

Grant Management

Tyra Litzau, CPA

Audit Director

Anton Collins Mitchell LLP

Internal Control over Compliance

The non-Federal entity is required to establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Internal Control over Compliance

Three objectives of internal control

- ❖ Reliability of financial reporting
- ❖ Efficiency and effectiveness of operations
- ❖ Compliance with applicable laws and regulations

COSO Framework

Per the COSO framework, internal control is defined as follows:

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance

COSO Framework

This definition emphasizes that internal control is:

- ❖ *Geared to the achievement of objectives* in one or more separate but overlapping categories—operations, reporting, and compliance
- ❖ *A process* consisting of ongoing tasks and activities—a means to an end, not an end in itself
- ❖ *Effected by people*—not merely about policy and procedure manuals, systems, and forms, but about people and the actions they take at every level of an organization to effect internal control
- ❖ *Able to provide reasonable assurance*—but not absolute assurance, to an entity’s senior management and board of directors
- ❖ *Adaptable to the entity structure*—flexible in application for the entire entity or for a particular subsidiary, division, operating unit, or business process

COSO Framework

Direct relationship between objectives (which are what an entity strives to achieve) and the components (which represent what is needed to achieve the objectives)

COSO Framework

COSO depicts the relationship in the form of a cube:

- ❖ The three objectives are represented by the columns
- ❖ The five components are represented by the rows
- ❖ The entity's organization structure is represented by the third dimension



Source: COSO

COSO Framework

The COSO Framework has five components of internal control:

- ❖ Control Environment
- ❖ Risk Assessment
- ❖ Control Activities
- ❖ Information and Communication
- ❖ Monitoring Activities

COSO Framework

Control Environment - “Tone at the top”

- ❖ Commitment to integrity and ethical values
- ❖ Board of Directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
- ❖ Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
- ❖ Organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- ❖ Organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

COSO Framework

Risk Assessment - identifying and analyzing risks from internal and external sources

- ❖ Organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
- ❖ Organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
- ❖ Organization considers the potential for fraud in assessing risks to the achievement of objectives.
- ❖ Organization identifies and assesses changes that could significantly impact the system of internal control.

COSO Framework

Control Activities - actions established by policies and procedures; performed at all levels of the entity

- ❖ Organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- ❖ Organization selects and develops general control activities over technology to support the achievement of objectives.
- ❖ Organization deploys control activities through policies that establish what is expected and procedures that put policies into action

COSO Framework

Information and Communication

- ❖ Organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
- ❖ Organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
- ❖ Organization communicates with external parties regarding matters affecting the functioning of internal control.

COSO Framework

Monitoring

- ❖ Organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
- ❖ Organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

Internal Controls

Examples of common categories of control activities:

- ❖ Top level reviews of actual performance
- ❖ Reviews by management
- ❖ Controls over information processing
- ❖ Physical controls and safeguarding of assets
- ❖ Segregation of duties
- ❖ Proper execution of transactions
- ❖ Accurate and timely recording of transactions
- ❖ Appropriate documentation of internal controls and transactions

Internal Controls - Best Practices

- Create policies and procedures and document internal controls over compliance requirements
- Formalize checklists and templates
- Obtain and update information on a regular basis
- Understand the compliance requirements that are applicable to each federal program:
 - Utilize the Compliance Matrix in the Compliance Supplement to identify the compliance requirements that are generally applicable to the program

Internal Controls - Best Practices

- Perform a federal compliance risk assessment
 - ❖ What compliance requirements are applicable to the grant
 - ❖ What could go wrong (risk of noncompliance)
 - ❖ Identify key controls to prevent or detect noncompliance
- Develop a Grant Management Tracking System
- Attend/develop trainings for finance and program staff

Internal Control vs. Compliance

- Control - What did the entity do to make sure that the grant's objective was attained?
- Compliance - Was the grant's objective attained?

Activities Allowed / Allowable Costs

The specific requirements for activities allowed or unallowed are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

Activities Allowed / Allowable Costs

Under current guidance, various cost principles prescribe the cost accounting principles associated with the administration of federal funds

- ❖ A-87: States, local governments, and Indian tribal governments
- ❖ A-21: Higher Education
- ❖ A-122: Nonprofit entities

Activities Allowed / Allowable Costs

- Cost principles are applicable to a non-federal entity regardless of whether funding is direct or pass through
- Circulars describe selected cost items, allowable and unallowable costs, and standard methodologies for calculating indirect costs rates

