

Uniform Grant Guidance: Overview, Changes and Lessons Learned



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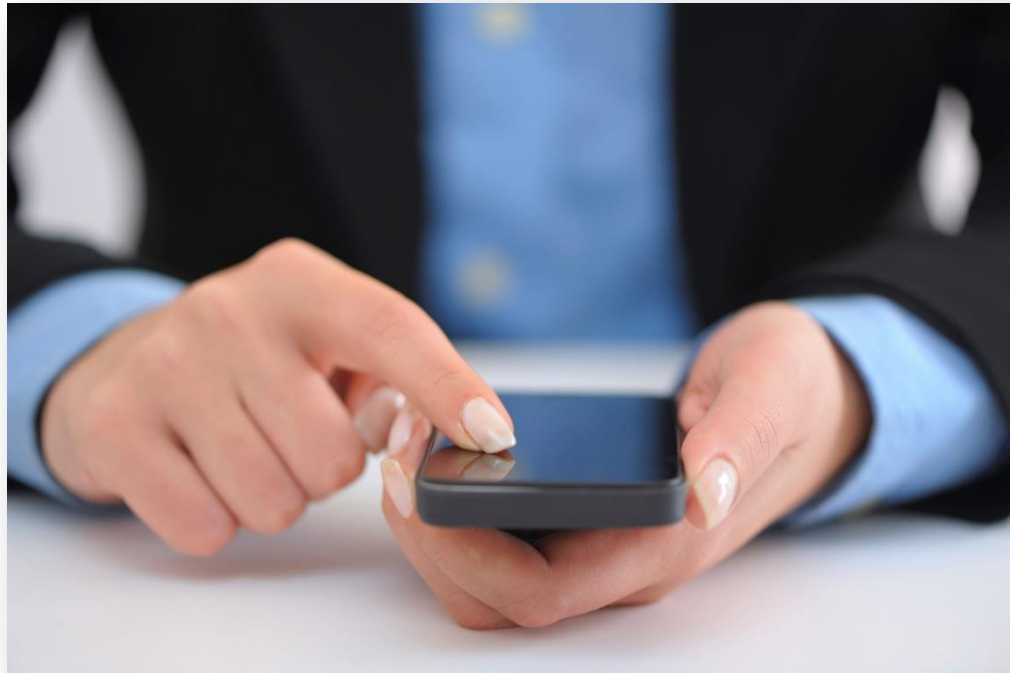
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Meet the Speaker



Shelly L. Hammond, CPA, CGFM

- Leads AGH's public sector practice
- 22 years' experience, specializing in providing auditing and consulting services to a variety of governmental and nonprofit entities
- Member of the AICPA's State & Local Government Expert Panel
- Past member of the AICPA's Government Audit Quality Center Executive Committee
- Member of the:
 - American Institute of Certified Public Accountants
 - Government Finance Officers Association
- Serves on the GFOA Certificate of Achievement Review Committee

Learning Objectives

- Identify key dates / timing of implementation
- Understand internal control requirements
- Identify noteworthy new requirements for administration of grants and determination of allowable costs
- Learn about the impact on your audit, both this year and next
- Identify changes made to the originally published guidance



*Uniform Guidance on Administrative
Requirements, Cost Principles, and Audit
Requirements*

*(Uniform Grant Guidance)
(Supercircular)*

Uniform Grant Guidance

Goals:

- Reduce administrative burden
 - Elimination of duplicative & conflicting guidance
- Strengthen oversight
- Consistent & transparent treatment of costs
- Targeting audit requirements on waste, fraud and abuse (though the 14 compliance requirements are unchanged)

Uniform Grant Guidance

- Issued in the Federal Register on December 26, 2013
- Interim Final Rule published in the Federal Register December 19, 2014
- Can be found at:
 - 2 CFR Part 200
 - COFAR website at <https://cfo.gov/cofar> (Reform of Federal Grant Policies menu item)
 - COFAR = Council on Financial Assistance and Reform
 - Website above also has FAQs, videos, crosswalk guidance, etc.

