

VOLUME 12, CHAPTER 5: “GRANTS AND COOPERATIVE AGREEMENTS”

SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue, and underlined font](#).

The previous version dated [May 2015](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
1.0 (0501)	Incorporated 2 Code of Federal Regulations (CFR) 200 updates from the final Office of Management and Budget (OMB) Guidance published on August 13, 2020. Explained difference among grants, contracts, and cooperative agreements, expanded purpose to include treatment of assets acquired through grants, and described additional reporting requirements for grants. Updated authorities list to include relevant legislation, regulations, standards, and guidance for Department of Defense (DoD) grant financial reporting. Removed requirements that applied to grantees instead of DoD.	Revision/ Addition
2.0 (0502)	Listed general guidance on statutes which allow DoD to use grants as a funding instrument. Removed list of specific types of grant programs since these may be subject to future changes.	Revision/ Addition
3.2 (050302)	Added record retention paragraph and referred to Volume 1, Chapter 9 for details.	Addition
3.4 (050304)	Expanded Payments paragraph to include 32 CFR §22.810 requirements for timing and frequency, method, process, withholding payments, and interest from advanced payments. Deleted mention of specific grantee payment management system as this system may be subject to future changes.	Revision/ Addition
3.6 (050306)	Added information to clarify accounting treatment of accrual estimates according to Federal Accounting Standards Advisory Board (FASAB) Technical Release 12.	Addition
3.8 (050308)	Added paragraph on debt collection and referred to Volume 10, Chapter 19 and Volume 16, Chapters 2 and 6.	Addition

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
4.0-6.0 (0504-0506)	Clarified treatment of real property and equipment, supplies, and intangible property acquired through grants according to 32 CFR 32. Added supplies and intangible property sections.	Revision/ Addition
7.0 (0507)	Added section on other required reporting prescribed by OMB A-123 Appendix C, Statement of Federal Financial Accounting Standard (SFFAS 49), and I Treasury Financial Manual (TFM) 2.	Addition

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CHAPTER 5

GRANTS AND COOPERATIVE AGREEMENTS

*1.0 GENERAL (0501)

1.1 Overview (050101)

1.1.1. Grants and cooperative agreements are legal instruments used to enter into a relationship, the principal purpose of which is to transfer a thing of value to the recipient to carry out a public purpose and stimulate the economy as authorized by law. In contrast, contracts are used to acquire property or services for a DoD Component's direct benefit or use. Grants and cooperative agreements are two types of assistance awards.

1.1.2. A DoD Component's expected level of involvement in the performance of the assistance award determines whether the legal instrument is a grant or cooperative agreement. Grants are used when a DoD Component expects no substantial involvement in carrying out the activity contemplated in the agreement, whereas cooperative agreements are used when the Component anticipates substantial involvement in carrying out the activity contemplated in the agreement.

1.1.3. A technology investment agreement, as defined in 32 Code of Federal Regulations (CFR) 37 is a cooperative agreement while a cooperative research and development agreement, as defined in Title 15 United States Code (U.S.C.), section 3710a, is neither a grant nor a contract.

1.1.4. The accounting treatment for grants and cooperative agreements is the same. In this Chapter, the term "grant" covers both grants and cooperative agreements. The accounting treatment for international agreements is discussed in Chapter 9.

1.1.5. DoD grant recipients (grantees) include institutions of higher education, hospitals, non-profit organizations, local and state governments, Indian tribal governments, and for-profit entities.

1.2 Purpose (050102)

This chapter prescribes the policy to be followed by DoD Components to account for and control funds obligated and assets acquired through grants. It also outlines additional reporting requirements for grants.

1.3 Authoritative Guidance (050103)

The financial management policy and related requirements set forth in this chapter are in accordance with the applicable provisions of:

1.3.1. 31 U.S.C. § 6101, note, "Program Information, Definitions, also included as part of the DoD Grant and Agreement Regulations (DoDGARS)."

1.3.2. 31 U.S.C. § 63, “Using Procurement Contracts and Grant and Cooperative Agreements.”

