

Single Audit Update – Understanding the Impact of the Uniform Grant Guidance



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Learning Objectives

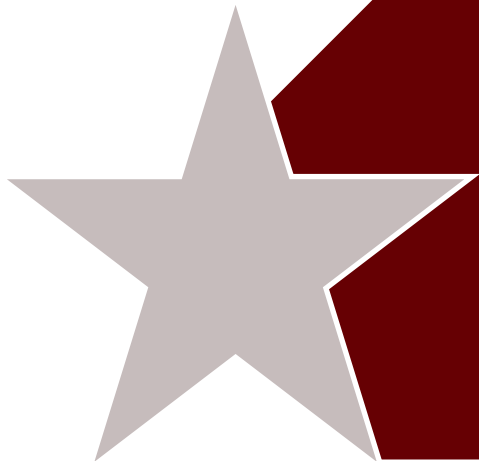
- Understand the overview
- Understand the effectiveness dates
- Understand the key changes
- Understand the impact on single audits
- Review grants management best practices

Overview of the Uniform Guidance

Uniform Guidance



The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards – referred to as the “Omni Circular” or “Super Circular”



Consolidated and streamlines eight previous federal regulations into comprehensive guidance codified at 2 CFR Part 200 (Subparts A – F)

Uniform Guidance

Previous Guidance:

A-21, A-87, A-122 Cost Circulars

A-133 Single Audit Guidance

A-89 Catalog of Federal Domestic Assistance

A-102, A-110 Uniform Administrative Requirements

A-50 Audit Followup

New Guidance:

Subpart A – Acronyms and Definitions

Subpart B – General Provisions

Subpart C - Pre Federal Award Requirements

Subpart D – Post Federal Award Requirements

Subpart E – Cost Principles

Subpart F – Audit Requirements

Objectives of the Uniform Guidance

Eliminate duplication and conflicting guidance

Focus on performance over compliance for accountability

Encourage efficient use of IT and shared services

Provide for consistent and transparent treatment of costs

Limit allowable costs to make best use of federal funds

Set standard business processes using data definitions

Encourage non-federal entities to have family-friendly policies

Strengthen oversight

Target audit requirements on risk of waste, fraud, and abuse

Effective Dates

Effective Dates

New awards made after 12/26/14

incremental funding actions after
12/26/14 that are opportunities
to change award terms and
conditions

Effective Dates

Existing federal awards will continue to be governed by the terms and conditions of the federal award

Incremental funding actions that are subject to the Uniform Guidance, non-Federal entities are not obligated to segregate or otherwise track old funds and new funds but may do so at their discretion.

Effective Dates

2015 will be “transition year” – will have grants governed by old guidance and some by new guidance

Organizations with both old and new awards may make changes to their entity-wide policies (for example to payroll or procurement systems)

Organizations wishing to implement entity-wide system changes to comply with the Uniform Guidance after the effective date of December 26, 2014 will not be penalized for doing so, regardless of if they have new awards

Effective Dates – Single Audits

Subpart F, Audit Requirements, will apply to audits of the fiscal years of non-federal entities that begin on or after December 26, 2014.

Early implementation is not allowed.

Impact on Subawards

The effective date of the UG for subawards is the same as the effective date of the federal award from which the subaward is made.

The requirements for a subaward, no matter when made, flow from the requirements of the original federal award from the federal awarding agency

