

 Rehmann *Live!*

# 2014 Single Audit Update and Uniform Grant Guidance

July 22, 2014  
Webinar

Presented in association with



# Presented by:



**Stephen W. Blann, CPA, CGFM, CGMA**  
Director of Governmental Audit Quality  
Rehmann



CPAs & Consultants • Wealth Advisors • Corporate Investigation

# Agenda

- Single Audit Overview
- 2014 Compliance Supplement
- New Uniform Grant Guidance

# Single Audit Overview



# Single Audit Overview



- Obtain Schedule of Expenditures of Federal Awards (SEFA) from client
- Threshold for single audit is \$500,000 in current year
- Test SEFA in accordance with SAS 119 sufficient to render an in-relation-to opinion

# Single Audit Overview



- Consider by CFDA number or cluster
- Divide programs into Type A and B
  - Cut-off starts at \$300,000 and goes up to \$3,000,000 as federal expenditures range from \$10M-\$100M
- Assess risk of Type A programs
  - Type A programs that are not low-risk are major
  - Type A programs that are low-risk are temporarily set aside, but may still be major
    - May only be low-risk if previously audited with no findings

# Single Audit Overview



- If necessary, assess risk of larger Type B programs
  - Only required if there is a low-risk Type A program
  - “Larger” Type B programs are \$100,000 or more (threshold starts to increase at \$33M)
  - High-risk programs may be selected as major
    - Risk assessment is based on auditor judgment
    - Select one high-risk Type B program for each low-risk Type A program (limited to half of the high-risk Type B programs)

# Single Audit Overview



- Determine if percentage of coverage is met
  - Required to test 50% of SEFA
  - For low-risk auditees, only test 25% of SEFA
    - Clean single audit for two years (no material findings)
    - Filed on time with the Clearinghouse
  - Select additional programs (auditor's choice) until coverage is met

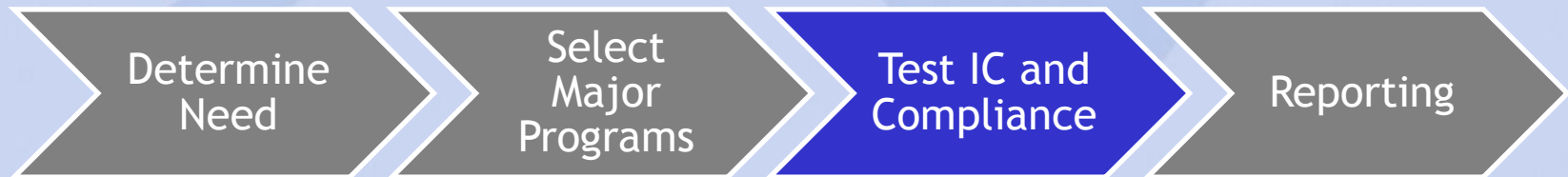


# Single Audit Overview



- For each major program, determine which compliance areas to test
  - Applicable per the A-133 Compliance Supplement
  - Applicable to the auditee
  - Have a direct and material effect on compliance

# Single Audit Overview



- Compliance areas

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis-Bacon Act
- E. Eligibility
- F. Equipment and real property management
- G. Matching, level of effort, and earmarking

- H. Period of availability of federal funds
- I. Procurement/suspension and debarment
- J. Program income
- K. Real property acquisition and relocation assistance
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions

# Single Audit Overview



- In-relation-to opinion on the SEFA
- Yellow Book report
  - Internal control over financial reporting
  - Compliance with laws, regulations, and grant agreements
- A-133 report
  - Compliance for each major program
  - Internal control over compliance

# Single Audit Overview



- **Schedule of Findings and Questioned Costs**
  - Summary of Auditors Results
  - Financial statement findings
  - Federal awards findings
- **Summary Schedule of Prior Audit Findings**
  - Status of prior federal award findings
- **Data Collection Form and reporting package**
  - Submitted online

OMB Circular A-133

## 2014 Compliance Supplement

- Issued annually to assist auditors conducting single audits and to identify auditee responsibilities
- The “March” 2014 update was released on May 19, 2014 and is available at:  
[www.whitehouse.gov/omb/circulars\\_default](http://www.whitehouse.gov/omb/circulars_default)
- Almost 1,500 pages long, but still not all-inclusive

# 2014 Compliance Supplement

- Part 1 - Background, Purpose, and Applicability
- Part 2 - Matrix of Compliance Requirements
- Part 3 - Compliance Requirements
- Part 4 - Agency Program Requirements
- Part 5 - Clusters of Programs
- Part 6 - Internal Control
- Part 7 - Guidance For Auditing Programs Not Included in this Compliance Supplement
- Appendices

