

Metro Grants Manual

Metropolitan Government of Nashville and Davidson County

GRANTS MANUAL

For Non Profit
Recipients of
Grants Funds from
Metropolitan
Nashville and
Davidson County
Government

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Office of Financial Accountability

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FOREWORD AND ACKNOWLEDGEMENTS

Governments must provide the necessary oversight to ensure accountability over the public funds it manages on behalf of the citizens and taxpayers. It must be able to demonstrate proper oversight by providing proper controls, implementing measurement systems, and monitoring compliance issues.

This manual is written to assist the nonprofit community in the administration of Metro grants.

For help in applying any of the guidance in this manual, please call or write the following:

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TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION	4
CHAPTER 2: METRO COMMUNITY ENHANCEMENT FUNDS	6
CHAPTER 3: STANDARDS FOR FINANCIAL MANAGEMENT	12
CHAPTER 4: INTERNAL CONTROLS	19
CHAPTER 5: ALLOWABLE COSTS	22
CHAPTER 6: UNALLOWABLE COSTS	26
CHAPTER 7: INDIRECT COSTS AND COST ALLOCATION	30
CHAPTER 8: REPORTING REQUIREMENTS	32
CHAPTER 9: RECORD RETENTION AND ACCESS REQUIREMENTS	33
CHAPTER 10: MONITORING REQUIREMENTS	34
APPENDICES	36
APPENDIX A- SAMPLE INVOICE	37
APPENDIX B- SAMPLE EXPENDITURE REPORT	40
APPENDIX C- OMB CIRCULAR A-102	42
APPENDIX D- OMB CIRCULAR A-110	44
APPENDIX E- OMB CIRCULAR A-122	46
APPENDIX G- OMB CIRCULAR A-133	48

CHAPTER 1: INTRODUCTION

According to TCA Section 7-3-314, the legislative body of any county in Tennessee can elect to provide Community Enhancement Fund funds for financial assistance of any nonprofit organization as deemed necessary. The Metropolitan Government of Nashville and Davidson County (Metro) has elected to provide such appropriations directly to local nonprofit organizations (NPOs)

The Office of Financial Accountability of Metro's Department of Finance, which has the responsibility for monitoring these appropriations, has recognized the need to address grants oversight. To assure proper accountability for these appropriations and explain Metro's expectations of each recipient, the Metro Department of Finance has developed this Grant Manual.

Purpose and Applicability

The purpose of this manual, *Metro Grants Manual: For Recipients of Grant Funds from Metropolitan Government of Nashville and Davidson County*, is to establish the minimum compliance requirements to which nonprofit recipients of financial support from Metro must adhere. This manual has been prepared to assist the nonprofit recipients in maintaining adequate records and following acceptable procedures to properly account for the grant funds, thereby helping the NPOs meet the required accountability for the appropriated funds. The manual is intended for Executive Directors, Chief Financial Officers, Program Directors, Board of Directors and independent auditors of NPOs that are recipients of Metro appropriations.

The manual is online available to all grantees' on Metro's Internet website at the following address: <http://www.nashville.gov/finance/oss/OFA/grantsmanual.htm>. Updates will be posted to the manual online.

Please note that, throughout this manual, the terms "Grantee", "Recipient", and "NPO" or "nonprofit organization" all refer to the nonprofit organizations that receive Metro appropriations.

The provisions of this manual are aligned with those of the Federal Office of Management and Budget (OMB) circulars and other government-wide common rules that are applicable to grants and cooperative agreements. Both the compliance and financial reporting procedures and other guidance provided in this manual are consistent with all of the following, which are provided in the Appendix:

- OMB Circulars A-102, A-110, A-122, and A-133
- FASB SFAS #117
- IRS Form 990
- AICPA's *Audit and Accounting Guide for Not-for-Profit Organizations*

Failure to Comply

The grant recipients must comply with the requirements of this manual for the duration of the grant period. Failure to comply with the requirements in this manual could result in monitoring review findings, questioned costs, and potential disqualification from future consideration for financial assistance. The monitoring review process will be discussed in Chapter 10.

Note: The provisions in this edition of the manual dated April 25th, 2008 are effective for all and Community Enhancement Fund grants issued after July 1, 2008. Any exceptions to the provisions in this manual are subject to the approval of the Director of Finance.

CHAPTER 2: METRO COMMUNITY ENHANCEMENT FUNDS

Qualifications for Community Enhancement Funds

The legal basis for Metro's appropriations to non-profit organizations is found in TCA §7-3-314 and TCA §6-54-111. These statutes require that organizations desiring financial assistance from a metropolitan government be nonprofit, charitable organizations. Such organizations must also file, with the clerk of the legislative body, a statement of the proposed use of the funds and the program that serves the residents of the county and a copy of an annual audit. Grantees must provide copies of their annual report and audit as a prerequisite of funding. The following may be provided in lieu of an annual report: names, addresses, phone numbers of board of directors; narrative describing the mission and activities of the organization; statistical report on those activities for the past fiscal/program year (e.g., number of clients served with demographic information on the clients or number of other units of service if clients are not served; outcome of activities).

Grantees must have an audit prepared by a certified public accountant. The audit report should reflect the most recently completed fiscal year within the last 12 months of the application deadline. Review and/or compilation reports prepared by a certified public accountant or financial reports prepared by the agency's financial officer or others are not acceptable.

To be considered eligible to receive Community Enhancement Funds from Metro, a nonprofit organization must provide the following as evidence of nonprofit status:

- 501 (c) (3) designation of exemption from federal taxation from the Internal Revenue Service (IRS) as provided by 26 U.S.C.A., **or**
- 501 (c) (6) designation of exemption from federal taxation from the IRS as provided by 26 U.S.C.A., and
- Both a copy of the Articles of Incorporation as a nonprofit and the registration identification number for a charitable organization, provided by the State of Tennessee Secretary of State, or proof of such exemption as allowed, and
- Registration with the Secretary of State Office of Charitable Solicitations, indicating the agency is duly registered to solicit public funds in Tennessee.

