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FEDERAL FINANCIAL ASSISTANCE

- I. AUTHORITY - OMB Circular A-87, A-133; 45 CFR Part 92; 31 CFR Part 205; A.R.S. § 35-131, § 35-142.H, § 41-722.

II. GENERAL

A Federal grant is an award of financial assistance in the form of money, or property in lieu of money, by the Federal government to an eligible partner (grantee).

Generally, there are two (2) main types of federal grants. The first is the block grant. A block grant covers a wide variety of activities with broad functional areas. This type of grant allows the State to control, to some degree, how the grant funds are expended. The other type of Federal grant is the categorical grant. This grant type is given for a specified program that has narrowly defined activities associated with it. There is minimum flexibility with this type of grant. Your agency may have a specific type of grant within a block or categorical grant. If you have questions regarding the specific type of grant, contact your cognizant agency or the granting agency.

The primary focus of this policy is Federal grants. Other types of Federal financial assistance may be in the form loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but to not include direct Federal cash payments to individuals, i.e.; Social Security Payments. Federal financial assistance includes awards received directly from Federal agencies or indirectly from pass-thru entities. (OMB Circular A-133 Sec. __.105). If your agency receives any Federal financial assistance, other than a Federal Grant, contact the General Accounting Office (GAO) regarding the applicable policies and procedures.

III. DEFINITIONS

- A. Arizona Financial Information System (AFIS) - the automated financial and accounting information system of the State of Arizona.
- B. Block Grant - a block grant covers a wide variety of activities with broad functional areas. This type of grant allows the State to control, to some degree, how the grant funds are expended.
- C. Cash Management Improvement Act (CMIA) - rules and procedures prescribed for the transfer of funds between the Federal Government and the States for Federal grants and other programs (31 CFR Part 205; 45 CFR Part 92, Uniform Administrative Requirements for Grants and Cooperative Agreements).
- D. Categorical Grant - a categorical grant is given for a specified program that has narrowly defined activities associated with it. This type of grant has minimal flexibility.
- E. Catalog of Federal Domestic Assistance (CFDA) - Federal grants are identified by the CFDA that assigns a CFDA number to all Federal grants and provides a detailed



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description of each grant. The CFDA number is a five digit number formatted as follows: XX.XXX. The first two digits identify what Federal agency has awarded the grant. The three digits following the decimal are unique to each separate Federal grant issued by a specific Federal agency.

- F. CFR - *Code of Federal Regulations*
- G. Cognizant Agency - the Federal agency assigned by the Office of Management and Budget to carry out the oversight responsibilities enumerated in OMB Circular A-133, Sec. __.400 (a). The cognizant agency is usually the Federal agency that provides the most Federal financial assistance for your agency. The cognizant agency for the State of Arizona as an entity is the United States (US) Department of Health and Human Services (HHS). The cognizant agency for your specific agency may differ.
- H. Contractor (Vendor) - an entity that receives a procurement contract for goods or services from a grantee that will be paid for from Federal financial assistance. (OMB Circular A-133 Sec. __.210.)
- I. Federal Financial Assistance - assistance provided by a Federal agency in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations, but does not include direct Federal cash assistance to individuals. It includes awards received directly from Federal agencies, or indirectly through other units of State and local governments (OMB Circular A-133 Sec. __.105.)
- J. Federal Grant - an award of financial assistance, including cooperative agreements, in the form of money, or property in lieu of money, by the Federal Government to an eligible grantee. The term does not include technical assistance that provides services instead of money, or other assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, food commodities, vouchers, insurance or direct appropriations. Also, the term does not include assistance, such as a fellowship or other lump sum award, which the grantee is not required to account for (45 CFR Part 92).
- K. GAO – the General Accounting Office within the Arizona Department of Administration, Financial Services Division. The GAO is responsible for overseeing the accounting functions for all the State agencies.
- L. Grant Agreement - contractual document between the State and Federal government that specifies terms and conditions of the grant, generally including administrative, program, accounting, reporting and close-out requirements.
- M. Grantor - the entity that awards the grant and to which the grantee is accountable for use of the funds.
- N. Grantee - see Prime Recipient.



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- O. Indirect Cost Rate Proposal - documentation prepared by a governmental unit to substantiate its request for the establishment of an indirect cost rate.
- P. Internal Controls - all methods adopted by a grantee to safeguard its assets and ensure the reliability of accounting data and compliance with Federal, State and local laws, management policies, and grant terms and conditions. Internal controls are an integral part of grant management.
- Q. Interagency Service Agreements (ISA) - a contractual agreement between two or more units within one distinct legal entity, i.e., two or more State agencies within the State of Arizona.
- R. Inter-Governmental Agreement (IGA) - a contractual agreement between two or more legally distinct governmental entities, i.e., the State of Arizona and the City of Phoenix.
- S. Major Federal Assistance Program - a major Federal assistance program is defined by the actual expenditures made by the State for a fiscal year. These programs are labeled Type A programs. For states having Federal Expenditures of more than \$100 million, but less than or equal to \$10 Billion, the threshold is calculated as \$3 million or three-tenths of one percent (.003) of the total Federal awards expended. For fiscal year 1999, the State of Arizona expended approximately \$3.8 billion in Federal financial assistance. Therefore, the threshold for a Type A program in fiscal year 1999 was \$11,630,429. Refer to the table under PROCEDURES A.12 for the criteria for a major Federal assistance program.
- T. Non-Major Federal Assistance Program - any Federal assistance program that does not meet the requirements of a major Federal assistance program. Refer to the table under PROCEDURES A.12 for the criteria of a major Federal assistance program.
- U. OMB - the United States Office of Management and Budget.
- V. Prime Recipient (Grantee) - the entity to which a grant is awarded and that is accountable for the use of the funds provided. The prime recipient is the entire legal entity even if only a particular component of the entity is designated in the grant award document (45 CFR Part 92.3).
- W. Schedule of Federal Financial Assistance (SFFA) - reports total expenditures for each Federal financial assistance program as identified in the *Catalog of Federal Financial Assistance* (CFDA). The SFFA is prepared annually by the General Accounting Office. It is subsequently audited and published by the Arizona Office of the Auditor General within the report titled "Single Audit Reporting Package."
- X. Statewide Cost Allocation Plan (SWCAP) - the documentation identifying, accumulating, and allocating the State's central service costs (based on allowable costs of services provided to the departments and agencies of State government.)



