

Core Principles for Managing Federal Grants

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Grants Management: Where Policy Meets Implementation

- Federal Program Landscape:
 - **Evolving policy**
 - Increased focus on school improvement, whole school reforms, and other comprehensive initiatives to improve student achievement
 - Charter schools well-positioned for this policy direction
 - **Changing legal standards**
 - ESEA Flexibility/waivers
 - Administrative flexibilities
 - **Fiscal pressures**
 - **ED and other oversight entities (SEAs/authorizers) are likely to take a closer look at how federal funds are spent in this fiscal environment**

Strategies for an Uncertain Environment

- Know the ground rules of federal grants management:
 - Federal program rules (evolving in light of ESEA Flexibility)
 - **Federal Cost Principles (OMB Circular A-87 – some confusion over what circular applies to charter schools – we will tackle this issue later)**
- In short:
 - Can your charter school describe and document the entire lifecycle of your federal program dollars?
 - Is the charter school's organization set-up in a way that makes meeting these requirements easier to deal with?
 - Given the nature of the federal program and the amount the charter school wants to spend on a cost, would a “prudent person” understand the decision to spend funds on a particular cost?

Where Do the Ground Rules Come From?

Statutes (Congress)

- General Education Provisions Act
- Program Statutes (NCLB, IDEA, Perkins)

Regulations and Circulars (ED/OMB)

- Education Department General Administrative Regulations
- Program Regulations
- OMB Circulars ([A-87](#), A-133)

Guidance (ED)

- Non-Regulatory Guidance
- Presentations, letters, fact sheets, press releases
- Emails/phone calls

Changing the Ground Rules: ESEA Flexibility

- ED waived key NCLB rules for approved states
 - Approved state applications are now a new source of “ground rules” for ESEA Flexibility states
 - Charter schools are affected by these changes—spending options will be affected particularly in charter schools that are “priority or focus” schools
- ED is also rethinking long-standing administrative rules that impact spending
 - **Important to stay up-to-date on ED’s changing guidance**
 - **EXAMPLE:** Supplement not supplant clarification

Issues to Think about BEFORE Federal Dollars are Spent

Five-step analysis for spending (simple framework-other requirements do apply)

1. Is the cost forbidden by federal laws? (such as OMB cost principles or EDGAR)
2. Is the cost permissible under the relevant federal program?
3. Is the cost consistent with the federal cost principles?
4. Is the cost consistent with program specific fiscal rules? (like supplement not supplant)
5. Is the cost consistent with the approved program plan and budget, as well as any special conditions imposed on the grant?

Which OMB Circular Applies to Charter Schools?

- There are three OMB Circulars containing cost principles:
 - A-21: Institutions of Higher Education
 - A-87: State and local governments
 - A-122: Non-profits
- While these three circulars are largely similar, there are important differences.
- A-87 is considerably more flexible than A-122 for many operational issues

Which OMB Circular Applies to Charter Schools?

- ED's OIG applies A-87 to charter schools during its audits
- ED's Office of Elementary and Secondary Education (OESE) applies A-87 to SEAs and LEAs for its grants (including Title I)
- Charter schools are eligible for federal formula program funds (like Title I, Title II, and IDEA) based on their LEA or "part of LEA" status – other non-profits are not eligible for these funds
- **CONFUSION:** ED's Public Charter School Office cited to A-122 in its 2011 PCSP guidance
 - Non-regulatory guidance does not have the force of law
 - In the end, both A-122 and A-87 require spending to be necessary and reasonable (i.e. ED's PCSP guidance could be a typo)
 - This presentation uses A-87 as the relevant standard – though the concepts discussed here are present in both A-87 and A-122

What is A-87 and Why Should I Care?

- A-87 establishes the cost principles for state and local governments – including what an organization:
 - Cannot do (e.g. no alcohol)
 - Must do (e.g. keep time and effort records if paying staff with federal funds)
 - Might be able to do (e.g. spend money on a certain cost, like a conference or books)

Why does A-87 matter so much to federal education programs?

- Because it establishes the federal government's ground rule expectations for how federal funds should be managed and spent
- A-87 has the force of regulation (through EDGAR)
- A-87 provides a framework that helps organizations establish a link between the expenditure and the federal program's purpose
- Meeting A-87's requirements – and more importantly good program delivery – requires robust systems across the organization

System Failures Hinder Program Success

- OIG Management Information Report, *Fiscal Issues Reported in ED-OIG Work Related to LEAs and SEAs* (July 21, 2009)
- Identified “pervasive **fiscal issues**” that affected **program implementation**
 - Failure to meet program objectives
 - Failure to demonstrate compliance with program requirements
 - Serving ineligible students
 - Unallowable/inadequately documented costs
- **Fiscal and administrative issues can be the critical (and often overlooked) link to program success or failure— charter schools under increased scrutiny**

Proper Spending of Federal Funds Requires the Entire Charter School Organization

- Academic staff
 - Grants Management/Federal programs staff
 - Procurement staff
 - Inventory management staff
 - Financial Management staff
 - Facilities/plant staff
 - Legal staff
 - Payroll staff
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- All of these players are critical for good program delivery to students (and for audit protection)
 - This can be a challenge for charter schools because of limited administrative staff and/or contracted service providers
 - **However, the smaller size of charter schools can be an advantage in explaining spending decisions and tracing how money was spent**

First hurdle. Know what you can't do.

