



West Michigan
Chapter

Ethics, Internal Control, and the Fiscal Recovery Fund

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Webinar

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Presentation Outline

- Professional Ethics
- Internal Control
- Coronavirus State and Local [Fiscal Recovery Fund](#)

Professional Ethics

- What is ethics?
- Why do we need a code of ethics?
- AGA Code of Ethics
- GFOA Code of Ethics
- AICPA Code of Professional Conduct
- Ethics in Practice

What is Ethics?

- Dictionary.com
 - A system of moral principles
 - The rules of conduct recognized in respect to a particular class of human actions or a particular group
 - Moral principles, as of an individual
 - That branch of philosophy dealing with values relating to human conduct



What is Ethics?

- The Markkula Center for Applied Ethics at Santa Clara University
 - *Ethics also means the continuous effort of studying our own moral beliefs and our moral conduct, and striving to ensure that we, and the institutions we help to shape, live up to standards that are reasonable and solidly-based.*

Why do we need a code of ethics?

- Uniformity of standards and principles
- Define expectations of personal conduct
- Distinguish ourselves from others who purport to provide similar services
- Maintain the highest standards of professionalism, while acting in the public interest



The AGA Code of Ethics

- Overview
 - Sets a minimum standard of behavior and creates an expectation that AGA members and non-member CGFMs will conduct themselves in an ethical and professional manner.
 - Consists of Four Principles with underlying rules

<https://www.agacgfm.org/About/Code-of-Ethics.aspx>

The AGA Code of Ethics

- Principle 1 - The Public Interest
 - The public consists of citizens, taxpayers, customers, employers, employees, investors, the business and financial sector, and others who rely on the objectivity and integrity of government accountability professionals.
 - The public should reasonably expect those who serve government to be trustworthy. AGA members also have an obligation to demonstrate accountability.

The AGA Code of Ethics

- Principle 1 - The Public Interest (Rules)
 - *Abide by the expectations, standards and rules of the position they hold; and seek necessary information to interpret and apply them.*
 - *Accept personal responsibility for the foreseeable consequences of action(s) and inaction.*
 - *Adhere to the standards of conduct of their employer and any professional associations or organizations of which they are a member.*
 - *Consider the long-term interest of the government and its citizens.*

The AGA Code of Ethics

- Principle 2 – Professionalism and Integrity
 - Members shall maintain the highest standards of professionalism and integrity
 - Government accountability professionals shall work at the highest standards of professionalism, attain the highest levels of performance, and meet the public interest principle.

The AGA Code of Ethics

- Principle 2 - Professionalism and Integrity (Rules)
 - *Demonstrate integrity and credibility by being believable, trustworthy, straightforward and honest in performing professional services.*
 - *Maintain professionalism by acting with the skill, good judgment, and respectful behavior expected of someone trained to do a job well.*
 - *Perform quality services by providing the highest standards of performance and complying with all applicable professional standards.*

The AGA Code of Ethics

- Principle 2 - Professionalism and Integrity (Rules)
 - *Project confidence by instilling in others a full and strong belief that ethics govern their actions.*
 - *Perform job tasks with diligence.*
 - *Maintain professional knowledge and skills for effective, efficient work.*
 - *Perform the duties of their position and supervise the work of subordinates with the highest degree of professional care.*

The AGA Code of Ethics

- Principle 2 - Professionalism and Integrity (Rules)
 - *Engage only in those services for which they have the necessary knowledge, skills, and experience.*
 - *Exercise diligence, objectivity and honesty in professional activities, including utilization and management of resources.*
 - *Behave with dignity and respect for others.*
 - *Not engage in acts that are discreditable to the accountability profession.*
 - *Obey the law.*

CPE Prompt 1 of 6

The AGA Code of Ethics

- Principle 3 – Objectivity
 - Members shall remain objective in carrying out their duties and responsibilities.
 - Objectivity requires being fair and not allowing prejudice, bias, conflict of interest, or influence of others to affect decision-making.

The AGA Code of Ethics

- Principle 3 – Objectivity (Rules)
 - *Render opinions, observations or conclusions for official purposes only, after appropriate consideration of pertinent facts.*
 - *Remain free from real or perceived conflicts of interest.*
 - *Be fair and not allow prejudice, bias, conflict of interest, or influence of others to affect decision-making.*
 - *Avoid any activity that creates or gives the appearance of impropriety.*
 - *Remain aware of the responsibility to disclose to appropriate parties any improprieties that come to their attention.*

The AGA Code of Ethics

- Principle 4 – Confidential Information
 - Members shall carefully maintain and protect confidential information.
 - The public, employers, and organizations with which members are affiliated expect members to maintain confidentiality over information.

The AGA Code of Ethics

- Principle 4 – Confidential Information (Rules)
 - *Refuse to disclose or use any confidential information acquired while performing professional services, unless proper and specific authority has been granted or a legal or professional right or duty to disclose becomes apparent.*
 - *Transmit and use confidential information obtained in their professional work only for the purpose intended, neither for personal gain or advantage, nor to the disadvantage of others.*

The GFOA Code of Ethics

- Integrity and Honesty
- Producing Results for My Community
- Treating People Fairly
- Diversity and Inclusion
- Reliability and Consistency

<https://www.gfoa.org/code-of-ethics>

The GFOA Code of Professional Ethics

- Integrity and Honesty
 - Manage public finances honestly and transparently
 - Stand for my values
 - Be open to new ideas

The GFOA Code of Professional Ethics

- Producing Results for My Community
 - Do high-quality work
 - Hone my expertise
 - Exercise good judgment

The GFOA Code of Professional Ethics

- Treating People Fairly
 - Respect the rights of others
 - Develop processes and procedures that are fair

The GFOA Code of Professional Ethics

- Diversity and Inclusion
 - Provide people with opportunities to be part of decisions that impact them
 - Support equity in service provision

The GFOA Code of Professional Ethics

- Reliability and Consistency
 - Develop strong financial policies
 - Produce reliable information
 - Provide timely information

CPE Prompt 2 of 6

AICPA Code of Professional Conduct

- Preface – Applicable to All Members
- Part 1 – Members in Public Practice
- Part 2 – Members in Business
- Part 3 – Other Members

<https://us.aicpa.org/research/standards/codeofconduct>

AICPA Code of Professional Conduct

- *The Public Interest principle.*
 - In discharging their professional responsibilities, members may encounter conflicting pressures from each of those groups. In resolving those conflicts, members should act with integrity, guided by the precept that when members fulfill their responsibility to the public, clients' and employers' interests are best served.

