**EXPENDITURE ACCOUNTING RESPONSIBILITY (EAR) PROCEDURES**

January 11, 2012

At the close of each year, the list of paid grants is examined for the purpose of the Foundation's compliance with IRS expenditure accounting responsibility (EAR) rules. The objective of the examination of the grantees' non-profit status with the IRS is two-fold:

a) Verification of those grants which were identified throughout the year as requiring EAR and updating the log with payment dates;

b) Identification of those grants which cannot be counted toward minimum distribution payout.

Expenditure Accounting is required if the grantee is a Private Foundation, a Private Operating Foundation, a sponsored project, or a foreign entity. Grants requiring expenditure accounting are identified as early as possible during the proposal process. Often, EAR is discovered during the process of tax verification and completion of the Yellow Checklist because the organization's tax documentation, if any, is usually available at that point.

If a grant is identified as requiring EAR, the first item is to update the grant’s Internal Code in the Request record of Gifts, and then in the Organization record coding section. It should be changed to reflect the appropriate code EAR code, such as EX-F, which means expenditure accounting responsibility is required because the grantee is a foreign entity.

An Expenditure Accounting Responsibility Control Log is maintained (using an Excel file located at H:\Records\Grants\Compliance\ExpActg\EAR-yr.xls) listing the grantee name, date of award, grant amount, paid amount and date paid. Filled in later will be the date on the status report received, amount expended according to the report, comments, and if all funds have been expended, completion of the requirement is also noted.

Information for the EAR control log is generated via the Gifts database. Using the report titled “Payments Made, by Grantee Organization” (found in the Financial Reports section of the Gifts reporting feature), the criteria will be: Grant Date = Last Year and Internal Code = (one at a time, using all expenditure accounting codes).

Enter the information from these reports into the EAR Control Log. Start with opening the previous year’s log and saving it as the current year. Then go in and change the information to the current year information.

With this log as a tool, prepare a cover letter under signature of VP-Finance requesting the enclosed EAR form be completed. Do this for each grant on the list. Use the standard correspondence icon to find the letter and form; choose keep document permanently on disk.

From the correspondence section of Gifts Administrator Module, change the dates on the merge letters and form. Now you are set to merge the letter and form using the database. Caution needs to be taken with the address the letter is sent to. Foreign forwarding is often delinquent. Send all foreign mail via Federal Express. (Sometimes an organization is contacted through another organization, or the contact person spends limited time at the organization and the mail is not forwarded.) The letter requests the grantee to complete the form and provide documentation of the expenses related to the grant for the specific time period relative to the tax return reporting timeframe. The time period covered should include all payments relative to the start date of the grant to 12/31/\_\_ (tax year end).

The cover letter is sent under signature of the VP-Finance to the primary contact for the grant and is generated within the grant record in the database, selecting “record activity” and “keep file on disk” as you are move through the merge screen. Please note there are different letters available in the database for different tax situations; choose accordingly.

The fact that the report has been received is noted on the log, and the date of report and amount of grant spent in the appropriate columns. This information is also noted in the Requirements tab of the Gifts grant record. Follow up is continued until all grant monies are expended. The requirement is not marked complete until all of the funds have been spent.

The letter requesting the form be completed is kept until the completed form has been received. Occasionally proof is required that we have done our due diligence by requesting the information.

Follow-up letter templates are also in Gifts, and the dates need to be updated using the Administrator’s module before being merged in July, which is follow-up time.

The Grant Expenditure Accounting Report (EAR) form is completed as follows:

Find the grant in the database and merge an EAR report from the record. See internal letters: Form: Grant Expenditure Report - (type). Fields merged include name of grantee, period of time covered by report (standardized to be "from receipt of grant to 12/31/xx)", date grant approved, total amount of grant, grant payments. Use of grant, books and records, and certification paragraphs are all standard on form with no individualization needed.

Grantee enters: amount of grant spent during reporting period, purpose of grant, progress made toward goals of the grant. Also, "use of grant" paragraph requests the grantee attach an expenditure statement including all expenditures made from grant funds.

In the database, "save" all correspondence generated regarding the EAR task. In the Requirements tab, enter the EAR requirement, and update the notes field with information from the grantee’s report as it becomes available until it is complete, at which time you will choose Mark as Done, save and close.

A copy of the letter and form are retained (filed at desk of Grants Administrator), until a response is received from the grantee.

After response is received, update the requirements tab of the request in the database, indicating date of receipt. Update the Control Log with the amount spent, date of report, comments, and whether or not completion of EAR has been realized (full amount spent). Unusual items can be discussed with VP-Finance for clarification.

When the EAR report is received, two-hole punch the original at top, stamp it "Do Not Remove from File," and place it to be filed in the closed agency files along with any letters of attachments provided.

On the form and in the letters for foreign grantees, you will need to request the grantee report in U.S. dollars, but be sure to remove that language when preparing and sending the EAR request to non-foreign grantees.

Grants which were not completely ("substantially") spent by the end of the reporting period are followed up the next year. Only grants which actually have a payment in the following year are added to the next year's log. If follow-up on an older grant is required, maintain the older log until all EAR is complete for that payment.

NO RESPONSE FROM GRANTEE

Sometimes a grantee does not respond to our first or follow-up inquiries due to lost mail between countries in either direction, or the grantee assumes that its prior submission of a programmatic report was sufficient. The grant files are checked to see if the response was filed prior to updating the log, or if a programmatic report exists and may actually suffice if they would sign and return the form. If not, payment of any future grants is to be withheld until the older grant's expenditure accounting documentation is received.

A list of these items is maintained and shared with VP-Finance and VP-Program. Place a note in the notes area of the Organization's tax screen, that “payments are to be withheld until EAR has been completed for ID #xxxxxx.” Also, this information should be placed in the Alert box of the grantee organization and that particular grant. With these notes available, when a new proposal is received or has become part of the review process for a board meeting, a note should be placed in the database organization and request records that payment is to be withheld until EAR is complete. Keep the VP-Finance informed on this status. It may be necessary for her to ask the program officer to inform the grantee that the Foundation must withhold new grants to their organization until the completed form is received.

Follow up letters (under signature of VP-Finance) should be sent to the grantee at the time a grant payment is scheduled, indicating the payment will not be made until all EAR documentation is complete for the prior grant.

Each year’s log corresponds to payments for a fiscal (calendar) year that have been reported as GEAR on our tax return.

The logs of each year are kept in the vertical file drawer “compliance” in the Grants Administrator’s office. Occasional updates are provided to financial staff and the most recent copy for the tax return, when requested

Grants not substantially spent by the end of the reporting period need to be followed up on next year. If follow-up is required, maintain the older log until all EAR is complete for that payment(s). Only grants that have a payment in the following year are place on next year's log.

Expenditure Accounting Questions and Answers:

Is formal permission to extend a grant period required if the grantee does not expend all grant funds within the period as stated on the grant agreement?

-YES.

In case of large institutions, may the primary contact sign EAR form or should an official of institution?

-Primary contact may sign - anyone representing the institution and having information enough to complete the form.

How long to wait for response to our request?

-Four to six weeks within the U.S.

-Eight to ten weeks for foreign.

-Follow up for two additional years, then drop it.

-Record on permanent log for reference “no additional follow-up considered practicable; and/or “future grants will be restricted pending receipt of EAR.” Then drop from next year’s pending log.

How long to maintain these records (control log and responses)?

Permanently.