

Managing Restricted Grants: Routine or Risky Business?

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The article below was adapted from Mission Accomplished: A Practical Guide to Risk Management for Nonprofits, published by the Nonprofit Risk Management Center. For more information about NRMC's book, [click here](#). (Mission Accomplished has been replaced by Enlightened Risk Taking: A Guide to Strategic Risk Management for Nonprofits.)

Managing Restricted Grants: Nature of the Risk

For many nonprofits, an important category of risk emerges when an agency applies for and receives restricted grant funding. The tremendous competition for grant funds increases the risk that a nonprofit will make promises the organization is unable to keep. Such promises may include overly ambitious goals for client services, or meeting the administrative “strings” associated with the grant.

The failure by a nonprofit to manage grant funds wisely and fulfill its service delivery promises can lead to adverse publicity, litigation, criminal prosecution, and the revocation of grant funding. Nonprofit managers who are attuned to the risks of accepting restricted funds will first avoid making promises that are difficult or impossible to keep. They will also take steps to prevent careless mistakes and establish controls to detect and correct problems quickly. The successful management of restricted grant funds is possible when managers:

- Carefully weigh the costs and benefits associated with each grant-funding opportunity and apply cautiously for funding.
- Take the time required to fully understand donor requirements and expectations.
- Plan ahead, organize effectively, and communicate with staff to ensure that requirements and expectations are understood and met.
- Take immediate action when problems occur.

Whether your nonprofit promises too much in the final throes of negotiation or takes on a project you are ill-equipped to handle alone, many different things can go wrong in the solicitation and management of grant funds. Complicated “strings” are increasingly common in the current era of private philanthropy and government grant-making.

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It is also always difficult to ensure that total spending on a restricted program does not exceed grant revenues. Even when indirect costs are allowed, there are frequently uncovered expenses. In many instances, grants cost nonprofits more than they bring in. In addition, restricted grants can encourage institutional growth and/or special projects that may not be sustainable in the long term. A nonprofit can easily fall into the trap of hiring project staff and failing to let them go after a funding cycle concludes.

Risk Modification Techniques

1. *Pursue restricted grants with caution and accept the temporary nature of all projects supported with restricted funds.*
2. *Acknowledge, identify, and monitor the strings which accompany a restricted grant.* Carefully read all grant agreements, donor letters, and other funding documents. Make certain you are clear about what you will do, where you will do it, and when each task is to be completed. Before work begins, compare the proposal with the actual funding agreement for consistency. Periodically during the funding period, reread the grant conditions and scope of work and determine whether you are in compliance. If changes are necessary and key deliverables are no longer feasible, discuss the matter with your funder and document changes in writing.
3. *Carefully monitor expenditures for restricted grant projects to ensure that total spending does not exceed grant revenues.* Institute controls to ensure that a grantor's funds will be used only to support projects specified in, or appropriate under, the grant.
4. *Avoid restricted grants that require institutional growth or projects that may not be sustainable once the funding cycle is over.*
5. *Plan carefully and communicate expectations to key parties.* Outline responsibilities and authority levels for each staff person assigned to the grant. In most instances, the designation of a "project manager" for each grant is appropriate. The project manager is responsible for service delivery as well as administrative matters concerning the grant. Encourage staff to document information related to grant deliverables and establish a system for filing information on grant-funded projects so that it is readily accessible.
6. *Always assess your grant-seeking practices, prospective funders, and partnership opportunities in relation to the organization's mission and goals.* Will receiving a grant further enable the nonprofit to fulfill its mission and maintain its public trust? Does the nonprofit's request for assistance make sense in terms of the grant-making agency's mission?

Risk Sharing Mechanisms

Insurance

No insurance policy covers all of the potential consequences of failing to meet a funder's expectations. These consequences include the need to return funds, the loss of future funding, and negative publicity. A directors' and officers' (D&O) liability policy should, however, provide funds for, or reimburse the organization for defense costs and any final award in a third-party (funder) claim alleging mismanagement of grant funds.

In addition, proper financial safeguards should be in place to prevent an employee from stealing funds or other resources from the program. An Employee Dishonesty policy offers protection should an employee embezzle or steal the funds associated with the grant.

Contractual Transfer

Many grants involve partnership arrangements which may be necessary to fulfill grant obligations. For example, a nonprofit may use independent contractors to support service delivery funded under a restricted grant, such as a commercial transportation provider or market research firm. Losses stemming from the mismanagement of a grant cannot be transferred completely to another unless that organization is a party to the underlying agreement. Unless the grant agreement contains mutually binding agreements with these contractors, their performance (or failure to perform) is ultimately the responsibility of the nonprofit.

A nonprofit should attempt to transfer the risks controlled by the contractor or service provider to that contractor. Carefully evaluate the contractor's capabilities and closely monitor his performance. Determine which outside services are necessary to fulfill the grant obligations and identify ways to ensure that the services will be provided in a timely fashion. Also, make certain that the nonprofit will be compensated if the contractor fails to perform. Once you have identified the service provider, negotiate a hold harmless agreement and indemnification provisions from the contractor for damages resulting from their negligence. These agreements should be supported by adequate financing. In most cases, the contractor should have appropriate insurance coverages and add the nonprofit as an additional insured to the contractor's policy.