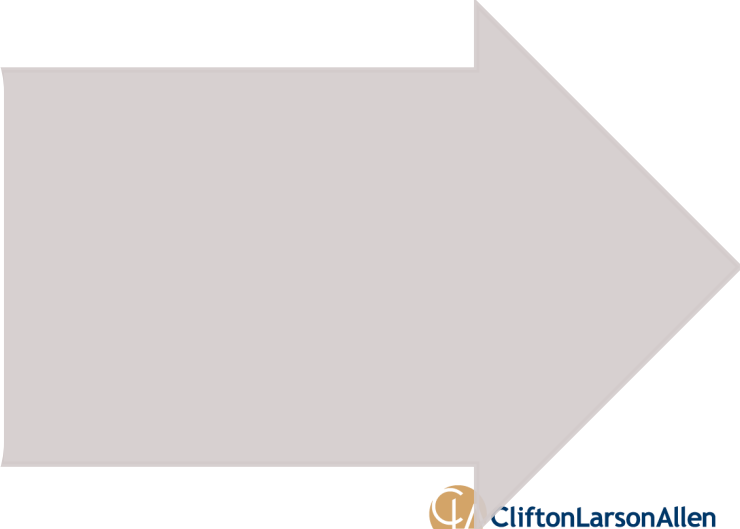
Uniform Guidance Key Changes

Procurement

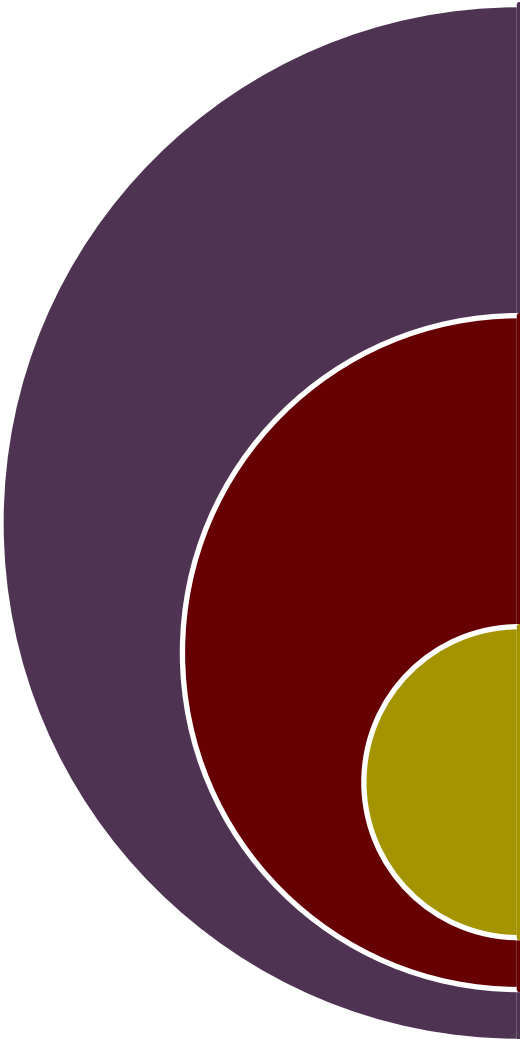
Expanded from current
administrative requirements



Competition is stressed
(1 paragraph to 1 page)



Procurement



Grace period of one full fiscal year
that begins on or after 12/26/14

Must document whether it is in compliance
with the old or new standard, and must
meet the documented standard.

June 30th year end would be year ending 6/30/16,
September 30th would be 9/30/16, etc.

Procurement “Claw”

Procurement “Claw” (Section 200.320)



1. Micro-Purchase
 - < \$3,000
 - No quotations
 - Equitable distributions
2. Small Purchases
 - Up to \$150,000
 - Rate quotations
 - No cost or price analysis
3. Sealed Bids
 - > \$150,000
 - Construction projects
 - Price is a major factor
4. Competitive Proposals
 - > \$150,000
 - RFP with evaluation methods
5. Sole Source
 - Unique
 - Public emergency
 - Authorized by agency or PTE
 - No competition

Procurement “Claw”

Procurement “Claw” (Sections 200.317-326)



General Standards

- Documented Policies
- Necessary
- Full & Open Competition
- Conflict of Interest
- Documentation
 - Cost & Price Analysis
 - Vendor Selection

Procurement

Organizations Must:

Have written Procurement Policies

Take all necessary affirmative steps to assure that minority businesses, women's business enterprises, and labor surplus area firms are used when possible (not just "positive efforts.. whenever possible")