Community Enhancement Fund Procedures

All Community Enhancement Funds grants follow the process outlined below:

1. The Mayor outlines the funding priorities areas and services; and dedicated levels of funding for Community Enhancement Funds awards for the Budget to the Council. Based on the priority areas. The city outlines requirements for applying and solicits grant applications that address the priority areas.
2. Interested parties are asked to present the following:
 - a. Proof of Non-profit status
 - b. Annual Report (or equivalent).
 - c. Cover Sheet Clearly Labeled “Annual Report for [Most Recent Completed Fiscal Year]”
 - d. Names, Addresses and Phone Numbers of Board of Directors
 - e. Narrative describing the agency’s mission and activities
 - f. Statistical report on all agency activities for the past fiscal/program year
 - g. Two (2) Copies of applicant’s audit (completed within the previous 12 months)
 - h. Completed Short Vendor Application (if organization does not have a Metro Vendor ID No.)
3. A selected panel reviews grant applications received and makes recommendations to the Mayor and the Council. The winning grant application agencies are then included in the final Budget Ordinance.
4. The Division of Grants Coordination (DGC) within Metro’s Department of Finance reviews the final Budget Ordinance and identifies each Community Enhancement Fund grantee. DGC coordinates with Metro’s Director of Finance and Office of Management and Budget to ensure the completeness and accuracy of the grantee list. Metro Legal compiles a list from the final adopted Budget Ordinance of all nonprofit organizations that will receive appropriations, in accordance with TCA §7-3-314(c), for publication in a newspaper of general circulation.
5. Upon receipt of all necessary information, the DGC, drafts the grant contract, and forwards it to the grantee for signature.

6. Upon receipt of signed contracts from the grantee, the DGC prepares the contract for approval, attaching the following:
 - b) A copy of the Annual Report
 - c) A copy of the Audit or Financial Report
 - d) A copy of the completed Spending Plan
7. The DGC forwards the contract and attachments to the Director of Finance for approval. The Director then signs the contract and forwards it to Metro Legal.
8. Metro Legal signs the contract and forwards it to the Metro Clerk for filing.
9. The Metro Clerk signs and files the contract, providing two copies to the DGC.
10. The DGC sends a copy of the fully executed contract to the grantee, along with a reimbursement invoice format. The grantee should not submit any invoice for payment until a copy of the fully signed contract has been received.
11. The grantee submits an invoice(s) for payment to the appropriate payment processing unit, in accordance with the payment terms of the contract.
12. The appropriate payment processing unit reviews the invoice(s), which is forwarded to the Finance Department for payment.

The process for appropriations awarded by the Metro Council after completion of the annual budget process (throughout the fiscal year) follows much of the same process described above. To identify prospective grantees, the DGC reviews the Council minutes and subsequently follows the same procedures outlined above.

The following information is designed to provide Community Enhancement Fund grantees with clearer information regarding some provisions of the Community Enhancement Fund contract and sets forth the conditions whereby Metro will make payments of the appropriated funds.

Contract Terms and Conditions

A contract that includes a number of standard terms and conditions, written to protect the interests of the Metro Government, serves as the authority for payments to grantees. The contract will include specific clauses regarding the grantee's anticipated use of the appropriation.

Scope of Program

Within the contract, the Scope of Program is completed using information from the grantee Information Form. The information submitted should be sufficient to ensure accountability and results. This information is necessary to enable Metro to better understand the benefits that the community derives from the appropriation, providing a full understand the grantee's anticipated use of the funds.

Spending Plans/Budgets

The Spending Plan is integral to the appropriation process in that it provides Metro insight as to how the funds will be used. The Spending Plan and the line-item detail must be sufficiently specific to accommodate proper controls and facilitate expenditure reviews.

The Spending Plan format should be used to affect an expedited Spending Plan review. For line items that will be funded, complete as appropriate. If a line item will not be funded, indicate such with "0.00" dollar amounts.

Invoice Preparation and Submission

Upon the completion of the contract process, grantees will receive a copy of the signed contract and only then may invoices be submitted and processed for payment. Invoices should be based on the format provided with the signed copy of the grant contract, and

should be consistent with the payment terms of the contract. Each invoice should clearly show:

- Amount invoiced per line item for the invoice period,
- Amount invoiced per line item to date,
- Total amount invoiced for the period, and
- Total amount invoiced to date.

Invoices will not be reviewed and processed for payment until such time as all required contract approvals are complete and the contract has been filed with the Metro Clerk. Invoices should be submitted to:

Metro Payment Processing Office
P.O. Box 196301
Nashville, TN 37219-6301

The appropriate payment processing unit will review submitted invoices and after approval, will submit the invoices to the Finance Department for processing and payment.

Payment Methodology

Payments for awards of less than \$100,000 will be made quarterly on a cost reimbursement basis. Payments for awards of \$100,000 or more will be made monthly on a cost reimbursement basis. At the discretion of the Finance Director, organizations that receive findings during monitoring reviews conducted by Metro's Office of Financial Accountability, you may be subjected to closer oversight and a more stringent payment methodology.

The invoices submitted quarterly or monthly shall be based on actual expenditures. Please note that documentation of the actual expenditure of the total appropriation must be retained for monitoring purposes.

Payments

Only invoices released from the appropriate payment processing unit to the Finance Department will be processed for payment. No payment will be made until all contracts are complete and the contract has been filed with the Metro Clerk. Payments will be made consistent with the payment terms of the contract.

Certifications of Assurance

To ensure delivery of services funded by Metro are consistent with certain laws, each grantee must, as a condition of funding, sign and return the Certification of Assurance included in the initial information packet. The certification covers the Americans with Disabilities Act of 1990, Section 504 of the Rehabilitation Act of 1975, and Title VI of the Civil Rights Act of 1964. A separate certification prohibiting lobbying activities is also included in the packet.