Key Dates / Implementation

Effective Date for Agencies:

- **Administrative requirements** and **cost principles** apply to new awards AND to additional funding (funding increments) to existing awards after December 26, 2014
 - What if apply before December 26, but are awarded after?
- Existing awards will continue to be governed by terms and conditions of the Federal Award, except for audit requirements

Key Dates / Implementation

EXCEPTION for PROCUREMENT:

One-year grace period provided for compliance with the procurement standards:

- For an entity's first fiscal year that begins after December 26, 2014, entity must document whether it is in compliance with the old or new standard, and must meet the documented standard.
- See FAQ 200.110-6 (also incorporated into Interim Final Rule)
- **Caution! Grace-period language in Interim Final Rule unclear on application to state & local governments**

Key Dates / Implementation

Effective Date for Audits:

- For **audits** of fiscal years beginning after December 26, 2014 (i.e., for entities with years ending December 31, 2015)

Key Dates / Implementation

Year-End	Impact
June 30, 2014 September 30, 2014 December 31, 2014	No impact from the UGG for non-federal entities or auditors
March 31, 2015 June 30, 2015 September 30, 2015	Non-federal entities will adopt new Admin Requirements and Cost Principles for <u>new</u> and <u>incremental</u> awards issued after December 26, 2014. Audit requirements not affected, but auditor testing will be affected by non-federal entity adoption of above
December 31, 2015	Admin Requirements, Cost Principles, and Audit Requirements all apply.



Polling Question #1



Internal Control Requirements

“Should” vs. “Must”

Should = best practice or recommended approach

Must = required

200.303 Internal Controls

- Requires non-federal entities to establish and maintain effective internal controls
 - Internal controls **should** be in compliance with guidance in *Standards for Internal Control in the Federal Government* (Green Book) and the *Internal Control Integrated Framework* issued by COSO.
- Evaluate and monitor compliance.
- Take prompt action on audit findings.
- Safeguard protected personally identifiable information (PII defined in 200.82).

200.302 Financial Management

Financial management system must include:

- Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they are received
- Accurate, current and complete disclosure of the financial results of each federal award or program
- Records that identify the source and application of funds for federally-funded activities
- Effective control over, and accountability for all funds, property, and other assets
- Comparison of expenditures with budget amounts for each Federal award
- Written procedures to implement the requirements for cash management
- Written procedures for determining the allowability of costs in accordance with cost principles

Other Written Policies/Procedures

Required:

200.318 – documented procurement procedures, written standards of conduct covering conflicts of interest

- Don't forget about procurement card policies, if they are separate!

Other Written Policies/Procedures

Others to Consider:

- 200.301: How to measure outcomes / performance, and relate those to financial data
- 200.310-316: Policies for management of property
- 200.331:
 - Policy for structure of agreements with subrecipients (what will be included / communicated)
 - Process for how risk assessments will be conducted for subrecipient monitoring
 - Overall procedures for monitoring subrecipients
- 200.333: Record-retention policy



*Key New Requirements for
Administration of Grants & the
Allowability of Costs*

Significant Areas of Change

- Procurement
- Subrecipient Monitoring
- Time and Effort Reporting
- Indirect Costs

200.317-326 Procurement Standards

States continue to use own policies / procedures

- Will comply with 200.322, *Procurement of recovered materials*
- Will ensure that every purchase order or other contract includes any clauses required by section 200.326, *Contract provisions*

200.317-326 Procurement Standards

- All non-federal entities **other than states** must use their own documented procurement procedures, provided that they conform to applicable Federal, State and local laws, and the standards in this section.
- Guidance generally from A-102 (gov'ts), with modifications – nonprofits and institutions of higher education likely to have more changes

200.318 General Procurement Standards

- a) Non-federal entities must use their own documented procurement procedures, which reflect applicable state/local laws and regulations, provided that procurements also conform to the standards in this section.
- b) Must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts
- c) Must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection of awards and administration of contracts.