A-87 generally says that federal funds may not be used for:

- Advertising and public relations costs (with limited exceptions), including promotional items and memorabilia, such as models, gifts and souvenirs (**CAUTION: school promotional materials typically not allowed**)
- Alcoholic beverages
- Bad debts
- Contingency provisions (with limited exceptions)
- Donations and contributions
- Entertainment costs (**CAUTION: important in the context of field trips and parental involvement activities**)
- Fines and penalties (with limited exceptions)
- Fundraising and investment management costs (with limited exceptions)
- General government expenses (with limited exceptions pertaining to Indian tribal governments and Councils of Governments (COGs))
- Goods or services for personal use
- Lobbying
- Selling and marketing costs (with limited exceptions)

Second hurdle. Figuring out what you can do.

- Under A-87, all costs charged to federal funds must be:
 - **Necessary** for the performance or administration of the grant
 - **Reasonable** in light of the goals of the federal programs, the cost of the item, and the needs of the district
 - **Allocable**, meaning the cost benefits the grant in proportion to the amount charged
 - **Authorized** under state and local laws, policies and procedures
 - **Adequately documented**

TIP: The entire organization needs to be aware of these rules, and/or controls need to be in place to make sure they are followed.

Practical Considerations for “Necessary and Reasonable”

- Is it clear how the proposed cost relates to a valid educational or administrative decision?
- Does the cost make sense in light of the federal program’s requirements?
 - Will the cost advance the purpose of the federal program? For Title I - is it consistent with the school’s program design (targeted assistance or schoolwide)? Does it serve eligible students?
 - Does the cost comply with program fiscal rules (like supplement, not supplant?)
 - Do the school know how to use the item or position? Does the school have the capacity to use it (e.g. electrical capacity for computers/AV)? Can school staff explain how the item will advance the federal program?
 - Would the public understand the cost?
 - Is there data/research/best practices that justify the cost?

Practical Considerations for “Necessary and Reasonable”

- Does the cost (goods) make sense in light of market conditions? (think procurement)
- Does the cost (personnel) make sense in light of compensation for other personnel?
- Does the cost make sense in light of what school currently has on hand? (think inventory)
- Can the charter school easily document federal program expenditures?

Practical Considerations for “Allocable”

- Will the proposed cost benefit the program and in what amount?
- What controls need to be in place to ensure the federal program receives the benefit it paid for?
 - Time and effort records?
 - Inventory management?
 - Use controls (passwords? Sign-out sheets?)
- Will my systems and paperwork provide evidence of the relative benefits of the cost?

Practical Considerations for “Authorized”

- What state/local rules or policies govern the proposed cost?
 - This can be particularly challenging for charter schools because state and local laws are often vague as to what does and does not apply to charters (i.e. procurement, staffing requirements, etc.)
- Are all applicable state/local rules or policies being followed?
- Can my systems and paperwork provide evidence of compliance with applicable state/local rules or policies?

Practical Considerations for “Adequately Documented”

- What documentation do I need to demonstrate the charter school’s decision-making?
- Can documentation be easily/quickly provided?
- Is there a central place for documentation? If not, can all the parts of the charter school provide documentation relative to their work?

Practical Considerations for Adequately Documented (cont.)

- **Adequate documentation includes, but is not limited to:**
 - Needs assessment/project planning decisions
 - Formal application process and decisions (where appropriate)
 - Grant award
 - Project performance
 - Eligibility
 - Evidence of participation
 - Program changes
 - Procurement records
 - Inventory records
 - Payroll records
 - Financial records
 - Evaluation (where appropriate)
 - “Other records to facilitate an effective audit”

On the Horizon

- Increasing attention to the impact administrative rules have on program delivery
- Two initiatives to keep an eye on:
 - ED time and effort pilot
 - <http://www2.ed.gov/policy/fund/guid/gposbul/time-and-effort-reporting.html>
 - OMB grant reform proposals
 - Fed Ed comments:
http://www.fededgroup.com/uploads/Joint_FedEdGroup_STGMassInsight_comments_OMB_Federal_Grant_Reform_4_24_2012.pdf

Key takeaway: It is critically important for charter schools to engage– it could make your life easier

Resources

- OMB Circular A-87:
http://www.whitehouse.gov/omb/circulars_a087_2004/
- OMB Circular A-133 Compliance Supplement:
http://www.whitehouse.gov/omb/circulars_a133_compliance_09toc/
- Education Department General Administrative Regulations:
<http://www.ed.gov/policy/fund/reg/edgarReg/edgar.html>

Resources

- AGA Risk Assessment Monitoring Tool: <http://www.agacgfm.org/intergovernmental/downloads/riskassessmentmonitoringtool.pdf>
- AGA Financial and Administrative Monitoring Tool: <http://www.agacgfm.org/intergovernmental/downloads/financialadministrativemonitoringtool.pdf>
- ESEA Flexibility: <http://www.ed.gov/esea/flexibility>

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