AICPA Code of Professional Conduct

- *Integrity principle.*
 - To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.
 - Integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a member must ultimately test all decisions.

AICPA Code of Professional Conduct

- *Objectivity and independence principle.*
 - A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

AICPA Code of Professional Conduct

- The Michigan State Board of Accountancy has adopted the AICPA Code of Professional Conduct through its administrative rules
 - Therefore, all CPAs licensed in Michigan are subject by the AICPA Code of Professional Conduct, regardless if they are members of the AICPA

Local Ethics Policies

- In addition to state laws and professional codes of conduct
- May vary by jurisdiction

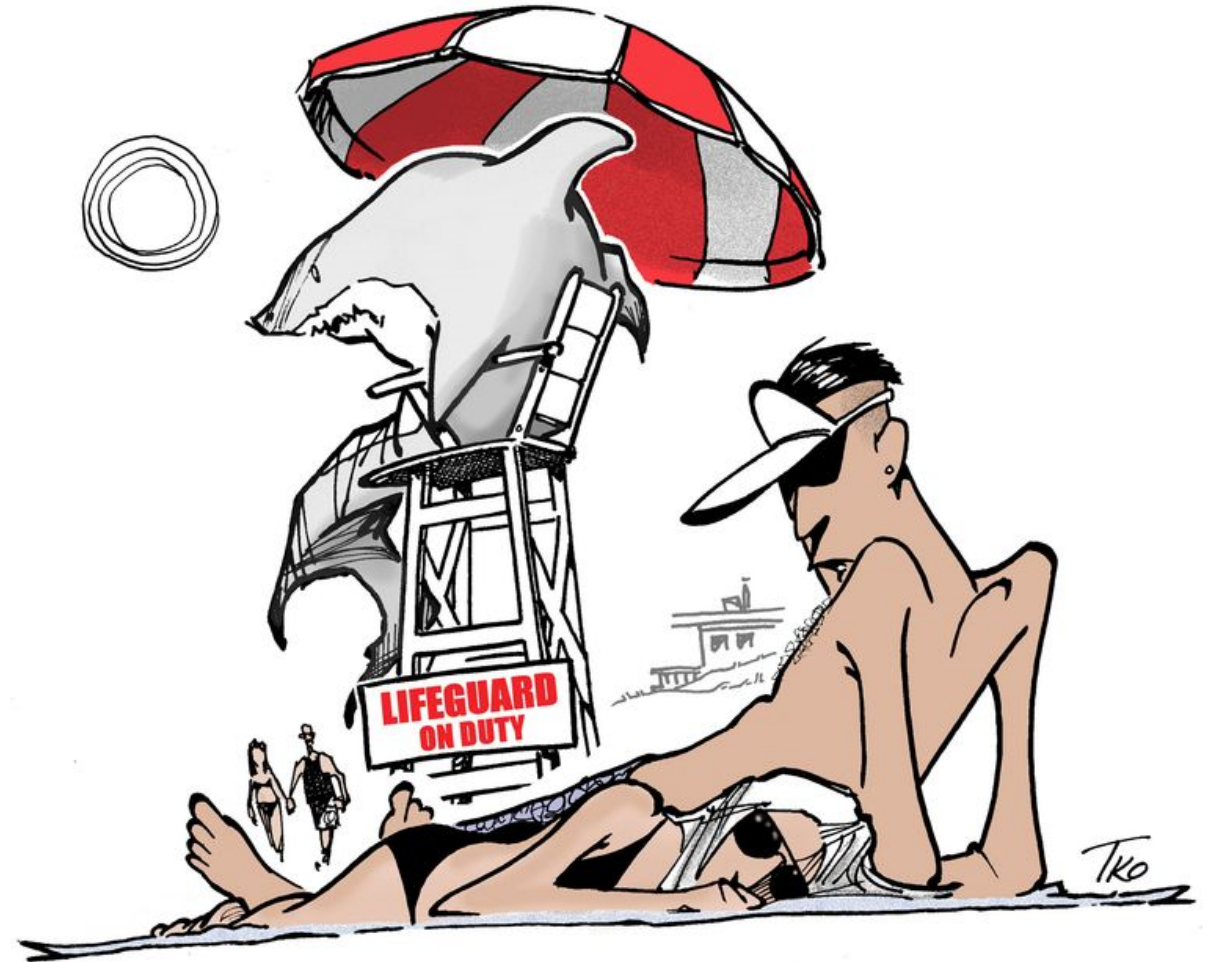
Local Ethics Policies

- Gifts and gratuities



Local Ethics Policies

- Conflict of interest



“So, I’m the only one who sees a conflict of interest here?”

