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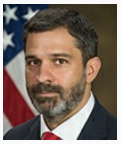

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Understanding the nuances of federal grants

By Ken Dieffenbach, CFE, CCEP

Why read this? If your organization receives, oversees, or does business with any recipients of the almost trillion dollars in annual federal grant funds, you need to understand the landscape and the inherent risks. Compliance starts with a firm grasp of the facts.

Federal grants

Federal grants are one of the most important tools of the American government. They are used to address virtually every challenge we face in our communities, including domestic violence and other crimes, healthcare, homelessness, cleaning up environmental hazards, building better transportation infrastructure, and caring for those who cannot care for themselves. Grants are also used to stimulate exciting and groundbreaking research in medicine (think: an urgently needed vaccine), physics, engineering, psychology, alternative energy, sociology, the universe, national defense, and much more.

One central component of all grants is that they are awarded for the "public good"—that is, they are intended to benefit the community at large—directly or indirectly—not an individual person or entity. These are your taxpayer dollars being spent to benefit all of us.

For context, in fiscal year 2022, the federal government directly awarded more than 500,000 grants and cooperative agreements totaling $1.1 trillion. Of that amount, some $740 million was awarded by the U.S. Department of Health & Human Services, for which over $613 million was for Centers for Medicare & Medicaid Services grants to states and territories.[1] Cooperative agreements differ from grants in that in a cooperative agreement, the government remains involved in the performance of the program. In a grant, they do not. For this article, we will use the term grant, although all the same principles and risks apply equally to cooperative agreements.

For scale, consider that pre-pandemic, the federal government annually always spent below a trillion dollars in grants; for example, in fiscal year 2019, $728 billion was disbursed as grants. The pandemic, of course, saw dramatic increases in grant funding. Specifically, the Coronavirus Aid, Relief, and Economic Security Act, the American Rescue Plan, the Infrastructure Investment and Jobs Act, the Inflation Reduction Act, and the CHIPS and Science Act made well over a trillion dollars available in new grant funding.

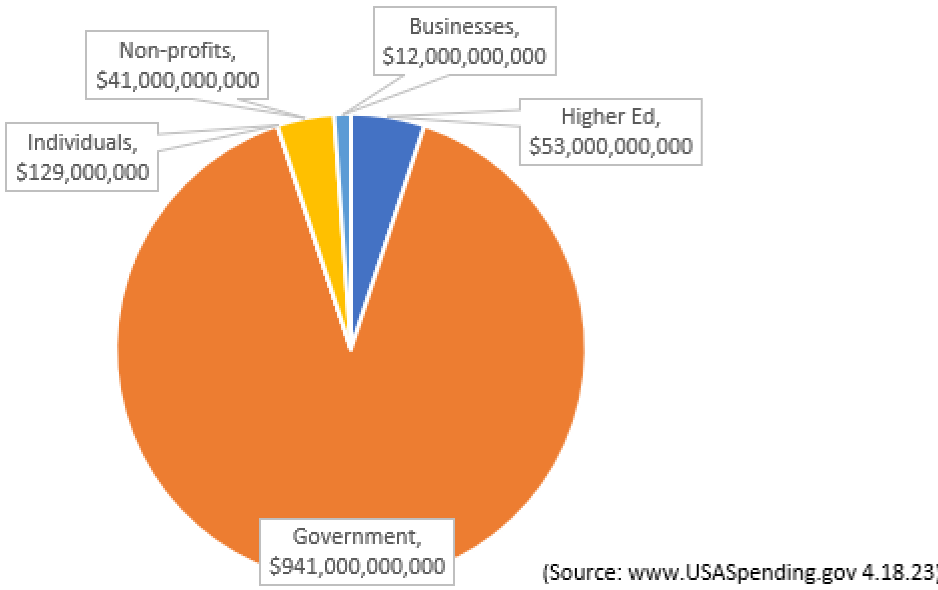
The bottom line is that grant funding positively impacts all of us, whether we realize it or not. Grant dollars improve lives, help us better understand our world, and improve society. They matter. However, there are inherent fraud and other compliance risks that compliance professionals must consider.

The grants process

The federal grants process is grounded in Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).[2] Additionally, each of the 26 federal agencies that award grants has its own financial and programmatic guides, and many have different guides for different program offices. The Uniform Grants Guidance and the agency guides provide a framework for granting agencies, applicants, and award recipients regarding allowable costs, data reporting requirements, and a wide range of other compliance issues.

Most grant dollars are awarded to units of state, local, and tribal governments who, in turn, subgrant funds to other entities. Federal agencies also make direct awards to nonprofits, for-profit entities, individuals, institutions of higher education, as well as tribes and other units of government.

Figure 1: FY 2022 federal grants by recipient type



The process to apply for and receive a grant varies by program but always involves an application, certifications that the applicant meets program criteria, and a formal award letter that requires certifications that the recipient accepts the award and will abide by the terms and conditions. Granting agencies are required to conduct pre-award risk assessments and other due diligence to mitigate the risk that taxpayer dollars might be misused.

For most programs, once an award is made, recipients gain access to funds as needed. Often called a drawdown, recipients request reimbursement for program-related expenses or immediately pending expenses such as payroll. Every dollar drawn down by a recipient should be supported by documentation at the recipient level that the claim is for a legitimate, reasonable, allowable, and allocable expense. However, granting agencies do not routinely ask to inspect these records absent an agency monitoring visit or another oversight activity.

One critical fact about federal grants is that (with one exception) they do not allow a profit. In other words, every dollar claimed by a recipient must be for a legitimate, allowable, allocable, and reasonable expense such as a rent payment, payroll, or the purchase of a good or service. Another way to look at it is that an income statement for a grant-funded activity should show zero net income. Every dollar in should go out to pay for a program-related expense. Awards related to the Small Business Innovation Research (SBIR) and Small Business Technology Transfer Research (STTR) programs typically allow for profit. This profit is outlined in the grant agreement. Some federal agencies award SBIRs and STTRs as contracts, not grants; therefore, the Federal Acquisition

Regulation, not the Uniform Guidance, applies to those awards.