

## Financial Management and Accounting

**Effective Date:** 07/01/2017

### Responsibility

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Financial management systems must meet the following standards:

- **Financial reporting.** Accurate, current and complete disclosure of the financial results of grant supported activities.
- **Accounting Records.** Adequate identification of the source and application of funds for grant-funded activities. Records must contain information about the grant award and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income.
- **Budget Control.** Actual expenditures must be compared with budgeted amounts.
- **Commingling of Funds.** Federal (and state) agencies do not require physical segregation of cash deposits. However, funds specifically budgeted and/or received for one project may not be used to support another. Where an accounting system cannot comply with this requirement, the grantee shall establish a system to provide adequate fund accountability for each project where grant funds have been awarded.
- **Internal Control.** Effective control and accountability must be maintained for all grant cash, real and personal property and other assets to ensure that all such property is safeguarded and used solely for authorized purposes. A sound internal control system will also verify the accuracy of accounting information, promote operational efficiency and encourage adherence to management policies and generally accepted accounting principles and have written policies and procedures governing accounting/financial management operations.
- **Accounting Basis.** Two accounting methods for recording financial operations are acceptable: cash basis or accrual basis. Cash basis accounting recognizes income when actually received and expenses when actually paid. Accrual basis accounting recognizes income when measurable and expenses when the obligations are incurred, although not yet paid. Grantees must be consistent and cannot switch between cash and accrual during the contract period.

Grantees that use cash basis accounting are able to claim expenses incurred prior to the end of the contract period, but not yet paid until after the end date in a manner similar to agencies which use accrual basis accounting. The grantee must be able to prove that the expense(s) was incurred and obligation(s) created prior to the end of the contract. Acceptable documentation would be written invoices, work orders, etc. which show the actual date that the expense was incurred.

In addition to maintaining an adequate accounting/financial management system, grantees are responsible for promptly reporting any circumstances surrounding any financial irregularities discovered or suspected. Failure to report known irregularities may result in termination of the grant contract and/or other action on the part of BWSR.

### Grant Program Income

Program-related income is defined as gross income earned by the recipient during the funding period as a direct result of the award. Records of the receipt and disposition/disbursement of program-related income must be maintained by the grantee in the same manner as required for grant funds that give rise to the income. This procedure is applicable to any funds received on or after July 1, 2011.

- **Interest Earned on Program Income.** If program income is maintained in an interest bearing account you must include the interest earned as program income.
- **Use of Program Income.** Program income must be used for the purposes and under the conditions applicable to the grant. Program income may be used to supplement project costs or reduce project costs or may be returned to BWSR. Program income may only be used for allowable program costs.
- **Addition Method of Handling Program Income.** Program income shall be added to the funds committed in the agreement. The program income shall be used as earned to expand the project, continue the project or obtain equipment or other assets needed for the project
- **Program Income in the Event of a Canceled Grant.** In the event an entire grant is canceled and if program income is maintained in an interest bearing account, you must include the interest earned with funds returned. Program income from a grant where the project is complete and a portion of funds are returned, i.e. the project came in under budget, should be included in calculating the amount of funds to be returned.

### History

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Description of revisions	Date
Revised format; no text changes.	7/1/2017