Local Ethics Policies

- Nepotism



Local Ethics Policies

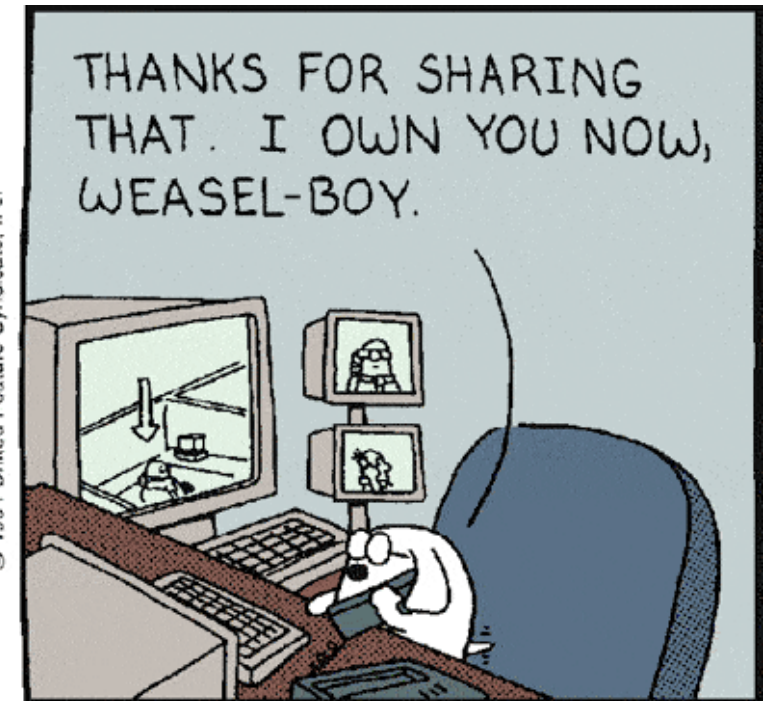
- Use of social media



**“I need your Facebook password before I can hire you.
If you’re not on Facebook, I need you to join and post a
bunch of personal stuff you don’t want me to know about.”**

Local Ethics Policies

- Confidentiality



Ethics in Practice: Self-Check

- How would I feel in hindsight about what I am being asked to do?
 - Would I want my children doing this?
 - My colleagues?
 - Would I want to defend this action in court or in a disciplinary hearing?
 - Front-page test



Ethics in Practice: Self-Check

- Principles of behavior:
 - Is it legal?
 - Is it moral?
 - Is it harmful to others?

Ethics in Practice: Self-Check

- Principles of behavior:
 - Moving beyond “right vs. wrong”
 - Sometimes, the question is “right vs. right”
 - Ask yourself: “In light of my past experience, current circumstances, and future hopes and dreams, what is the wise thing for me to do?”



<http://justaskit.org/>

CPE Prompt 3 of 6

Ethics in Practice – Case Study 1

- You are conducting an audit of an organization who receives federal and state funding. The organization has many subcontractors that receive the bulk of the funds to carry out its mission. You complete the review of the federal and state funded grants without exception. (They are just under the threshold requiring a single audit.) You are ready to issue an unqualified opinion on the audit. When you are going through your wrap up meetings with the executive director and board you overhear a discussion between two board members...

Ethics in Practice – Case Study 1

- The details you overheard were as follows:
 - 1st member – My brother-in-law was ecstatic! He really needed the money and we all want to thank you.
 - 2nd member – I think he will do a great job on the Good Deed Grant!
- The Good Deed Grant happens to be a grant that started one month prior to the fiscal year end you had just completed the audit of and has strict guidelines on subcontractors, conflicts of interest and the bidding process.

Ethics in Practice – Case Study 1

- What do you do?
 - Leave and put a note in your file to look into the matter at the next year's audit?
 - Discuss the matter with the Executive Director immediately and not release the audit report until additional work is done?
 - Pretend you didn't hear the conversation as you are scheduled on a new audit the next week and don't have time to reopen things?
 - Other?

Ethics in Practice – Case Study 2

- You're reviewing eligibility documentation for a preschool program for children with special needs. Most of these children's families are eligible for financial assistance from the County. You suspect some of the families are understating their household income so they can receive more aid. One particular case involves an unmarried man and woman with a 2-year-old daughter. The family only reports the mother's income, thus boosting the daughter's financial assistance package by almost 50 percent.

Ethics in Practice – Case Study 2

- You know the daughter would not be able to receive any of the services she's getting from your school without this money, and you know the child is benefiting physically and psychologically from the therapy she's receiving.
- What Do You Do?
 - Nothing, because the case file appears complete as is?
 - Challenge the family's application?
 - Send it upstream for someone else to handle?
 - Other?

Ethics in Practice – Case Study 3

- You are the Finance Director for a government facing a budget crunch. The Board president has requested that you present the government's financial position at a public meeting in a certain way designed to support his preferred approach to balancing the budget. There is nothing inherently wrong with his perspective, but neither is it the only way of looking at it. He has specifically asked you to omit volunteering certain facts to the rest of the board because they might “muddy the waters” during the board's deliberations.

