.
7. Create and submit, in collaboration with SBMWD Project Managers, all required budget reports.
8. If required, work collaboratively with SBMWD Project Managers to develop and submit budget request changes from grantor agency.
9. Develop an internal process for the closing of grant projects to ensure compliance with close out activities as set forth in the Notice of Award document.
10. Maintain all grant related source documentation for audit purposes.

3.2 AUTHORIZED ORGANIZATIONAL REPRESENTATIVE

An Authorized Organizational Representative (AOR), also commonly called an "Authorized Signatory," is the individual who is authorized to sign all Notice of Award documents on behalf of the grantee.

On occasion, a grant award may require a supporting resolution; if one is needed it will be prepared by either the Project Director or Finance Division and will be submitted to the Board of Waters Commission for review and signature.

The SBMWD General Manager is the only authorized personnel that may accept and sign for grant award monies on behalf of SBMWD.

3.3 AWARD NOTIFICATION, REVIEW, AND ACCEPTANCE PROCEDURE

Upon receiving the Notice of Grant Award (NGA) package from the funding agency, SBMWD will follow this review and acceptance procedure:

1. NGA will be forwarded to the SBMWD General Manager for review and acceptance.
2. NGA agreement will be signed by SBMWD General Manager and then returned to the funding agency.
3. SBMWD General Manager will authorize the Project Manager to begin grant activities.
4. Project Manager will receive the original, executed grant award agreement documentation and a copy will be forwarded to the SBMWD Finance Division
5. Project Manager will review the grant award and schedule an initial project meeting at which time an implementation plan for stated grant work plan activities, as were set forth in the approved grant document, will be developed.

3.4 Grant Oversight and Monitoring

Initial Project Meeting

Once the authorization from the SBMWD General Manager to begin project activities is received, the Project Manager shall convene a “kick off” meeting with all appropriate SBMWD personnel that will be involved in grant activities within the first 30 days of receiving the grant award agreement.

Initial Grant Project Meeting Procedure

1. Review all funding agency requirements with project staff including applicable regulations and record keeping and reporting requirements.
2. Address any staff issues and concerns with the grant work plan. Identify potential problems in grant implementation and create contingency plans.
3. Create an implementation timeline/schedule for grant work plan activities with roles and responsibilities and related activities clearly assigned to specific personnel.
4. Set up master project grant file.

Grant File Set Up

In order to provide for continuity across grant funded programs, grant master files should consist of the following documents:

1. Original grant application
2. Award letter & special conditions
3. Implementation schedule
4. Required reports
5. Modification documents
6. Monthly fiscal reports on grant activities
7. Miscellaneous – Correspondence with funding agency
8. Sub-grantee file, including subcontract agreements, etc.

3.5 GRANT REPORTING PROCEDURE

The Notice of Grant Award package for all grants will contain information on reporting requirements for grant funded projects. Reporting requirements will differ among funding agencies, and reports may be required on a monthly, quarterly, bi-annual, or annual basis. General report types are performance, financial, or close out reports. It is the Project Manager's responsibility to ensure that all required reports are submitted to the funding agency before their respective due dates.

Failure to submit required reports on time or failure to submit accurate reports can negatively affect current and future funding from the funding agency.

Grant Reporting Procedure

1. Upon receipt of NGA package, a grant report schedule will be set up by the Project Manager.
2. Immediately, provide a copy of the grant agreement upon receipt of the award to the Department.
3. Two (2) weeks prior to the report due date, the Project Manager will meet with key project staff and the Finance Director to review the current status of the grant project and related finances.
4. The Project Manager will prepare the required narrative report and submit the report.
5. The Finance Director will prepare the required fiscal report and submit the report.