## Part 1

# Background, Purpose, and Applicability

- Effective for June 30, 2014 FYE audits and later
- Safe Harbor Status:
  - The CS is updated annually, but laws change periodically, and delays are normal
  - Auditors should perform reasonable procedures to ensure compliance requirements are current
  - “Suggested audit procedures” are, as the name implies, only suggested - apply auditor judgment to achieve stated objectives

## Part 2

# Matrix of Compliance Requirements

- Lists all programs included in the Supplement and which compliance areas may apply to each
- Areas marked as applicable (“Y”) may not apply at a particular entity (or not be direct and material)
- Areas shaded grey may (infrequently) still have a direct and material effect on a major program
- Programs with ARRA funding are shown in **bold** (special tests and provisions always apply for ARRA)



## Part 2

# Matrix of Compliance Requirements

CFDA	Types of Compliance Requirements													
	A	B	C	D	E	F	G	H	I	J	K	L	M	N.**
	Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability of Federal Funds	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition and Relocation Assistance	Reporting	Subrecipient Monitoring	Special Tests and Provisions
<b>10 – United States Department of Agriculture (USDA)</b>														
10.000*	Y	Y	Y			Y		Y	Y	Y		Y		Y
10.500	Y	Y	Y			Y	Y	Y	Y	Y		Y	Y	
10.551														
10.561	Y	Y	Y		See Part 4	Y	Y	Y	Y			Y	Y	Y
10.553														
10.555														
10.556														
10.559	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
10.557	Y	Y	Y		Y	Y		Y	Y	Y		Y	Y	Y
10.558	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
10.566	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
10.565														
10.568														
10.569	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
10.582	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	

## Part 3

# Compliance Requirements

- Contains general guidance that applies to all programs (not repeated in Parts 4 and 5)
- OMB Circular A-102 (Common Rule) or Circular A-110 (Uniform Administrative Requirements) apply to most programs
- States may apply their own rules to subrecipients

## Part 3 - Compliance Requirements

# Activities Allowed or Unallowed

- Generally unique to each Federal program (refer to Parts 4 and 5)

## Part 3 - Compliance Requirements

# Allowable Costs/Cost Principles

- Applicable circular for federal cost principles:
  - A-87 - State, Local, and Indian Tribal Governments
  - A-21 - Educational Institutions
  - A-122 - Non-Profit Organizations
- Each circular has 43-54 specific items of cost, plus guidance for indirect cost allocation

## Part 3 - Compliance Requirements

# Cash Management

- Reimbursement based grants - program costs paid for by entity funds before reimbursement is requested
- Advance payment grants - minimize the time elapsing between transfer of funds from the US Treasury and disbursement
  - 31 CFR part 205 (Cash Management Improvement Act of 1990) generally limits advances to 3 days

## Part 3 - Compliance Requirements

# Davis Bacon Act

- Requires payment of “prevailing wage rates” for:
  - laborers and mechanics
  - employed by contractors or subcontractors
  - to work on construction contracts in excess of \$2,000

## Part 3 - Compliance Requirements

# Eligibility

- Generally unique to each Federal program (refer to Parts 4 and 5)
- May apply to:
  - Individuals
  - Groups / areas of service delivery
  - Subrecipients

## Part 3 - Compliance Requirements

# Equipment/Real Property Management

- Title to equipment (>\$5,000) purchased with federal funds rests with the non-federal entity
  - Equipment records must be maintained
  - Inventory taken every 2 years
  - Proceeds from sale may be reinvested or returned to the federal government



## Part 3 - Compliance Requirements

# Matching, Level of Effort, Earmarking

- Generally unique to each Federal program (refer to Parts 4 and 5)
  - *Matching* - local/in-kind contributions
  - *Level of Effort* - supplement vs. supplant
  - *Earmarking* - % of funding used for specific purposes

## Part 3 - Compliance Requirements

# Period of Availability of Federal Funds

- Federal funds may only be expended during the time specified in the grant agreement
- Unpaid obligations must generally be liquidated within 90 days of the end of the funding period

## Part 3 - Compliance Requirements

# Procurement, Suspension & Debarment

- Procurement - follow local practices
  - Federal awarding agency approval may be required for procurements over \$100,000
    - This threshold is in the process of being increased to \$150,000, but remains *unless* agency issues guidance or specified in the award
- Suspension and debarment - no “covered transactions” with parties blacklisted by the federal government
  - Procurement contracts for goods or services expected to exceed \$25,000
  - All non-procurement transactions (subawards)
  - See [www.sam.gov](http://www.sam.gov)

## Part 3 - Compliance Requirements

# Program Income

- Special rules may apply to gross income directly generated by a federally funded project
  - Fees
  - Interest
  - Refunds / proceeds from sales

## Part 3 - Compliance Requirements

# Real Property Acquisition/Relocation

- The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended, (URA) provides for uniform and equitable treatment of persons displaced by federally-assisted programs from their homes, businesses, or farms