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Y. Subgrant - an award of financial assistance in the form of money, or property in lieu of money, made under a grant by a grantee to an eligible subgrantee. The term includes financial assistance when provided by a contractual legal agreement, but does not include procurement purchases, nor does it include any form of assistance that is excluded from the definition of grant above (45 CFR Part 92.3).

Z. Subgrantee - see subrecipient.

AA. Subrecipient (Subgrantee) - the government or other legal entity to which a subgrant is awarded and that is accountable to the prime recipient for the use of the funds provided (45 CFR Part 92.3).

BB. Treasury-State Agreement – an annual agreement between the State of Arizona and the United States (US) Department of the Treasury Financial Management Service (FMS) to set forth terms and conditions for implementing Subpart A of 31 part 205, a.k.a. CMIA (45 CFR Part 92). As of the effective date of this policy, agencies with programs exceeding \$11.6 million of expenditures are included in the TSA. Agencies included in the TSA must comply with the terms set forth or face possible interest penalties. Refer to PROCEDURES A.13 for further details.

CC. Vendor - see Contractor.

IV. POLICIES

A. Contact the specific Federal cognizant agency for your agency and/or grantor agency with questions regarding Federal grants. The cognizant agency for the State of Arizona as an entity is the US Department of Health and Human Services. The GAO is also available to discuss Federal grant issues.

B. Negotiations involving Federal grants that impact multiple agencies and/or multiple grants are considered Statewide and must be communicated to the GAO.

C. Any agency receiving Federal financial assistance must ensure that the expenditure of funds complies with all applicable Federal requirements. The recipient should also consider guidance from the grantor agency. In general, when there are multiple sources of Federal requirements, the most specific requirement should be followed.

D. Compliance with the Federal Cash Management Improvement Act (CMIA) requires that "cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of any allowable indirect costs."



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Note: Documentation must be available to support all requested Federal cash amounts. Unsubstantiated requests for Federal funds are not allowable. Refer to PROCEDURES A.12., Cash Management Improvement Act, for further information.

- F. All "major" Federal financial assistance programs must be coordinated through the GAO and included in the CMIA Treasury-State Agreement, which includes the methodology to be used for drawing in Federal assistance. For a description of what constitutes a major Federal assistance program, refer to PROCEDURES A.12.
- G. In order to account for any potential Federal interest liability due to the State of Arizona, all State agencies requesting funds from the Federal government for programs covered under the TSA must comply with the reporting of any late Federal funding, refer to PROCEDURES A.15.
- H. An indirect cost rate is a means for determining, in a reasonable manner, the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base. Several types of indirect cost rates are as follows:
- Provisional Rate - a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on Federal awards pending the establishment of a "final" rate for that period.
 - Final Rate - an indirect cost rate applicable to a specified past period which is based on the actual allowable costs of the period. A final audited rate is not subject to adjustment.
 - Predetermined Fixed Rate - a rate applicable to a grant which may be negotiated annually in situations where (a) the cost experience and other pertinent facts available are deemed sufficient to enable the parties to reach informed judgments as to the probable level of indirect costs in the grantee's department during the period to be covered, and (b) that the amount allowable under the predetermined rate would not exceed actual indirect costs.
 - Fixed Rate with Carry Forward - an indirect cost rate which has the same characteristics as a predetermined rate except that the difference between the estimated costs and the actual allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.
 - The Federal cognizant agency may also approve a unique methodology for the distribution of indirect costs by the grantee.

In most instances, the preferred rate is the Fixed with Carry Forward because it allows the grantee to adjust future rates as a means of recovering the difference between estimated costs (used to establish the rate) and actual costs for the period. Grantees should use the Fixed with Carry Forward indirect rate whenever possible.



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- I. All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal (OMB Circular A-87, attachment E, D). An indirect cost rate proposal is the documentation prepared by a governmental unit to substantiate its request for the establishment of an indirect cost rate. Each indirect cost rate proposal should include those costs to the agency through the Statewide Cost Allocation Plan (SWCAP).

The SWCAP is documentation identifying, accumulating and allocating the State's central service costs (based on allowable costs of service provided to the departments and agencies of State government.) The SWCAP is prepared annually by the GAO and must be approved by the State's Federal cognizant agency. Upon Federal approval, the SWCAP is distributed to State agencies receiving Federal funds.

Submit the indirect cost rate proposal to your agency's specific cognizant agency for approval. Send a copy of the approved proposal to the GAO, attention Fund Accounting.

- J. All Federal financial reports must be accurately prepared and submitted to the appropriate Federal agency(s) in a timely manner. All supporting documentation should be maintained for Federal/State review in compliance with the appropriate retention requirements. The prime recipient is responsible for ensuring that all subrecipients comply with applicable reporting requirements and record retention requirements. For further information, refer to the applicable OMB Circulars (see PROCEDURES A.16.), grant agreements and CFRs.
- K. All Federal grants must be set up in AFIS with a grant category, grant type, grantor, grant number and grant phase. The grant category will be the CFDA number assigned to the Federal grant received. Refer to AFIS PROCEDURES (V.C.) for more information on setting up Federal grants in AFIS.
- L. All Federal grant transactions in AFIS will be processed using the correct grant number.
- M. All Federal grant transactions to record the receipt of funds will use one of the comptroller objects listed in PROCEDURES B.1.
- N. When charging for space to any Federal grant, use actual rent paid as the base only when the agency is in privately leased space. For instances where space is not privately leased, refer to PROCEDURES B.2.
- O. All transactions using Federal dollars must be processed through fund 2000 (Federal Grants Fund). Exceptions must be approved by and communicated to GAO.