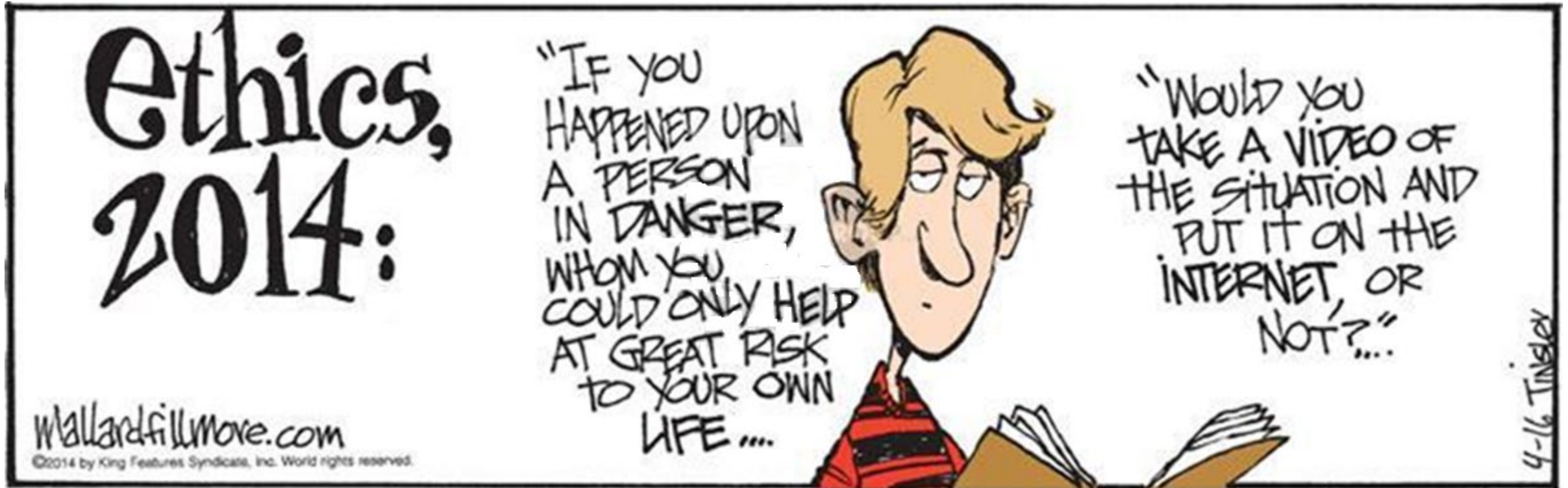
Ethics in Practice – Case Study 3

- What do you do?
 - Follow the Board president's request?
 - Present the information in as fair and unbiased a manner as possible?
 - Show it both ways?
 - Other?

Ethics in Practice – Case Study 4

- A co-worker approaches you in confidence and indicates that she has applied for a job at another government, and asks you to serve as a personal reference. Later, you are in a meeting with her supervisor discussing budget matters that could be significantly impacted by her departure.
- What do you do?
 - Preserve her confidence?
 - Share the important information?
 - Other?

Ethics in Practice – Case Study 5



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Resources

- AGA Ethics Resources

- Ethics Q&A in the Journal of Government Financial Management

- Submit an Ethics Question

- <https://www.agacgfm.org/Resources/Journal-of-Government-Financial-Management/Submit-an-Ethics-Question.aspx>

CPE Prompt 4 of 6

Internal Control

- Uniform Guidance (2 CFR 200)
- The **Green Book**
- Internal Control over Compliance

Uniform Guidance (2 CFR 200)

Standards for Financial Management

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

Uniform Guidance (2 CFR 200)

Standards for Financial Management

- Written procedures:
 - Recommended for all compliance areas
 - Required for implementing:
 - §200.305 Payments (i.e., cash draws)
 - §200.318 Procurement (including conflict of interest)
 - Allowability of costs (Subpart E, Cost Principles)
 - §200.430-431 Compensation (personnel & benefits)
 - §200.474 Travel costs

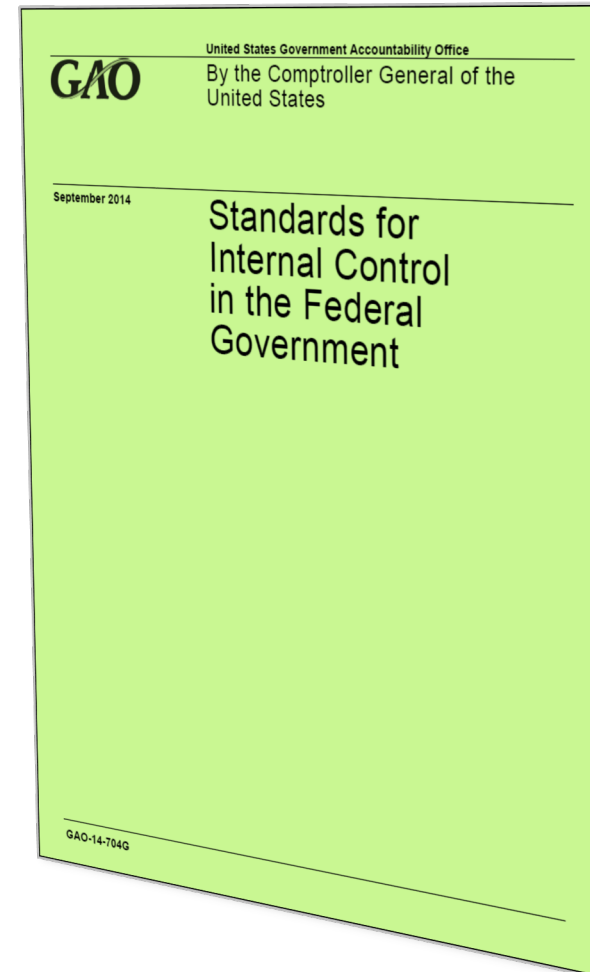
Uniform Guidance (2 CFR 200)

Standards for Financial Management

- Recipients must:
 - 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
 - Should be in compliance with the GAO **Green Book** / COSO (see CS Part 6)

The Green Book

- Standards for Internal Control in the Federal Government
 - Sets internal control standards for federal entities
 - May also be adopted by state and local governments and nonprofits as a framework for an internal control system



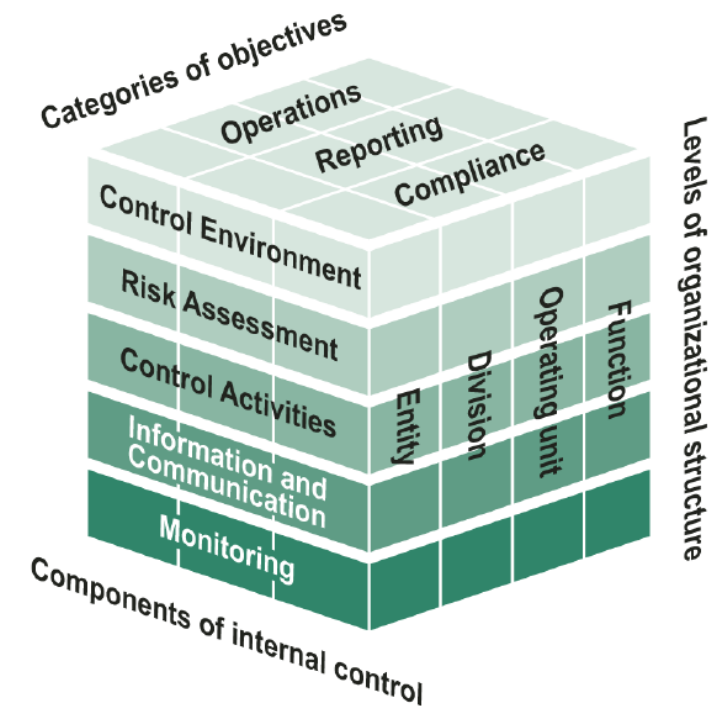
What is internal control?