200.318 General Procurement Standards

- d) Procedures must avoid acquisition of unnecessary or duplicative items. Also, where appropriate, analysis should be done of most economical approach (lease vs. purchase, for example)
- e) Encouraged to enter into state / local intergovernmental agreements for procurement or use of common or shared goods and services
- f) Encouraged to use Federal excess and surplus property in lieu of purchasing equipment
- g) Encouraged to use value engineering clauses in contracts for construction

200.318 General Procurement Standards

- h) Must award contracts only to responsible contractors possessing the ability to perform successfully under the terms and conditions of the procurement
- i) Must maintain records sufficient to detail the history of procurement. Includes: Rationale for method of procurement, selection of contract type, contractor selection or rejection, and basis for the contract price
- j) May use time-and-material-type contracts only after a determination that no other contract is suitable and if the contract includes a ceiling price that the contractor exceeds at its own risk
- k) Non-federal entity alone must be responsible for the settlement of all contractual and administrative issues arising out of procurements

200.319 Competition

- Procurement transactions must be conducted in a manner providing full and open competition.
- Prohibition on the use of statutorily or administratively imposed state or local geographical preferences in the evaluations of bids or proposals, except where the Federal statute mandates / encourages it
 - Where there is a conflict between state law and this guidance...”this Federal guidance prevails.”

200.320 Procurement Methods

The non-federal entity must use one of 5 methods:

- 1) Micro-purchases (<\$3,000 or <\$2,000 if subject to Davis Bacon)
 - Do not require solicitation of any competitive quotations as long as entity considers costs to be reasonable
- 2) Small-purchase procedures (those less than Simplified Acquisition Threshold, currently \$150,000)
 - Price or rate quotations must be obtained from an adequate number of qualified sources.

Overall, for both of above, they require fewer terms / conditions, have a lesser competition standard than other purchases, may be solicited informally, and do not require a cost or price analysis.

200.320 Procurement Methods

The non-federal entity must use one of 5 methods:

3) Sealed bids (formal advertising)

- Bid with lowest price from a responsible bidder confirming to the terms of the invitation to bid is awarded contract
- Preferred method for procuring construction, if certain conditions listed in this section are met

4) Competitive proposals (RFP)

- Generally used when conditions are not appropriate to use sealed bids
- Must have a written method of conducting technical evaluations of the proposals received, among other things
- Price is not the only factor.

200.320 Procurement Methods

The non-federal entity must use one of 5 methods:

5) Noncompetitive proposals (sole source)

- Solicitation of a proposal from only one source
- May only be used when one or more of the following apply:
 - a) *The item is available from only one source,*
 - b) *Public emergency will not permit a delay,*
 - c) *The Federal awarding agency or pass-through entity expressly authorizes its use, or*
 - d) *After solicitation of a number of sources, competition is determined inadequate.*

Other Procurement Provisions

- 200.321: Considerations for contracting with small and minority businesses, women's business enterprises
- 200.323: Contract cost or pricing – includes discussion of performing a cost or pricing analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold
- 200.325: Bonding requirements

200.326 Contract Provisions

See also Appendix II to Part 200 – *Contract Provisions for Non-Federal Entity Contracts Under Federal Awards.*

- All contracts made by a non-Federal entity under the Federal award must contain provisions covered in this section, as applicable.
- Includes: Davis Bacon, EEOC, Clean Air Act, Suspension & Debarment provisions



Polling Question #2

200.330 Subrecipient and Contractor Determinations

- Pass-through entity must make case-by-case determinations whether an agreement it makes for disbursement of federal funds results in the recipient being in the role of a subrecipient or a contractor.
- Explains the roles of ***subrecipients*** vs. ***contractors*** so that non-federal entities can determine the relationship and applicable requirements

200.330 Subrecipient and Contractor Determinations

Subawards are provided to subrecipients for the purpose of carrying out a portion of a Federal award. Characteristics include:

- The entity determines who is eligible to receive what Federal assistance.
- Has its performance measured in relation to whether objectives of a Federal program were met
- Has responsibility for programmatic decision making
- Is responsible for adherence to applicable Federal program requirements
- In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified, as opposed to providing goods or services for the benefit of the pass-through entity

200.330 Subrecipient and Contractor Determinations

Contracts are entered into for the purpose of obtaining goods and services for the non-federal entity's own use.