Activities Allowed / Allowable Costs

Cost principles

- ❖ Necessary and reasonable
- ❖ Allocable to the federal grant
- ❖ Authorized and not prohibited under state or local laws or regulations
- ❖ Conform to limitations or exclusions
- ❖ Consistent with the entities policies, regulations and procedures

Activities Allowed / Allowable Costs

Cost principles

- ❖ Consistently treated
- ❖ Determined in accordance with GAAP
- ❖ Not included as a cost in another grant or used to meet matching requirements
- ❖ Net of applicable credits
- ❖ Adequately documented

Activities Allowed / Allowable Costs

Improper payments include:

- ❖ Payments not allowed under the grant or payments made for the incorrect amount
- ❖ Overpayments or underpayments to eligible recipients
- ❖ Amounts paid to ineligible recipients or for goods/services not allowed under grant
- ❖ Insufficient or lack of documentation to support payment

Activities Allowed / Allowable Costs

Allowable / Allowable with restrictions or unique criteria	Unallowable
Advertising	Alcoholic beverages
Audit costs	Bad Debts
Compensation	Donations and contributions (amount can be used as match)
Depreciation	Entertainment
Equipment & other capital expenditures	General government expenses (unallowable with exceptions)
Materials & Supplies	Goods and services for personal use
Meetings, conferences, training	Lobbying

Activities Allowed / Allowable Costs

Compensation for Personal Services - includes wages, salaries, and fringe benefits

- ❖ Compensation should be reasonable (consistent with that paid for similar work in other activities of the government)
- ❖ Benefits should be reasonable and based on established policy.

Activities Allowed / Allowable Costs

- Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:
 - ❖ Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated
 - ❖ Be incorporated into the official records of the non-Federal entity
 - ❖ Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity not exceeding 100% of compensated activities
 - ❖ Encompass both federally assisted and all other activities
 - ❖ Comply with the established accounting policies and practices of the non-Federal entity

Activities Allowed / Allowable Costs

Compensation for Personal Services

- Work on sole single federal award or cost objective
 - ❖ Payroll certification prepared at least semi-annually and signed by the employee or supervisor having first hand knowledge of work performed
- Work on multiple activities
 - ❖ After the fact distribution of actual activity
 - ❖ Must account for total activity for which employee is compensated
 - ❖ Must be prepared at least monthly and coincide with one or more pay periods
 - ❖ Must be signed by employee

Activities Allowed / Allowable Costs

Compensation for Personal Services

- New guidance provides that the grantee must meet broad objectives for allowability and specific time and effort documentation is not required.
 - ❖ Compensation includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the federal award
 - ❖ Must be reasonable for the services rendered and conform to the established written policy
 - ❖ Records must meet the documentation standards set forth in 200.430.

Cash Management

- Cost reimbursement grants - program costs must be paid for by entity before reimbursement can be requested
- Advances - recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement
 - ❖ Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards

Cash Management

Internal controls - requests should be reviewed to ensure:

- ❖ Drawdown of federal cash is only for immediate needs
- ❖ Compliance with Treasury agreements, as applicable
- ❖ Advance payments to subrecipients conform substantially to the same timing requirements that apply to pass-through entity
- ❖ Interest earned on advances was remitted, if required
- ❖ Reimbursement is requested only after the entity has paid the program costs

Eligibility

The specific requirements for eligibility are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

Eligibility

Examples of Programs with Eligibility Requirements

Child Nutrition Cluster

SNAP

Medicaid

Head Start

Child Care

IV-E Foster Care

TANF (Colorado Works)

Section 8

Eligibility

Examples of Eligibility Requirements

Age

Income

Residence

US Citizenship

Benefit Period

Household Size

Disability Determination

Redetermination

Eligibility

Computer system may be used for processing individual eligibility determinations and delivery of benefits that:

- ❖ Performs calculations to assist in determining who is eligible and the amount of benefits
- ❖ Pays benefits
- ❖ Maintains eligibility records

Eligibility

Computer system to track eligibility (cont')

- ❖ Tracks eligibility time period (start and end dates) and track redetermination requirements
- ❖ Performs matches to other systems
- ❖ Controls who is authorized to approve benefits
- ❖ Produces exception reports

Eligibility

Internal controls ensure:

- ❖ Only eligible individuals and organizations (including subrecipients) receive assistance under the federal program
- ❖ Redeterminations of eligibility are completed in accordance with the federal program
- ❖ Federal awards are calculated in accordance with program requirements
- ❖ Benefits are discontinued after period of eligibility expired