1.3.3. Public Law 116-103, “Grant Reporting Efficiency and Agreements Transparency (GREAT) Act of 2019.”

1.3.4. 2 CFR 200, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.”

1.3.5. 2 CFR 1104, “Implementation of Governmentwide Guidance for Grants and Cooperative Agreements.”

1.3.6. 31 CFR 205, “Rules and Procedures for Efficient Federal-State Funds Transfers.”

1.3.7. 32 CFR 21-37, “DoDGARS.”

1.3.8. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 3, “Accounting for Inventory and Related Property.”

1.3.9. FASAB SFFAS 6, “Accounting for Property, Plant, and Equipment.”

1.3.10. FASAB SFFAS 7, “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.”

1.3.11. FASAB SFFAS 49, “Public-Private Partnerships: Disclosure Requirements.”

1.3.12. FASAB Technical Release 12, “Accrual Estimates for Grant Programs.”

1.3.13. Treasury Financial Manual (TFM) Part 4A Chapter 2000 (I TFM 4A - 2000), “Overall Disbursing Rules for All Federal Agencies.”

1.3.14. I TFM 2 - 4500, “Grants, Loans, Credits, and Contingent Liabilities Involving Foreigners.”

1.3.15. Office of Management and Budget (OMB) Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control.”

1.3.16. OMB Circular A-129, “Policies for Federal Credit Programs and Non-Tax Receivables.”

*2.0 DoD STATUTORY AUTHORITIES FOR USE OF GRANTS (0502)

A DoD Component may use grants under statutory authorities granted to the Secretary of Defense that the Secretary properly delegates to Heads of DoD Components, or under statutory authorities granted directly to the Heads of DoD Components. The types of statutory authority DoD may utilize to award assistance instruments are provided in 32 CFR § 21.420.

3.0 GRANTS FINANCIAL MANAGEMENT (0503)

3.1 Financial Management Information System (050301)

3.1.1. The DoD Component must ensure the availability of a financial management information system capable of recording and monitoring grant transactions and providing, by transaction, a delineation of the federal and grantee breakout of program costs.

3.1.2. The system must enable the DoD Component to identify quickly the basic categories of funds involved, along with the related obligation and expenditure rates, and provide for ensuring fund availability prior to awarding financial assistance and obligating funds.

*3.2 Record Retention (050302)

The DoD Component must maintain grant supporting financial management documentation in accordance with the requirements in Volume 1, Chapter 9.

3.3 Recording and Reviewing Commitments and Obligations (050303)

Accounting for funds under a grant must start with the commitment of funds prior to their obligation by an awarding official. The awarding official must be a DoD grants or agreements officer with a statement of appointment that meets the requirement in 32 CFR §§ 21.435-21.465. After funds commitment, budgetary obligations must be recorded upon execution of the agreement or other obligating document approved by the awarding official that sets out the amount and purpose of the award, the performance period, the performance obligations of the parties to the award, and other terms. A legal obligation to disburse grant funds, in accordance with the terms of the agreement, occurs upon execution of an agreement or other obligating document. Refer to Volume 3, Chapter 8 for more information.

*3.4 Payments (050304)

Volume 10, Chapter 19 provides detailed payment provisions for grants and other instruments of assistance.

3.4.1. Timing and Frequency

3.4.1.1. 32 CFR §22.810 prescribes the timing and frequency of grant payments. In general, it is Governmentwide policy to minimize the time elapsing between any payment of funds to a grantee and the grantee's disbursement of the funds for program purposes. For States,

payments are governed by Treasury-State Cash Management Improvement Act agreements and default procedures codified in 31 CFR 205 and I TFM 4A - 2000 Overall Disbursing Rules for All Federal Agencies.

3.4.1.2. Payments made to grantees to cover part or all of their anticipated expenses or advance payments must be accounted for as advances by the assisting DoD Component until the grantee has performed under the award, i.e., until the grantee meets the requirements which allow it to use the funds in accordance with the grant agreement. Refer to Volume 4, Chapter 5 for more information.