Characteristics include:

- The entity provides the goods or services within normal business operations.
- Provides similar goods or services to many different purchasers
- Normally operates in a competitive environment
- Provides goods or services that are ancillary to the operation of the Federal program
- Is not subject to compliance requirements of the Federal program as a result of the agreement, though similar requirements may apply for other reasons

200.331(a) Requirements for Pass-Through Entities (communication)

Ensure that every subaward is clearly identified to the subrecipient as a subaward, and includes the following information (list is not all-inclusive):

- CFDA number and name
- Federal award identification number (FAIN)
- Name of federal awarding agency, name of pass-through
- Subrecipient name and DUNS number
- Subaward period of performance (dates)
- Amount of federal awards obligated by this action
- Indirect cost rate to be used
- All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes / regulations

200.331(b) Requirements for Pass-Through Entities (risk assessment)

The pass-through entity must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations and terms. The ***risk assessment*** factors may include:

- Subrecipient's prior experience with the same or similar awards
- Results of previous audits, and whether or not the sub receives its own Single Audit (Subpart F), and the extent to which the same or similar subaward has been audited as a major program
- Whether the sub has new personnel or systems
- Extent and results of Federal awarding agency monitoring

200.331(d) Requirements for Pass-Through Entities (monitoring)

Monitoring the activities of the subrecipient is necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal regulations, and that subaward performance goals are achieved. Monitoring **must** include:

- Reviewing financial and programmatic reports required by the pass-through entity
- Following up and ensuring that the sub takes timely and appropriate actions on all deficiencies pertaining to the award detected through audits, on-site reviews, and other means
- Issuing management decisions for audit findings pertaining to the Federal award provided to the sub from the pass-through entity as required by 200.521

200.331(e) Requirements for Pass-Through Entities (monitoring)

Depending on the pass-through entity's assessment of risk posed by the subrecipient, the following monitoring tools **may be useful** for the pass-through entity to ensure proper accountability and compliance:

- Providing subrecipients with training and technical assistance on program-related matters
- Performing on-site reviews of the sub's program operations
- Arranging for agreed-upon procedures engagements

200.331 (f,g,h) Requirements for Pass-Through Entities (monitoring)

- Verify (not ensure) that every subrecipient is audited as required by Subpart F.
 - *What should be done if the entity does not have an audit under Subpart F?*
- Consider whether the results of the audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records.
- Consider taking enforcement action against noncompliant subrecipients as described in 200.338.

200.430 Compensation – Personal Services

- Strengthened focus on internal controls, which allows for flexibility in how non-federal entities meet the standards
- Purpose was to reduce administrative burden of documenting time and effort
- Federal agencies may approve methods for blended funds.

Where are we now?

OMB Circular A-87, Attachment B.8(h):

Where employees work solely on a single Federal award or cost objective:

- Charges will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification.
- Certifications will be prepared at least semi-annually.
- They will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Where are we now?

OMB Circular A-87, Attachment B.8(h):

Where employees work on multiple activities or cost objectives, a distribution of their salaries / wages will be supported by personnel activity reports or equivalent documentation:

- Reflect after-the-fact distribution of actual activity
- Must account for total activity of the employee
- Must be signed by the employee
- Must be prepared at least monthly and coincide with one or more pay periods

Where are we now?

OMB Circular A-87, Attachment B.8(h):

Where employees work on multiple activities or cost objectives, a distribution of their salaries / wages will be supported by personnel activity reports or equivalent documentation:

- Budget estimates or other distribution percentages determined before the services are performed do not qualify, but may be used for interim purposes, provided that:
 - The system for establishing the estimates produces reasonable approximations of activity actually performed
 - At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made.
 - Costs charged to federal awards to reflect adjustments made as a result of the comparisons may be recorded annually if the difference is less than 10% (otherwise, do quarterly)

Where we are going: Compensation documentation under the new UGG

Charges must be based on records that accurately reflect the work performed. The records must:

- a) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated
- b) Reasonably reflect the total activity for which the employee is compensated, not exceeding 100% of compensated activities
- c) Comply with the established accounting policies and practices of the entity
- d) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and a non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and an allowable direct or indirect activity

Compensation: Documentation

When interim charges are based on budget estimates (before the services are performed), the non-federal entity's system of internal controls must include processes to ensure necessary adjustments are made such that the final amount charged to Federal awards is proper.

