
Wednesday, August 5, 2015

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Learning Objectives

• Analyze the nature and applicability of the 12 compliance requirements included in the 2015 OMB Compliance Supplement;
• Review which programs/requirements will no longer be reviewed by auditors;
• Evaluate the major agency-specific changes in the 2015 Compliance Supplement;
• Discover what constitutes strong internal controls and how they can help avoid audit findings;
• Explore what future changes OMB may make in the 2016 Compliance Supplement in light of the uniform grant guidance; and
• Identify the effective dates of the uniform grant guidance relative to federal agencies, nonfederal recipients and auditors/auditees and when the audit threshold changes from $500,000 to $750,000.
Agenda

• Background
• Compliance Requirement Changes
• Cross Cutting Changes
• Agency Changes
• Internal Controls
Purpose of Compliance Supp.

• Assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures for federal programs.
Two Different Supplements

- Since some audits will cover grant period prior to December 26, 2014, the supplement is split into two different sets of requirements
  - For any program year prior to December 26, 2014 – requirements follow the old 2014 requirements
  - For all programs years after December 26, 2014, new requirements apply.
Applicability

• Before 12/26/14: Any non-federal entity that expends $500,000 or more in federal funds in a year.

• After 12/26/14: Any non-federal entity that expends $750,000 or more in federal funds in a year.
Compliance Requirements

- 12 areas of concern that auditors are directed to look for when completing Single Audits.
  - Eliminated “Davis-Bacon Act” and “Real Property Acquisition and Relocation Assistance”
  - If “deleted” from certain programs’ Single Audit requirements, pass-through entities still responsible for ensuring compliance.
Compliance Requirements

• In regards to the two compliance requirements that were eliminated:
  • Any findings from audits using the 2014 Supplement:
    • Must continue to be reported in the summary schedule of prior audit findings and the corrective action plan, and
    • Must be considered in the assessment of risk that OMB requires under Circular A-133 § .525(b)/2 CFR § 200.519(b).
Compliance Requirements

• Auditors shall consider the compliance requirements in every audit of non-federal entities, with the exception of program-specific audits.

• In making a determination not to test a compliance requirement, the auditor must conclude that the requirement either does not apply to the particular non-federal entity or that noncompliance with the requirement could not have a material effect on a major program.
1. Activities Allowed or Unallowed

• Determined by program-specific reviews

• Allowable use of federal funds

• Sources:
  • Authorizing statute
  • Federal agency regulation
  • Grant award notifications
2. Allowable Costs/Cost Principles

• Cost principles applicable to a non-federal entity apply to all federal awards received by the entity,

• OMB Circulars describe selected cost items, allowable and unallowable costs, and standard methodologies for calculating indirect costs rates.
  • A-87: State, local, tribal governments
  • A-21: Institutions of Higher Education
  • A-122: Non-profits
3. Cash Management

• Advance payments: Recipients must:
  • Follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement and
  • Establish similar procedures for subrecipients.

• Pass-through entities must establish reasonable procedures and monitor cash drawdowns by their subrecipients.

• 31 CFR part 205
5. Eligibility

• Specific eligibility requirements are unique to each federal program, found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

• Specifies the criteria for determining the individuals, groups of individuals (including area of service delivery), or subrecipients that can participate in the program and the amounts for which they qualify.
6. Equipment & Real Property Management

- Title to equipment acquired with federal awards vests with the non-federal entity.
  - Tangible nonexpendable property, having a useful life of more than one year and an acquisition cost of $5000 or more per unit.
- Title to real property acquired with federal awards vests with the non-federal entity.
  - Shall be used for the originally authorized purpose as long as needed for that purpose.
  - May not dispose of or encumber the title to real property without the prior consent of the awarding agency.
7. Matching, Level of Effort, Earmarking

• Specific requirements are unique to each federal program, found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

• Compliance Supplement includes acceptable matching criteria, though program statutes may be included.
8. Period of Availability/Performance

- Federal awards may specify a time period during which the non-federal entity may use the federal funds.
  - May charge to the award only costs resulting from obligations incurred during the funding period and any authorized preaward costs.
  - If authorized, unobligated balances may be carried over and charged for obligations of a subsequent funding period.
- Non-federal entities shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation).
  - Federal agency may extend this deadline upon request.
9. Procurement & Suspension and Debarment

- States, and governmental subrecipients of States: use same State policies and procedures. Every purchase order or other contract includes any required clauses.

- Local governments and Indian tribal governments that are direct recipients of Federal awards and their subrecipients will use procurement procedures that conform to applicable federal law and regulations.

- Institutions of higher education, hospitals, and other non-profit organizations will use procurement procedures that conform to applicable federal law and regulations.

