



BEST PRACTICES

Establishing an Effective Grants Policy

Governments should develop a formal grants policy and that such a policy should address steps to take prior to applying for or accepting grants.

Grants are an attractive form of funding for governments and frequently come with special requirements that the recipient must follow. Such requirements can apply to the general operations of the grant, specific compliance rules, monitoring of other parties that may receive resources from the grants, specific time frame, and specialized reporting requirements. There are typically negative consequences for failing to meet grant requirements and in addition, grants may, either as a condition of the grant itself or politically, commit a government to financially maintaining a program or asset after the expiration of the grant. An effective grants policy provides guidance to staff as it relates to associated processes and procedures in order to maximize the benefits and minimize the risks.

GFOA recommends that governments develop a formal grants policy. Further, GFOA recommends that such a policy address steps to take prior to applying for or accepting grants, and that the policy at minimum contain the following components:

- 1. *Grants identification and application.*** A grants policy should require that the department or agency seeking a grant provide advance notice to appropriate authority, such as finance, so that the effects on the government, for example, budget, cash flow, procurement requirements, financial reporting, or compliance requirements can be reviewed and understood beforehand.
- 2. *Strategic alignment.*** A grants policy should include a requirement for assessing the extent to which a grant is consistent with the government's mission, strategic priorities, and/or adopted plans as opposed to simply constituting additional funding for a department or agency of the government. Accepting a grant that is not consistent with the overall strategic direction of a government creates the risk that the government will spend its own funds to support a grant inconsistent with overall strategic direction or

commit the government to own-source spending beyond the grant period (see cost/benefit analysis, below). Such a requirement could be for a formal strategic analysis, including the creation of outcome measures, or simply a statement of the way in which the grant would further the organization's mission or strategies followed by a review by a central agency such as a finance or budget office, strategic planning office, or legislative staff.

3. *Funding analysis.* Along with a review of strategic alignment, a grants policy should require a multi-year cost/benefit analysis prior to application or acceptance. The analysis should include matching funds (and whether or not they will need to be set aside) and any other direct costs associated with a grant, the extent to which overhead costs will be covered, in-kind contributions, audit and close-out costs, and potential costs that might need to be incurred by the government beyond the grant period. The analysis should also explore whether or not a grant requires that general revenues or a line of credit or grant anticipation notes be used to cover the gap between cash being expended and reimbursement is received by the government.
4. *Evaluation prior to renewal or grant continuation.* A grants policy should include an overall approach to grant renewals. Additionally, a grants policy should require an evaluation of the impacts of the grant-funded program or asset prior to deciding whether to continue a grant at the end of the initial grant period. Creating outcome measures before receiving a grant will help the government to determine the extent to which the grant program or asset has produced desired benefits. Such an analysis should also include a review of actual costs and the potential benefits of using general revenues associated with the grant for other purposes.
5. *Administrative and operational support.* A grants policy should also include a requirement that the government obtain a detailed understanding of grant terms and conditions and specify how the grant will be monitored. Examples of what should be required include establishment of procedures related to:
 - a. The development of a project plan that would include how new programs or activities funded by the grant would be implemented and who would be responsible for implementation.
 - b. The provision of training for those responsible for the grant, so they can effectively carry out their roles.
 - c. Terms and conditions for grant-funded personnel, such as severance and unemployment costs related to employees who are terminated upon expiration of the grant or operating and maintenance costs for assets that are acquired.
 - d. The system/process that will be used to charge expenses against the grant and to obtain reimbursement. This might require both technical procedures to account for time and materials and reporting, as well as training for employees so that they fully appreciate the importance of charging time and materials correctly.

- e. Identify the individual/department responsible for carrying out the grant and making sure that proper resources are available to support that grant.

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