CHAPTER 3: STANDARDS FOR FINANCIAL MANAGEMENT

All grantees that receive financial assistance must establish and maintain accounting systems and financial records to adequately account for the funds. Agencies awarded financial support must demonstrate the ability to account for the grant funds.

Accounting Systems

Recipients of Metro funds must ensure that the accounting systems used meet certain minimum standards. Each grantee's accounting system should provide for and/or allow the following features, at a minimum:

- Receipts/revenues are classified by source
- Expenditures are identified by the grant and classified by the budget categories in the grant contract.
- Grant funds should not be commingled with other sources of funds.
- Adequate information to allow for prompt submission of expenditure reports for the grant.
- Funds specifically budgeted for one project may not be used to support another project.
- Whenever, applicable, grantees must comply with the match requirements of the grant. grantees should utilize a tracking system that can clearly demonstrate the source and use of the matching funds.

Financial Records

Accounting, or financial, records facilitate routine internal financial management activities and work to assure the reliability and verifiability of financial reports. The financial records are important to confirm the use of Metro funding.

Each grantee must maintain the following four (4) types of records:

- (1) Written policies and procedures (such as personnel policies, travel policies, and purchasing policies, etc.);
- (2) Supporting documentation for expenditures (such as canceled checks, time sheets, invoices, and contracts, etc.) which support the books of account;

- (3) Budgets with supporting documentation for budget actions (such as budget requests, approval notifications, etc.);
- (4) Formal books of account such as journals and general ledgers.

Written Policies And Procedures

The grantee should establish written policies and procedures to express management's position on all operational procedures such as accounting, purchasing, personnel, etc. Such policies and procedures should also identify program-specific processes and procedures. Incorporating written policies and procedures in normal business activities is necessary to ensure consistent operation of the agency's programs and adequate documentation for an audit trail. These statements of operation also assist in directing new employees or refreshing current employees as to the method by which operations should take place. Management should review and revise the policies and procedures periodically to adapt to changing needs. This review should be routine and consistent to ensure current operational processes and procedures are properly reflected in the written policies and procedures.

Personnel Policies:

The governing board should adopt written personnel policies, of which the grantee should provide copies to every employee. These policies should address all matters concerning personnel including, but not limited to, the following:

1. Employment (including orientation, grievance, and termination procedures).
2. Salaries (including who can authorize salary increases, how often salaries can be changed, merit raises, overtime, and compensatory time).

3. Benefits:
 - a. Group insurance - how much, what kind, the entity's share, employee's share, who authorizes plans, who is included or excluded.
 - b. Retirement plan - how much, what kind, entity's share, employee's share, vesting, administration.
 - c. Sick leave - how accumulated, rate of accumulation, definition of sick leave upon termination.
 - d. Annual leave - how accumulated, rate of accumulation, how small a unit can be taken, notice required before taking, amount paid on termination, maximum amount that can be accumulated.
 - e. Administrative leave - military duty, jury duty, emergencies.
 - f. Other leave – maternity/paternity, family emergency, bereavement, etc.
 - g. Rights of employee and employer.
4. Travel- who, how, and when travel and subsequent reimbursement applies, documentation required, advance policy, and specific rates for reimbursements for mileage, airfare, per diem, etc.
5. Any other relevant policies.

Purchasing Policies:

The grantee should establish procedures to dictate the authority and procedures required for the organization's purchasing operation. Guidelines and regulations governing the purchases of supplies, equipment, contractual services, and other items helps to ensure that funds are expended a) in accordance with an approved budget and management's wishes, b) with consideration of the availability of funds to pay for such purchases, and c) in compliance with relevant grant requirements, laws and regulations.

To provide adequate support for purchases, the grantee should use consecutively pre-numbered purchase order forms to request an item(s) from vendors. Exempt from this requirement are contracts for professional services (where the contracts serve as detailed documentation), bills for utilities and office rental, and emergency telephone orders. In addition, all purchase orders should be completed in triplicate. It should show the date,

name of vendor, type, quantity, price of supplies and equipment, and other items to be purchased. The grantee should designate a staff member to sign each purchase order and submit the original to the vendor.

Purchasing policies and procedures should encompass, at a minimum, the following issues:

1. **Initiation of Purchase:** Any staff member authorized by your chief executive or designee may initiate a purchase. When a purchase is initiated, a standard requisition, or a memorandum describing the type of item and quantity desired, is prepared and signed by the staff member initiating the purchase.
2. **Authorization of Purchase:** Staff members may make direct purchases of items when the total cost does not exceed a prescribed limit. When items may cost more than the prescribed limit, the chief executive or designee must give advance approval of the acquisition. All requisitions, regardless of amount, should be submitted to the chief executive or designee.
3. **Qualification of Vendors:** All vendors providing supplies, equipment, or services should be reputable firms having demonstrated capacity to produce or provide supplies, equipment, services, and other items within a reasonable time or within specific time limits established by the purchaser. Vendors should be subject to disqualification if they misrepresent quality, quantity, or price of what is being purchased. Vendors that exceed reasonable time limits should also be disqualified.
4. **Selection of Vendors:** Whenever possible, select qualified vendors on the basis of three price quotations or competitive bids. Prescribed limits should be established to direct when either method is required. Secure competitive bids for all items exceeding a prescribed limit in cost-per-unit and for orders exceeding a total aggregate prescribed limit. Solicit price quotations from qualified vendors for items for which unit cost exceeds a prescribed limit. Under certain circumstances supplies, equipment, services, or other items may be purchased without bids or quotations. Quotations may not be necessary if a qualified vendor is the sole source of the items to be purchased or, in cases of emergency, when immediate delivery is necessary for the entity's continued

provision of adequate services. The executive director or an appointed designee should review all sole-source purchases. In any event, the executive should be apprised of any sole-source purchase, as soon as possible. A written memorandum explaining all emergency purchases and all other sole-source purchases exceeding an amount determined by management should be attached to the file copy of the purchase order.