## Part 3 - Compliance Requirements

# Reporting

- Use of standard OMB *Federal Financial Report* (SF-425)
- American Recovery and Reinvestment Act (ARRA)
  - Section 1512 reporting is now complete
- Federal Funding Accountability and Transparency Act (FFATA)
  - FFATA Subaward Reporting System (FSRS) reporting
  - Applies to all non-ARRA funding awarded after October 1, 2010
  - Applies to direct recipients from the federal government (not passed-through another entity)

## Part 3 - Compliance Requirements

# Reporting

- FFATA reporting - what is a subaward?
  - Consistent with the OMB guidance, 2 CFR part 170 defines “subaward” 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. A subaward may be provided through any legal agreement, including an agreement that the recipient considers a contract.

## Part 3 - Compliance Requirements

# Subrecipient Monitoring

- Responsibilities of pass-through entities:
  - Determining Subrecipient Eligibility
  - ARRA - Central Contractor Registration (CCR)
  - Award Identification
  - During-the-Award Monitoring
  - Subrecipient Audits
  - Ensuring Accountability of For-Profit Subrecipients
  - Pass-Through Entity Impact



## Part 3 - Compliance Requirements

# Subrecipient Monitoring

- Factors that may affect the nature, timing, and extent of during-the-award monitoring:
  - Program complexity
  - Percentage passed through
  - Amount of awards
  - Subrecipient risk
- Monitoring activities normally occur throughout the year and may take various forms:
  - Reporting
  - Site visits
  - Regular contact

## Part 3 - Compliance Requirements

# Special Tests and Provisions

- Generally unique to each Federal program (refer to Parts 4 and 5)
- ARRA Special Tests and Provisions:
  - Separate accountability for ARRA funding
  - Presentation on SEFA and Data Collection Form
  - Subrecipient monitoring

## Part 4

# Agency Program Requirements

- Lists specific compliance requirements, audit objectives, and suggested audit procedures for 200+ individual programs
  - There are approximately 1,700 active CFDA numbers per [www.cfda.gov](http://www.cfda.gov)
- Certain federal agencies have cross-cutting sections that apply to multiple grants

## Part 5

# Clusters of Programs

- Clusters are groupings of CFDA numbers that are treated as if they are a single program for purposes of the single audit
  - Research and Development (R&D)
  - Student Financial Assistance (SFA)
  - Other clusters (over 40)
- Many new clusters were created due to ARRA funding
  - Most have now been removed
- The addition of a new CFDA number to a cluster makes the cluster a “new” program for purposes of major program determination (R&D and SFA are exempt)

## Part 6

# Internal Control

- The A-102 Common Rule and OMB Circular A-110 require auditee management to establish and maintain internal controls over compliance
- Five elements of the COSO ICS Integrated Framework:
  - Control environment
  - Risk assessment
  - Control activities
  - Information and communication
  - Monitoring
- These should be applied to each of the applicable compliance requirements for each federal program

## Part 7

# Programs Not Included in the CS

- Provides guidance on identifying applicable compliance requirements, and determining appropriate audit procedures

## Appendix VII

# Other Advisories

- Changes for 2014:
  - Dropped special guidance on risk assessing ARRA programs
  - Updates to low-risk auditee status
  - New section on FEMA awards - based on the period approved by FEMA, not when incurred

SF-SAC

# Data Collection Form

- A new form was released for 2013
- Further revisions are still expected next year
- Key changes:
  - Unique logins for each user (auditee and auditor)
  - Add auditor EIN
  - More detail on findings (and uniform numbering)
  - Entire reporting package to be available online (must be unsecured and at least 85% text searchable)



# 2 CFR 200

# Uniform Grant Guidance

(aka the OMB “Super Circular”)



# 2 CFR 200

- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
  - Not issued as an OMB Circular
  - Federal regulations carry more weight of law
  - Prepared by the “COFAR”

# COFAR

- Council on Financial Assistance Reform
  - Created in 2011 to improve delivery, management, coordination, and accountability of Federal grants
  - Led by OMB and 8 largest federal grant-making agencies
  - Responsible for the new Uniform Grant Guidance and FAQ documents