- Internal control is a process used by management to help an entity achieve its objectives
 - Run its operations efficiently and effectively
 - Report reliable information about its operations
 - Comply with applicable laws and regulations

The COSO Cube

- The Components, Objectives, and Organizational Structure of Internal Control

Figure 4: The Components, Objectives, and Organizational Structure of Internal Control

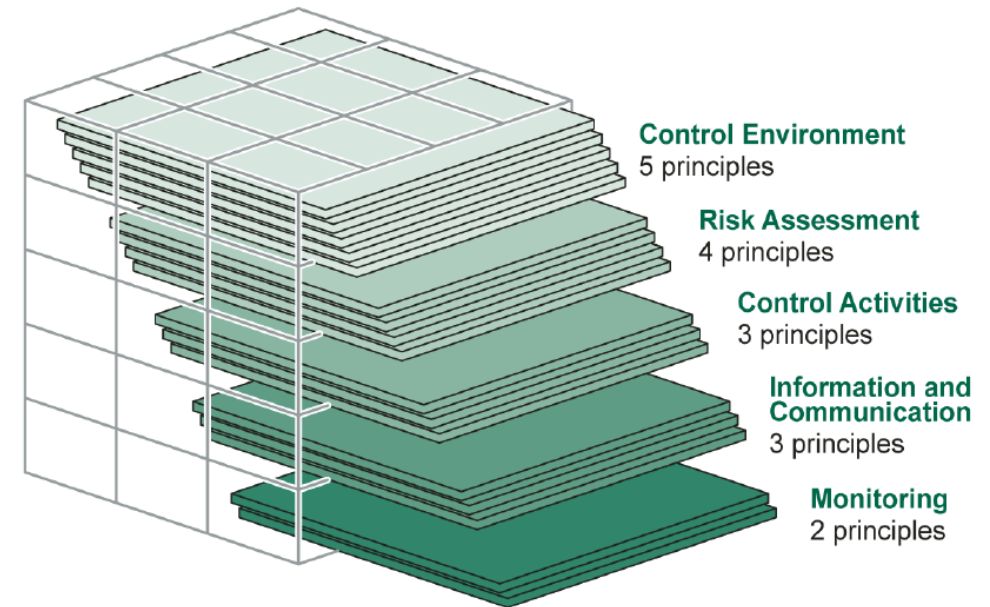


Sources: COSO and GAO. | GAO-14-704G

The 17 Principles

- Each of the five components of internal control contains several principles. Principles are the requirements of each component.

Figure 5: The 17 Principles Supporting the Five Components of Internal Control



Source: GAO. | GAO-14-704G

GFOA Best Practice

Grants Administration

- <https://www.gfoa.org/materials/grants-administration>
- The GFOA recommends that governments establish processes to promote awareness throughout the government that grants normally come with significant requirements. Such processes should ensure that this awareness exists throughout the life of the grant and should address the following areas and include the following elements...

COSO

Documenting Internal Control

- Documentation is a necessary part of an effective internal control system
 - Required to demonstrate the design, implementation, and operating effectiveness of an entity's internal control system
 - The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs (based on management judgment)
 - While smaller governments may not require as formal documentation, certain elements (such as risk assessment) cannot be performed entirely in the CFO's head

Uniform Guidance (2 CFR 200)

Documenting IC over Compliance

- Compliance areas
 - A. Activities allowed or unallowed
 - B. Allowable costs/cost principles
 - C. Cash management
 - D. [reserved] *
 - E. Eligibility
 - F. Equipment and real property management
 - G. Matching, level of effort, and earmarking
 - H. Period of performance
 - I. Procurement/suspension and debarment
 - J. Program income
 - K. [reserved]
 - L. Reporting
 - M. Subrecipient monitoring
 - N. Special tests and provisions

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Coronavirus State and Local **Fiscal Recovery Fund**

- American Rescue Plan Act
- Interim/Final Rule
- 2021 Compliance Supplement/Technical Update

American Rescue Plan (ARPA)

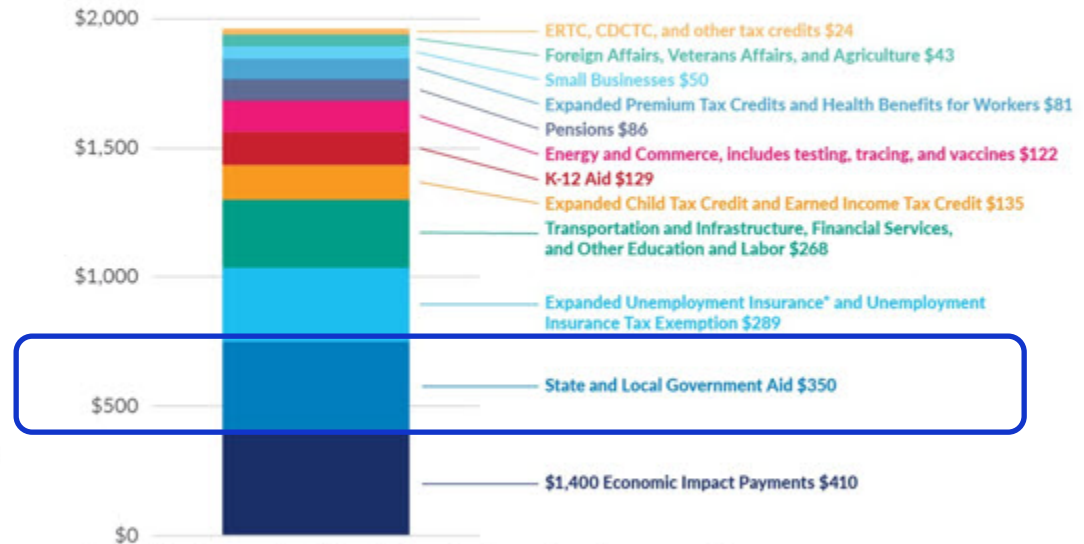
The **American Rescue Plan Act** was signed into law March 11, 2021.