3.6 GRANT CLOSE OUT PROCEDURE

The Notice of Grant Award will state the period of the grant funded project and will state the last date of the project period. The close out of a grant funded project must be completed in a timely manner and consist of all required reports as stated in the NGA. The close out of a grant does not negate any additional requirements for reporting of property purchased with grant funds, grant records retention, or financial accountability. If any grant funds have not been expended during the approved grant project period, they must be returned to the funding agency. During the close out of any grant funded project, the following procedure should be followed:

Grant Close-Out Procedure

1. Review final supplies, materials, or equipment purchases. Additional charges made after the close out date will be disallowed by the funding agency.
2. Review all previously submitted funding agency required reports to verify accuracy (all required reports should be contained in the grant file).
3. Ensure all project staff effort has been correctly accounted for and is contained in the grant file.
4. Schedule a grant close-out meeting with project staff to review all information in the grant file for accuracy.
5. Send closed grant file to appropriate location

SECTION 4: MANAGING BUDGET AND FINANCE ACTIVITIES

4.1 FINANCIAL MANAGEMENT SYSTEMS

Financial management systems serve a critical role in the grant management process in that they provide for internal controls that support SBMWD's ability to track grant expenditures, ensure allowability of costs, and provide that proper documentation is kept for grant related expenditures. Lastly, it provides SBMWD with the ability to fulfill the federal granting agency's financial reporting requirements.

It is the policy of SBMWD to have financial management systems in place that provide the following:

1. Ensure adequate justification for grant expenditures as necessary and reasonable
2. Track Indirect Costs in an efficient manner
3. Track the flow of grant funds
4. Establish internal controls for grant cash management
5. Ensure compliance with A-133 Audit requirements

The SBMWD Finance Division is responsible for keeping all grant fund accounting records. As a recipient of grant funds, it is the responsibility of SBMWD to:

1. Have processes in place for cash management
2. Maintain adequate financial records
3. Comply with reporting requirements
4. Conduct regular budget reviews
5. Report any budget related irregularity to the granting agency

4.2 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Generally accepted accounting principles (GAAP) are uniform minimum standards and guidelines for financial accounting and reporting. GAAP establishes appropriate measurement and classification criteria for financial reporting. The SBMWD has adopted GAAP to provide for fiscal control and accounting procedures while managing grant funded programs.

The following web site provides additional information on GAAP:
Governmental Accounting Standards Board - www.gasb.org
American Institute of Certified Public Accountants - www.aicpa.org

4.3 THE A-133 AUDIT

Agency's that expend more than \$500,000.00 in federal grant funds during a fiscal year (July 1- June 30) are required by OMB Circular A-133 to have a single audit.

The purpose of the A-133 Audit is to review an agency's compliance with federal program requirements, as established in a grant award. The auditing process analyzes and examines not only the financial requirements of a grant, but award work plan requirements and deliverables. Auditors are in search of weaknesses in an agency's internal controls that govern their use of federal grant funds. Issues that are often reviewed during the A-133 process include:

1. Cash management
2. Allowable versus unallowable costs charged to the grant
3. Allowable versus unallowable grant activities
4. Property/equipment acquisition, management, and maintenance
5. Procurement/bidding processes
6. Adherence to requirements such as lobbying, civil rights, drug free workplace
7. Time of effort for project staff
8. Matching requirements (if applicable)

PREPARING FOR THE A-133 AUDIT PROCESS

Preparation for the A-133 audit should be part of daily operational processes that creates a system of checks and balances. It is the policy of SBMWD's Financial Division to have processes in place which support the following goals:

Provide for Risk Assessment – SBMWD Finance Division will be diligent in identifying internal and external risk to a grant funded program's finances.

Provide for Monitoring – SBMWD Finance Division will have monitoring processes in place that will provide for internal controls to routinely review the financial management of grant funding.

The following web sites provide additional information on current A-133 audit requirements including updated compliance supplements:
http://www.whitehouse.gov/omb/circulars_default/

SECTION 5: ENSURING PROPER DOCUMENTATION

5.1 GENERAL STANDARDS FOR SUPPORTING DOCUMENTATION

Documents provide for a record of various financial events, transactions, or activities.

Typical grant transactions may include: Personnel and benefits costs, equipment and supplies purchases, cost for contractor related services, and grant income or revenue.

Supporting documentation provides SBMWD with internal controls which in turn, provide evidence of who requested a transaction, why it was approved, and if it was a necessary transaction.

In order to support proper documentation for grants, SBMWD personnel will utilize the following practices:

1. Standard SBMWD Accounting forms or templates will be utilized whenever possible.
2. Accounting records will be supported by source documentation including copies of checks, paid bills, purchase orders, etc.
3. Full time effort of employees that are grant supported will be tracked by time and attendance records.
4. Accounting records for grant funds will contain the following information:
Authorizations, obligations, unobligated balances, outlays /expenditures, and income (if any).