Supporting Documentation

Supporting documentation is critical to the justification of financial statements and grant expenditure reports. The grantee must maintain supporting documentation to justify journal entries. The following are examples of supporting documentation:

Contributor transmittals	Fixed assets inventory listings
Donor restrictions	Time sheets
Donor pledges	Leave requests
Written policies	Cumulative leave records
Cash receipts	Travel claims
Deposit slips	Invoices
Checks	Telephone logs
Bank statements	In-kind vouchers
Bank reconciliations	Correspondence
Petty cash receipts	Board of Directors meeting minutes
Petty cash reimbursement requests	Journal vouchers
Petty cash count sheets	Annual financial reports with working papers
Inventory count sheets	Annual program reports, including statistics, with working papers
Purchase orders	All journals and ledgers
Contracts	
Support for sole source decisions	

Documenting Expenses:

All expenditures of the grantee should be reflected in the general ledger and financial statements. The grantee should ensure that all invoices have been entered into the accounting system and that no entries have been duplicated.

Proper documentation should be maintained for all expenditures to ensure that all financial statements are valid and adequately supported. The type of documentation necessary to support expenditures depends on the type of expenditures, however the following is typical:

- Invoices with the proper approvals and marked paid to prevent duplicate payments
- Receiving report, if applicable
- Purchase order, if applicable
- Other supporting documentation, such as employee travel claim.

Failure to provide the adequate and sufficient supporting documentation for grant expenses could result in monitoring findings including questioned costs.

Check Filing:

To eliminate duplicate payments and provide an adequate audit trail, grantees should prepare one original check and at least two duplicate checks. One of the check copies should be filed in a numerical file while the other copy should be filed by date in the vendor file.

Grant File:

The agency must maintain a separate file for each grant. The file should contain at least the following items:

1. Grant agreement, including grant budget
2. All grant agreement amendments
3. Copy of periodic financial reports
4. Other pertinent information (e.g., correspondence)

Spending Plan/Budget

The organization must have a budget. Budgets are a basic part of the financial management of a multi-funded entity. Through budgeting, the grantee can plan in advance how to spend its resources. The expense categories in the budget must be consistent with expenditure classifications to provide for actual-to-budget comparisons.

The grantee should review all actual expenditures of the prior year when preparing overall budget. Also anticipated changes in allocations for revenues and expenditures for the coming year could impact the annual budget for all anticipated programs.

Formal Books of Accounts

The organization must maintain, at a minimum, the following formal accounting records:

1. **Cash Receipts Journal** - This journal should contain a separate entry for each receipt of money. Duplicate cash receipts and deposit slips should be the sources for entry to Cash receipts Journal.
2. **Cash Disbursements Journal** - This journal should contain a separate entry for each check issued. Costs for each object and functional expense classification should be summarized and posted to the appropriate general ledger account at the end of each month.
3. **General Journal** - This journal should be used to record transactions such as depreciation, allocations of payroll expense, and indirect costs.
4. **Payroll Register** - This register should be used to record each payroll check and provide the proper distribution of amounts withheld from employees' wages.
5. **In-kind Receipts Journal** - The receipt of in-kind contributions should be recorded in this journal. Such contributions must be properly documented to show the basis of evaluation and their relation to the program.
6. **General Ledger** - One general ledger must be maintained that summarizes all accounts. You may use any standard ledger form that has debit, credit, and balance columns. The chart of accounts in Section 3 includes the general ledger accounts most commonly used. An account is a device used to record and summarize increases and decreases in assets, liabilities, net assets, revenue, and expenses.
7. **Subsidiary Ledgers** should be used as needed. To avoid an unmanageably large number of general ledger accounts, you can group similar accounts and summarize them in the general ledger as one account. Such a combined general ledger account is called a "control account." The detailed records on the individual accounts of a control account are maintained in a separate set of records known as *subsidiary ledgers*. Accounts receivable, accounts payable, and payroll are some of the most frequently used subsidiary ledgers.

CHAPTER 4: INTERNAL CONTROLS

Internal control refers to policies and procedures established to provide reasonable assurance that:

- Resource use is consistent with laws, regulations and grant terms
- Resources are safeguarded against waste, loss and misuse; and
- Financial reports are reliable.

Internal controls are intended to encourage and protect sound management practices. Internal controls are simply the organization's system of checks and balances to ensure that no one employee has complete control of any entire process. All grantees should establish controls to reduce the potential of misuse of its assets or misstatement of its account balances. The controls are necessary to protect the employees as well as the organizations. Regardless the size of the organization, appropriate controls can and should be established to help deter fraud, misuse and abuse of the agency assets.

The goal of internal controls should be effective management, balancing asset protection with efficient operation. Since organizations differ in size, the grantee should select the appropriate mix of controls such as accounting system, the nature and volume of accounting transactions and staffing levels. The internal control system is comprised of five components: Control environment; risk assessment; information and communication; control activities; and monitoring. The most important of these components to the grantee is the control environment. The control environment refers to the attitudes, directives, actions, and general control awareness exhibited by the grantee's governing board through policies and procedures and follow-up actions.

An internal control system is vast, therefore for the purposes of this manual, the discussion of internal control is limited to two areas: cash disbursement and payroll.

Cash Disbursements

The grantee should ensure that disbursements are made only after proper authorization by the appropriate officials and are only for valid business purposes. All disbursements must be properly recorded. The grantee should take the necessary measures to ensure that no

one employee has complete control of any process from beginning to end. The grantee should make sure that the same person does not handle all of the following aspects of the same transaction:

- Authorization
- Processing
- Check Signing
- Recording
- Bank Reconciliation

Smaller nonprofit organizations may involve members of board of directors and the executive director to help attain an optimal or ideal level of segregation of duties over cash disbursements. The board of directors should determine the authorized check signers and the requirements for dual signatures.