- 1) **Direct relief to the American people**
- 2) **Rescuing the American economy**
- 3) **Beat the virus**

Includes **\$350B** for State & Local Government, among other uses, to modernize technology and business processes.

What's in the \$1.9 Trillion American Rescue Plan Act?

Topline summary of relief in Billions of Dollars



Note: *Subject to change pending estimate of Senate version of unemployment insurance expansion.
Source: Joint Committee on Taxation and Committee for a Responsible Federal Budget

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- \$350B for states and local units of government

Type	Amount (\$B)
States & District of Columbia	\$195.3
Counties	65.1
Metropolitan Cites	45.6
Tribal Governments	20.0
Territories	4.5
Non-entitlement Units of Local Government	19.5

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Funding objectives
 - Support urgent COVID-19 response efforts to continue to decrease spread of the virus and bring the pandemic under control
 - Replace lost revenue to strengthen support for vital public services and help retain jobs
 - Support immediate economic stabilization for households and businesses
 - Address systemic public health and economic challenges that have contributed to the unequal impact of the pandemic

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Tranching of funds
 - Direct recipients receive 50% in May 2021 (balance a year later)
 - Payments for NEUs were remitted to the states for distribution
 - Michigan started accepting applications from 1700+ NEUs in July and completed most payments by the end of October
 - Final deadline for NEUs accepting funds in Michigan was 01/12/2022
 - Undistributed funds allocated to remaining NEUs

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Allowable uses (1 of 4)



- **Replace lost public sector revenue**, using this funding to provide government services up to the amount of revenue lost due to the pandemic

Coronavirus State and Local

Fiscal Recovery Funds (FRF)

- Allowable uses (2 of 4)



- Support the **COVID-19** public health and economic response, by addressing COVID-19 and its impact on public health as well as addressing economic harms to households, small businesses, nonprofits, impacted industries, and the public sector

Coronavirus State and Local

Fiscal Recovery Funds (FRF)

- Allowable uses (3 of 4)



- Provide premium pay for eligible workers performing essential work, offering additional support to those who have and will bear the greatest health risks because of their service in critical sectors

Coronavirus State and Local

Fiscal Recovery Funds (FRF)

- Allowable uses (4 of 4)



- Invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, to support vital wastewater and stormwater infrastructure, and to expand affordable access to broadband internet

Coronavirus State and Local

Fiscal Recovery Funds (FRF)

- Additional allowable uses (Tribal Governments only)
 - Addressing health disparities and the social determinants of health
 - Building stronger neighborhoods and communities
 - Addressing educational disparities exacerbated by COVID-19
 - Promoting healthy childhood environments

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Allowable uses
 - Within these overall categories, recipients have broad flexibility to decide how best to use this funding to meet the needs of their communities
 - Fully subject to the Uniform Guidance (2 CFR 200) – *unlike CRF*

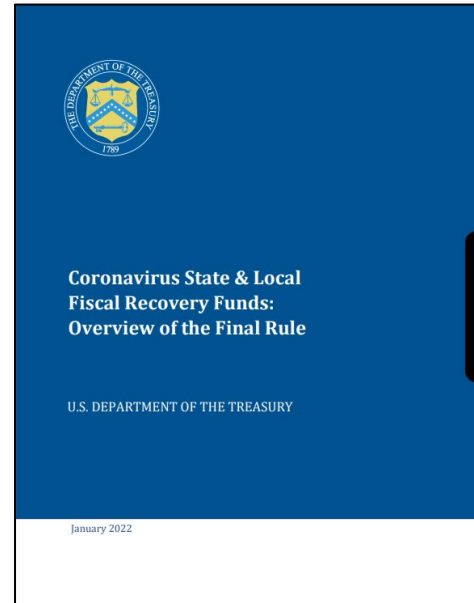
Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Interim Final Rule
 - 39 pages in the Federal Register, effective 05/17/2021
 - Treasury received over 1000 unique public comments

“Until Treasury adopts a final rule, and the final rule becomes effective, the Interim Final Rule is, and will remain, binding and effective. Funds used in a manner consistent with the Interim Final Rule while the Interim Final Rule is effective will not be subject to recoupment.”

Coronavirus State and Local Fiscal Recovery Funds (FRF)

- Final Rule (issued 01/06/2022)
 - 437 pages, effective 04/01/2022



“Recipients can choose to take advantage of the final rule’s flexibilities and simplifications now, even ahead of the effective date. Treasury will not take action to enforce the interim final rule to the extent that a use of funds is consistent with the terms of the final rule, regardless of when the SLFRF funds were used.”

Coronavirus State and Local

Fiscal Recovery Funds (FRF)

- IFR Frequently Asked Questions (FAQs)
 - 43 pages
 - Updated frequently (11/15/2021)
 - May be easier to read than the IFR/FR

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Frequently Asked Questions (FAQs)

2.2. If a use of funds was allowable under the Coronavirus Relief Fund (CRF) to respond to the public health emergency, may recipients presume it is also allowable under CSFRF/CLFRF?

