

## The Resource Center



### Effective Practice: Implementing sound principles of grantee financial management

Source:

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#### ISSUE(S) BEING ADDRESSED:

Financial management is an essential component of the administration of service organizations. Adhering to sound principles is important whether the grant source is government, foundation or corporate. Sound practices in this area help to build a relationship of trust with funders and makes the management process within your organization more efficient.

#### ACTIONS TO CONSIDER:

Sound principles include the following:

1. **Know regulatory and grant requirements.**

A Cooperative Agreement or Grant Award is a legal and binding contract between a funder and a grantee. Essential business information about a grant can usually be compiled from three sources: the grant application or proposal, the grant award documents, and the project budget. The grant award letter and the accompanying grant agreement will contain information about applicable compliance requirements. Developing a written checklist of requirements that apply to your grant and noting the action required to demonstrate compliance will assist an organization in organizing information.

2. **Document your policies and procedures and maintain good internal controls.**

An Operations and Procedures Manual is a record of the policies and procedures for handling administrative and financial transactions. The manual can be a simple description of how financial functions are handled (e.g. paying bills, depositing cash, and transferring money between funds) and who is responsible for what, ensuring that the project manager and staff have a reasonable plan of action for carrying out each approved activity.

3. **Maintain adequate documentation to support expenditures (i.e., Periodic Expense Reports, Financial Status Reports and electronic funds requests or draw downs).**

Organizations should have a process in place that ensures all financial transactions have supporting documentation that demonstrates each expenditure is reasonable and necessary to carry out the program activities.

4. **Manage cash effectively.**

Responsible cash flow management begins with accurate bookkeeping records and financial statements. Cash flow projections can be made on a monthly basis for the upcoming fiscal year, estimating when the project will incur expenditures and will receive income from the grant.

5. **Have and utilize an efficient accounting system.**

The accounting system must meet generally accepted accounting principles. Organizations need to ensure that they can track both grant funds and match by budget line item. This might entail amending the Chart of Account to accommodate unique accounts, such as member or volunteer training. The reporting system should fairly and accurately document the spending of grant funds.

6. **Maintain effective internal controls.**

Establish fiscal policies that protect the organization from either intentional or unintentional misuse of funds. Decide how funds will be handled internally to ensure that they will be safely received, recorded, deposited, and expended in a manner that seems appropriate. There exist established guidelines on what are generally accepted and appropriate procedures.

7. **Document and report employee member time and activities accurately.**

It is essential that organizations have a system to properly document time, as personnel costs account for a majority of grant funds. Organizations should review the OMB (Office of Management and Budget) Circulars to

ensure compliance with federal regulations. Grant-funded personnel should be treated consistently as other employees, though they may be viewed as temporary permanent employees whose employment is subject to the availability of grant funding.

8. **Meet match requirements and document in-kind contributions appropriately.**

These can generally be found as part of the contracting documentation. See the separate effective practice, "Documenting in-kind contributions."

9. **Report timely and accurate financial information.**

Financial reports should be clear, concise, all-inclusive, and comparable (show financial activities over a period of time).

10. **Monitor subgrantees.**

If an organization chooses to sub-grant part or all of the funds they have been granted they are responsible to ensure compliance of all their sub-grantees. It is essential that sub-grantees are aware of the rules and regulations and that there is monitoring to ensure compliance.

### CONTEXT AND SETTING:

All service organizations that receive grants for their programs need to establish sound financial management. Different types of organizations are subject to various OMB Circulars and should be aware of what Circular is applicable to their type of organization. Ideas on this topic are shared in a separate effective practice, "[Applying OMB Circulars to AmeriCorps grants.](#)"

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### CITATION:

Hummel, Joan. *Starting and Running a NonProfit Organization*. Minneapolis: University of Minnesota Press, 1980.

Orosz, Joel. *The Insider's Guide to Grantmaking*. San Francisco: Wiley, 2000.

Wolf, Thomas. *Managing A NonProfit Organization in the Twenty-First Century*. New York: Simon and Schuster, 1990.

### RESOURCES:

Programs funded by the Corporation for National and Community Service can borrow the following resource(s) from the lending library of The Resource Center:

*The Insider's Guide to Grantmaking*

Item number: [R1449](#)

*Managing A NonProfit Organization in the Twenty-First Century*

Item number: [M2281](#)

Phone: 1-800-860-2684, ext. 260

E-mail: [nsrc-library@etr.org](mailto:nsrc-library@etr.org)

Website: <http://nationalservice.gov/resources>

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