Payroll

Payroll usually represents the most significant expenditure of the grantee; therefore, the grantee should establish adequate controls in this area. Grantees should use time sheets or time cards to support hours worked and leave/time-off taken, and to document appropriate approval(s) of the reported time. In addition to this, the grantee should ensure the following:

- Valid employees are paid and disbursements are made for services rendered
- Proper authorization of payroll records is obtained
- Proper records of payroll disbursements are maintained
- Compliance with payroll tax rules and regulations is attained

The grantee should also ensure adequate segregation of duties for payroll functions. Grantee should take the necessary measures to ensure that the check signers do

- Maintain unclaimed payroll checks,
- Approve employee time sheets
- Post payroll to the general ledger
- Review the payroll register or edit reports
- Review payroll-related tax withholding and deposits
- Distribute W-2 forms to employees
- Respond to W-2 inquiries

Other Internal Controls

In addition to the controls over cash disbursements and payroll the grantee can establish policies and procedures to address the following to increase the level of controls:

- Rotation of staff duties
- Restricted Access to Assets
- Fidelity Bonds
- Review of Disbursements
- Review of Journal Entries
- Ethics Policy
- Gifts and entertainment
- Taking kickbacks
- Using the grantees assets
- How to report fraud and unethical behaviors

CHAPTER 5: ALLOWABLE COSTS

All Metro grantees should account for the grant funds in a separate fund/class or maintain at the minimum a sub-ledger that accounts for Metro funds separately. Grantees that use Metro funds to support general operations should identify the portions supported with Metro funding. Such identification should be made at the time the expenditure is incurred and should be appropriately reported on the expenditure reports. Grantees should maintain supporting documentation for the Metro funds.

Allowable Costs for Metro grants

Unless specifically restricted by the terms of the grants in the contract, the types of expenses deemed allowable for Metro grants are consistent with the provisions of OMB Circular A-122.

Grantees that receive financial assistance from Metro should ensure that expenditures incurred for the purposes of the grant meet certain criteria. Costs incurred must be:

- a reasonable use of funds.
- a necessary use of funds,
- for a reasonable amount,
- for a clear purpose,
- consistent with the purpose of the Grantee's program,
- compliant with the terms and purpose of the Metro grant,
- authorized within the budget,
- properly approved, and
- adequately documented

The agency should reevaluate its decision if the cost is answer to any costs does not meet these criteria.

The following costs are presented as general guidance to grantees. Special circumstances may affect the allowability of some costs. The rules stated are applicable only when the contract is silent of the issues. The specific terms of the grant may override these rules.

- 1) Salaries: Salaries and wages of employees involved in the administration of the grant program are **allowable**. This includes expenses for salaries and wages paid or accrued for services rendered during the grant period.
- 2) Benefits & Taxes: Costs for fringe benefits, pension plan, and payroll taxes for employees involved in the administration of the grant program are **allowable**.
- 3) Professional Fees: Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the organization, are **allowable, when reasonable in relation to the services rendered**.
- 4) Supplies: The costs of materials and supplies necessary to carry out grant are **allowable**. Such costs should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the organization. Only costs actually incurred for the performance of the contract or grant, and due credit should be given for any excess materials or supplies retained, or returned to vendors.
- 5) Telephone: Costs for telephone and/or other telephonic equipment or services used to administer the grant program are **allowable**.
- 6) Postage and Shipping: Postage and shipping costs incurred in the normal operation of the grant program are **allowable**.
- 7) Occupancy: Occupancy costs, including costs of rental space and maintenance of a privately owned building, are **allowable**. Rent is not allowable if the building is owned by the grantee or if the grantee has substantial financial interest in the property.
- 8) Equipment: Equipment includes tangible property with a useful life of more than one year and an acquisition cost that equals or exceeds \$5,000. Such equipment purchased for the purposes of and for use in the grant program is **allowable if specifically approved**.
- 9) Printing And Publication: Publication costs include the costs of printing, distribution, promotion, mailing, and general handling. Such costs are **allowable**. If these costs are not identifiable with a specific cost objective or program, they should be allocated as indirect costs to all benefiting activities of the organization. Metro will participate based only on the benefit received.

- 10) Travel/Conferences & Meetings Costs: Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the organization. Conference and or meeting costs include seminars designed to increase the vocational effectiveness of employees, including registration fees and other related costs. Travel, conferences, and meeting costs are **allowable** when they are directly attributable to specific work under the grant or are incurred in the normal course of administration of the organization. Travel costs must be evidenced by an approved travel claim. Grantees must establish and use their own internal travel policy. Each grantee is subject to their established travel policy.
- 11) Insurance: Insurance includes that which the organization is required to carry under the terms of the award and any other insurance, which the organization maintains in connection with the general conduct of its operations. This paragraph does not apply to insurance, which represents fringe benefits for employees. The costs of insurance required or approved, and maintained, pursuant to the grant are **allowable**.
- 12) Specific Assistance to Individuals: Direct payments to eligible participants in the grant program are **allowable**. Such costs should be consistent with the program requirements and must be paid to only qualified individuals to be allowable.
- 13) Organization Costs: Costs of the organization's membership in business, technical, and professional organizations are **allowable**. Costs of the organization's subscriptions to business, professional, and technical periodicals are **allowable**. Costs of meetings and conferences, when the primary purpose is the dissemination of technical information, are **allowable**. This includes costs of meals, transportation, rental of facilities, and other items incidental to such meetings or conferences. Costs of membership in any civic or community organization are unallowable. Costs of membership in any country club or social or dining club or organization are unallowable.
- 14) Indirect Costs: Indirect costs are costs of an organization that are not readily assignable to a particular program but are necessary to the operation of the organization and the operation of the grant program. The cost of maintaining facilities, and administrative salaries are examples of types of costs usually treated as indirect costs. Indirect costs are **allowable but must be reasonable, necessary and charged/allocated equitably based on the benefit received**.

The chart below provides information regarding Metro’s policy for the specific cost items. Grantees must rely on the detail policies for other conditions, which may impact their situation.