Generally, funding uses eligible under CRF as a response to the direct public health impacts of COVID-19 will continue to be eligible under CSFRF/CLFRF, with the following two exceptions: (1) the standard for eligibility of public health and safety payrolls has been updated; and (2) expenses related to the issuance of tax-anticipation notes are not an eligible funding use.

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Frequently Asked Questions (FAQs)

2.14. The Coronavirus Relief Fund (CRF) included as an eligible use: "Payroll expenses for public safety, public health, health care, human services, and similar employees whose services are substantially dedicated to mitigating or responding to the COVID-19 public health emergency." What has changed in CSFRF/CLFRF, and what type of documentation is required under CSFRF/CLFRF? [5/27]

Many of the expenses authorized under the Coronavirus Relief Fund are also eligible uses under the CSFRF/CLFRF. However, in the case of payroll expenses for public safety, public health, health care, human services, and similar employees (hereafter, public health and safety staff), the CSFRF/CLFRF does differ from the CRF.

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Frequently Asked Questions (FAQs)

2.14. The Coronavirus Relief Fund (CRF) included as an eligible use: "Payroll expenses for public safety, public health, health care, human services, and similar employees whose services are substantially dedicated to mitigating or responding to the COVID-19 public health emergency." What has changed in CSFRF/CLFRF, and what type of documentation is required under CSFRF/CLFRF? [5/27]

For administrative convenience, the recipient may consider a public health and safety employee to be entirely devoted to mitigating or responding to the COVID-19 public health emergency, and therefore fully covered, if the employee, or his or her operating unit or division, is primarily dedicated (e.g., more than half of the employee's time is dedicated) to responding to the COVID-19 public health emergency.

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Frequently Asked Questions (FAQs)

3.5. What is the formula for calculating the reduction in revenue?

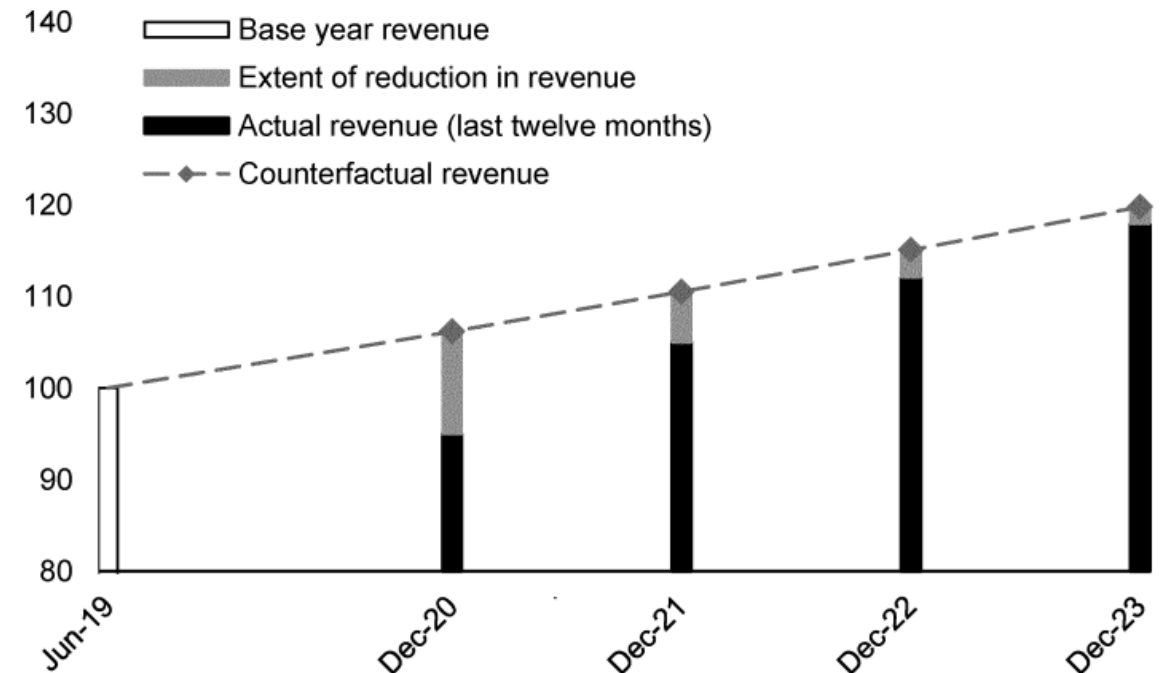
A reduction in a recipient's General Revenue equals:

$$\text{Max } \{[\text{Base Year Revenue} * (1 + \text{Growth Adjustment})^{\left(\frac{n_t}{12}\right)}] - \text{Actual General Revenue}_t ; 0\}$$

– *Note: the FR now allows a “standard allowance” of \$10M*

Coronavirus State and Local Fiscal Recovery Funds (FRF)

- Frequently Asked Questions (FAQs)
 - Calculating the reduction in revenue is based on “counterfactual” revenue growth of ~~4.1%~~ 5.2%*
 - The IFR only permitted calendar year measurement (FR now permits FY)



Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Frequently Asked Questions (FAQs)

- 4.1. May recipients use funds to replenish a budget stabilization fund, rainy day fund, or similar reserve account?**

No. Funds made available to respond to the public health emergency and its negative economic impacts are intended to help meet pandemic response needs and provide immediate stabilization for households and businesses. Contributions to rainy day funds and similar reserves funds would not address these needs or respond to the COVID-19 public health emergency, but would rather be savings for future spending needs. Similarly, funds made available for the provision of governmental services (to the extent of reduction in revenue) are intended to support direct provision of services to citizens. Contributions to rainy day funds are not considered provision of government services, since such expenses do not directly relate to the provision of government services.

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Frequently Asked Questions (FAQs)

4.2. May recipients use funds to invest in infrastructure other than water, sewer, and broadband projects (e.g. roads, public facilities)?