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- P. Indirect Costs recovered through negotiated Indirect Cost agreements must be processed through fund 9000 (Indirect Costs Recovery Fund).
- Q. The composition of monies received from any entity must be identified upon receipt and properly accounted for in AFIS. Monies received may be completely Federal, part Federal and part State, entirely State, or some other combination regardless of the entity from which the money is directly received.
- R. For accounting and compliance purposes, a prime recipient making distributions of Federal financial assistance to third parties must determine whether each third party is a subrecipient or a contractor.
- A subrecipient's responsibility is to help the prime recipient meet the requirements of the Federal financial assistance award received. A subrecipient receives a pass-through of Federal monies from the prime recipient to perform its responsibilities under the grant agreement and will be required to comply with specified grant requirements.
 - A contractor's responsibility is to meet the requirements of the procurement contract. The contractor will receive a payment for services rendered from the Federal financial assistance received and may not be subject to specific grant requirements.

For assistance in making this determination, refer to the following OMB circulars: Circular A-102;, Circular A-110 and Circular A-133. If you have any question regarding the type of relationship, contact your GAO Liaison. Either relationship requires the existence of an ISA, IGA or contractual agreement that specifies the following:

- The type of relationship (subrecipient or contractor);
- Compliance requirements;
- Name of the Federal Financial Assistance;
- Federal CFDA number;
- Amount of Federal Financial Assistance being distributed to the subrecipient or contractor.

Note; If the receiving entity is another state agency the CFDP number is to be used in the receiving agency's grant profile set-up only when the receiving agency is in the subrecipient capacity.

- S. Prime recipients are required to establish a system to assure that audits of the subrecipients meet the requirements of OMB Circular A-133 (Sec. __.400 (d)). This system should include the following:
- Identify Federal awards made by informing each subrecipient of the CFDA title and number, award name an number, award year, if the award is R&D, and name



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of Federal agency. If some of this information is not available, the pass-thru entity shall provide the best information available to describe the Federal award.

- Advise subrecipient of requirements imposed on them by Federal laws, regulations, and the provision of contracts or grant agreements, as well as any supplemental requirements imposed by the pass-thru entity.
- Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes, are in compliance with laws, regulations, and the provisions o contracts or grant agreements and that performance goals are achieved.
- Ensure that subrecipients expending \$300,00 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- Issue a management decision on the audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- Consider whether subrecipient audits necessitate adjustment of the pass-thru entity's own records.
- Require each subrecipient to permit the passs-thru entit and auditors to have access to the records and financial statements as necessary for te hpass-thru entity to comply with these requirements.

- T. Warrants should be redeemed within a reasonable time period, i.e., 30 days. Under CMIA, the cash is considered held by the State until the warrant is redeemed, not when the warrant is issued. Each agency should monitor outstanding warrants on a periodic basis and assess the need to perform follow-up procedures on warrants outstanding for an excessive period of time. Follow-up procedures may include contacting the contractor/vendor to whom the warrant was issued to determine if the warrant was, in fact, received. Although this is not intended to be a labor-intensive process, it is important to minimize the State's interest liability and potential noncompliance.

Note: Research all outstanding warrants before the grant is closed. Follow the procedures associated with the grant for dealing with cash on hand as a result of canceled or expired warrants.

- U. Grantees and subgrantees are required to maintain an internal control structure that provides reasonable assurance that Federal assistance programs are managed in compliance with applicable laws and regulations.
- P. All Federal financial assistance recipients within the reporting entity of the State will be covered by the Statewide Audit. Only the Statewide Audit Reporting Package will be submitted to the Federal Clearinghouse. Contract audits of State agencies are not submitted to the Clearinghouse.



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A State agency receiving Federal funds as a subrecipient from an entity other than the Federal government or another State agency, is responsible for sending any necessary information to the pass-thru entity after the Single Audit is completed (OMB Circular A-133 Sec __.105).

V. PROCEDURES

A. GENERAL

Federal financial assistance covers virtually all forms of assistance that the Federal government can provide. The largest component of Federal financial assistance at the State level is the Federal grant. Other types of Federal financial assistance include contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, food commodities, vouchers, insurance, or direct appropriations, but it does not include direct Federal cash payments to individuals, i.e., Social Security payments. It includes awards received directly from Federal agencies, or indirectly through other units of State and local governments (OMB Circular A-133 Sec __.105).

1. Verify that Your Agency has the Statutory Authority to Receive Federal Funds - consult the most current publication of the *Arizona Revised Statutes*.
2. Obtain Knowledge of Federal Funds Available to the State.
 - a. *Catalog of Federal Domestic Assistance* (CFDA) - Federal grants are identified by the CFDA that assigns a CFDA number to all Federal grants and provides a detailed description of each grant. The CFDA number is a five digit number formatted as follows: XX.XXX. The first two digits identify what Federal agency has awarded the grant. The three digits following the decimal are unique to each separate Federal grant issued by a specific Federal agency.
 - b. Regional Headquarters - Usually, Regional Headquarters is the liaison between State agencies and Washington, DC. It provides pertinent information regarding Federal grant issues, including availability of Federal grants. Contact your cognizant agency for the location of the applicable Regional Headquarters.
3. Perform an Analysis of the Reasonableness of Applying for Funds – Ask the following questions:
 - What are the grant requirements?
 - Can the requirements be met?
 - Are the requirements compatible with State and agency goals?
 - Is the Federal assistance cost effective for the agency?