Selected Cost Items	Metropolitan Nashville Non Profit Grantees
Advertising & Public Relations	Allowable
Benefits & Taxes	Allowable with restrictions
Professional Fees	Allowable
Supplies	Allowable
Telephone	Allowable
Postage and Shipping	Allowable
Occupancy	Allowable
Equipment Rental & Maintenance	Allowable
Printing & Publication	Allowable
Travel/Conferences & Meetings	Allowable
Insurance	Allowable
Specific Assistance to Individuals	Allowable
Indirect Costs	Allowable

See **Appendix F** for OMB Circular A-122.

CHAPTER 6: UNALLOWABLE COSTS

Unallowable costs are affected by the circumstances. The following are a few selected costs items that are unallowable, per Metro guidelines. As set forth in Chapter 5: Allowable Costs, the grantee should ensure the costs meet the criteria general criteria.

- (1) Alcoholic Beverages: Costs of alcoholic beverages are **unallowable**.
- (2) Bad debts: Bad debts, including losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collection costs, and related legal costs are **unallowable**.
- (3) Contributions & Donations: Contributions and donations by the organization to others are **unallowable**.
- (4) Fines and Penalties: Costs of fines and penalties resulting from violations of, or failure of the organization to comply with Federal, State, and local laws and regulations are **unallowable** except when incurred as a result of compliance with specific provisions of an contract or instructions in writing from the Metro Government.
- (5) Entertainment Costs: Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are **unallowable**.
- (6) Lobbying: Costs associated with the following activities are **unallowable**:
 - I. Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activity;
 - II. Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections;
 - III. Any attempt to influence: (i) The introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal

or State legislation through communication with any member or employee of the Congress or State legislature (including efforts to influence State or local officials to engage in similar lobbying activity), or with any Government official or employee in connection with a decision to sign or veto enrolled legislation;

- IV. Any attempt to influence: (i) The introduction of Federal, State or local legislation; or (ii) the enactment or modification of any pending Federal State or local legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fundraising drive, lobbying campaign or letter writing or telephone campaign; or
- V. Legislative or council liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying.

(7) Organization Costs: Expenditures, such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the organization, in connection with establishment or reorganization of an organization are **unallowable, except with prior approval of the Metro Government.**

(8) Patent Costs: Costs of (i) preparing disclosures, reports, and other documents required by the award and of searching the art to the extent necessary to make such disclosures, (ii) preparing documents and any other patent costs in connection with the filing and prosecution of a United States patent application where title or royalty-free license is required by the Federal Government to be conveyed to the Federal Government, and (iii) general counseling services relating to patent and copyright matters, such as advice on patent and copyright laws, regulations, clauses, and employee agreements are unallowable.

(9) Selling and Marketing: Costs of selling and marketing any products or services of the organization are unallowable. These costs, however, are allowable as direct costs, with prior approval by awarding agencies, when they are necessary for the performance of Metro grant.

- (10) Severance pay: Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by organizations to workers whose employment is being terminated. Costs of severance pay are allowable only to the extent that in each case, it is required by (i) law, (ii) employer-employee agreement, (iii) established policy that constitutes, in effect, an implied agreement on the organization's part, or (iv) circumstances of the particular employment.
- (11) Depreciation Expense: Depreciation is a systematic process for allocating the cost of using up assets service potential or economic benefit over the assets' useful economic life. Depreciation is **NOT** an allowable grant expense for reimbursement purposes. As noted above Metro may, with specific approval, participate in the acquisition of equipment but will not allow depreciation of assets as allowable grant expense.

No Private Inurement

NPOs, as exempt organizations, are not prohibited from making a profit (having revenues greater than expenses), however none of the profit can personally benefit any individual, resulting in inurement. Internal Revenue Service rules against private inurement state that persons who created or control a tax-exempt organization, including its members, employees and other insiders, are prohibited from receiving any of the organization's funds or assets, except when:

- Such person is paid a reasonable compensation for services rendered to the organization (or related expenses), or
- Such person pays an amount, equal to the fair market value, for any of the organization's assets they receive.

Insiders must be treated the same way as anyone else; they may not personally benefit from the existence or operation of the organization. In accordance with this federal rule, Metro's grant regulations also prohibit private inurement.

No Excess Benefit Transactions

An excess benefit transaction occurs when an organization provides an economic benefit, directly or indirectly to a disqualified person that exceeds the value of the consideration given by the person in return. Internal Revenue Service regulations also prohibit insiders from receiving benefit in excess of what would be considered normal. The rules impose penalties against individuals or entities that enter into excess benefit transactions with an exempt organization. Metro grant funds expended, as part of excess benefit to any individual, should be refunded to Metro.

No Fundraising Costs

Fundraising costs may include personnel expenses, consulting fees, occupancy costs, printing, postage, telephone, fax, mailing lists, costs of attending workshops on fundraising, expenses for kick off campaigns etc which are expended to increase awareness of the agency and raise money for the grantee. No Metro funds should be used for the purposes of fundraising.

The following chart summarizes the comparison of cost items according to OMB Circular A-122 and Metro guidelines: See **Appendix F** for OMB Circular A-122.

Selected Cost Items	Metropolitan Nashville Non Profit Organizations
Alcoholic Beverages	Unallowable
Bad Debts	Unallowable
Contributions & Donations	Unallowable
Fines and Penalties	Unallowable
Entertainment Costs	Unallowable
Lobbying	Unallowable
Organization Costs	Unallowable
Patent Costs	Unallowable
Selling & Marketing	Unallowable
Severance Pay	Unallowable
Depreciation Expense	Unallowable

CHAPTER 7: INDIRECT COSTS AND COST ALLOCATION

Nonprofit organizations that intend to report indirect cost on the grants must follow these guidelines on Indirect Costs and Cost Allocation

Typically organizations account for three cost categories: direct costs, administrative costs, and allocable-direct costs. Direct costs are those costs that can be identified to benefit a specific activity. Administrative costs are costs that benefit the operations of the entire agency, but cannot be identified to specific activities. Allocable-direct costs are costs that benefit more than one activity but are not administrative in nature.

