Subpart F of the Uniform Grants Guidance plus Enforcement and Termination Provisions
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The New Subpart F Audit Requirements

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Effective Date

- **Non-federal entities** - The new administrative requirements and cost principles are required to be implemented for all new federal awards and additional funding to existing awards made after December 26, 2014.

- **Audit Requirements** - FYs beginning on or after December 26, 2014 (1st applicable fiscal year - December 31, 2015)

- Early Implementation **not** allowed
Effective Date

• March 31, 2015, June 30, 2015, and September 30, 2015 year-ends
  – Non-federal entities will have to adopt new Administrative Requirements
    and Cost Principles relating to all new federal awards and additional
    funding to existing awards
  – Single audit requirements continue to use “old” regulation but auditor
    compliance testing will be affected by client adoption of “new”
    requirements (i.e., will likely have to test some awards subject to the old
    requirements and some the new requirements)

• December 31, 2015, year-ends and beyond
  – New administrative requirements, Cost Principles, and new single audit
    requirements apply
  – May need to test some awards under “old” requirements and some
    under “new” requirements
Audit Requirements

• Single audit process
  – Audit threshold (200.501)
  – Subrecipient vs. Contractor (200.501(f) & 200.330)
  – Program-specific (200.507) and biennial audits (200.50)
  – Auditor selection (200.509)
  – Auditee prepares basic financial statements & SEFA (200.510)
  – Major program determination based on risk (200.518)
  – Compliance Supplement overall format (Appendix XI)
  – 9 month due date (set in law) (200.512(a))
  – Reporting to Federal Audit Clearinghouse (FAC). (200.512)
  – Audit follow-up and corrective action. (200.511 & 200.521)
Audit Requirements

• Concentrate audit resolution and oversight resources on higher dollar, higher risk awards
  – Increase $500,000 threshold to $750,000
Audit Requirements

• Changes to Major Program Determination Process

  – Step #1 – Dollar Threshold - Type A minimum threshold revised from $300,000 to $750,000

  – Step #2 – Type A Risk Assessment – High Risk for the following:

    • Not audited as major program in 1 of 2 most recent audit periods
    • In most recent audit period had a High Risk Audit finding (Modified opinion, material weakness in internal control, known or likely questioned cost exceeding 5% of total program expenditures.)
    • Consider risk related to: Federal or pass through oversight, results of audit follow up and changes in personnel or system
Audit Requirements

• Changes to Major Program Determination Process

  – Step #3 – Type B Risk Assessment –
    • Perform risk assessments on Type B programs until high risk type B programs have been identified up to at least 25% of number of low risk Type A
      – For example, if there are 3 low risk Type A – if 1 Type B is high risk, can stop reviewing
    • Only perform risk assessments on Type B programs that exceed 25% of the Type A threshold.

  – Step #4 – Percentage of Coverage – reduced from 50% to 40% for not low risk auditees and from 25% to 20% for low risk auditees
Audit Requirements

• Requirements for low-risk auditee
  – Requirements are for the prior 2 years
  – Annual Single Audits
  – Unmodified opinion on financial statements in accordance with GAAP or basis of accounting required by state law.
  – Unmodified SEFA in-relation-to opinion
  – No GAGAS material weaknesses
  – Type A programs did NOT have any of the following in the past two years:
    • Internal control deficiency identified as material weakness
    • Modified opinion on major programs
    • Questioned costs that exceed 5%
  – Timely filing of the Data Collection Form
  – No auditor reporting of going concern
  – No waivers
Compliance Testing

- Identification of major programs
- Determination on award dates to determine what requirements the programs will need tested under.
- A note on control testing - there may be 2 sets of control testing with 2 sets of populations if controls were changed. This could mean different samples or multiple samples for one control.
Audit Requirements

• Questioned costs threshold raised to $25,000 (known or likely)

• Data Collection Form requires a “YEAR-XXX” format
  – References in the Summary of Findings and Questioned Costs need to be consistent with the DCF requirement

• Auditee certification that no protected personally identified information included in reporting package

  – The Corrective action plan must be a separate document from the schedule of findings and questioned costs
Audit Requirements

• SEFA Updates
  – The SEFA must include all federal awards expended (some types, such as noncash assistance, can be shown in the notes now instead of the SEFA)
  – SEFA requires payments to subrecipients (language on extent practical is removed)
  – The SEFA must include total federal awards expended for loan or loan guarantee programs (in addition to identifying the balances outstanding at the end of the audit period in the notes to the SEFA)
  – The notes to the SEFA are required to include if the entity elected to use the 10% deminimis cost rate
  – Findings require additional information
Audit Requirements

- Finding Elements

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Enforcement and Termination under the Uniform Grants Guidance and other topics

Edward T. Waters, JD
From a Lawyer’s Perspective

1. Sect. 200.503(a) – “in lieu of any financial audit” required “under any other Federal statute or regulation” but see §200.503(b) which allows Fed. Agency, OIG and GAO to conduct “additional audits.”