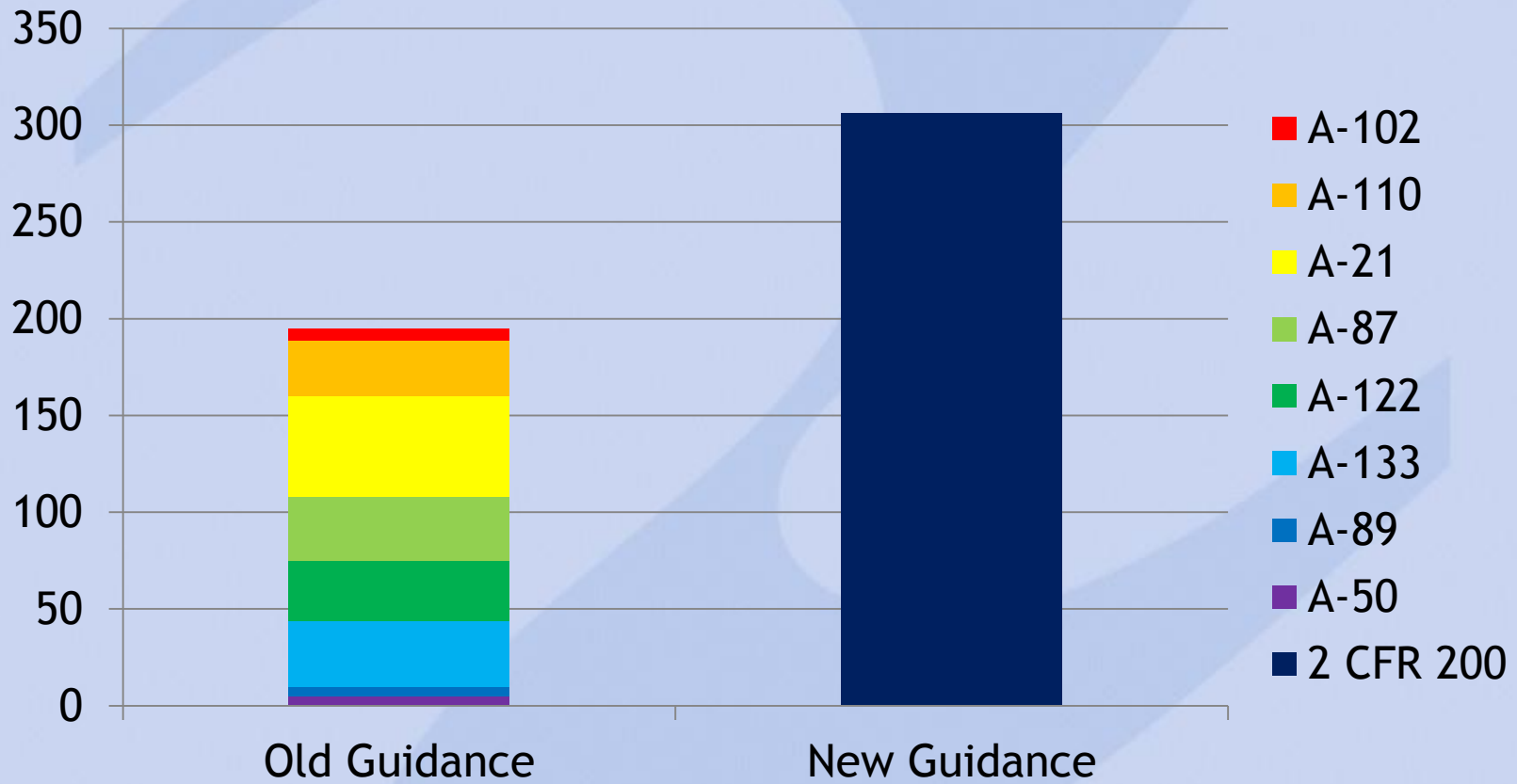
<https://cfo.gov/cofar/>

## Uniform Grant Guidance

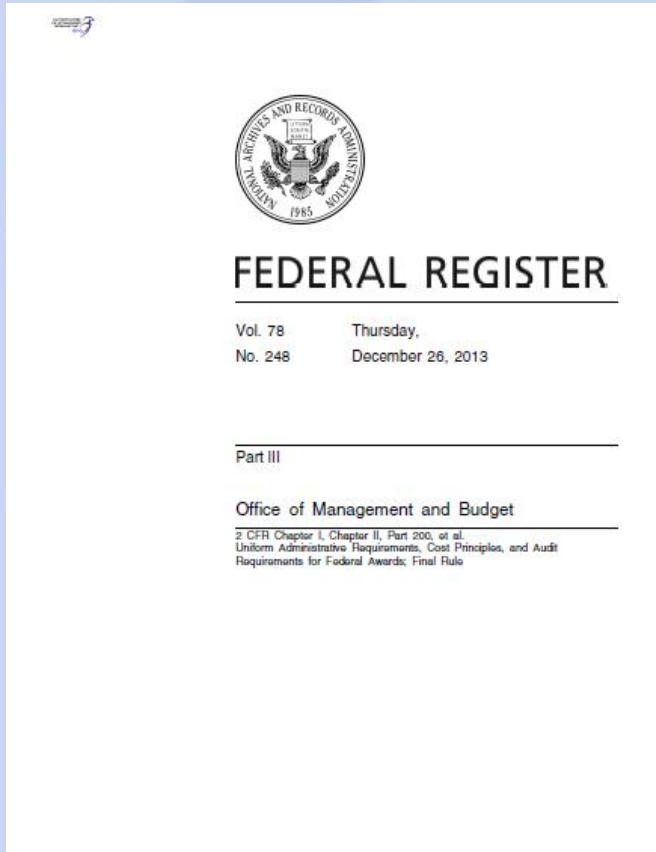
# Significant Changes

- Combined all related OMB guidance into one location (2 CFR 200)
  - Administrative requirements (A-102, A-110)
  - Federal cost principles (A-21, A-87, A-122)
  - Single audit (A-133, A-89, parts of A-50)
- According to the COFAR, this eliminated about 80 pages “of overlapping, duplicative, and conflicting provisions”

# Uniform Grant Guidance “Eliminating” 80 Pages



# Uniform Grant Guidance “Eliminating” 60 Pages



78590 Federal Register / Vol. 78, No. 248 / Thursday, December 26, 2013 / Rules and Regulations

## OFFICE OF MANAGEMENT AND BUDGET

### 2 CFR Chapter I, and Chapter II, Parts 200, 215, 220, 225, and 230

#### Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

**AGENCY:** Executive Office of the President, Office of Management and Budget (OMB).

**ACTION:** Final guidance.

**SUMMARY:** To deliver on the promise of a 21st-Century government that is more efficient, effective and transparent, the Office of Management and Budget (OMB) is streamlining the Federal government's guidance on Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards. These modifications are a key component of a larger Federal effort to more effectively focus Federal resources on improving performance and outcomes while ensuring the financial integrity of taxpayer dollars in partnership with non-Federal stakeholders. This guidance provides a governmentwide framework for grants management which will be complemented by additional efforts to strengthen program outcomes through innovative and effective use of grant-making models, performance metrics, and evaluation. This reform of OMB guidance will reduce administrative burden for non-Federal entities receiving Federal awards while reducing the risk of waste, fraud and abuse.

This final guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, and A-121 (which have been placed in OMB guidances); Circulars A-89, A-102, and A-133; and the guidance in Circular A-59 on Single Audit Act follow-up. Future reform efforts may eventually seek to incorporate the Cost Principles for Hospitals in Department of Health and Human Services regulations. Copies of the OMB Circulars that are superseded by this guidance are available on OMB's Web site at [http://www.whitehouse.gov/omb/circulars\\_definit/](http://www.whitehouse.gov/omb/circulars_definit/). The final guidance consolidates the guidance previously contained in the aforementioned citations into a streamlined format that aims to improve both the clarity and accessibility. This final guidance is located in Title 2 of the Code of Federal Regulations.