- All non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements.
10. Program Income

• Program income is gross income received that is directly generated by the federally funded project during the grant period.
  • Includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds.
  • Does not include interest on grant funds, rebates, credits, discounts, refunds, etc., or interest earned on any of them.
  • Does not include the proceeds from the sale of equipment or real property.
• Program income may be used in one of three methods: deducted from outlays, added to the project budget, or used to meet matching requirements.
12. Reporting

• Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB.
  • Must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency.
• Recipients may be required to submit performance reports at least annually but not more frequently than quarterly.
• Non-federal entities may be required to submit other reporting.
Major Change to Reporting Requirement

• Federal Funding Accountability and Transparency Act (FFATA) deleted from “Reporting” compliance requirement.

• Grantee is still responsible for meeting FFATA requirements.
Federal Funding Accountability and Transparency Act

- Prime 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.
- $25,000 or more.
- Must report by the end of the month following the month in which subaward/subcontract is made.
- Frequent single audit findings
- [https://www.fsrs.gov/](https://www.fsrs.gov/)
13. Subrecipient Monitoring

• Pass-through entities are responsible for:
  • Determining Subrecipient Eligibility
  • System for Award Management
  • Award Identification
  • During-the-Award Monitoring
  • Subrecipient Audits
  • Ensuring Accountability of For-Profit Subrecipients
  • Pass-Through Entity Impact
Subrecipient Risk

- Pass-through entities must evaluate subrecipient risk of noncompliance (specific conditions)
  - Prior experience with the same or similar subawards;
  - Results of previous;
  - New personnel or new or substantially changed systems;
  - Federal awarding agency monitoring.

- Specific requirements 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.
- The auditor shall identify any additional compliance requirements which are not based in law or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) which could be material to a major program.
Programmatic Changes

- Part 4 of Compliance Supplement lists changes for federal agency programs.

- Each grant recipient should check applicable sections
• Grantees must establish and maintain strong internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

• The Compliance Supplement describes, for each type of compliance requirement:
  • The objectives of internal control, and
  • Certain characteristics of internal control that may ensure compliance with program requirements.
Internal Controls

• Compliance Supplement includes generic audit objectives and suggested audit procedures to test internal control.
  • But…

• Auditor must determine the specific procedures on a case-by-case basis considering factors such as:
  • Non-federal entity’s internal control,
  • Compliance requirements,
  • Audit objectives for compliance,
  • Auditor’s assessment of control risk, and
  • Audit requirement to test internal control as prescribed in OMB rules.
Internal Controls

• 5 Components:
  • Control Environment
  • Risk Assessment
  • Control Activities
  • Information and Communication
  • Monitoring
Internal Controls - Objectives

- Transactions are properly recorded and accounted for to:
  - Permit the preparation of reliable financial statements and Federal reports;
  - Maintain accountability over assets; and
  - Demonstrate compliance with laws, regulations, and other compliance requirements.

- Transactions are executed in compliance with:
  - Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
  - Any other laws and regulations that are identified in the compliance supplements.

- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.
Internal Controls - Consequences

• If an auditee has many findings, or certain findings that occur each year, it will be seen as a lack of adequate internal controls.

• Strong internal controls, in theory, would not allow for frequent findings.

• Once an auditee is determined to have weak internal controls, greater scrutiny by federal agencies
Cooperative Audit Resolution

• Federal awarding agencies shall use “cooperative audit resolution mechanisms” to improve federal program outcomes through better audit resolution, follow-up and corrective action.
Cooperative Audit Resolution

- Defined as: the use of audit follow-up techniques which promote prompt corrective action by improving communication, fostering collaboration, promoting trust, and developing an understanding between the federal agency and the non-federal entity. (2 CFR § 200.25)
Cooperative Audit Resolution

• This approach is based upon “Federal agencies offering appropriate amnesty for past noncompliance when audits show prompt corrective action”
Audit Findings

• The auditor shall report known questioned costs greater than $25,000 for major programs.

• If not a major program (auditor normally will not find questioned costs) but if auditor becomes aware of questioned costs greater than $25,000 for non-major programs – must report.
Resources:

• 2015 OMB Compliance Supplement: https://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2015

• Uniform Grant Guidance: http://www.ecfr.gov/cgi-bin/text-idx?SID=5ca930e234d1410e17054b6c324c7369&mc=true&node=pt2.1.200&rgn=div5
Questions

• To ask a question **online:**
  • Use the Q&A option in the chat box on the lower left side of your screen.

• To ask a question via **telephone:**
  • Press *1 on your touchtone phone.
  • If you are using a speaker phone, please lift the receiver and then press *1.
  • If you would like to withdraw your question, press *1.
Follow-Up Questions

If you have any remaining questions after the conclusion of today’s webinar please do not hesitate to get in touch.

Ask our webinar producer: mbarnes@columbiabooks.com

For more information and great grants related resources feel free to visit us online:

• http://www.thompson.com/
• http://grants.complianceexpert.com/ (Thompson’s subscription website, federal compliance regulations are available to all free of charge)
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