- Significant changes in work activities are identified and entered into the records in a timely manner
- Short-term (such as 1-2 months) fluctuations between workload categories need not be considered as long as the distribution is reasonable over the longer term.
- System of internal controls includes processes to review after-the-fact interim charges made to Federal awards

Compensation: Documentation

- Guidance no longer includes specific details on what internal controls should be.
 - For example, not required to use personal activity reports
- Entities have the ability to implement internal control systems and business processes that best fit their needs.
- Substitute processes or systems for allocating salaries may be used in place of, or in addition to the records described previously, if approved by the cognizant agency for indirect costs.



Polling Question #3

200.414 Indirect (F&A) Costs

- Federal acceptance of approved IDC rates
- New de minimis rate
- One-time extension of up to 4 years

200.414(c) Indirect costs: Approved rates

Federal awarding agencies must accept approved negotiated indirect cost rates **unless a different rate is required by Federal statute or regulation**, or when approved by a Federal agency head or delegate based on documented justification as described in paragraph (c)(3). (OMB would be notified of any deviations.)

200.414 (f) Indirect costs: De minimis rate


A 10% de minimis IDC rate is now available. Any non-Federal entity that has **never** received a negotiated indirect cost rate, except for those non-Federal entities described in Appx. VII (governments with more than \$35 million in direct Federal funding), may elect to charge a rate of 10% of modified total direct costs which may be used indefinitely.

- Must be used on all federal awards until the entity negotiates an approved rate with their cognizant agency
- May be used indefinitely

200.414(g) Indirect costs: Extensions

May apply for a one-time extension of current indirect cost rate of up to 4 years without further negotiation, subject to approval of the negotiating Federal agency

- If approved, the entity is “locked in” to that rate until the extension period ends – no renegotiations
- Only applies if entity has had no major changes to its indirect costs and receives prior approval



Impact on Your Audit

Reminder on Effective Date

- Effective for audits of fiscal years beginning after December 26, 2014 – i.e., for entities with years ending December 31, 2015
- Auditors are NOT allowed to implement the changes early.
- Example of key change: Raised Single Audit threshold to \$750,000 of expenditures

Impact on 2015 Audits

For entities with June 30, September 30 other year-ends in 2015 prior to December 31, 2015:

- New audit requirements are not in effect.
- However, auditors could test grants received after the December 26, 2014 date that fall under the new Administrative Requirements and Cost Principles.

Audit Changes Impacting Auditees

- The SEFA must include the total amount provided to subrecipients from each Federal program.
- Summary Schedule of Prior Audit Findings & Corrective Action Plan will include any financial statement (GAS) findings.
- Corrective Action Plan required to be separately issued by the entity



Polling Question #4



*Modifications to
Original Guidance*

Publications Impacting Guidance

- Frequently Asked Questions: Posted through November 2014
- Interim Final Rule published in the Federal Register December 19, 2014
 - Incorporated the impact of the FAQs
 - Added chapters to Title 2 of the CFR for each Federal Awarding Agency
 - Note that there may be some variances from the Uniform Guidance, as implemented by individual agencies
 - Incorporated various technical corrections
 - Changed some “shoulds” to “musts”

Indirect Costs - FAQs

- Existing negotiated indirect cost rates will remain in place until they are due to be renegotiated.
- New guidance may be used in generating indirect cost proposal / negotiating cost rate for years after 12.26.14 (i.e., even if based on 2014 costs, or in process now).

Indirect Costs - FAQs

- Extension requests should be submitted 60 days prior to the due date of the next proposal for indirect costs, though cognizant agencies may accept requests submitted later on a case-by-case basis.

Indirect Costs: Pass-through Entities - FAQs

- 1) If the subrecipient has a negotiated rate with the Federal government, that rate must be used.
- 2) Not permissible for pass-through entities to force or entice a proposed sub without a negotiated rate to accept less than the de minimis rate.
- 3) Pass-through entities MAY, but are not required to, negotiate a rate with a subrecipient who asks to do so.



Questions?

Thank You

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