Eligibility

Examples of internal controls

- ❖ Appropriate competence of staff and staff size
- ❖ Training programs to inform employees of the eligibility requirements
- ❖ Written policies and procedures for eligibility determination
- ❖ Procedures for data that is required to determine eligibility
- ❖ Process to ensure that benefits are discontinued after eligibility period ends
- ❖ Appropriate channels of communication to report suspected eligibility issues/concerns
- ❖ Manual checklists or automated processes used in making eligibility determinations
- ❖ Supervisory review of eligibility determinations, especially for new staff
- ❖ Periodic audits of detailed transactions

Matching, Level of Effort, Earmarking

The specific requirements for matching, level of effort, and earmarking are unique to each federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

Matching, Level of Effort, Earmarking

- Matching includes requirements for the non-federal entity to provide contributions, generally non-federal) of a specified amount or percentage as a match to the federal awards. Matching can be in the form of allowable costs incurred or in-kind contributions.
- Level of effort includes requirements for (a) a specified level of service to be provided from period to period, (b) a specified level of expenditures from non-Federal or Federal sources for specified activities to be maintained from period to period, and (c) federal funds to supplement and not supplant non-Federal funding of services.
- Earmarking includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.

Matching, Level of Effort, Earmarking

Internal Controls

- Matching contributions need to be:
 - ❖ Verifiable in the accounting records or other documentation
 - ❖ Not included as contributions for other federal programs, unless specifically allowed
 - ❖ Necessary and reasonable
 - ❖ Allowable costs under the applicable cost principles
 - ❖ Not paid by another federal agency through another award
 - ❖ Provided for in the approved budget by awarding agency

Matching, Level of Effort, Earmarking

Internal Controls (Continued)

- Value of “in-kind” contributions of property or services should be documented:
 - ❖ Volunteer services - basis for local labor market rates
 - ❖ Services provided by other employees - payroll records or confirmation from other organizations
 - ❖ Donated equipment, supplies, land, supplies, etc. - independent appraisals, quotes, published prices.

Period of Availability

Federal awards may specify a time period during which the non-federal entity may use the federal funds.

- ❖ If funding period is specified, non-federal entity may charge to the award costs resulting from obligations incurred during the funding period and any pre-award costs authorized by awarding agency.
- ❖ If authorized by the federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period.

Period of Availability

Internal Controls

- ❖ Disbursements should be reviewed by someone with knowledge of period of availability.
- ❖ Notify program managers and others within the entity relating to the period of availability.
- ❖ Provide budget to actual reports to monitor expenditures.
- ❖ Include period of availability in the accounting system to prevent disbursement or obligation of funds outside the period of availability.

Reporting

Financial Reporting

- *Request for Advance or Reimbursement (SF-270)*
 - ❖ Request reimbursement payments under non-construction programs and may be required to use to request advance payments.
- *Federal Financial Report (FAR) (SF-425/SF-425A)*
 - ❖ Standardized format to report expenditures under federal awards, as well as, when applicable, cash status.

Reporting

Performance Reporting

- Recipients may be required to submit performance reports at least annually (not more frequently than quarterly) Performance reports generally contain brief information of the following types:
 - ❖ A comparison of actual accomplishments with the goals and objectives established for the period.
 - ❖ Reasons why established goals were not met, if appropriate.
 - ❖ Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

Reporting

Special Reporting

- ARRA - Section 1512
 - ❖ Reporting through FederalReporting.gov
- Federal Funding Accountability and Transparency Act (FFATA)
 - ❖ Does not apply to ARRA funded awards
 - ❖ Applies to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts.

Reporting

FFATA

- Subward is defined as a legal instrument to provide support for the performance of any portion of the substantive project or program for which a recipient received a grant or cooperative agreement award and that is awarded to an eligible subrecipient. The term does not include procurement of property and services needed to carry out the project or program.

Reporting

FFATA

- First-tier subcontract means a subcontract awarded directly by a contractor to furnish supplies or services (including construction) for performance of a prime contract, but excludes supplier agreements with vendors, such as long-term arrangements for materials or supplies that would normally be applied to a contractor's general and administrative expenses or indirect cost.