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- Is adequate consideration given in terms of the administrative burden and the impact of administrative and indirect costs?
 - If the grant is on a reimbursement basis, does the agency have sufficient resources for cash flow requirements?
4. Notification, Review, and Acceptance of Award - Once a grant application has been approved, the grant recipient is notified of the award via an award letter. Subsequent to the award letter, the grant recipient receives the grant agreement that is the contractual document between the State and Federal government. This agreement usually specifies the terms and conditions of the grant, including administration, accounting, reporting, and close-out requirements.
- Review the grant award to ensure the accuracy of the information provided. The award letter may include the following: CFDA number; grantor (Federal agency); amount and type of award; any unique mandates; method of transmitting funds; matching, accounting, and reporting requirements; budget restrictions; benefit period and grant closing date; Federal and State contact persons; proper signature.
- Accept the grant award, contract or agreement by signing and returning it to the awarding agency as applicable. Notify the single point of contact of the award.
5. Grant Set-Up in AFIS - Refer to the AFIS PROCEDURES section of this document.
6. Requests for Grant Funds - The Department of the Treasury has established several methods with which to advance grant funds to grantees. The award letter should indicate which method(s) may be used for a particular grant. Some of the common methods, and when they apply, are as follows
- a. Direct Treasury Check Method - Annual advance to grantee is less than \$120,000, or when there is not expected to be a continuing relationship between the Federal agency and the grantee for more than one year.
 - b. Electronic Funds Transfer (EFT) - Principal payment method for all Federal payments due to lower processing costs as compared with the costs of using Treasury checks and the Treasury Financial Communication System (TFCS).
 - c. Automated Clearinghouse (ACH) - Replaces paper checks with an electronic payment system that credits the grantee's account through the grantee's local financial institution.
 - d. FedWire - Federal agencies can make payment by special wire transfer. This is also a system used by the State Treasurer's Office for payment to the Federal government.



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- e. Automated Standard Application Payments (ASAP) - An all-electronic payment and information system that provides the recipient with same day and next day, payment capability.
 - f. Letter of Credit (LOC) - Those Federal agencies that have not yet converted their payment systems to EFT continue to pay grantees using a letter of credit established with the United States Treasury disbursing centers.
 - g. Letter of Credit-Treasury Financial Communication System (LOC-TFCS) - Electronic transfer system that allows for a guaranteed response time for the grantee and allows Federal agencies to pre-audit funds requested.
 - h. Treasury Financial Communications System (TFCS) - Electronic link between the Treasury, Federal Reserve Banks and commercial banks that allows the grantee to request funds which will be credited to the grantee's account by its local financial institution.
 - i. Electronic Benefits Transfer (EBT) - An automated means for distributing financial assistance to individuals. The EBT system uses electronic funds transfer, point-of-sale and card access technologies for the delivery of benefits. This financial distribution method can be used to replace manual processes such as the issuance of food stamps or warrants to qualifying recipients.
7. Disbursements - For proper handling of disbursements, please refer to the following: the DISBURSEMENTS section (II-H) of the *State of Arizona Accounting Manual*, and the ACCOUNTING and AFIS PROCEDURES sections of this document. Contact your agency's Federal cognizant agency if it is necessary to return Federal grant monies. Also consult the following Federal publications for more information:
- The applicable common rule governs the administration of grants. For purposes of the Federal grants covered under these Federal grant policies and procedures, the common rule used falls under the Arizona cognizant agency, the United States Department of Health and Human Services
 - OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations*.
 - Department of the Treasury Circular 1075, *Withdrawal of Cash from the Treasury for Advances Under Federal Grant and Other Programs*.
 - Treasury Department regulations (31 CFR Part 205) implementing the 1990 Cash Management Improvement Act.



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- Treasury Fiscal Requirements Manual, Part 6. This directive is updated regularly to reflect changes in Treasury requirements and technology.
- Comptroller General's Decision No. B-147642, dated Dec. 11, 1961, concerning advance payments under scientific grants, 41 Comp. Gen. 394.
- The Federal Grant Cooperative Agreement Act of 1977, P.L. 95-224, dated Feb. 3, 1978.
- Any other OMB Circulars pertaining to the administration of Federal grants, including those listed in PROCEDURES A.16., of this document.

8. Grant Requirements - The sources of all requirements that govern all Federal grants received are as follows:

- United States Constitution
- Statutes of General Applicability
- Grant Enabling Statutes
- OMB and Treasury Department Circulars
- Agency-wide Regulations
- Grant Agencies Program Regulations
- Grant Agreement

In addition, the *Compliance Supplement for Single Audits of State and Local Governments* and the *Compliance Supplement for Single Audits of Higher Learning and Other Nonprofit Institutions* are documents that set forth the major compliance requirements (i.e., general requirements and grant specific requirements) which should be considered in an organization-wide audit of State and local governments, universities and other nonprofit institutions that receive Federal financial assistance. These documents, although prepared for auditors, may serve as an excellent tool for your agency as they capture all compliance requirements for assistance programs as required by national statute, Executive orders, Code of Federal Regulations, OMB Circulars and other authoritative sources.

The general requirements, which must be followed by any entity receiving Federal funds, include the Davis Bacon Act, eligibility, cash management, relocation assistance and real property acquisition, equipment and real property management, matching, level of effort, earmarking, period of availability of Federal funds, procurement and suspension and debarment, program income, subrecipient monitoring, Federal financial reports, allowable cost/cost principles, an administrative requirements.

Each grant may have more than one source of Federal requirements applicable to it. The State may also impose requirements on the use of Federal Grants that may be more restrictive than the Federal requirements. In general, the most specific requirement is the one with which to comply. Some requirements are



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established that are applicable to all Federal grants. The Common Rule For Uniform Administrative Requirements For Grants And Cooperative Agreements To State and Local Governments sets standards applicable to the administration of Federal grants.

- 9. Allowable Costs – All recipients of Federal financial assistance are responsible or understanding the nature of allowable costs as specified in the grant agreement. Disallowed costs must be communicated to the GAO and properly resolved.
- 10. Single Audit Act - The Single Audit Act of 1984, as amended, requires that all Federal fund recipients have an independent audit completed for their entity. The GAO is responsible for preparing the Comprehensive Annual Financial Report (CAFR) and coordinating the statewide audit. The Auditor General conducts the annual Single Audit on the State of Arizona as a single entity. The type of audit requirements depends on the total general revenue sharing funds expended by an entity and are as follows:

Total Grant Expenditures	Audit Requirements
>=\$300,000	Audit in accordance with OMB Circular A-133
<\$300,000	EXEMPT from audit requirements of OMB Circular A-133

Beginning with all fiscal years starting after June 30, 1996, every State and Local Government must comply with the audit requirements of Office of Management Budget (OMB) Circular A-133. OMB A-133 requires submission of the Single Audit of the Federal Clearinghouse by nine months after the end of the audit period. For the State of Arizona, the due date is March 31. In order to meet this deadline, the GAO will need the full cooperation of the State agencies to hit target deadlines for information requested for the CAFR and the statewide audit.