5.2 RECORD RETENTION REQUIREMENTS

OMB Circular A-102 was established to ensure consistency and uniformity among Federal agencies in the management of grants and cooperative agreements with State, local, and federally-recognized Indian tribal governments and states that, “all Federal agencies administering programs that involve grants and cooperative agreements with State, local and Indian tribal governments (grantees) shall follow the policies in this Circular. If the enabling legislation for a specific grant program prescribes policies or requirements that differ from those in this Circular, the provisions of the enabling legislation shall govern.” Pursuant to this circular is Section 42, “Uniform Administrative Requirements for Grant and

Cooperative Agreements to State and Local Governments,” also known as the “Common Rule.” It is the policy of SBMWD to maintain grant related records permanently.

Related records include the following:

- Notice of Award Package
- Required Narrative and Financial Reports
- All Related Financial Documentation

IMPORTANT NOTICE REGARDING RETENTION OF RECORDS

Although the “Common Rule” is the general standard for Federal grant programs, a granting agency may require retention periods of more than five years. Therefore, it is the responsibility of SBMWD staff working on grants to comply with retention records specified in the Notice of Award package.

5.3 FILE RETENTION PROCEDURE

The SBMWD Finance Division is responsible for all grant fund accounting records. A separate folder is created for each billing cycle for each particular grant which includes all supporting documentation for expenditures and payment of reimbursement. An additional folder is maintained for all other notes and correspondence pertaining to the grant. The folders are kept in the finance division throughout the life of the grant. Upon completion and closeout of the grant project, the files are scanned into the electronic records retention system, catalogued, and sent off-site for storage. Grant files will be retained for a period of five years beyond the end date of the grant period, unless the grant agreement requires a longer period of retention.

Appendix A: RELEVANT TERMS

The SMBWD utilizes definitions as stated in the United States Office of Management and Budget (OMB), Circular A-87, "Cost Principles for State, Local, and Tribal Government," which are published to provide for standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards.

Auditee - Any non-Federal entity that expends Federal awards which must be audited under this part.

Auditor - An auditor, that is a public accountant or a Federal, State or local government audit organization, which meets the general standards specified in generally accepted government auditing standards (GAGAS). The term **auditor** does not include internal auditors of non-profit organizations.

Audit finding - Deficiencies which the auditor is required by § __.510(a) to report in the schedule of findings and questioned costs.

CFDA number - The number assigned to a Federal program in the **Catalog of Federal Domestic Assistance (CFDA)**.

Cluster of programs - A grouping of closely related programs that share common compliance requirements. The types of clusters of programs are research and development (R&D), student financial aid (SFA), and other clusters. "Other clusters" are as defined by the Office of Management and Budget (OMB) in the compliance supplement or as designated by a State for Federal awards the State provides to its subrecipients that meet the definition of a cluster of programs. When designating an "other cluster," a State shall identify the Federal awards included in the cluster and advise the subrecipients of compliance requirements applicable to the cluster, consistent with § __.400(d)(1) and § __.400(d)(2), respectively. A cluster of programs shall be considered as one program for determining

major programs, as described in § ____.520, and, with the exception of R&D as described in § ____.200(c), whether a program-specific audit may be elected.

Cognizant agency for audit - The Federal agency designated to carry out the responsibilities described in § ____.400(a).

Compliance supplement - Refers to the **Circular A-133 Compliance Supplement**, included as Appendix B to Circular A-133, or such documents as OMB or its designee may issue to replace it. This document is available from the Government Printing Office, Superintendent of Documents, Washington, DC 20402-9325.

Corrective action - Action taken by the auditee that:

- (1) Corrects identified deficiencies;
- (2) Produces recommended improvements; or
- (3) Demonstrates that audit findings are either invalid or do not warrant auditee action.

Federal agency - The same meaning as the term **agency** in Section 551(1) of title 5, United States Code.

Federal award - Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors. Any audits of such vendors shall be covered by the terms and conditions of the contract. Contracts to operate Federal Government owned, contractor operated facilities (GOCOs) are excluded from the requirements of this part.

Federal awarding agency - The Federal agency that provides an award directly to the recipient.

