SEO DETAILS:

Page Title: Effective Grant Management and Proper Accounting Procedures for Nonprofits | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] notes that nonprofits of all sizes can benefit from establishing the right team and following proper accounting procedures for effective grant management.

Headline: Nonprofits Benefit from Effective Grant Management and Proper Accounting Procedures

Grants are an important part of nearly every nonprofit organization's funding structure and budget. Whether the nonprofit is new and receiving its first grants for start-up activities, or large and well-established with hundreds of multiyear grants from federal programs and private donors, grants play a critical role in the viability of each organization.

Effective grant management is a priority for nonprofits that often manage multiple grants from several sources and varying reporting requirements. The grant management process must be handled efficiently to achieve the best results.

Nonprofit leaders and their fundraising teams are concerned with questions such as:

- Do we have a clear understanding of each funder's grant requirements? How can we ensure compliance?

- Do we have the proper controls in place to effectively track the grant process and manage the distribution of funds?

- Who on our team should have responsibility for managing grant awards?

- How can we ensure that our organization fully uses these funds?

- Is our accounting system capable of efficiently and effectively managing the awards?

- Is our accounting system capable of generating effective reports for our funders on the use of grant funds?

Grant management is a process extending from pre-award planning through funding close-out and final reporting. To effectively oversee the grant process, nonprofits should incorporate the following considerations in their planning, management and accounting for grants and contributions.

Establishing the Grant Management Team

Capable nonprofits assemble a team to manage its grant management efforts. The team has accountability for the grant management process, which benefits from the multidisciplinary input from the team members who collectively understand the overall priorities and needs of the nonprofit. Limiting the grant management function to only one individual can put a nonprofit and its programs at risk for noncompliance and, potentially, the loss of current and future funding.

Members of an effective grant management team bring a deep understanding of the nonprofit's mission and operating budget, as well as an appreciation for various grant makers' areas of focus and grant budget. This knowledge includes terms and conditions of grants received, including any restrictions; control processes and procedures for managing grants; and how transactions should be coded to facilitate accuracy and completeness in grant reporting.

The grant management team typically encompasses the following roles:

- **Senior management and/or a representative from the finance committee or board of directors** – Sets agenda for pursuing grants based on the nonprofit's needs; reviews monthly or quarterly financial reports on funds received, how they were used and how they compare to the program budget.

- **Development office representatives** – Offer an understanding of the general nature of the grant and ensure compliance with grant reporting requirements. The nonprofit's grant writer may serve on the team to suggest new sources for grants and provide detailed information on funders, grant requirements and application deadlines.

- **Program and project managers** – Provide details on how funds are used at the program level; ensure grant compliance requirements are met and budgets are not exceeded.

- **Accounting and finance representative** – Ascertains the nature of the grant, grant budget and how funding can be used. Ensures compliance with grant reporting requirements and prepares reports to management and the board on grant funding status.

Supporting the Grant Management Process

The grant management team should meet periodically to review the progress of all grants and maintain accountability. Various tools can help facilitate an effective grant management process, including a grant tracking system with calendar that includes reminders and deadlines for each grant. This system should be accessible to each team member and updated on an ongoing basis to include any amendments to the initial terms and conditions to the existing grants.

The nonprofit's accounting staff must be knowledgeable, capable and trained to code grant-related expenditures. Their accounting system software should be supplemented for proper grant management recording and reporting to enable the tracking of revenue and expenses according to the grant budget. The accounting system also should be able to generate budget-to-actual variance reports to monitor differences in budgeted amounts for revenue and expenses and the organization. Nonprofit accounting teams should ensure that their charts of accounts are logically designed and that organizational and grant budgets are loaded into the accounting software.

Ensuring Proper Internal Controls Are in Place

From an accounting perspective, effective grant management is based on a system of internal controls that define responsibilities, mitigate risks and identify related reporting requirements to provide reasonable assurance that entities can achieve their operational objectives.

Key activities to establish a comprehensive set of internal controls over the management of grants and contracts include:

- **Design and implement internal controls** – Develop for each phase of an award to reduce risks and detect weaknesses. Prepare a grant accounting manual and ensure that accounting procedures in practice are consistent with documented procedures.

- **Segregation of duties** – Establish the division of responsibilities for those who prepare, review, confirm, negotiate and/or approve grants.

- **Conflict of interest policy** – Include references to conflicts of interest in grant administration policy, and define mitigation procedures when such conflicts are identified.

- **Policies and procedures** – Develop policies and procedures regarding gift acceptance, document retention, indirect cost and overhead allocation, budget development and spending plans, revenue recognition and cash management, among others.

- **Federal awards** – Document additional policies and procedures for federal awards to include sub-awards and sub-recipient monitoring, personnel changes, time and effort reporting and procurement, among others.

- **Reconciliations** – Prepare and review reconciliations between development and finance and accounting records regularly. Reconcile grant financial reports with supporting accounting records.

Financial Reporting of Grants and Contributions

Nonprofit grant management programs should follow certain principles when accounting for grants and contributions from donors:

- **Promises to give** – Nonprofit entities should recognize promises to donate only if the promise to give is unconditional. An unconditional promise to give should be recorded when received, based upon substantive evidence that a promise was made or received. Conditional promises to give are not recognized.
- **Recognizing contributions** – Contributions received are recognized as revenue in the period received, depending on whether the transaction is part of the nonprofit's essential activities. Generally, contributions made and received are recorded by both the donor and recipient at the time of the gift.
- **Conditional contributions** – If the contribution is conditional, then revenue is recognized when the condition is met. If the award does not include any conditions, the nonprofit should consider whether the award has any donor-imposed restrictions as to how the contribution may be used and recognized, and over what time period. (See ASC958-605).

Accounting for Donor-imposed Restrictions

Nonprofit entities should distinguish between contributions received with donor-imposed restrictions and those without these restrictions, as the distinction is critical for financial reporting.

- Donor-imposed conditions have one or more barriers that must be overcome, as well as a right of return to the contributor for assets transferred, or a right of release for the donor from its obligation to transfer the asset.
- When a nonprofit entity receives assets that are conditional, the asset will be accounted for as a refundable advance until all conditions are substantially met or waived by the donor.
- When determining whether a donor agreement contains a barrier, a probability assessment of whether a nonprofit can meet that specification is irrelevant. It should be presumed that a contribution containing specifications that are not clearly unconditional should be presumed to be conditional.

Handling Exchange Transactions for Financial Reporting

Many nonprofit entities treat federal grants and contracts with governmental entities as exchange transactions. Nonprofit entities should consider the facts and circumstances of each agreement in determining whether the arrangement should be treated as an exchange transaction or a contribution.

Exchange transactions involve transactions where assets are transferred and in which each party receives and surrenders commensurate value. In this case, the transaction should be accounted for as an exchange transaction by applying ASC 606 or other appropriate guidance. If commensurate value is not received, the recipient should account for the transaction as a contribution under ASC 958-605.

CLOSE:

For more information on establishing an effective grant management system, please contact [NAME] in our [DEPARTMENT] at [NUMBER/EMAIL].

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