Reporting

If the value of a first-tier	and	then	by
<u>subaward under a grant or cooperative agreement is</u>			
\$65,000 in Federal funds	the entire \$65,000 is obligated on June 1, 2012,	the \$65,000 subaward obligation must be reported	July 31, 2012.
\$65,000 in Federal funds	\$23,000 is obligated at the time of the subaward, and two separate amendments subsequently obligate \$30,000 on October 1, 2012 and \$12,000 on December 30, 2012, respectively,	only the \$30,000 amendment obligation is required to be reported (Note: This example may occur infrequently but should not be used by a recipient to avoid reporting.)	November 30, 2012.
\$24,000 in Federal funds	after the initial obligation of \$24,000, the subaward is subsequently amended to obligate an additional \$25,000 on September 15, 2012,	the initial \$24,000 subaward obligation is not required to be reported; however, the \$25,000 amendment obligation must be reported	October 31, 2012.
\$24,000 in Federal funds	the entire \$24,000 is obligated at the time of the subaward,	no subaward reporting is required.	----
<u>subcontract under a contract is</u>			
\$65,000 in Federal funds	the entire subcontract amount is obligated in full on July 31, 2012 or only a part of the \$65,000 is obligated on July 31, 2012,	the total \$65,000 value of the subcontract must be reported	August 31, 2012.
increased from \$65,000 in Federal funds to \$75,000 in Federal funds	the subcontract is modified on November 24, 2012,	the changed value, i.e., \$75,000, must be reported	December 31, 2012.

Reporting

Internal Controls

- ❖ Policies establish responsibility and provides procedures for monitoring, verification, and reporting of program progress and accomplishments.
- ❖ Documentation from the general ledger or other reliable records are used as basis for reports and are retained.
- ❖ Supervisory review of reports performed to assure accuracy and completeness of data and information included in the reports, as well as that the required accounting method is used.

Common A-133 Audit Issues

Common Issues Found in Single Audits Performed

- ❖ Lack of identification of clusters
- ❖ Missed major programs
 - 2 year look back
 - Prior year findings
- ❖ Inadequate percentage of coverage
- ❖ Improper determination of low-risk auditee status
- ❖ Type A Program threshold calculation errors

Common A-133 Audit Issues

Common Issues Found in Single Audits Performed (cont')

- ❖ Documentation of understanding of internal control over compliance
- ❖ Documentation surrounding testing of laws and regulations
- ❖ Testing and documentation of compliance
- ❖ Incorrect reports being used
- ❖ Sampling and documentation
- ❖ Schedule of Expenditures of Federal Awards (SEFA) issues

Findings

- Internal Controls
 - ❖ Significant deficiencies
 - ❖ Material weaknesses
- Compliance
 - ❖ Material non compliance
 - ❖ Questioned costs (both major and nonmajor programs)
 - ❖ Fraud and abuse

Findings

Findings must be reported for the following (Yellow Book):

- ❖ Significant deficiencies and material weaknesses in internal control over financial reporting;
- ❖ All instances of fraud and illegal acts, regardless of materiality;
- ❖ Material violations of provisions of contracts and grant agreements; and
- ❖ Material abuse.

Findings

- Findings must be reported for the following (A-133):
 - ❖ Significant deficiencies in the internal control over financial reporting;
 - ❖ Material instances of noncompliance;
 - ❖ Known questioned costs greater than \$10,000;
 - ❖ Known questioned costs for programs that are not considered major;
 - ❖ Fraud identified relating to A-133; and
 - ❖ Prior year audit findings.

Common Yellow Book Findings

- Auditee is not able to prepare GAAP financial statements.
- Material audit adjustments identified as part of the audit.
- Lack of review and approval over significant account balances and reconciliations.

Common A-133 Findings

- Failure to provide an accurate or complete Schedule of Expenditures of Federal Awards (“SEFA”).
- Lack of evidence of review and approvals.
- Allowable Costs/Activities
 - ❖ Time and effort reporting is not completed.
 - ❖ Budgeted amounts are used as a basis for payroll allocation instead of actual time spent.
 - ❖ Inadequate documentation to support expenditures.
 - ❖ Lack of documentation of review and approval for transactions.

Common A-133 Findings

- Cash Management
 - Lack of review and approval for expenditure reimbursements.
 - Draws are not completed timely in accordance with grant agreements.
 - Advances are not accounted for in subsequent cash draws.
- Davis Bacon
 - Certified payrolls are not tracked and reviewed to ensure completeness.
 - Required language is not included in contracts.

Common A-133 Findings

- Eligibility
 - Ineligible participants receive benefits.
 - Lack of documentation relating to participant eligibility determination.
- Equipment and Real Property Management
 - Equipment purchased with federal funds is not separately accounted for and tracked.
 - Physical inventory of capital assets is not completed.
 - Disposals are not approved and proceeds are not submitted to the awarding agency.

Common A-133 Findings

- Matching/Earmarking/Level of Effort
 - Matching sources are not allowable under the grant.
 - Failure to comply with earmarking or level of effort requirements.
- Disbursements are made outside of the grant's period of availability.

Common A-133 Findings

- Procurement and Suspension and Debarment
 - No evidence of entity's review of suspension and debarment.
 - No documentation of entity's justification for sole source procurement.
 - Lack of documentation relating to the entity's procurement process, including competitive bidding.
- Reporting
 - Reports do not agree to accounting records.
 - Reports are not submitted within established timeframes.
 - Lack of review and approval of reports prior to submission.