This final guidance does not broaden the scope of applicability from existing government-wide requirements,

affecting Federal awards to non-Federal entities including state and local governments, Indian tribes, institutions of higher education, and nonprofit organizations. Parts of it may also apply to for-profit entities in limited circumstances and to foreign entities as described in this guidance and the Federal Acquisition Regulation. This guidance does not change or modify any existing statute or guidance otherwise based on any existing statute. This guidance does not supersede any existing or future authority under law or by executive order or the Federal Acquisition Regulation.

**DATES:** Effective Date: This guidance is effective December 26, 2013.

**Applicability Date:** This guidance is applicable for Federal agencies December 26, 2013 and applicable for non-Federal entities as described in this guidance.

**FOR FURTHER INFORMATION CONTACT:** OMB will host an informational webcast with the Council on Financial Assistance Reform and key stakeholders. Please visit [www.cfo.gov/cofar](http://www.cfo.gov/cofar) for further information on the time and date of the webcast and on the Council on Financial Assistance Reform. For general information, please contact Victoria Coltin or Gill Tran at the OMB Office of Federal Financial Management at (202) 395-3993.

#### SUPPLEMENTARY INFORMATION

##### I. Objectives and Background

##### A. Objectives

The goal of this reform is to deliver on the President's directives to (1) streamline our guidance for Federal awards to ease administrative burden and (2) strengthen oversight over Federal funds to reduce risks of waste, fraud, and abuse. Streamlining existing OMB guidance will increase the efficiency and effectiveness of Federal funds as streamlined, and that the Single Audit oversight tool is better focused to reduce waste, fraud, and abuse by the Federal government and its non-Federal partners: state, and local governments, Indian tribes, institutions of higher education, nonprofit organizations, and the audit community to rethink and reform the rules that govern our stewardship of Federal dollars. The revised rules set standard requirements for financial management of Federal awards across the entire Federal government.