Engage in full and open competition

Procurement


Organizations Must:



Ask for representations regarding actual or potential conflicts of interest



Perform a cost or price analysis when purchase in excess of Simplified Acquisition Threshold



Keep Procurement records must be maintained sufficiently to detail the history of all procurements, not just those over small purchase threshold

Procurement

Review by awarding agency or pass-through entity

Can be during procurement or afterwards

Non-federal entities can self-certify that they are meeting requirements of UGG

Will reduce chance of awarding agency requesting records

Subrecipient Monitoring

Guidance defines sub-recipient vs. contractor

New Guidance places more responsibility on pass-through entity

Subaward must contain specific information as outlined in UGG

Subrecipient Monitoring

Pass-through entities must evaluate each subrecipient's risk of noncompliance

prior
experience

results of
previous
audits

new
personnel or
new or
substantially
changed
systems

extent and
results of
Federal
awarding
agency
monitoring

Subrecipient Monitoring

Risk Assessment
must be
documented.

Use CLA's tool:

“Subrecipient Risk Assessment Matrix”

<http://claconnect.com/Nonprofit/Uniform-Grant-Guidance-Workbook-Subrecipient-Risk-Assessment.aspx>

Subrecipient Monitoring

Pass-through entities must monitor activities of the subrecipient:

Reviewing financial and programmatic reports

Verify that audit is being performed (if necessary) and following up on audit findings and deficiencies

Issuing management decision on audit findings

Subrecipient Monitoring

Additional monitoring tools that may be used depending on risk assessment of sub-recipient:

Providing training and technical assistance

On-site reviews of program operations

Arranging for agreed upon procedures

Indirect Costs

Federal agencies must accept negotiated indirect cost rates

Pass-through entities are required to honor an organization's negotiated indirect cost rate or negotiate a rate

Organization's that are receiving direct funding and do not have a negotiated rate will need to negotiate an indirect cost rate or can use the de minimus rate

Organizations will have up to 3 months after the effective date of their next grant to submit a proposal for a negotiated rate

Indirect Costs

Automatic Extension

Entities with an approved federally negotiated indirect cost rate can now apply for a one-time extension of up to four years without further negotiation.

Can only use one-time extension if there have been no major changes to indirect costs and approval from the cognizant agency is received

If approved, entity may not request a review of the rate until extension period is up

Indirect Costs

De Minimus Rate

Non-federal entities that have never had a negotiated indirect cost rate may use a de minimus rate of 10 percent of modified total direct costs.

Must use consistently on all awards until rate is negotiated, which entity may do at any time

Time and Effort Reporting

Final guidance allows for alternatives to the current reporting requirements

Guidance is less prescriptive on documentation and places more emphasis on internal control

Changes made by OMB aimed at reducing the administrative burden of documenting time and effort

Time and Effort Reporting

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

Be supported by a system of internal controls which provides reasonable assurance that the charges are accurate, allowable and properly allocated

Reasonably reflect the total activity for which the employee is compensated by the non-federal entity, not exceeding 100% of compensated activities

Comply with the established accounting policies and practices of the non-federal entity

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

Time and Effort Reporting

Budget estimates may be used for interim accounting purposes, provided that:

System for estimating must produce “reasonable approximations” of activity actually performed;

Significant changes in work activity (as defined in written policies) are identified and entered into records timely.

Must be a process to review the charges made based on budget and adjustments after the fact so that “the final amount charged to the Federal award is accurate, allowable, and properly allocated.”


Time and Effort Reporting

Guidance allows entities to replace detailed time-and-effort reports with performance-based reporting that is based on milestones.