Common A-133 Findings

- Subrecipient Monitoring
 - Subrecipients are not notified of grant information and federal requirements.
 - Subrecipients are not adequately monitored.
- Entity does not adequately address special tests and provisions.

Findings Impact on Audit

Material Weakness

- Auditee does not qualify as low risk auditee for two years following reported finding.
 - This applies to both Single Audit findings and findings of internal controls over financial reporting.

Significant Deficiency

- Program will most likely need to be audited in the next year until the finding is resolved.

Data Collection Form

The Data Collection Form (DCF) is a federal form that summarizes the results of audits performed under OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

- ❖ Required to be updated periodically; version of the DFC typically has a three-year applicability period.
- ❖ The new DCF and instructions will be applicable for audit periods ending in 2013, 2014, and 2015

Data Collection Form

The Federal Audit Clearinghouse (FAC) is the federal entity that collects the DCFs and reporting packages and maintains the database of the completed audits.

Federal agencies rely heavily on the DCF; therefore, it is important that the information is accurate.

Data Collection Form

New Internet Data Entry System (IDES) went into effect November 13, 2013 for the submission of single audits

- ❖ Every user must create an account in the new IDES.
- ❖ User accounts will be based on an e-mail address and an individual password.
- ❖ IDES users may access previous submissions or start new submissions.

Data Collection Form

IDES Passwords

- ❖ Must receive required password email from gov.fac.ides@census.gov
- ❖ Password cannot be reused
- ❖ Expires every 60 days, or after 30 days of no activity
- ❖ Easy to reset, but only one reset is available per day
- ❖ Passwords must be 12 characters long and must contain at least one of the following categories: Upper case letter; lower case letter; numbers special characters;
 - No character can be repeated more than 4 times

Data Collection Form

- Data Collection Form/Federal Audit Clearinghouse
 - ❖ All audit firms (including state organizations) must report their Employee Identification Number (EIN)
 - ❖ Standardized audit findings (e.g., 2014-001)
 - Reference number should match the Schedule of Findings and Questioned Costs
 - ❖ Identify loan/loan guarantees
 - CFDA's with Loan/Loan Guarantee - expenditure for each component listed on separate lines

Data Collection Form

- Federal Awards Findings Summary
 - ❖ Each federal award audit finding separately described
 - ❖ Type of compliance requirement to be indicated
 - ❖ Type of finding to be indicated
 - Compliance (Modified Opinion or Other Matters)
 - Internal Control (Material Weakness or Significant Deficiency)
 - Other
 - ❖ Questioned Costs Relating to the finding (Yes/No)

Data Collection Form

- ❖ PDF Requirement -FY 2014 audits must be unlocked, unencrypted, and 85% of pages text searchable
- ❖ Auditors and auditees will be required to certify that the reporting package does not contain personally identifiable information

Data Collection Form

- ❖ Federal agencies and pass-through entities will obtain copies by accessing the FAC website
- ❖ Subrecipient only required to submit report to FAC, no longer required to submit to pass-through entity
- ❖ Pass-through entity is no longer required to retain a copy of the subrecipients report as it will be available on the FAC

Uniform Grant Guidance

Uniform Administrative Requirements, Cost Principles, and Administrative Requirements for Federal Awards issued in December 2013

- ❖ Consolidates regulations to provide consistent guidance for grant recipients and issuers (8 circulars consolidated into 1)
- ❖ Eliminates duplicate and conflicting guidance
- ❖ All OMB guidance is located at 2 CFR 200

Uniform Grant Guidance

Basic structure of the single audit process has remained unchanged

Key changes and consolidations include:

- ❖ Single source for regulations
- ❖ Emphasis on merit-based awards
- ❖ New mandatory disclosure and certification requirements
- ❖ Streamlined cost principles

Uniform Grant Guidance

Uniform Guidance for Federal Awards Contents

- Subpart A - Acronyms and Definitions
- Subpart B - General Provisions
- Subpart C - Pre-Federal Award Requirements and Contents of Federal Award
- Subpart D - Post Federal Award Requirements
- Subpart E - Cost Principles
- Subpart F Audit Requirements
- Numerous Appendix

Uniform Grant Guidance

Implementation - Key Dates

- Policies Applicable to Federal Agencies (effective 12/26/13)
- Federal Agencies to submit draft implementing regulations to OMB (due 6/26/14)
- Audit Threshold Change (fiscal years beginning after 12/26/14)
- Full text of uniform requirements for non-federal entities (effective 12/26/14)
 - Applies to awards and award increments issued after 12/26/14
 - Applies to audits of fiscal years beginning on or after 12/26/14 (not permitted to early implement audit provisions)