These reforms complement targeted efforts by OMB and a number of Federal agencies to reform overall approaches to grant-making by implementing innovative, outcomes-focused grant-making designs and processes in

collaboration with their non-Federal partners, in accordance with OMB guidance in M-13-17 "Next Steps in the Evidence and Innovation Agenda". This new guidance plays an important role in fostering those and other innovative models and cost-effective approaches by including many provisions that strengthen requirements for internal controls while providing administrative flexibility for non-Federal entities. These provisions include mechanisms such as "fixed amount awards" which rely more on performance than compliance requirements to ensure accountability, and allow Federal agencies some additional flexibility to waive some requirements (in addition to the longstanding option to apply to OMB to waive requirements) that impede their capacity to achieve better outcomes through Federal awards. This guidance will provide a backbone for sound financial management as Federal agencies and their partners continue to develop and advance innovative and effective practices.

This reform of OMB guidance will improve the integrity of the financial management and operation of Federal programs and strengthen accountability for Federal dollars by improving policies that protect against waste, fraud, and abuse. At the same time, this reform will increase the impact and accessibility of programs by minimizing time spent complying with unnecessarily burdensome administrative requirements, and so re-orient recipients toward achieving program objectives. Through close and sustained collaboration with Federal and non-Federal partners, OMB has developed ideas that will ensure that discretionary grants and cooperative agreements are awarded based on merit, that management increases focus on performance outcomes; that rules governing the allocation of Federal funds are streamlined, and that the Single Audit oversight tool is better focused to reduce waste, fraud, and abuse.

As set forth in Executive Order 13563 of January 18, 2011, on Improving Regulation and Regulatory Review (76 FR 3821; January 21, 2011; <http://www.gpo.gov/dsp/pkg/FR-2011-01-21/pdf/2011-185.pdf>), each Federal agency must "tailor its regulations to impose the least burden on society, consistent with regulatory objectives, taking into account, among other things, and to the extent practicable, the costs of cumulative regulations." To that end, it is important that Federal agencies identify those "rules that may be outdated, ineffective, insufficient, or excessively burdensome," and "modify,

# Organization by Subpart

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

# Uniform Grant Guidance

# Appendices

- I. Notice of funding opportunity
- II. Contract provisions
- III. Indirect costs - Higher Ed
- IV. Indirect costs - Nonprofits
- V. SLG-wide central service cost allocation plans
- VI. Public assistance cost allocation plans
- VII. SLG indirect cost proposals
- VIII. Nonprofits exempted from federal cost principles
- IX. Hospital cost principles
- X. Data Collection Form (SF-SAC)
- XI. Compliance Supplement



Uniform Grant Guidance

# Significant Changes

- Changes in organization/terminology
- Internal control requirements
- New procurement standards
- Subrecipient monitoring/management
- Minor changes to cost principles
- Numerous threshold changes to the single audit

## Uniform Grant Guidance

# Applicability

- Federal agencies that make Federal awards to non-Federal entities
- Non-Federal entities that administer Federal awards
- Limited exceptions are noted at §200.102

# Effective/Applicability Date

- Technically:
  - Federal agencies by 12/26/2014
  - New grants awarded after 12/26/2014
  - Audits of years beginning on or after 12/26/2014
- Practically:
  - 01/01/2015 for grants management
  - 12/31/2015 for single audits

# Effective/Applicability Date

- Early implementation
  - Administrative requirements and cost principles may be applied to all grants effective 12/26/2014 without penalty
  - Single audits may not be early implemented

Uniform Grant Guidance

# Pre-Award Requirements

- Federal agencies:
  - Select appropriate instrument (grant, cooperative agreement, or contract)
  - Required public notice for competitive grants and cooperative agreements
  - Evaluate merit of proposals
  - Review risk posed by applicants

Uniform Grant Guidance

# Pre-Award Requirements

- Specific information to be contained in award documents:
  - Recipient name/DUNS number
  - Federal Award Identification Number (FAIN)
  - Award date/period of performance
  - CFDA number/name
  - Total budget
  - Performance goals

## Uniform Grant Guidance

# Post-Award Requirements

- Recipients:
  - Comply with all requirements of award
  - Performance measurement systems
  - Financial management systems
    - Separate identification of federal awards
    - Complete/accurate financial results
    - Support for federal draws
    - Effective control/accountability
    - Written procedures

Uniform Grant Guidance

# Post-Award Requirements

- Internal controls:
  - 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
  - Consistent with COSO



# Post-Award Requirements

- Payments (cash management):
  - States are governed by separate agreements
  - All others:
    - Advances are permitted if procedures exist to minimize time between receiving federal funds and disbursing them
    - Reimbursement is required if this requirement cannot be met
    - Working capital advances may be provided

Uniform Grant Guidance

# Post-Award Requirements

- Program income:
  - Encouraged as a means of defraying program costs
  - Default treatment is to deduct from eligible expenditures