Federal financial assistance - 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 as described in § ___.205(h) and § ___.205(i).

Federal program:

(1) All Federal awards to a non-Federal entity assigned a single number in the CFDA.

(2) When no CFDA number is assigned, all Federal awards from the same agency made for the same purpose should be combined and considered one program.

(3) Notwithstanding paragraphs (1) and (2) of this definition, a cluster of programs. The types of clusters of programs are:

(i) Research and development (R&D);

(ii) Student financial aid (SFA); and

(iii) "Other clusters," as described in the definition of cluster of programs in this section.

GAGAS - means generally accepted government auditing standards issued by the Comptroller General of the United States, which are applicable to financial audits.

Generally accepted accounting principles - The meaning specified in generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA).

Internal control - A process, affected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (1) Effectiveness and efficiency of operations;
- (2) Reliability of financial reporting; and
- (3) Compliance with applicable laws and regulations.

Internal control pertaining to the compliance requirements for Federal programs - A process--affected by an entity's management and other personnel--designed to provide reasonable assurance regarding the achievement of the following objectives for Federal programs:

- (1) Transactions are properly recorded and accounted for to:
 - (i) Permit the preparation of reliable financial statements and Federal reports;
 - (ii) Maintain accountability over assets; and
 - (iii) Demonstrate compliance with laws, regulations, and other compliance requirements;
- (2) Transactions are executed in compliance with:
 - (i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
 - (ii) Any other laws and regulations that are identified in the compliance supplement; and
- (3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Loan - A Federal loan or loan guarantee received or administered by a non-Federal entity.

Local government - Any unit of local government within a State, including a county, borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, and any other instrumentality of local government.

Major program - A Federal program determined by the auditor to be a major program in accordance with § ____.520 or a program identified as a major program by a Federal agency or pass-through entity in accordance with § ____.215(c).

Management decision - The evaluation by the Federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary.

Non-Federal entity - A State, local government, or non-profit organization.

Non-profit organization:

(1) any corporation, trust, association, cooperative, or other organization that:

(i) Is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;

(ii) Is not organized primarily for profit; and

(iii) Uses its net proceeds to maintain, improve, or expand its operations; and

(2) The term **non-profit organization** includes non-profit institutions of higher education and hospitals.

OMB - The Executive Office of the President, Office of Management and Budget.

Oversight agency for audit - The Federal awarding agency that provides the predominant amount of direct funding to a recipient not assigned a cognizant agency for audit. When

there is no direct funding, the Federal agency with the predominant indirect funding shall assume the oversight responsibilities. The duties of the oversight agency for audit are described in § ___.400(b).

Effective July 28, 2003, the following is added to this definition:

A Federal agency with oversight for an auditee may reassign oversight to another Federal agency which provides substantial funding and agrees to be the oversight agency for audit. Within 30 days after any reassignment, both the old and the new oversight agency for audit shall notify the auditee, and, if known, the auditor of the reassignment.

Pass-through entity - A non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.

Program-specific audit - An audit of one Federal program as provided for in § ___.200(c) and § ___.235.

Questioned cost - A cost that is questioned by the auditor because of an audit finding:

- (1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;
- (2) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recipient - A non-Federal entity that expends Federal awards received directly from a Federal awarding agency to carry out a Federal program.

Research and development - All research activities, both basic and applied, and all development activities that are performed by a non-Federal entity. **Research** is defined as a

systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. **Development** is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

Single audit - An audit which includes both the entity's financial statements and the Federal awards as described in §___.500.

State - Any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the Pacific Islands, any instrumentality thereof, any multi-State, regional, or interstate entity which has governmental functions, and any Indian tribe as defined in this section.

Subrecipient - 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. Guidance on distinguishing between a subrecipient and a vendor is provided in §___.210.

Types of compliance requirements - Types of compliance requirements listed in the compliance supplement. Examples include: activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; matching, level of effort, earmarking; and, reporting.

Vendor - 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.

Appendix B: WEBSITE REFERENCES

www.cFDA.gov.

www.gpo.gov

www.USASpending.gov.

www.sam.gov.

www.fsrs.gov

www.fasb.org

http://www.whitehouse.gov/omb/circulars_default/