2. Auditor Procurement --- § 200.509, “Auditor Selection” -- Follow procurement standards, “objective is to obtain high-quality audits” and if you recover more than $1.0M in indirect, auditor cannot prepare indirect cost proposal or Cost Allocation Plan. Word to wise: don’t just sign engagement agreement! It can be changed…

3. GAGAS § 200.514(a) -- Audits under subpart F (and OIG for that matter) must be conducted in accordance with GAGAS
Typical Steps in the Audit Process

• Entrance Conference: Meeting between auditors and management about audit scope/purpose, methodology/procedures

• Field Work: Gathering and analysis of information and documentation

• Draft Audit: Auditors supply auditee with draft findings and recommendations and give management an opportunity to respond
Steps in the Audit Process (cont’d)

- Exit Conference: Either shortly after or contemporaneous with draft audit. Discussion of initial audit findings/recommendations
- Response to Draft Audit: Management answers auditors’ findings either accepting or disputing the findings and submitting proposed corrective actions as appropriate
- Final Audit Report: Auditors issue report incorporating and accounting for management’s response
Audit Resolution

• With annual A-133 audits and now with Subpart F audits, final report goes to Federal Audit Clearinghouse and then disseminated to grantor agencies

• With other audits conducted by grantor agencies, Inspectors General, and/or Comptroller General, final report goes directly to federal decision-making officials
Audit Resolution (cont’d)

• Decision-making official typically allows auditee to present additional comments, arguments, and information for consideration when determining appropriate action.

• After exchange of information, decision-making official concludes what, if any, enforcement actions to take and what corrections to require of auditee – laid out in Subpart F as follows:
  – Management Decision § 200.521”must clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action.” can be Federal agency or Pass Through Entity.
Audit Resolution (cont’d)

CONSEQUENCES OF ADVERSE AUDIT FINDINGS:

A parade of horribles under §200.338 through §200.342

- §200.338 First step, special award conditions under §200.207, may include enhanced reporting/monitoring, restrictions on cash draws, additional prior approvals, etc. if that is insufficient then . . .

- cost disallowance, denial of continuation award, termination of existing award, denial of refunding, suspension/debarment
Audit Resolution (cont’d)

CONSEQUENCES OF ADVERSE AUDIT FINDINGS:

• Termination under §§ 200.339-200.341
  – Cuts back on termination requirement from “material” failure to comply with terms and conditions to just failure
  – Added a “for cause” termination
  – Added notification requirement including statement that “the termination decision may be considered in evaluating future applications…” as well as other reporting
  – Added “Opportunities to object…” Fed. Agency “must provide” the NFE “an opportunity to object and provide information and documentation challenging the suspension or termination action in accordance with written processes and procedures….”

• Appeal rights are specific to Fed. Agency and Grant Program – varies significantly by Agency
Key Audit Issues – Communication

Auditors are from Mars – Auditees are from Venus

• Effective communication between auditee and auditors avoids erroneous findings and needless disputes down the road

• Auditees need to ensure common understanding with auditors as to what they want and why
Key Audit Issues – Document Management

• Auditee should be aware of what materials auditors have requested, when the auditors made the request, to whom the request was made, and whether the materials were provided

• If at all possible, the auditee should have a single point of contact for auditor requests for documentation
Key Audit Issues – Common Findings

• Personnel costs: Documentation of staff time and effort, particularly for employees working on more than one activity

• Internal controls: Absence of controls over accounts, credit card use, checks, etc. is an invitation for trouble

• Program income: Income generated by grant-supported activities must be used to further project objectives under the additive, deductive, or matching method
Key Audit Issues – More Common Findings

• Non-federal share: Lack of accurate and transparent accounting for the non-federal share will lead to disallowance

• Procurement: Storm on the horizon for not-for-profit awardees because of Supercircular provisions regarding procurement methods
Questions?

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