Uniform Grant Guidance

# Post-Award Requirements

- Period of performance:
  - Allowable costs may only be charged to federal awards during the period specified in the grant agreement

Uniform Grant Guidance

# Post-Award Requirements

- Property standards:
  - Title to real property and equipment purchased with federal funds rests with the non-Federal entity
  - Must be insured like other property
  - Equipment must be used as long as needed for the original program
    - Then reassign to other programs
    - Physical inventory every two years

Uniform Grant Guidance

# Post-Award Requirements

- Disposition of real property:
  - Request instructions
  - Options:
    1. Retain and compensate the federal agency
    2. Sell and compensate the federal agency
    3. Transfer title to the federal agency or designated third party

Uniform Grant Guidance

# Post-Award Requirements

- Disposition of equipment:
  - Under \$5,000, no requirements
  - Over \$5,000, request instructions
  - Options:
    1. Retain/sell with no compensation
    2. Sell and compensate the federal agency
    3. Transfer title to the federal agency or designated third party

Uniform Grant Guidance

# Post-Award Requirements

- Procurement standards:
  - States may follow their own policies and procedures
  - All others must follow the general procurement standards
    - Use documented procurement procedures
    - No conflicts of interest
    - Consider most economical purchase option

Uniform Grant Guidance

# Post-Award Requirements

- Procurement standards:
  - All procurement transactions must be conducted in a manner providing full and open competition
  - Methods:
    - Micro purchases (<\$3,000)
    - Small purchases (<\$150,000)
    - Sealed bids/formal advertising (>\$150,000)



# Post-Award Requirements

- Subrecipient Monitoring/Management:
  - Non-Federal entities may be recipients, subrecipients, or contractors
  - Based on the substance of the agreement
  - Determining whether an agreement creates a subrecipient or contractor requires judgment

# Post-Award Requirements

- Subrecipient Monitoring/Management:
  - A “subaward” is for the purpose of carrying out a portion of a Federal award and creates a Federal assistance relationship with the subrecipient
  - A “contract” is for the purpose of obtaining goods and services for the non-Federal entity’s own use and creates a procurement relationship with the contractor

# Uniform Grant Guidance

# Post-Award Requirements

- Subrecipient Monitoring/Management:
  - Subrecipients:
    1. Determine who is eligible to receive what Federal assistance
    2. Have performance measured in relation to whether program objectives were met
    3. Have responsibility for programmatic decision making
    4. Are responsible for adherence to applicable Federal program requirements specified in the Federal award
    5. Use the Federal funds to carry out a program, as opposed to providing goods or services for the benefit of the pass-through entity

# Uniform Grant Guidance

# Post-Award Requirements

- Subrecipient Monitoring/Management:
  - Contractors:
    1. Provide goods and services within normal business operations
    2. Provides similar goods or services to many different purchasers
    3. Normally operate in a competitive environment
    4. Provide goods or services that are ancillary to the operation of the Federal program
    5. Are not subject to compliance requirements of the Federal program as a result of the agreement

Uniform Grant Guidance

# Post-Award Requirements

- Pass-through entities must:
  - Clearly identify subaward information to subrecipients
  - Evaluate subrecipient risk
  - Consider imposing specific conditions on subrecipients based on risk
  - Monitor subrecipient activities in response to identified risks

Uniform Grant Guidance

# Post-Award Requirements

- Evaluating subrecipient risk:
  - Subrecipient's experience with similar awards
  - Results of prior audits (including major programs tested)
  - Extent of new personnel
  - Results of any Federal agency monitoring

Uniform Grant Guidance

# Post-Award Requirements

- Records retention:
  - Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report

# Uniform Grant Guidance

# Cost Principles

- Fundamental premises:
  - The non-Federal entity is responsible for effective/efficient administration of the federal award
  - The non-Federal entity must comply with agreements, objective, terms, and conditions of the federal award
  - The non-Federal entity has primary managerial responsibility



# Uniform Grant Guidance

# Cost Principles

- Fundamental premises:
  - Applying these cost principles should require no significant changes to sound internal accounting policies/procedures
  - Indirect costs should be allocated consistently with the negotiated basis
  - The non-Federal entity may not earn or keep profit resulting from Federal awards

# Uniform Grant Guidance

# Cost Principles

- Composition of costs:
  - The “total cost” of a Federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits

# Uniform Grant Guidance

# Cost Principles

- “Allowable” costs:
  - Necessary and reasonable for the performance of the Federal award
  - Conform to any limitations or exclusions set forth in these principles
  - Consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity

# Uniform Grant Guidance

# Cost Principles

- “Allowable” costs:
  - Accorded consistent treatment as either direct or indirect
  - Determined in accordance with generally accepted accounting principles
  - Not included as a cost or used to meet cost sharing or matching requirements of any other federally financed program
  - Adequately documented