3.4.1.3. Requiring payments as reimbursements is the preferred method when the requirements in paragraph 3.4.1.1 and 3.4.1.2 cannot be met, the DoD Component sets a specific grant condition per 2 CFR § 200.207, or the grantee requests payment by reimbursement. Reimbursement may be used on any grant for construction, or if the major portion of the construction project is accomplished through private market financing or Federal loans, and the Federal award constitutes a minor portion of the project.

3.4.2. Method

It is a Governmentwide requirement to use electronic funds transfer (EFT) in the payment of any grant for which an application or proposal was submitted or renewed on or after July 26, 1996 unless the grantee has obtained a waiver under 32 CFR §22.810.

3.4.3. Process

Disbursing offices must follow the policies and procedures in Volume 10, Chapter 19 for payment provisions for grants.

3.4.4. Withholding Payments

The DoD Component may withhold payments for allowable costs when:

3.4.4.1. The grantee failed to comply with the project objectives, Federal statutes, regulations, or the terms and conditions of the Federal award. If the grant is not otherwise suspended, the DoD Component must release the payment to the grantee upon the grantee's compliance. If the grant is suspended, the DoD Component will make payment adjustments according to 2 CFR § 200.342;

3.4.4.2. The grantee is delinquent in a debt to the United States as defined in OMB Circular A-129. In this situation, the DoD Component must provide reasonable notice to the grantee that payments will not be made for obligations incurred after a specified date until the indebtedness to the Federal Government is paid; or

3.4.4.3. The grantee has a sustained audit finding which resulted in amounts due to DoD. The DoD Component must promptly record the amount due from the grantee upon entitlement as an accounts receivable, even if the decision to collect is subject to administrative

appeal or litigation. Interest must begin to accrue no later than 30 days after the date the grantee was notified of the debt, and continues to accrue while an appeal is underway.

3.4.5. Interest from Advanced Payments

A DoD Component may allow grantees to retain interest earned up to \$500 per year for the grantee's administrative expenses. Any additional interest earned on DoD advance payments, required to be deposited in interest-bearing accounts, must be remitted annually to DoD using either an Automated Clearing House network or a Fedwire Funds Service payment.

3.5 Recording of Expense (050305)

3.5.1. When the grantee that received the advance has performed under the grant, the DoD Component must record an expense in an amount equal to the cost of the services performed or cost incurred, and reduce the advance account by that amount. The grantee must provide sufficient documentation to support the cost of the services performed or cost incurred, consistent with the grant.

3.5.2. Payments to grantees as reimbursement for work performed or costs incurred must be accounted for as expenditures and as expenses incurred, or as reductions of liabilities if the expenses were recorded previously.

*3.6 Accruals (050306)

The DoD Component must recognize and report balances due or advanced to grantees at the end of the reporting period and apply cost-benefit considerations to the process of estimating and validating accruals.

3.6.1. Accrual estimates must be treated as follows:

3.6.1.1. Amounts issued as advances must be adjusted, even if grantees have not yet reported expenses incurred; and

3.6.1.2. Where there is no advance or no remaining advance, the DoD Component must estimate amounts payable to grantees.

3.6.2. The DoD Component must document and maintain support for the data and assumptions used to develop grant accrual estimates and follow internal control guidance in FASAB Technical Release 12.

3.7 Accounts Receivable (050307)

3.7.1. At the termination or closeout of a grant, disallowed expenses, improperly applied funds, unused funds, and any amount due to the DoD according to the grant terms and conditions must be established as an accounts receivable by the DoD Component.

3.7.2. When a grantee has a sustained audit finding which resulted in amounts due to DoD, the DoD Component must promptly record the amount due from the grantee upon entitlement as an accounts receivable, even if the decision to collect is subject to administrative appeal or litigation. Interest must begin to accrue no later than 30 days after the date the grantee was notified of the debt, and continues to accrue while an appeal is underway.

*3.8 Debt Collection (050308)

A debt is established when a DoD Component determines that a grantee was paid an amount in excess of how much a grantee is entitled under the terms and conditions of the grant. The treatment of debt collection is described in Volume 10, Chapter 19, and Volume 16, Chapters 2 and 6.