Direct Costs are charged directly to the program or activity that the costs benefit. Those costs are not pooled. Those costs can be directly identified to the specific program or activity or service.

Allocable-direct and administrative costs, which form the Indirect costs, must be allocated to a particular cost objective, such as a grant, project, service, function, or other activity, in accordance with the relative benefits received. Allocable Costs accumulated and reported on Metro grant must:

- (a) Be treated consistently with other costs incurred for the same purpose in like circumstances, and
- (b) Be necessary to the overall operation of the organization. (OMB Circular A-122, Attachment A, Paragraph A.4.)

Unallowable costs which cannot be reported as direct charge, are still unallowable as part of allocable costs. Such costs should be adjusted out of the allocable cost pools before allocation to the various program and grants.

The indirect costs must be accumulated in cost pools and reported in a separate line item in reports to Metro.

Cost accounting consists of accumulation of costs by their natural expense classification and distribution of these costs to cost objectives. Cost allocation consists of direct assignment of direct costs to specific cost objectives and, when direct assignment is not possible, allocation of allocable costs to multiple cost objectives on some basis.

Cost Accumulation

Before costs are distributed to cost objectives, they are accumulated by line item expense categories (also referred to as “natural expense classifications” and “object expense categories”). Some examples of line-item expenses are salaries, occupancy, telephone, postage and shipping, printing and duplication, and supplies. Costs are assigned directly to specific line items. Cost objectives are not involved and cost “allocation” per se is not involved in the assignment of expenses to various line items or natural expense classifications.

Cost Allocation

Cost allocation in not-for-profit organizations is the distribution of line-item costs such as salaries and supplies to cost objectives such as regions, organizations, functions, departments, programs, grants, projects, contracts, cost centers, services, and activities. A cost objective is any activity for which a separate measure of costs is desired. With activity accounting, all line-item costs are distributed to activity-level cost objectives. Activities are assigned to various summary-level cost objectives such as those listed above and costs for summary-level cost objectives are determined by aggregating the costs of the activities assigned to the cost objectives. All Grantees that use Metro funds to cover indirect costs to Metro must:

- (a) have an established cost allocation policy and
- (b) the plan must be well documented, showing organization-wide allocation methodology.

Metro will accept cost allocation plans approved by federal or state cognizant agency.

The cost allocation plan include a narrative describing in detail the methods used to allocate costs to various activities and including an organizational chart and documents and schedules to support the allocations methods.

CHAPTER 8: REPORTING REQUIREMENTS

Expenditure Report

All grantees must submit expenditure reports once a year to reconcile grant receipts with grant revenues. Metro will monitor Grantees for compliance with reporting requirements. Failure to comply with the reporting requirements would constitute a violation of the grant contract.

The expenditure reports should be in the format shown on Appendix C. The expenditure report is due 45 days after the end of the grant period. If Metro funds are fully exhausted before the end of the grant period, the grantee can submit the expenditure report earlier.

Program Report

All grantees must submit programmatic report once_a year to explain how the grant has been used on behalf of the citizens of Davidson County. The report is due 45 days after the end of the contract term. Failure to comply with the program reporting requirements would constitute a violation of the grant contract.

CHAPTER 9: RECORD RETENTION AND ACCESS REQUIREMENTS**Retention of Records**

The grantee must maintain all financial records, supporting documentation, program documentation, and all other relevant records pertaining to the Metro grant contract for a period of at least three years after the completion of the grant period.

The grantee should retain all books of original entry, source documents to support accounting transactions, general ledger(s), subsidiary ledger(s), personnel and payroll records, cancelled checks, and documents and records related to the funds provided by Metro. The records of not-for-profit entities should be maintained in accordance with this Manual.

Maintenance of Records

The grantee shall maintain and identify the records by fiscal and/or grant period(s) separately and maintain the information in such a manner that they can be easily identified. The grantee shall ensure the records are adequately protected against theft, fire, or other damage.

Access to Records

Metro Government and its appointed officials shall have the right to access any applicable books, documents, papers, or other records of the grantee that pertain to, support, or document the Metro grant funds for monitoring, auditing, or examination purposes. The right of access shall not be limited to the retention period, but shall extend as long as the records are retained by the organization.

CHAPTER 10: MONITORING REQUIREMENTS

Monitoring

Each year, Metro awards several appropriations to nonprofit agencies to operate numerous programs. All recipients of Metro grant funds are subject to monitoring by Metro's Department of Finance, Office of Financial Accountability (OFA). OFA will monitor all nonprofits receiving Metro grants to ensure adherence to the specific intents, restrictions, and requirements of the Metro Council or the specific awarding agency. The staff from OFA may, on a case-by-case basis, perform a preliminary assessment of the grantee's capacity and ability to account the funds prior to the release of any funds.

Monitoring is the review process used to determine an entity's compliance with the requirements of Federal, state, and/or local programs, adherence to applicable laws and regulations, and measures of progress toward stated results and outcomes. Monitoring efforts determine the level of compliance with program expectations and identify operational changes. Monitoring can also determine if the financial management and the accounting system are adequate to account for program funds in accordance with government requirements.

The primary objectives of the monitoring review by OFA will be:

- a) To determine whether the agency has the resources and capacity to administer the grant funds
- b) To test if costs and service are allowable and eligible
- c) To verify that program objectives are being met
- d) To test the reliability of the financial and programmatic reporting
- e) To test the reliability of internal controls
- f) To verify contractual compliance
- g) To verify that civil rights requirements are being met

Additional objectives will be considered as deemed necessary by OFA. The OFA will ensure the executive director or the designated appointee of the agency under review remains aware of such additions to the monitoring review objectives.