# Uniform Grant Guidance

# Cost Principles

- “Reasonable” costs:
  - A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost

Uniform Grant Guidance  
**Cost Principles**

- “Reasonable” costs:
  - Ordinary and necessary for operations
  - Sound business practices and arm’s-length bargaining
  - Market prices for comparable goods/services for the geographic area
  - Individuals act with prudence
  - No significant deviation from established practices/policies to increase costs

# Uniform Grant Guidance

# Cost Principles

- “Allocable” costs:
  - Based on the relative benefits received:
    - Incurred specifically for federal award
    - Benefits both federal awards and other work (distribute proportionately)
    - Necessary for overall operation of the non-Federal entity
  - Allocable costs may not be charged to other Federal awards to overcome funding deficiencies

# Uniform Grant Guidance

# Cost Principles

- “Allocable” costs:
  - Use direct allocation if feasible without undue effort or cost
  - Otherwise, allocate on any reasonable documented basis



# Uniform Grant Guidance

# Cost Principles

- “Applicable credits”:
  - Receipts or reduction-of-expenditure-type transactions that reduce expense items allocable to a Federal award as direct or indirect costs
  - Examples: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments

# Uniform Grant Guidance

# Cost Principles

- Prior written approval:
  - Reasonableness and allocability can be difficult to determine
  - To avoid later disallowances or disputes, non-Federal entities may request prior written approval

# Uniform Grant Guidance

# Cost Principles

- Direct and indirect costs:
  - § 200.412 Classification of costs.

There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective.

# Uniform Grant Guidance

# Cost Principles

- Direct costs:
  - Can be identified specifically with a particular final cost objective
  - Minor items may be treated as indirect for reasons of practicality, if consistently applied
  - Unallowable costs may still be direct

# Uniform Grant Guidance

# Cost Principles

- Indirect (F&A) costs:
  - Classified as “facilities” (space costs) or “administration” (overhead costs)
  - Cannot be identified specifically with a particular final cost objective

# Uniform Grant Guidance

# Cost Principles

- Selected items of cost:
  - 55 specific items are included
  - Apply to both direct and indirect costs
  - Failure to mention a particular item of cost does not imply that it is either allowable or unallowable (apply general principles of allowability)

Uniform Grant Guidance

# Single Audit Changes

- The overall approach for a single audit was largely left unchanged
- The increase in thresholds will drop approximately 12.9% of the single audits (around 5,000 entities) while retaining 99.7% of the Federal expenditures tested

Uniform Grant Guidance

# Single Audit Changes

- Threshold for a single audit
  - Increased from \$500k to \$750k
- Type A/B Threshold
  - Increased from \$300k to \$750k
- High-Risk Type A programs
  - Material noncompliance, material weakness or questioned costs > 5% (currently, SD is enough for high-risk)



Uniform Grant Guidance

# Single Audit Changes

- Type B programs
  - Large Type B threshold changed to 25% of Type A threshold
  - Only required to test  $\frac{1}{4}$  of high-risk Type B programs (instead of  $\frac{1}{2}$ )
- Percent of coverage
  - Coverage reduced from 50% to 40%
  - Low-risk coverage reduced from 25% to 20%

Uniform Grant Guidance

# Single Audit Changes

- Low-Risk Auditee Status
  - Explicitly considers timing of DCF submission
  - No going concern comments permitted
- Compliance Areas
  - List of 14 areas reduced to ???
  - Pending “further public outreach”

Uniform Grant Guidance

# Single Audit Changes

- Findings
  - Questioned costs increased from \$10k to \$25k
  - More detail required
- Federal cost principles simplified
  - Indirect costs
  - Time and effort reporting

# What's Next?

- COFAR's top priority is implementation of the new guidance
- The 2015 Compliance Supplement is still being deliberated (further public outreach)

# What's Next?

- More FAQ documents to come
- Best practice documents on audit resolution
- Further enhancements to the Federal Audit Clearinghouse (FAC) to reduce the reporting burden and improve analytics on audit finding resolutions

# Online Resources

- [www.whitehouse.gov/omb/grants](http://www.whitehouse.gov/omb/grants)
- <https://cfo.gov/cofar/>
- <http://www.aicpa.org/INTERESTAREAS/GOVERNMENTALAUDITQUALITY/RESOURCES/AUDITEERESOURCECENTER/Pages/AuditeeResourceCenter.aspx>

# Questions and Answers...



# For More Information:



**Stephen W. Blann, CPA, CGFM, CGMA**  
Director of Governmental Audit Quality  
[stephen.blann@rehmann.com](mailto:stephen.blann@rehmann.com)  
[www.rehmann.com/government](http://www.rehmann.com/government)



CPAs & Consultants • Wealth Advisors • Corporate Investigation