December 31, 1984, all State and Local Governments must comply with the audit requirements of Office of Management and Budget (OMB) Circular A-128.

- 11. Definition of Major Federal Assistance Program - A major Federal assistance program is defined by the actual expenditures made by the State for a fiscal year. Under OMB A-133 these programs are called Type A programs. The following criteria apply for determine Type A programs. (OMB Circular A-133);

Total Statewide Expenditures of Federal Financial Assistance for All Statewide Programs.		Major Federal (Type A) assistance program means any program that exceeds (Statewide):
More than:	But less than or equal to:	
\$300 thousand	\$100 million	\$300,000 or .03 of total Federal Awards Expended



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\$100 million	\$10 billion	\$3 million or .03 of total Federal Awards Expended
Over \$10 billion		\$30 million or .0015 of total Federal Awards Expended

Any Federal assistance program that does not meet the criteria for a major Federal assistance program is considered a non-major (Type B) Federal assistance program.

12. Cash Management Improvement Act - The *Federal Register*, 31 CFR Part 205 contains rules and procedures for the transfer of funds between the Federal Government and the State in accordance with the Cash Management Improvement Act of 1990 (CMIA).

Program-specific guidelines have been established for major Federal programs to ensure equity in the transfer of Federal funds. The GAO is responsible for coordinating compliance with CMIA and should be contacted with any related questions.

In general, CMIA applies to all Federal grants. "Major" Federal grants are specifically covered under Subpart A of 31 CFR Part 205 of the CMIA (see PROCEDURES A.12.). For these programs, the State must enter into an agreement with the United States Department of the Treasury regarding how the grant proceeds will be requested by the State. Any non-compliance with approved funding techniques or the use of pre-issuance funding will result in an interest liability to the State.

If an interest liability is incurred due to a State agency varying from the established policies and procedures, the ADOA shall charge the appropriate agency's account operating budget. Interest payment charges to the agencies shall be reported by the ADOA to the Joint Legislative Budget Committee (JLBC) on or before March 1 (A.R.S. § 35-142.H.).

Subpart B of 31 CFR Part 205 covers all programs in the CFDA that are not subject to specific CMIA requirements. It states that "Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of any allowable indirect costs".

Note: Documentation must be available to support all requested Federal cash amounts. Unsubstantiated requests for Federal funds are not allowable



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(This version includes the revisions to pages 15 and 16 dated 7/1/01)

- 13. Transfers – The state agency initiating the interagency transfer should prepare an interagency transfer form (GAO-514 or GAO-6140 so that it is received by the second State agency at least one day prior to the anticipated actual Federal funds receipt date. This will give all departments involved sufficient time to complete the transfer and forwards it to the GAO by the “Effective Date” on the transfer and to reduce or eliminate the possibility of State interest liability charges.

The “Effective Date” o the interagency transfer document shall be the anticipated actual Federal funds receipt date.

The state agency preparing the interagency transfer form shall identify the form as CMIS-related by distinctly writing “CMIA – PROCESS IMMEDIATELY” at the top of the transfer document. All transfers bearing this heading are considered very high priority and should be processed immediately by all departments involved.

The interagency transfer document must be delivered to the GAO by 1:00 p.m. on the day that the Federal funds are received. Failure to do so may result in the State agency paying an interest penalty to the Federal government out its operation budget.

The State agency receiving Federal funds directly fro the Federal government must coordinate efforts with the agency to which they are passing the Federal funds (the pass-thru agency). This is to ensure that they are complying with all relevant CMIA regulations, as well as the US Treasury–State Agreement in effect for the appropriate fiscal year.

An interagency agreement specifying the Catalog of Federal Domestic assistance (CFDA) number, as well as the Federal fund reporting an pass-thru requirements between the State agencies involved, must be established and in effect before the transfer of Federal funds between State agencies begins. These agreements must be kept current.

Agencies should use the transaction codes (TSs) specific to CMIA transfers when completing interagency transfer forms for the programs contained in the US Treasury-State Agreement. **Do not use CMIS transfer TC’s for any other transactions.**

- 14. Federal Liability Due to the State – The State agency requesting the Federal funds will follow the Funds Request and Receipt Times as shown on the TSA. The State agency will verify the date of the State Treasurer’s validation stamp date o the deposit for, with the receipt window on the Funds Request and Receipt Times chart in the TSA. IF the State Treasurer’s validation date is later than anticipated, the discrepancy must b investigated. Contact the State Treasurers Office to verify when the funds were actually received the State.



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If the receipt of the federal funds from the Federal government is late, **and** State monies were paid out in lieu of the Federal funds (with obligational authority), this instance **must** be reported in writing to the GAO – Federal Funds section within 30 days, but no later than June 30. If the Federal funds are late and the funds are to be passed through to another State agency, both the State agencies must coordinate to verify if and when state monies were paid out in lieu of the late Federal funding. This information must also be reported to the GAO in the same time frame as listed above.

In accordance with 31 CFR 205.11(a), “The Federal Government will incur an interest liability to a State if the State pays out its own funds for program purposes with a valid obligational authority under Federal law, Federal regulations or Federal-State agreement. A federal interest liability will accrue from the day a State pays out its own funds for program purposes to the day Federal funds are credited to the State account.”

15. OMB Circulars - The following is a list of all OMB Circulars and corresponding titles relevant to the administration of Federal Grants.
 - OMB Circular A-21 Cost Principles for Educational Institutions
 - OMB Circular A-73 Audit of Federal Operations and Programs
 - OMB Circular A-87 Cost Principles for State and Local Governments (Revised)
 - OMB Circular A-88 Indirect Cost Rates, Audit, and Audit Follow-up at Educational Institutions
 - OMB Circular A-102 Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments
 - OMB Circular A-105 Standard Federal Regulations
 - OMB Circular A-110 Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.
 - OMB Circular A-122 Cost Principles for Non-Profit Organizations
 - OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations
16. Indirect Cost Rates - All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal (OMB Circular A-87, Attachments E, D). Various OMB Circulars may affect cost recovery.
17. Reconciliation - Each agency is required to establish adequate internal controls that ensure the accuracy of the accounting records in AFIS. At a minimum, each agency must reconcile its internal accounting records to AFIS on a monthly basis. This reconciliation must be documented (see section II-A-1, of the *State of Arizona Accounting Manual*). Compare AFIS reports to the agency's internal



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accounting records, noting all errors and inconsistencies. Resolve all internal errors and make appropriate corrections in AFIS, if necessary.

