

## Grant Financial Management Requirement

The Uniform Guidance for federal awards requires allowable costs, rental costs, interest, depreciation, compensation and fringe, and audits to be in accordance with GAAP. The first example is found in [2 CFR 200.403](#), which states that cost must meet the following general criteria in order to be allowable under Federal awards: “Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.” While [2 CFR 200.515](#) states that the auditor’s report(s) must state that the audit was conducted in accordance with this part and include the following: “The type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP....”

## Important Information to Know

### What is GAAP?

GAAP consists of a common set of accounting rules, requirements, and practices issued by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB). GAAP sets out to standardize the classifications, assumptions and procedures used in accounting in industries across the US. The purpose is to provide clear, consistent and comparable information on organizations financials.

### Why should an organization follow GAAP?

Following GAAP ensures financial information is consistently and accurately reported. It is an accounting practice required by for profits, not-for-profits, and government entities.

### What topics should be included for GAAP compliance?

- ▶ What accounting methods, at a minimum, have to be in place to satisfy requirements set by federal, tribal, or state laws or by regulations and guidelines such as GAAP?

### What additional accounting methods must be put in place to meet government accounting standards such as GASB and FASB, whichever is applicable?

- ▶ What procedural issues should be considered in a GAAP policy?
- ▶ What are the end of the month procedures to ensure GAAP compliance?
- ▶ What are the end of the fiscal year procedures to ensure GAAP compliance?
- ▶ How is GAAP monitored internally and by whom?

### What are the principles of the GAAP framework?

There are 10 main principles (shown in figure 1), which can help you remember the main mission of GAAP.

**FIGURE 1: 10  
MAIN PRINCIPLES OF THE GAAP FRAMEWORK**

<b>Principle of regularity</b>	The organization’s accounting adhered to the standards of GAAP.
<b>Principle of consistency</b>	The organization’s accounting practices are consistent and comparable every reporting period.
<b>Principle of sincerity</b>	The organization’s accounting is accurate and correct depiction of the financials.
<b>Principle of permanence of methods</b>	The organization’s accounting practices are constant across financial periods.

<b>Principle of non-compensation</b>	All aspects of an organization's performance are fully reported with no prospect of debt compensation.
<b>Principle of prudence</b>	The accounting entries are timely and realistic.
<b>Principle of continuity</b>	Short-term and long-term classifications of financial information are based on the idea the entity will remain in business.
<b>Principle of periodicity</b>	The accounting periods are regular, routine, and consistent.
<b>Principle of materiality</b>	Assets are valued at cost and all financial reports are based on truthful information.
<b>Principle of utmost good faith</b>	Every person involved in the accounting process is acting honestly.

Adapted from [Investopedia](https://www.investopedia.com/terms/g/gaap.asp)

## How This Applies to Your Grant

GAAP are standardized accounting practices utilized in ensuring that financials are accurately recorded and managed. Recipients of federal awards are required to accurately maintain their financial records; hence, they would need to follow GAAP.

If an organization is using the accrual method, it must continue using this method, unless it acquires approval from the Internal Revenue Service to switch. Organizations should have appropriate internal controls for checks and balances and to keep everyone in their accounting process honest.

Conducting monthly reconciliations will ensure that errors are identified and rectified for the purpose of accurate reporting. These measures are some of the ways recipients can verify that they are providing transparent and consistent financial records, despite the structure of their organization.

If recipients do not submit accurate and timely SF-425 Federal Financial Reports, an automatic hold can be placed on the remaining federal funds awarded, and any payments requests that are submitted through the Automated Standard Application for Payments (ASAP) will be denied. If a recipient does not have their reports current, adjustments to current awards can be affected and restrictions can be placed on any new award.

Awards are subject to conditions of fiscal, program, and general administration to which the recipient expressly agrees upon acceptance of the award. Per [2 CFR 200.514](https://www.ecfr.gov/current/title-49/chapter-I/subchapter-B/part-200/subpart-5/section-200.514), prepared financial statements should be "presented fairly in all material respects in accordance with generally accepted accounting principles."

## References

Financial Accounting Standard Board. (unk.) *FASB Accounting Standards Codification*. <https://asc.fasb.org/>

IRS. (2019, January). *Publication 538 (01/2019), changes in accounting method*. [https://www.irs.gov/publications/p538#en\\_US\\_201809\\_publink1000270768](https://www.irs.gov/publications/p538#en_US_201809_publink1000270768)

Miller, S. (2020, October 1). *Generally accepted accounting principles*. Greater Washington Society of CPAs. <https://www.nonprofitaccountingbasics.org/accounting-bookkeeping/generally-accepted-accounting-principles>

## About the OJP Territories Financial Support Center

The Office of Justice Programs Territories Financial Support Center (OJP TFSC) offers free resources, training, and technical assistance for grantees in the U.S. territories. OJP TFSC services focus on building financial management capacity and can be accessed by emailing [OJPTFSC@usdoj.gov](mailto:OJPTFSC@usdoj.gov) via our Virtual Support Center.



*This product was prepared under contract/call order number GS-00F-010CA/15PCFD20F00000200 awarded by the Office of Justice Programs, U.S. Department of Justice and does not constitute financial or other professional advice. The opinions, findings, and conclusions expressed in this product are those of OJP TFSC and do not represent the official position or policies of the U.S. Department of Justice.*