OFA will follow the guidelines recommended by *OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations* and employ various monitoring techniques to test the following core areas and objectives:

1. **Activities Allowed and Unallowed:** to ensure the types of goods and services purchased with the grant funds are allowable under the program requirements.
2. **Civil Rights:** to ensure compliance with civil rights laws, including ADA compliance.
3. **Allowable Cost and Cost Principles:** to ensure both direct and indirect costs under the Metro grant are in accordance with the limitations and requirements of the grant contract.
4. **Eligibility:** to ensure that individuals and groups served meet the specific criteria of the grant program.
5. **Equipment and Real Property:** where applicable, to ensure the grantee maintains adequate equipment and property management records to meet the requirements of OMB Circular A-110, Sections 32 and 34.
6. **Matching Funds, Level of Effort, and Earmarking:** where applicable, to ensure the grantee contributed its own resources, as specified to match the grant funds.
7. **Period of Availability:** to ensure grant funds are expended only within the grant period.
8. **Program Income:** where applicable, to ensure program income earned during the grant period, as a direct result of the grant funds, are retained by the grantee and used to enhance the program or reduce the eligible grant costs.
9. **Reporting:** to ensure the required reports are filed and that filing is timely.
10. **Subrecipient Monitoring:** where applicable, to ensure the grantee has an adequate system to monitor any subrecipients' compliance with contracts, policies, and procedures.

APPENDICES

APPENDIX A- SAMPLE INVOICE

**METRO NASHVILLE AND DAVIDSON COUNTY GOVERNMENT
INVOICE FOR REIMBURSEMENT**

NAME OF RECIPIENT				CLAIM PERIOD	FROM:	TO:
ADDRESS				INVOICE ENDING DATE:		
				CONTRACT PERIOD:	FROM:	TO:
Program				CONTRACT #:		
FEDERAL ID #				CONTACT PERSON		
				TELEPHONE NO.		
	(A)	(B)	(C)	(D)	(E)	(F)
	TOTAL	YTD ACTUAL	THIS MONTH'S	REIMBURSEMENT	AMOUNT	FOR OFFICE
	CONTRACT	EXPENDITURES	ACTUAL	PERCENTAGE	DUE	USE
COST CATEGORIES	BUDGET	THRU(M/D/Y):	EXPEND.		(C TIMES D)	ONLY
Salaries and Wages	-	-	-			
Employee Benefits & Payroll Taxes	-	-	-			
Total Personnel Expenses	-	-	-	-	-	
Professional Fees	-	-	-			
Supplies	-	-	-			
Communications	-	-	-			
Postage and Shipping	-	-	-			
Occupancy	-	-	-			
Equipment Rental and Maintenance	-	-	-			
Printing and Publications	-	-	-			
Travel/Conferences and Meetings	-	-	-			
Insurance	-	-	-			
Specific Assistance to Individuals						
Other	-	-	-			
Total Nonpersonnel Expenses	-	-	-	-	-	
Reimbursable Capital Purchases	-	-	-			
TOT. DIRECT PROGRAM EXPENSE	-	-	-	-	-	
Administrative Expenses	-	-	-			
TOTAL EXPENSES	-	-	-	-	-	

I certify to the best of my knowledge and belief that the above is correct and that all expenditures were made in accordance with the contract conditions and that payment is due and has not been previously paid.

RECIPIENT'S AUTHORIZED SIGNATURE			METRO NASHVILLE & DAVIDSON COUNTY GOVERNMENT AUTHORIZED REVIEWER'S SIGNATURE		

TITLE				TITLE	
DATE			38	DATE	

APPENDIX B- SAMPLE EXPENDITURE REPORT

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

ANNUAL EXPENDITURE REPORT

NAME		CONTRACT #:	
ADDRESS		START DATE:	___/___/___
CITY, STATE & ZIP		END DATE:	___/___/___
		CONTACT PERSON	
FEDERAL ID #		CONTACT TELEPHONE (615)	____ - ____

COST CATEGORIES	TOTAL CONTRACT BUDGET	TOTAL ACTUAL EXPENDITURES FOR THE YEAR	FOR OFFICE USE	
			VARIANCE ACTUAL TO BUDGET	COMMENTS
Salaries and Wages				
Employee Benefits & Payroll Taxes				
Total Personnel Expenses	-	-	-	
Professional Fees				
Supplies				
Communications				
Postage and Shipping				
Occupancy				
Equipment Rental and Maintenance				
Printing and Publications				
Travel/Conferences and Meetings				
Insurance				
Specific Assistance To Individuals				
Other				
Total Non-Personnel Expenses	-	-	-	
Capital Purchases				
TOTAL PROGRAM EXPENSES	-	-	-	
TOTAL EXPENSES	-	-	-	

I certify to the best of my knowledge and belief that the above represents total expenditures incurred for the purposes of the Metro Grant.

GRANTEE		METRO NASHVILLE GOVERNMENT	
AUTHORIZED SIGNATURE:		REVIEWER:	
TITLE		TITLE	
DATE	___/___/___	DATE	___/___/___

NOTE:

This report is due within 45 days after the end of the contract. It may be submitted earlier after ALL grant funds are exhausted

Please submit the report to:

Metropolitan Nashville and Davidson County Government
Division of Grants Coordination
 222 Third Avenue North, Suite 650
 Nashville, TN 37201

Effective July 1, 2008

APPENDIX C- OMB CIRCULAR A-102

OMB Circular A-102 is available online at:
<http://www.whitehouse.gov/omb/circulars/a102/a102.html>

APPENDIX D- OMB CIRCULAR A-110

OMB Circular A-110 is available online at:
<http://www.whitehouse.gov/omb/circulars/a110/a110.html>

APPENDIX E- OMB CIRCULAR A-122

OMB Circular A-122 is available online at:
<http://www.whitehouse.gov/omb/circulars/a122/a122.html>

APPENDIX G- OMB CIRCULAR A-133

OMB Circular A-133 is available online at:
http://www.whitehouse.gov/omb/fedreg_a133sup99-1