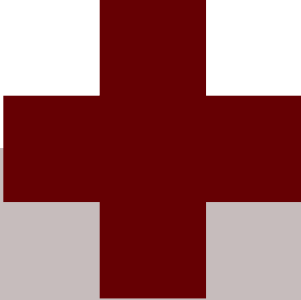
The appropriate agency will have to approve the use of such an approach

Entities could use performance-based metrics to account for multiple awards

Time and Effort Reporting



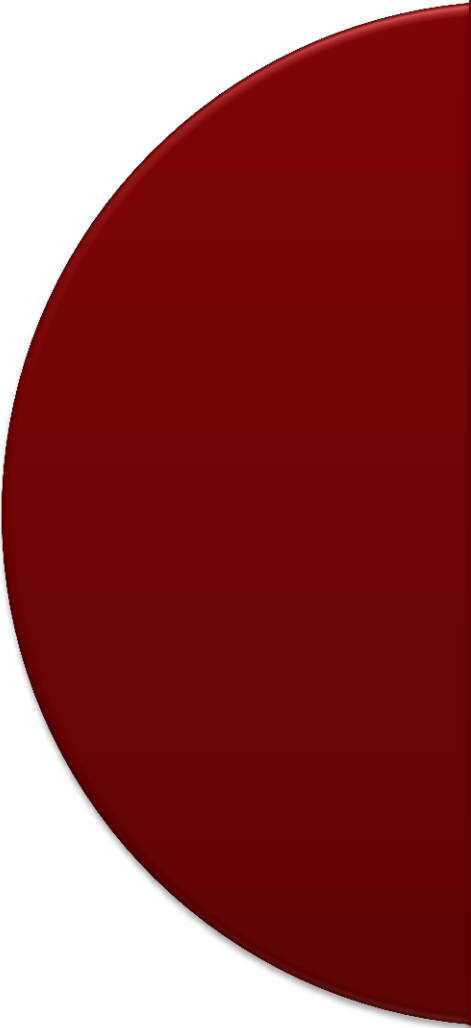
When records do not meet the standards, federal government may require personnel activity reports, including prescribed certifications, or equivalent documentation



Need to determine what is appropriate for your employees working on federal awards – not all individuals working on federal grants have the same situation

Uniform Guidance Implications on Single Audits

Impact on Audits



June 30, 2015 and
September 30, 2015
year-ends

Impact on Audits

Non-federal entities will have to adopt new administrative requirements and cost principles relating to all new federal awards

UG applies to funding increments to existing awards in cases where the federal agency considers the funding increments to be an opportunity to modify the terms and conditions of the award.

Existing federal awards that do not receive incremental funding with new terms and conditions will continue to be governed by the terms and conditions of the federal award.

Auditing Through the Transition

Effective date to be challenging for compliance testing

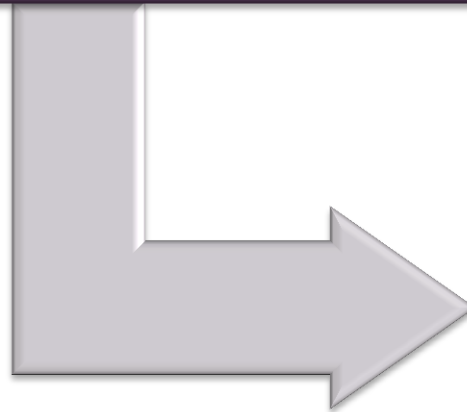
Will likely have to test some awards subject to the “old” requirements and some the “new” requirements

Likely to take several years for “old” funding to run out

Challenge related to fund receive by subrecipients from pass-through entities

Impact on Audits

Single audit requirements continue to use “old” regulation (i.e. audit under A-133)



2015 OMB Compliance Supplement will be key

2015 Compliance Supplement Updates

Part 3, *Compliance Requirements*, no longer includes sections D - Davis-Bacon Act and K - Real Property Acquisition and Relocation Assistance.



Subaward reporting requirements under the Federal Funding Accountability and Transparency Act (FFATA) have been deleted from section L - Reporting so it will no longer be a compliance requirement to be tested by auditors.