Uniform Grant Guidance

Effective Dates

- September 30, 2014, and December 31, 2014 year ends
 - ❖ No impact
- March 31, 2015, June 30, 2015, and September 30, 2015 year-ends
 - ❖ Non-federal entities have to adopt new administrative requirements and cost principles for all new federal awards and additional funding to existing awards
 - ❖ Single audit requirements use old regulations. However, auditor compliance testing will be affected by entity adoption of new requirements
- December 31, 2015 year-ends and beyond
 - ❖ New administrative requirements, cost principles, and single audit requirements apply

Uniform Grant Guidance

Use of “Should” and “Must” throughout the Uniform Guidance

- Should = best practices or recommended approaches; not applying best practices will require documentation of reason and alternate procedures
- Must = required; no exceptions

Uniform Grant Guidance

Modifications of guidance related to clusters of programs

- ❖ Explicitly states in the major program determination requirements that a cluster of programs is treated as one program
- ❖ For purposes of inclusion/exclusion of large loan programs, the federal program or cluster is only considered to be a loan program if the value of the federal awards expended for loans equals 50% or greater of the program

Uniform Grant Guidance

Increased compliance requirements

- Procurement
- Sub recipient Monitoring
- Conflicts of interest
- Mandatory disclosures
- Internal controls

Uniform Grant Guidance

Procurement

- Requires a formal process to ensure efficient use of grant dollars
 - ❖ Policies must be documented and purchase must comply with the entities documented procurement policies
 - ❖ Purchase must be necessary
 - ❖ Purchase must allow for open competition (to the extent required under each method)
 - ❖ Purchase must consider known or potential conflicts of interest
 - ❖ Procurement process must document cost and price analysis and that award was to a responsible vendor

Uniform Grant Guidance

Procurement “Claw”

- Micro-purchases (<\$3,000)
 - ❖ No quotations required if the price is considered to be reasonable
- Small Purchases (<\$150,000)
 - ❖ Price or rate quotations must be obtained from a reasonable number of vendors
 - ❖ No price or rate analysis is required
- Sealed Bids (>\$150,000)
 - ❖ Construction projects
 - ❖ Price is a significant factor in the award

Uniform Grant Guidance

Procurement “Claw”

- Competitive Proposal (>\$150,000)
 - ❖ Fixed price or cost reimbursement
 - ❖ RFP with evaluation methods
- Sole Source - should be limited to the following
 - ❖ Unique - item is available only from a single source
 - ❖ Public emergency
 - ❖ Authorized by federal awarding agency or pass-thru entity
 - ❖ No competition, or after solicitation of number of sources, competition is deemed inadequate

Uniform Grant Guidance

Sub recipient Monitoring

Sub recipient versus contractor determination expanded and the requirements are located at Section 200.300 (vendor replaced with contractor)

- *Contract* means a legal instrument by which a non-Federal entity purchases property or services needed to carry out the project or program under a Federal award. The term as used in this part does not include a legal instrument, even if the non-Federal entity considers it a contract, when the substance of the transaction meets the definition of a Federal award or subaward (section 200.22)
- *Contractor* means an entity that receives a contract as defined in §200.22 Contract (section 200.23)

Uniform Grant Guidance

Sub recipient Monitoring

- All characteristics that are defined need not be present
- Judgment should be used in the determination process
- Substance of the agreement is more important than the form

Uniform Grant Guidance

- Pass-through entities responsibilities:
 - ❖ Provide subaward information
 - ❖ Identifying or negotiating an appropriate sub-recipient indirect cost rate at the time of award
 - ❖ Perform risk assessment of noncompliance for subrecipient monitoring; risk assessment is based on the following:
 - Prior/past experience with similar sub-awards
 - Previous audit results
 - Significant changes in personnel or systems
 - Extent and results of federal awarding agency monitoring
 - ❖ Verify compliance of audit requirements
 - ❖ Report in accordance to FFATA

Uniform Grant Guidance

Sub recipient Monitoring

- Monitoring activities include:
 - ❖ Review of financial and programmatic reports
 - ❖ Conducting on-site reviews/audits
 - ❖ Conducting follow up reviews to ensure timely completion of corrective action required to address deficiencies
 - ❖ Issuing management decisions on findings
 - ❖ Verifying that sub-recipients receive required audits
- ▶ Design of the monitoring plan will vary depending on subrecipient risk assessment (e.g., the higher the risk the more stringent monitoring activities)

Uniform Grant Guidance

Conflicts of interest

- Organizational Conflict of Interest - entity relationships or circumstances which may make the entity unable to provide impartial advice or assistance, impair the entity's objectivity in performing the work, and/or the entity would have an unfair competitive advantage.
- Personal Conflict of Interest - a situation in which a covered employee has a financial interest, personal activity, or relationship that could impair the employee's ability to be impartial or not act in the best interest of the government.