18. Federal Reports - Financial reports are required for all Federal grants. Federal reporting requirements are generally included in the grant award package. If the details regarding Federal reporting are not included in the award package, the CFRs applicable to the Federal program should be consulted. The appropriate regional Federal representative may also be contacted to obtain information on reporting requirements. The following list is a sample of reports required for various Federal grants:

- SF 269 Financial Status Report (Long Form)
- SF 269A Financial Status Report (Short Form)
- SF 270 Request for Advance or Reimbursement
- SF 271 Outlay Report and Request for Reimbursement for Construction Programs
- SF 272 Federal Cash Transaction Report
- SF 272A Federal Cash Transaction Report Continuation

19. Close-out - Follow Federal close-out requirements as described in the specific grant agreement. Review the Final Financial Status Report and initiate documents for proper disposition of cash balances.

B. ACCOUNTING

Federal grants are unique cost centers that frequently span multiple State accounting periods. The proper recording and tracking of grants is a critical component of any accounting system.

In AFIS, these special requirements are met through the use of the Grant Structure. This structure provides the ability to control and report on grants and projects.

All contractual agreements, including Federal financial assistance, are accounted for using the grant structure. The project structure can be used to supplement the grant structure for management purposes but cannot be used as a substitute.

The source of Federal funds does not affect the accounting for the Federal grant. All Federal funds are accounted for in the same manner in AFIS regardless of the source.

1. Comptroller Objects Codes Applicable to Recording the Receipt of Federal Grant Funds

COBJ	TITLE	DEFINITION
4211	Federal Grants (Operating)	Monies received from Federal government agencies (including reimbursements) for non-capital/operating purposes.



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4212	Entitlements	Entitlement monies received from Federal agencies. All use requires prior GAO approval.
4213	Federal Grants (Capital)	Monies received from Federal government agencies (including reimbursements) to purchase, construct, or renovate capital assets.
4219	Other Federal Financial Assistance	Other Federal financial assistance not included above. All use requires prior GAO approval.
4311	Participating Federal Reimbursement	ADOT use only.
4315	Federal Grants - ADOT	ADOT use only.
4911	Federal Transfers In	Federal monies received from another State agency. (Must be used with Comp Object 9111).

2. Space - When charging for space to any Federal grant, use actual rent paid as the base only when the agency is in privately leased space.

When charging Federal programs for space in a building owned by the State and operated by the Department of Administration, the occupancy costs charged to the Federal programs will be based on the computation in the Statewide Cost Allocation Plan (SWCAP) as approved by the State's cognizant Federal agency.

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When charging for space in a building that is part of a Certificate of Participation (COP) or Revenue Bond financing process, occupancy costs allocated to the Federal programs will be based on the computation and allocation per the approved SWCAP. These approved costs are based upon a use allowance rather than principal and interest payments, otherwise the Federal government would receive equity in the building.

3. Transaction Entry - For Federal grant recording purposes, all transactions (deposits, transfers, claims, etc.) entered into AFIS must be identified by a grant number with all Federal funds transactions and must be processed through fund 2000. Fund 2000 is the fund used for recording all Federal activities except matching and indirect costs. Fund 2000 is also used for recording fee for service contracts between the State and Federal government.

For additional information on disbursements, refer to the DISBURSEMENTS section (II-H.) of the *State of Arizona Accounting Manual* or contact your GAO liaison.



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4. Pass-through of Federal Financial Assistance - When a prime recipient receives Federal financial assistance, they are able to distribute the responsibilities of the awarded contract to other entities.

These other entities are designated as subrecipients, and the flow of funds from the prime recipient to the subrecipient is referred to as a pass-through of Federal financial assistance. Since the State is one legal entity, all of the State agencies are considered together for Federal purposes. However, the State agency acting as the agent for the State for a Federal contractor award is responsible for coordinating with other State agencies involved in the contractor or award ensure compliance with applicable State and Federal requirements.

5. Identification of Federal Financial Assistance - Prime recipients must monitor cash draw downs by their subrecipients to ensure that the subrecipients substantially conform to the same standards of timing and amount as apply to advances to the prime recipients.

Once the Federal funds are spent procuring goods and/or services from a vendor, the funds "lose" their Federal identity and subsequently there are no longer any Federal restrictions in effect.

6. Contractor vs. Subrecipient Transactions - A subrecipient is an entity that receives Federal assistance from a prime recipient (the entity that applied for and is receiving the Federal assistance.) The subrecipient's responsibility is to help the prime recipient meet the requirements of the Federal financial assistance award received. A subrecipient receives a pass-through of Federal monies from the prime recipient to perform its responsibilities under the grant agreement and will be required to comply with specific grant requirements. The subrecipient will also be required to comply with CMIA requirements.

A contractor is an entity that receives a procurement contract for goods or services from a recipient that may be paid from Federal financial assistance. The contractor's responsibility is to meet the requirements of the procurement contract. Once these requirements are met, the normal claim process will take effect and the contractor will receive a payment from the Federal financial assistance for services rendered and may not be required to comply with specific grant requirements.

Note: Prime recipients are expected to establish a system to ensure that audits of the subrecipients meet the requirements of OMB Circular A-133. This system should include

- a) Conducting a desk review of each subrecipient audit performed to ensure compliance with the Circulars;



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- b) Advising subrecipients of requirements imposed on them by Federal laws, regulations, and the provision of contracts or grant agreements, as well as any supplemental requirements imposed by the pass-thru entity.
- c) Monitoring the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- d) Ensuring that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of Circular OMB A-133 for that fiscal year.
- e) Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- f) Considering whether subrecipient audits necessitate adjustment to the pass-thru entity's own records.
- g) Requiring each subrecipient to permit the pass-thru entity and auditors to have access to the records and financial statements as necessary for the pass-thru entity to comply with Circular OMB A-133.