2015 Compliance Supplement

To address the transitional situation, a new section will be included in Part 3 of the 2015 Supplement.



Part 3.1, which is the previous Part 3 from the 2014 Supplement updated for normal annual changes, applies to federal awards subject to the "old" rules.



The new Part 3.2 applies to compliance testing of new federal awards and incremental funding made on or after December 26, 2014.

2015 Compliance Supplement

Parts 4 (Agency Program Requirements) and 5 (Clusters of Programs) may be affected as well



Part 6 is currently out of date and needs to be updated for new COSO guidance

Key Planning Considerations

Understand the Nature of your Federal Awards

Meet early on with auditors to discuss nature of federal awards expended

Determining whether there will be testing against “old” or “new” requirements, or both

Key Planning Considerations

Understand New Administrative and Cost Principle Requirements for those under UGG

Internal Control

Procurement

Direct and Indirect Costs

Time and Effort

Subrecipient Monitoring

Impact on Audits

December 31, 2015
and beyond year-
ends

Single Audits

Increased threshold for an A-133 audit

- From \$500,000 to \$750,000

Increased Type A threshold

- A new table simplifies the Type A / Type B determination. For those organizations with federal expenditures below \$25 million, the threshold is increased from \$300,000 to \$750,000

Increased Type B threshold

- Programs that exceed 25% of the Type A threshold. For orgs with federal expenditures below \$25 million, threshold increased from \$100,000 to \$187,500

Single Audits

High Risk A criteria

- Material weakness in I/C (was any control deficiency finding)
- Modified opinion on the program
- Known or likely questioned costs that exceed 5% of total program expenditures

High Risk Bs to be tested

- Auditor not required to identify more than at least $\frac{1}{4}$ the number of low-risk Type A.
- No longer have two options to choose from

Single Audits

Low-Risk Auditee Criteria

- Now includes that auditors report did not include a going concern
- Unmodified opinion on a major program

Percentage of coverage rule

- 25 percent to 20 percent for low-risk auditees
- 50 percent to 40 percent for all others

Questioned costs reporting

- Increases the threshold for reporting known or likely questioned costs from \$10,000 to \$25,000
- Requires more detailed information to be reported

Client/Auditor Discussions

Auditees may have heard that audit burden/fees should be reduced with the new UG

Be prepared to discuss the following with clients or auditors:

Why engagements may be more complex (e.g., transitional auditing, new requirements, updated internal control, etc.)