Uniform Grant Guidance

Conflicts of interest

- Federal awarding agencies must establish conflicts of interest policy for federal awards, including subawards
 - ❖ Not limited to procurement transactions
- Non-federal entity (grantees) must disclose in writing any potential conflicts of interest

Uniform Grant Guidance

Mandatory Disclosures

- Recipients and sub-recipients must disclose, in a timely manner, in writing to the awarding agency or pass-through entity “all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award.”
- Failure to make “required disclosures” can result in remedies, including withholding of payments, disallowance, and suspension/debarment from future awards.

Uniform Grant Guidance

Audit Requirement Revisions

- Focus Audit on Risk; basic structure of the Single Audit process will remain unchanged
- Increases audit threshold increased from \$500,000 to \$750,000
 - ❖ Based on single audits submitted to the FAC for 2011, there would be approximately 6,300 fewer entities subject to a single audit, but there would only be a reduction in dollars covered of approximately \$3.9 billion, or less than 1%

Uniform Grant Guidance

Audit Requirement Revisions

- Type A/B Threshold - increased from \$300,000 to \$750,000
 - ❖ Type A programs are above threshold
 - ❖ Type B programs are below threshold

If total federal awards expended is:	Then Type A programs are those with federal awards expended of the greater of
\$1 million to \$100 million	\$500,000 or 3% (.03) of total awards expended
\$100 million to \$10 Billion	\$3 million or .3% (.003) of total awards expended
\$10 billion or more	\$30 million or .15% (.0015) of total awards expended

Uniform Grant Guidance

Audit Requirement Revisions

- Strengthens risk-based approach to determine Major Programs (High Risk Type A).
 - ❖ Same two year look back
 - ❖ In most recent period, had high risk audit finding
 - Modified opinion
 - Material weakness in internal control
 - Known or likely questioned costs exceeding 5% of expenditures of the program
 - ❖ An auditee with strong internal controls and few audit findings will have less high risk Type A programs

Uniform Grant Guidance

Audit Requirement Revisions

- Type B Programs
 - ❖ Perform risk assessments on Type B programs* until high-risk Type B programs have been identified up to 25% of low-risk Type A program:

*Subject to de minimis threshold

Uniform Grant Guidance

Audit Requirement Revisions

- Minimum coverage of federal dollars is reduced
 - ❖ High risk entity - 40%
 - ❖ Low risk entity - 20%
- Waiver for low-risk auditee standards is no longer available

Uniform Grant Guidance

Streamlining Compliance Requirements

- Currently there are 14 compliance requirements
- Proposed compliance requirements
 - ❖ Activities Allowed or Unallowed (will include Allowable Costs/Principles)
 - ❖ Cash Management
 - ❖ Eligibility
 - ❖ Matching, Level of Effort, Earmarking
 - ❖ Period of Availability
 - ❖ Reporting
 - ❖ Sub recipient Monitoring
 - ❖ Special Tests and Provisions (federal agency could request that Davis Bacon; Equipment; Procurement, Suspension, Debarment; Program Income; Real Property be included under these tests and provisions)

Uniform Grant Guidance

Audit Requirement Revisions

Provides for greater transparency of audit results

- Reporting packages and Data Collection Form is electronically submitted to FAC
- Submission process is changed to require text-based PDF and unlocked, unencrypted
- Reports are publicly available on the website
- Reporting should not include Personal identification information (“PII”) (auditee has to certify through Data Collection Form that no PII is included)

Uniform Grant Guidance

Audit Requirement Revisions

- Strengthens agency use of the single audit process.
- Audit Findings
 - ❖ Threshold for questioned costs increased to \$25,000 from \$10,000
 - ❖ Requires identification if the finding is a repeated finding from prior year; if so prior year finding number is required
 - ❖ Audit findings must be in prescribed format (2014-001)
 - ❖ Should indicate whether sampling was a statistically valid sample

Uniform Grant Guidance

Audit Requirement Revisions

- Corrective Action Plan
 - ❖ Must be separate document from audit findings
 - ❖ Corrective Action Plan and Summary of Prior Year Findings must include findings relating to financial statements required to be reported under Yellow Book requirements

Resources

2014 Compliance Supplement

http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2014

Governmental Audit Quality Center (GAQC)