Under 602(c)(1)(A) or 603(c)(1)(A), a general infrastructure project typically would not be considered a response to the public health emergency and its negative economic impacts unless the project responds to a specific pandemic-related public health need (e.g., investments in facilities for the delivery of vaccines) or a specific negative economic impact of the pandemic (e.g., affordable housing in a Qualified Census Tract).

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Frequently Asked Questions (FAQs)

4.2. May recipients use funds to invest in infrastructure other than water, sewer, and broadband projects (e.g. roads, public facilities)?

Under 602(c)(1)(C) or 603(c)(1)(C), recipients may use funds for maintenance of infrastructure or pay-go spending for building of new infrastructure as part of the general provision of government services, to the extent of the estimated reduction in revenue due to the public health emergency.

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Frequently Asked Questions (FAQs)

8. Ineligible Uses

- 8.1. What is meant by a pension “deposit”? Can governments use funds for routine pension contributions for employees whose payroll and covered benefits are eligible expenses?**

Treasury interprets “deposit” in this context to refer to an extraordinary payment into a pension fund for the purpose of reducing an accrued, unfunded liability. More specifically, the interim final rule does not permit this assistance to be used to make a payment into a pension fund if both: (1) the payment reduces a liability incurred prior to the start of the COVID-19 public health emergency, and (2) the payment occurs outside the recipient’s regular timing for making such payments.

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Frequently Asked Questions (FAQs)

8. Ineligible Uses

- 8.1. What is meant by a pension “deposit”? Can governments use funds for routine pension contributions for employees whose payroll and covered benefits are eligible expenses?**

Under this interpretation, a “deposit” is distinct from a “payroll contribution,” which occurs when employers make payments into pension funds on regular intervals, with contribution amounts based on a pre-determined percentage of employees’ wages and salaries. In general, if an employee’s wages and salaries are an eligible use of Fiscal Recovery Funds, recipients may treat the employee’s covered benefits as an eligible use of Fiscal Recovery Funds.

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Frequently Asked Questions (FAQs)

8.2. May recipients use Fiscal Recovery Funds to fund Other Post-Employment Benefits (OPEB)? [6/8]

OPEB refers to benefits other than pensions (see, e.g., [Governmental Accounting Standards Board, “Other Post-Employment Benefits”](#)). Treasury has determined that Sections 602(c)(2)(B) and 603(c)(2), which refer only to pensions, do not prohibit CSFRF/CLFRF recipients from funding OPEB. Recipients of either the CSFRF/CLFRF may use funds for eligible uses, and a recipient seeking to use CSFRF/CLFRF funds for OPEB contributions would need to justify those contributions under one of the four eligible use categories.

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Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Period of performance
 - Funds must be **obligated** by 12/31/2024
 - Funds must be **expended** by 12/31/2026

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Investment of funds
 - FRF payments are not subject to the Cash Management Improvement Act
 - Interest earned on investments does not need to be returned to Treasury and is not subject to program restrictions

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Non-entitlement units
 - Despite having their funding initially flow through the States, NEUs are considered *direct* recipients of the Federal government
 - The States are not considered pass-through entities, and cannot impose additional restrictions of the NEUs' use of funds
 - However, states may provide *additional* funding to NEUs that would be subject to subrecipient monitoring requirements

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Budgeting best practices
 - Consider your government's unique needs
 - Don't rush... there is still plenty of time
 - More money is coming for general infrastructure (IIJA / Build Back Better)
 - Consider the effect of one-time revenues on future service expectations

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- Other considerations
 - If you have multiple funding sources, try to spend the most restrictive money first
 - The timing of expenditures will impact your single audit
 - Ensure you comply with all the relevant Uniform Guidance requirements
 - Internal controls / procurement / subrecipient monitoring / documentation for personnel costs

Coronavirus State and Local Fiscal Recovery Funds (FRF)

- 2021 OMB Compliance Supplement Addendum

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	N	N	Y	Y	N	Y	Y	N

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**

- 2021 OMB Compliance Supplement Addendum
 - Issued before the Final Rule

As noted in the Source of Governing Requirements section above, Treasury is still in the process of adjudicating comments received on Treasury's Interim Final Rule and a Final Rule was not finalized at the time of the issuance of this program section of the 2021 Compliance Supplement. Recipients must comply with the regulations in effect at the time of the expenditure. Therefore, as it relates to the criteria used by auditors to determine compliance, auditors should test compliance with the requirements that existed at the time of the expenditure.

Note that revenue replacement calculations for expenditures covered under Treasury's Interim Final Rule are not subject to audit for FY 2021.

Coronavirus State and Local

Fiscal Recovery Funds (FRF)

- 2021 OMB Compliance Supplement Addendum
 - Revenue loss goes on the SEFA only to extent that it is used to “provide government services” (one of the four eligible uses)
 - NEUs should report their allocations as direct awards (and States should not report amounts distributed to NEUs)

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**



- 2021 OMB Compliance Supplement **Technical Update**
 - Published to the Federal Register on April 8, 2022
 - Alternative Compliance Examination Engagement
 - For recipients that would *otherwise* be required to undergo a single audit or program-specific audit as a result of receiving SLFRF awards

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**



- Alternative Compliance Examination Engagement
 - Eligibility:
 - Expend \$750,000 or more in Federal awards; and
 - Total FRF award received (directly from Treasury or as an NEU) is at or below \$10 million; and
 - Other expenditures of Federal awards (not including FRF) are less than \$750,000

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**



- Alternative Compliance Examination Engagement
 - Financial statement audit not required
 - SEFA not required
 - Testing of internal control not required
 - Compliance testing limited to looking for ineligible expenditures and whether the recipient significantly deviated from its established practices and policies regarding incurring costs

Coronavirus State and Local **Fiscal Recovery Funds (FRF)**



- Alternative Compliance Examination Engagement
 - Reporting guidance TBD
 - AICPA to publish guide for auditors
 - OMB to publish instructions for submitting completed audits

Questions?



For more information...

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