

# Grantees Should Be Wary of 10 Common 'Red Flags'

Many grant recipients are fully aware of the complexities of managing the details related to a grant. While some tasks may be simple, others may be prone to errors or oversights that can lead to inaccuracies or noncompliance with federal regulations.

A review of audit findings, awarding agency "risk alerts" and agency audit guides shows there are several common areas where grantees can make mistakes, grants management consultant Robert Lloyd said in a recent audio conference hosted by Thompson Publishing Group. These errors, or "red flags," can lead to greater scrutiny, monitoring and auditing from federal agency officials and inspectors general; enforcement actions such as mandated corrective actions, special conditions or cost disallowances; or even grant suspension or termination.

Lloyd highlighted the following as 10 common "red flags" facing grantees:

## 1. Inadequately documenting cost transfers between federal grants.

The Office of Management and Budget cost principals state that the cost of one federal grant should not be shifted to another federal award to overcome deficits or shortfalls in recovery. Lloyd said that due to a growing number of such errors in the research community, the Department of Health and Human Services in its recently released *Grants Policy Statement* specifically addressed the appropriate handling of cost transfers. If such a cost transfer occurs, a grantee should address the cost transfer in a timely manner, and the reason for the transfer should be fully explained in writing and certified by a responsible official within the grantee organization. Financial reports should be revised and the grantee should take action to avoid future occurrences.

"Staff must know this is not encouraged and is problematic, and if the occurrence happens again, it will be more closely scrutinized," Lloyd said. "If there is any doubt about making a cost transfer, that action should be elevated to a higher level of financial management" within the entity.

## 2. "Flunking" the need for prior approval.

Prior approval is defined as documenting evidence and gaining consent from an authorizing official prior to incurring specific costs. Lloyd said the list of costs requiring prior approval is not as long as it was a decade ago, as the OMB has attempted to put more of the decisionmaking at the grantee level. However, some costs still remain in the cost principals for prior approval (see ¶422 in the *Federal Grants Management Handbook*). Prior approval sometimes is obtained either in a blanket regulation or binding policy where the awarding agency grants prior approval to all grantees, but it is more commonly given in the terms and agreement of the grant enabling a recipient to make decisions on its own.

"Identify this in all your agreements, and alert staff on what prior approval will be needed for, or better yet put it all in the agreement," Lloyd said. He added that other contemporaneous transactions may require prior approval from the awarding agency. "This is an area where auditors and monitors will expect that you are likely to make a mistake, so look to see if there is vulnerability."

See *Red Flags*, p. 4

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### **3. Failure to justify absence of competition for contracts or grants.**

This is the failure to compete a particular offer for bids or conduct sole-sourcing. There are some cases where this is acceptable, Lloyd said, such as in cases of an emergency (with the grantee's policies clearly defining what classifies as an emergency); unique capabilities or features; awarding agency approval; or when competition was sought but not obtained. Lloyd advised grantees that lack competition to document this in their records, providing a significant history of the procurement, written justification, and cost or price analysis.

### **4. Late reporting.**

Performance reports are required 30 days after the end of each quarter and 90 days after the end of the annual period; Standard Form 269 financial reports have the same deadlines. Standard Form 272 financial reports are due 15 working days after the end of the reporting period.

To avoid missed reporting deadlines, Lloyd urged grantees to establish online calendars denoting due dates, with e-mail reminders. He also recommended that managers stress the consequences of missed deadlines, which can include the suspension of grant payments. "The OMB circulars allow for requests of extensions and can be granted if the requests are in a timely fashion, rather than if the grantee simply ignored the deadline," he added.

### **5. Overvaluing third-party in-kind contributions.**

Third-party in-kind contributions are donations received from sources other than the federal government at no cost to the grantee, such as donated space or equipment. The tendency is to overvalue it because it is easier for the grantee to meet its matching share, Lloyd explained. To avoid overvaluing these contributions, he recommended grantees consider getting an independent appraisal, especially for contributions of land and buildings. In addition, grantees should evaluate what is a comparable price for the contributed item by reviewing catalogs, pricing guides and surveys, or referring to Internal Revenue Service Publication 561, which is guidance that discusses deductions for donations.

### **6. Generating "incredible" documentation.**

Many grantee institutions do not provide the particular details for an expense and simply record it as a consistent amount on subsequent reports so that it is not a

credible amount. "It doesn't say you're conducting fraud or doing anything wrong, but it just raises questions and encourages drilling out details," Lloyd said. "Auditors want to see documentation that is contemporaneous, complete and confirmable and is generated in a controlled environment."

### **7. Not immediately communicating significant developments.**

Grantees are required to immediately respond to or identify significant developments that could affect their ability to perform awards. To avoid problems if significant developments arise, grant officials should develop internal policies and relay them to staff; a priority should be placed on the development upon discovery; and the grantee must identify actions that have been taken or planned.

"You need to lead the parade of fixing problems you've found or are reporting," he said. "Define the assistance needed from your awarding agency. Don't leave that as an open book for the awarding agency to do."

### **8. Maintaining incomplete property records.**

Specific data elements must be present in property records, and if these are incomplete, it may open the door for an indication of noncompliance or weakness of control of assets, Lloyd explained. Developing a property records template with the required data elements, self-auditing existing records and establishing a standard policy for new acquisitions can alleviate problems in this area, he added.

### **9. Untimely or no periodic inventory.**

An inventory of assets must be taken at least once every two years, and the results must be reconciled with property management records. "Look around your room at the assets piled up in an insecure manner and determine your accountability," Lloyd warned. A grantee should build into its procedures good practices; spread inventory activities across the calendar; and follow up, reconcile and file claims as necessary. "If things are missing, reconcile that with your records and file insurance claims that show a red flag doesn't exist," he added.

### **10. Not applying "applicable credits" to allowable cost principals.**

Applicable credits are those receipts or reductions of expended transactions that serve to offset allowable costs charged directly or indirectly. "The cost principals don't say what all are applicable credits," Lloyd said. "They may occur after the grant award is closed out. Someone looking for a red flag may look in this area." 