<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Pages/GAQC.aspx>

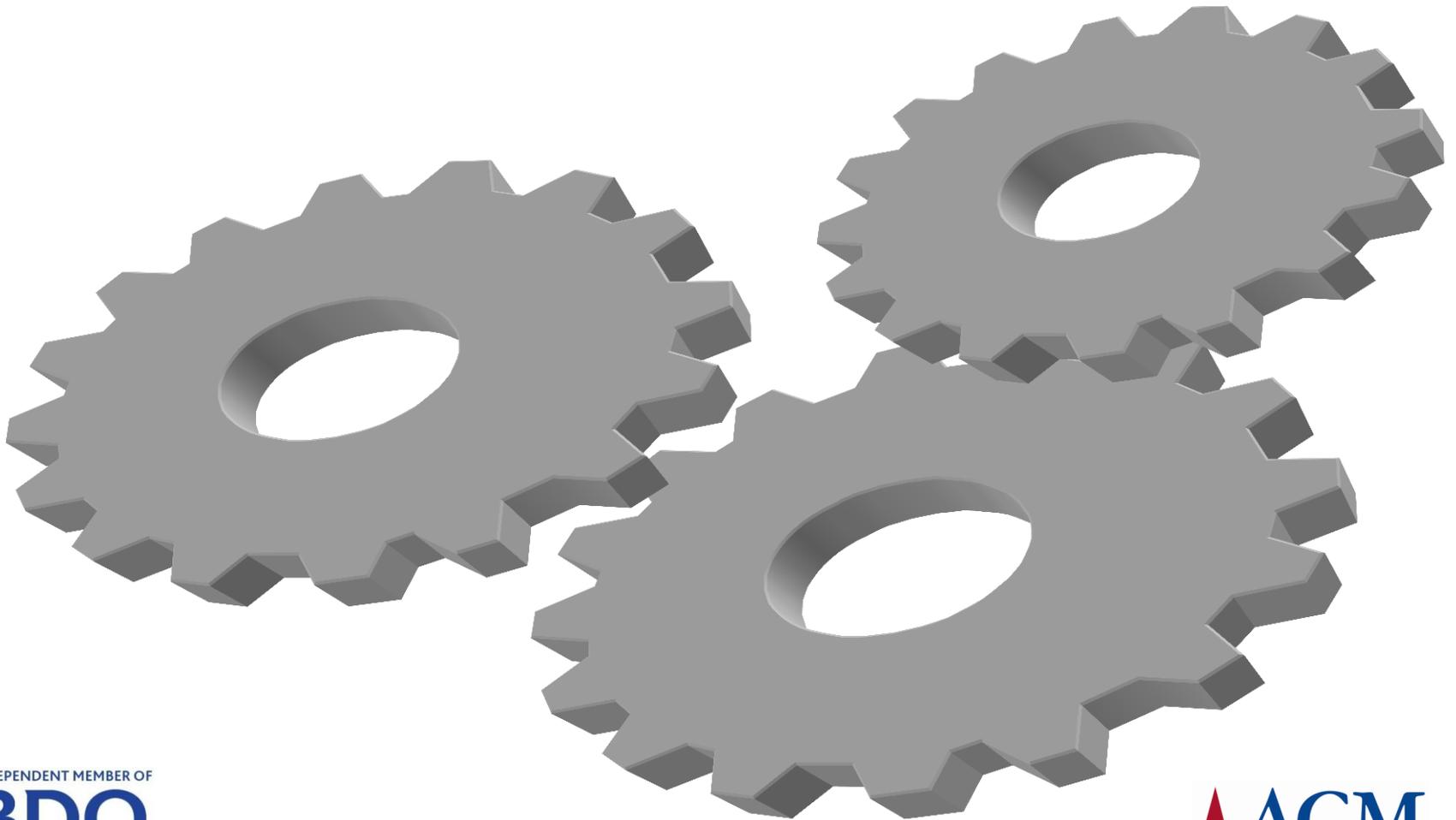
Catalog of Federal Domestic Assistance

<http://www.cfda.gov>

FAC Website (Data Collection Form)

<https://harvester.census.gov/facweb/Default.aspx/formoptions.html>

Questions...



Contact Information

Tyra Litzau, CPA

Audit Director

Anton Collins Mitchell LLP

TLitzau@acmlp.com | www.acmlp.com

Northern Colorado:

2015 Clubhouse Dr., St. 203 Greeley, Colorado 80634

Main: 970.352.1700 | Fax: 970.352.1708

Denver:

303 E. 17th Ave., Suite 600 Denver, CO 80203

Main: 303.830.1120 | Fax: 303.830.8130