When Federal funds are passed through to another State agency, non-State governmental unit, or a non-governmental agency, the agreement will be in the form of an ISA, IGA or contractual agreement, respectively. Both parties must have a copy of the agreement and be aware of the correct CFDA number applicable to the Federal funds. Both parties must also be in agreement regarding the type of relationship (contractor or subrecipient) and have an understanding of what type of dollars are being passed through (Federal, State, mixture, etc.). The contractor/subrecipient must know from what source the prime recipient is receiving the funds. If you have any questions determining the type of relationship or funds, contact your GAO liaison.

7. Refunds from Subrecipients - In accordance with 31 CFR Part 205, the State will incur an interest liability to the Federal government on a refund transaction of Federal funds over \$10,000 for programs under the TSA. . The State liability will accrue from the day the refund is credited to a State account to the day the refund is either paid out for program purposes or credited to a Federal Government account.
8. Indirect Cost Recovery Fund - Laws 1994, Eighth Special Session, Chapter 1, Section 2, require tracking the recovery of indirect costs from Federal grants. To perform this task, the GAO has established AFIS fund 9000 as the Indirect Cost Recovery Fund. All agencies that administer Federal grant programs either directly or indirectly shall use this fund.

Each agency receiving Federal funds must establish and utilize an agency Indirect Cost Recovery Fund that will roll up to the Statewide Indirect Cost



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Recovery Fund. Agencies shall establish Indexes or PCAs for their Federal grant's indirect cost recovery activity.

Indirect Cost Recovery Fund transactions will be recorded as follows:

- a. The applicable Comptroller Object shall be used to record Federal revenue in the Federal Grants Fund (Fund 2000). This may be included in a draw involving other expenditures. Use Comptroller Object 9102 (in Fund 2000) to record Indirect Cost Transfers Out and Comptroller Object 4902 (in Fund 9000) to record Indirect Cost Transfers In.
- b. Expenditure comptroller objects must conform to the *State of Arizona Accounting Manual* chart of accounts.

C. AFIS PROCEDURES

The following section includes a general description of the procedures for grant accounting on the AFIS system. For a more detailed explanation, consult Chapter 13 Grant Accounting in the *AFIS Reference and Procedures Manual* or contact your GAO liaison.

- 1. Grant Data Elements - The grant accounting and reporting processes are controlled by a series of indicators and data elements stored in system profiles and financial data records in system tables. Many of these profiles and records are controlled by the GAO. However, most of the information is obtained from the agency. The accuracy and reliability of this information is essential.

Please consult your GAO liaison to ensure proper setting of indicators for correct agency and Federal reporting purposes. **Correct AFIS setup is vital for CMIA and SFFA reporting.** The fundamental data elements that AFIS includes are as fol

- a. **Grant Category** - identifies the program for each grant. For Federal grant programs, this data element corresponds to the Catalog of Federal Domestic Assistance (CFDA) number, and is only required for Federal grants. This number must be a valid CFDA number. Contact your GAO liaison if there is no CFDA number associated with a grant or if it is not active in AFIS. **DO NOT** use a category number for a non-Federal grant without prior approval from GAO.

If the funds lose their Federal identity before they reach your agency, do not use a category number in the grant setup. Grants with a category number will reported on the SEFA for the State agency making the actual expenditure for the grant.



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- b. **Grant Type** - identifies the grant as Federal, State, Local, Private, Pass-through, or other by assigning the following corresponding two digit values:
- 01 = Federal Grant - State agency receives funds directly from the Federal government.
 - 02 = State Grant - State agency receives funds from another State agency.
 - 03 = Local Grant - State agency receives funds from a local government.
 - 04 = Private Entity Grant - State agency receives funds from a non-governmental entity.
 - 05 = Pass-through Grant - State agency receives funds from another State agency that received the funds from the Federal government.
 - 06 = Other.
 - 07 = Federal Fee for Service Contracts
- c. **Grant number** - must be used for recording and reporting individual grant information. This data element identifies individual grants within a particular Grant Category. The Grant Number will infer the Grant Category and Grant Type. A grant number must be assigned to each grant. Each contract must have a new Grant number. The 3-digit agency identification is part of the key for identifying each grant agreement or contract.
- d. **Grant Phase** - provides a further breakdown of a grant to identify components within the grant, e.g., admin., non-admin., fiscal year.
- e. **Subgrantee** - identifies the subrecipient of a pass-through grant. The subgrantee may be another State agency, institution of higher education, or other parties that are not within the State entity.
- f. **Grantor** - identifies the organization or individual from whom the grant was received. Examples of Federal grantors include the United States Department of Agriculture, the United States Department of Commerce, and the National Science Foundation. If you receive Federal funds from another State agency or other entity, the State agency or other entity will be the grantor
- g. **Grant Object** - is used to group Comptroller Objects for the specific Federal reporting needs of any or all agency grant numbers.
2. Establishing a Grant - To utilize the grant accounting capabilities of AFIS, the following steps must be performed to set up a grant in the system. The Grant Type Profile and Grant Category Profile are maintained on a statewide basis by the GAO and are not necessary steps at an agency level. The Grant Number and Grant Control Profiles are controlled by the GAO based upon information provided by the agency and the GAO controls them. The recording of Grant Budgets is optional.



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- a. **Grant Type Profile** (maintained by the GAO) - The Grant Type Profile (screen D35) defines the grant type and associates a title, effective start date, and effective end date.
- b. **Grant Category Profile** (maintained by the GAO) - The Grant Category Profile (screen D40) defines the Grant Category (CFDA number) and the associated title used for grant reporting purposes. If your grant category is not in the Grant Control Profile or is inactive, please call your GAO liaison.
- c. **Grantor Profile** (maintained by agency) - The Grantor Profile (screen D28) defines the grantor name, address, and ID for grant reporting purposes.
- d. **Grant Number Profile** (maintained by the GAO) - The Grant Number Profile (screen D47) establishes the agency defined grant number and the associated title for reporting purposes. Budgeting and cash control posting by grant phase is determined through this profile.