Potential increase in hours

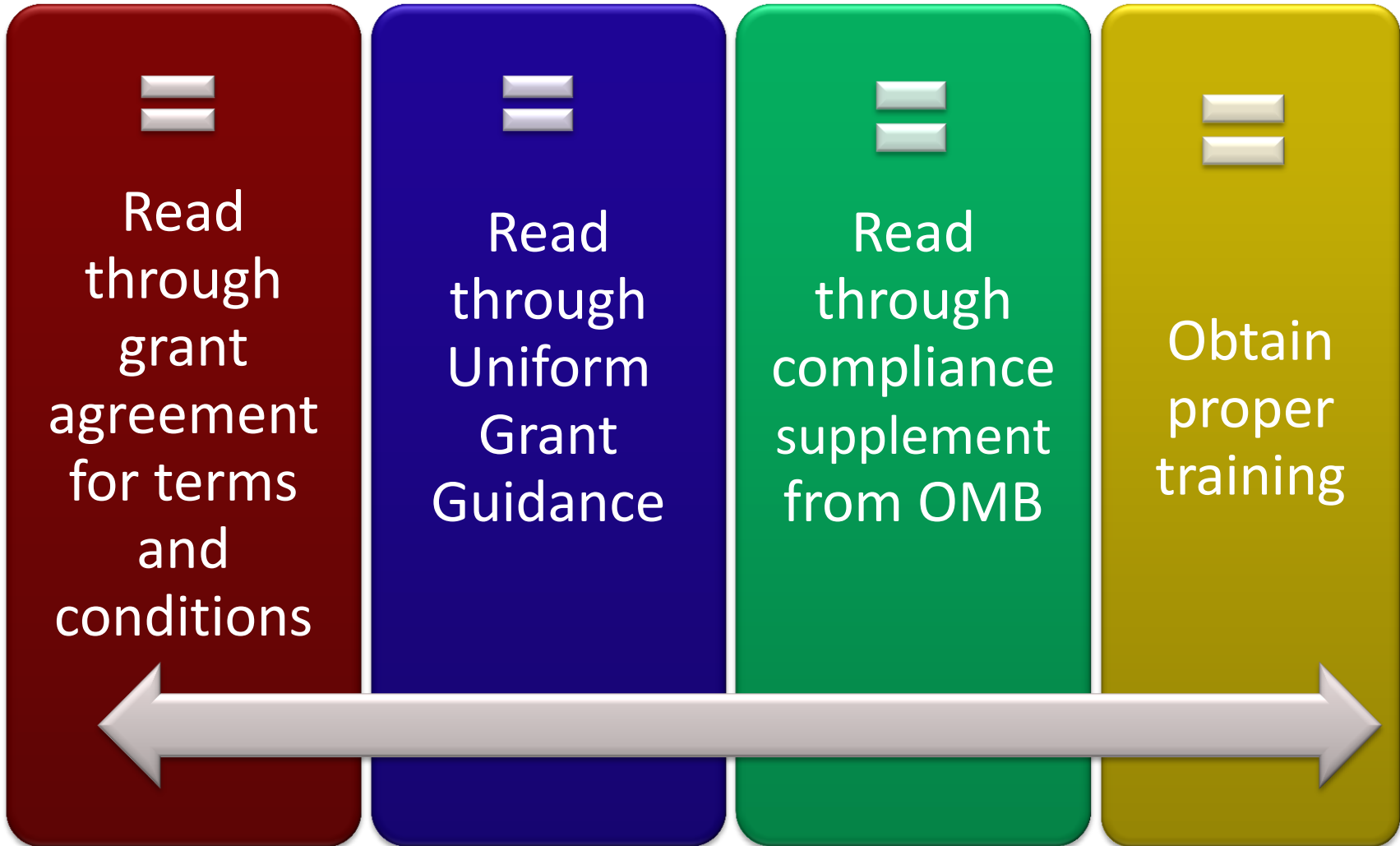
Potential increase in findings

Grants Management Best Practices under the Uniform Guidance

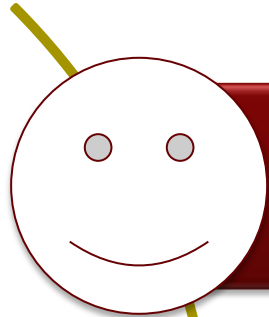
Grant Compliance



Grants Compliance



Documentation of Compliance



Document compliance requirements



Document proper internal controls over compliance



CLA's "Program Understanding and Internal Control Workbook" for each grant agreement

FASB – Non-profit Exposure Draft

- Status
 - Comment period closed August 20, 2015
 - FASB evaluating responses
 - Original expectation for final issuance was spring 2016
 - Original expectation for effective date was 2018

Hope is that the comments submitted will result in FASB's reconsideration of the proposed changes.

Proposed Changes

- Net assets classification– with donor-imposed restrictions and without donor-imposed restrictions - Eliminate the distinction between temporarily and permanent restrictions and instead focus on how and when the resources can be used.
- Operating measure – a mission dimension and availability dimension
- Cash flows – require the direct method of reporting.
- Statement of Functional Expenses will be required.
- Investment expenses (external and direct internal) required to be netted against the investment return.
- Liquidity – Additional disclosures will be required on how the organization manages their cash
- Equity Transfers between affiliated organizations (not consolidated) will be not be considered a transfer and not a contribution

Questions





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