*4.0 REAL PROPERTY AND EQUIPMENT (0504)

4.1 Grantee Purchased Real Property or Equipment (050401)

A DoD Component must provide prior approval to grantees to purchase real property or equipment with federal funds. Generally, title to real property or equipment vests with the grantee upon the grantee's acquisition and DoD does not account for its reversionary interest in real property and equipment. The title must be conditional, subject to the following:

4.1.1. The grantee must use the real property or equipment for the authorized purposes of the grant until funding ceases, or until the property or equipment is no longer needed for the purpose of the grant. Use in other projects must be limited to those under federally sponsored projects (i.e., awards) or programs that have purposes consistent with those authorized for support by the DoD Component;

4.1.2. The grantee cannot encumber the property without approval of the DoD Component; and

4.1.3. The grantee must use the real property or equipment following the terms of the grant and dispose of the property or equipment following disposition instructions from the DoD Component, consistent with 32 CFR §§ 32.32-32.34.

4.1.4. At grant close-out, the DoD Component must follow paragraph 3.7 to account for any outstanding proceeds from the disposition of real property or equipment.

4.2 Federally-owned Property (050402)

Title to Federally-owned property remains vested in the DoD and:

4.2.1. The DoD Component must establish appropriate general ledger accounting control and property records, and include the assets in its financial statements. The asset must be recorded at acquisition cost to the grantee, and depreciated in accordance with guidance in Volume 4, Chapters 24 and 25.

4.2.2. If DoD has no further need for the property, it must declare the property excess and report it for disposal following the instructions in Volume 4, Chapter 24 for Excess Items Disposition, unless the DoD Component has statutory authority to dispose of the property by alternative methods.

4.3 Exempt Federally-owned Property (050403)

Exempt Federally-owned property means property acquired under a grant when the DoD has chosen to vest title to the property to the grantee without further obligation to the Federal government, based on explicit terms and conditions of the grant. A DoD Component may exercise this option only when statutory authority exists.

*5.0 SUPPLIES (0505)

Title to supplies will vest in the grantee upon acquisition. If there is a residual inventory of unused supplies exceeding \$5,000 in total aggregate value upon termination or completion of the project or program and the supplies are not needed for any other Federal award, the grantee must retain the supplies for use on other activities or sell them. In either case, the grantee must compensate DoD, following the requirements in 32 CFR § 32.35. The grantee may deduct and retain \$500 or ten percent of the proceeds, whichever is less, for selling and handling expenses. At grant close-out, the DoD Component must follow paragraph 3.7 to account for compensation received from grantee residual inventory.

*6.0 INTANGIBLE PROPERTY (0506)

Intangible property applies to a patent, patent application, copyright, or other intangible property acquired, but not developed or produced, under the grant. When the grantee no longer needs the intangible property for the originally authorized grant purpose, the DoD Component must arrange for the disposition of the intangible property, following the requirements in 32 CFR §32.36. At grant close-out, the DoD Component must follow paragraph 3.7 to account for the remaining proceeds from disposition of intangible property.

*7.0 OTHER REQUIRED REPORTING (0507)

7.1 Improper Payment (050701)

7.1.1. An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law).

7.1.2. Questioned costs, including those identified in audits, are not an improper payment until reviewed and confirmed to be improper as defined in OMB Circular A-123 Appendix C.

7.1.3. Grant programs are subject to the payment integrity requirements in Volume 4, Chapter 14.

7.2 Public-Private Partnership Reporting (050702)

Grants which meet the definition of public-private partnerships (P3), risk-sharing arrangements or transactions with expected lives greater than 5 years between public and private sector entities, may be subject to disclosure under SFFAS 49. Volume 6B, Chapter 10 and SFFAS 49 provide detailed information about P3 reporting.

7.3 Grants, Loans, Credits, and Contingent Liabilities Involving Foreigners (050703)

I TFM 2 - 4500 requires electronic submission of several reports pertaining to foreign obligors to Treasury. Volume 6A, Chapter 13 and Volume 16, Chapter 6 provide more details.