Note: The address to be entered should be the business address of the grant manager.

- e. **Grant Control Profile** (maintained by the GAO) - The Grant Control Profile (screen 29) is required to establish valid cost accumulators in the system prior to recording revenue, expenditure, or budget transactions. The Grant Control Profile maintains a variety of information regarding each individual grant phase. Posting indicators, control levels, control types, control dates, and a number of other classification elements are maintained for each grant.
 - All grant transactions must post to the grant structure whether looked up by index and/or PCA, or manually overridden.
 - The Cash Control Post Indicator must be set to Y (Yes) so that amounts will post to the Cash Control Financial Table.
 - The Cash Control Type Indicator must be set to 1 (one) Fatal Control (with the exception of reimbursable type grants), as funds need to be controlled at the grant level.
 - For grants controlled at the grant level, grant expenditures will be computed against both available grant cash balances and available fund cash balances.
- f. **Grant Object Profile** (maintained by agency) - The Grant Object Profile (screen D48) is an optional profile that provides additional flexibility in either summarizing or expanding the Comptroller Object structure on a grant by grant basis. It is not a required element in order to utilize the other grant accounting capabilities of the system.



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- g. **Recording the Grant Budgets** - When grant expendable or billable budgets are utilized, the budgets must be entered as standard financial transactions using the normal data entry capabilities of AFIS. The budgets must be recorded using transaction codes established specifically for this purpose at the level of the Expenditure Posting Level Indicator in the Grant Control Profile. Each type of budget requires a separate transaction.
- g. **Subgrantee Control Profile** (maintained by agency) - The Subgrantee Control Profile (screen 31) defines the subgrantee ID, the associated name and address, contact and phone number, subgrantee type, and grant number and phase for reporting purposes.
3. **CMIA TCs** – Transfers of funds for programs covered under the TSA should use the CMIA TCs as follows:
- 453 = CMIA Cash Transfer Out
 - 454 = CMIA Cash Transfer In
 - 455 = CMIA Cash Transfer Out Expenditure
 - 456 = CMIA Cash Transfer Out – Operating Encumbrance
 - 457 = CMIA Cash Transfer Out – Operating
 - 458 = CMIA Cash Transfer In - Operating
4. **Recording Grant Revenue** - Grant-related revenues are recorded in AFIS with the Grant Number/Phase entered on the financial transactions. Recording this information improves the validity of the reports generated from the Grant Financial Table. It is important to record cash receipt transactions with the related Grant Number/Phase to ensure that the receipt is recorded in the Grant Financial Table. If both accounts receivable and cash receipts are recorded with grant numbers, the grants will be fully accounted for in the system.
5. **Recording Grant Expenditures** - Expenditure transactions that are grant-related are also recorded in the Grant Financial Table. Recording this information improves the validity of the reports generated from the Grant Financial Table. Expenditures may be controlled against available grant expendable budgets and/or available cash balances. For grants controlled at the grant level, grant expenditures will be computed against both available grant cash balances and available fund cash balances.

Expenditure transactions that are associated with a grant are entered with a Grant Number/Phase or with another element (Index, PCA, or Project/Phase) that looks up the Grant Number/Phase. In addition, these transactions may be entered as payroll voucher transactions for labor costs or as payment voucher transactions. For additional information on disbursements, refer to the DISBURSEMENTS section of the *State of Arizona Accounting Manual*.



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6. Accounting For Subgrants - Subgrantee financial activity may be recorded in AFIS through the use of the Subgrantee Profile and special transaction codes. To utilize this option, the following steps are required:
 - a. Establish the Subgrantee Profile.
 - b. Record the financial activity using the special subgrantee transaction codes.
7. Grant Reporting - AFIS provides on-line inquiry and hard copy reports that are useful in monitoring grant-related financial information.
 - a. Grant Control Financial Table - The Grant Control Financial Table provides users the ability to control expendable budgets and to perform on-line inquiries.
 - b. On-line Inquiries - The on-line inquiry capability of AFIS provides inquiry screens that are directly related to grant accounting. These screens display the information in a different format by summarizing the financial activity at different levels. The inquiry is shown at the levels defined by the Expenditure and Revenue Level Posting Indicators in the Grant Control Profile. The Subgrantee Profile may also be viewed on-line for information on subgrantees.

Some of the inquiry screens that are available are:

- 63 Cash Control Record Inquiry
 - 65A Status of General Ledger--Trial Balance
 - 65B Status of General Ledger Accounts
 - 66 Grant Record Inquiry
 - 66A Status of Grant
- c. Standard Reports - Grant reports are available with a number of different sorts. These reports allow review of financial information by various classifications. In addition, profile listing reports may be generated to display the contents of such profiles as the Grant Control Profile (DAFQ 0290) and Grant Number Profile (DAFQ 0470). Below is a listing of the grant reports available:
 - DAFR 6280 Trial Balance by Grant
 - DAFR 6720 Detail Grant Report
 - DAFR 8390 Grant Detail Transaction Report
 - DAFR 8400 Grant Summary Report
 - DAFR 8410 Subgrantee Budgets, Advances and Expenditures
 - DAFR 8420 Grant Revenue and Expenditure by Program
 - DAFR 8430 Grant Revenue and Expenditure by Organization
 - DAFR 8440 Grant Revenue and Expenditure by Org and Program
 - DAFR 8460 Grant Summary by Fund



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- DAFR 8500 Federal Cash Transactions
 - DAFR 8520 Request for Advance or Reimbursement
 - DAFR 8530 Grant Financial Status Report
 - DAFR 8540 Comparison of Grant Actual and Budgeted Amounts
8. Close-out - When a Federal grant has expired, refer to the grant agreement for specific close-out requirements. Coordinate with your GAO liaison to ensure that the corresponding Grant Number and Grant Control Profiles are inactivated in AFIS.