2019 FEDERAL GRANTS MANAGEMENT UPDATE FOR NONPROFIT ORGANIZATIONS

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Today’s instructor

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Objectives

By the end of this presentation, participants will be able to:

• Discuss current developments in grants management

• Describe key changes in the 2019 Compliance Supplement

• Understand the impact of the 2018 Revision of *Government Auditing Standards* (i.e. “The Yellow Book”) on financial statement preparation by the auditor
Today’s topics

• Current developments impacting grants management
• 2019 OMB Compliance Supplement
• 2018 Revision of Government Auditing Standards
• Common findings under compliance audits
• Open forum/Q&A
Introduction

• RSM has offered this webcast for the past 14 years
• Many of our clients (and future clients) administer federal awards under Uniform Guidance (2 CFR 200 or “UG”)
• The goal of this webcast is to keep our clients informed of changes of requirements under UG and the latest developments in the world of federal grants management
• The webcast is not designed to cover all the requirements a recipient should be aware. Participants looking for a “101” overview of grants management should seek additional educational resources as needed
• Enjoy!
Current developments impacting grants management
UG procurement requirements should be fully applicable now to all entities administering awards (requirements covered in past webcasts)

Procurement level thresholds were increased in June 2018 (see next slide)

However, the organization’s procurement policy needs to be amended for these levels in order to utilize them. Any changes would be applied prospectively.

For example, if your policy states the micro-purchase level is set at $3,500, a purchase of $4,000 would be considered a “small purchase” (not a micro-purchase) and require the appropriate documentation for that level of procurement even though your organization could have considered and treated it as a micro-purchase if the level was set to a higher amount not to exceed the new threshold (i.e. above $4,000 but not higher than $10,000).
Change in procurement thresholds (June 2018)

• On June 20, 2018, OMB issued memorandum M-18-18, “Implementing Statutory Changes to the Micro-Purchase and Simplified Acquisition Threshold for Financial Assistance” (the Memo)

• Micro-purchase threshold to $10,000 for all award recipients

• Simplified acquisition threshold to $250,000 for all award recipients

• Certain entities (research related) may request a higher micro-purchase threshold from their cognizant agency

• OMB will plan to amend UG to conform with the law (see discussion on changes to UG in later slides)
2019 Data Collection Form

• The UG Data Collection Form (DCF) has been substantially revised for 2019 year-ends

• Changes/new features include (but not limited to):
  - Edit checking on auditees EIN
  - Fiscal period start date (if not a full year)
  - Ability to list a non-U.S. auditor (previously only U.S. addresses could be entered)
  - Text of the notes to the schedule of federal expenditures (SEFA) must be entered now
  - Text of audit findings (if any) must be entered now
  - Text of the auditee correction action plan must be entered now (manual and upload options)
  - The system will generate the SEFA and notes to the SEFA and can be optionally used in the actual reporting package (could create large efficiencies with organizations with many awards)

• The new DCF will likely require more collaboration
GREAT Act

- Grant Reporting Efficiency and Agreements Transparency Act of 2019 (GREAT Act)
- H.R. 150 has already passed in the House
- S. 1829 has been introduced in the Senate
- The GREAT Act is to do for grants performance data what the DATA Act did for financial reporting (USASpending.gov)
- Data standards would be developed within a year or so (depending which version of the bill you look at) based on information obtained from grant recipients related to various aspects of their awards
- Take advantage of modern technologies for data analysis and transparency for use of billions in federal funding issued each year
- Stay tuned - could lead to new ways award recipients report results
De Minimis Rate - EPA

• UG provides for a 10% recovery option of indirect costs under a “de minimis” rate only for entities that never had a negotiated rate in the past

• EPA is willing to make an exception in certain cases to this rule and allow for the use of the 10% rate even if the entity had a negotiated rate in the past

• Seems to make a lot of sense (on a lot of levels) and maybe other agencies will take similar approaches in the future
Revisions to UG (2 CFR 200)

- Office of Management and Budget (OMB) required every five (5) years to review the UG document

- Certain changes/updated are expected to be released in the Fall of 2019
  - Nothing major we are told - tweaks
  - Address burden reduction for recipients
  - Fix inconsistent terminology
  - Resolve conflicts within 2 CFR
  - Address statutes enacted since the final guidance was issued (e.g. procurement thresholds)
2019 Compliance Supplement
2019 Compliance Supplement

• June 2019 OMB Compliance Supplement was released on July 2, 2019

• Part of the UG at Appendix XI

• Effective for UG audits for fiscal years beginning after June 30, 2018 (i.e. FYE 6/30/19 – 5/31/20)

• Major changes
  - Back to a full version (2018 was released as a “Skinny Supplement” and still incorporated the 2017 version, unless modified)
  - “Pick 6” approach to applicable compliance requirements (only for the 200+ programs listed in Part 2 (matrix)/Part 4 (agency program requirements) and seven requirements for the Research & Development Cluster
  - Internal control guidance (auditees and auditors) has been updated in Part 6
  - Reminder to auditors on acceptable sampling approaches for tests of internal controls and compliance
2019 Compliance Supplement – “Pick 6”

- UG has up to 12 compliance requirements that may apply to a major program
  - Activities allowed or unallowed (Code = A)
  - Allowable costs/cost principles (Code = B)
  - Cash management (Code = C)
  - Eligibility (Code = E)
  - Equipment/Real property management (Code = F)
  - Matching, level of effort, earmarking (Code = G)
  - Period of performance (Code = H)
  - Procurement/Suspension and debarment (Code = I)
  - Program income (Code = J)
  - Reporting (Code = L)
  - Subrecipient monitoring (Code = M)
  - Special test and provisions (Code = N)
2019 Compliance Supplement – “Pick 6”

• In the past, auditors would determine which of the 12 requirements were direct and material to each of the selected major programs it was going to test.

• Now, if a program is listed in the 2019 Compliance Supplement, the auditor would only test the requirement that were indicated as applicable even if a non-indicated requirement is direct and material to the major program. Agencies should limit the number to no more than 6 requirements but “A and B” can be viewed as a single requirement. R&D also adds a 7th requirement under “N” (Special tests).

• If a requirement is noted as applicable in the Supplement, but in the judgement of the auditor it is not direct and material to the selected major program, the auditor would document their considerations and not test it.

• If a program is not listed in the Supplement, the auditor would evaluate all 12 requirements for applicability and test those that are direct and material (as they did in the past).
2019 Compliance Supplement – “Pick 6”

• Part 2 and Part 4 of the supplement should go hand-in-hand

• However, there are some inconsistencies between the two parts with several programs (i.e. ones marked applicable on Part 2 may not be the same in Part 4 for that program)

• OMB is planning to release an update 2019 Compliance Supplement to address/fix these inconsistencies

• For audits already underway, auditors will use best judgement on which requirements to follow (Part 2 vs. Part 4)
2019 Compliance Supplement – Internal Control

• Part 6 designed for both auditees and auditors

• It includes:
  - A summary of requirements for internal control for both non-federal entities receiving federal awards and auditors performing audits under 2 CFR 200 (UG)
  - A background discussion on important internal control concepts
  - Appendices that include illustrations of entity-wide internal controls over Federal awards (Appendix 1) as well as illustrations of internal controls specific to each type of compliance requirement (Appendix 2)
Summary of Updates
Codification of 17 principles embedded in the original Framework

**Control Environment**
1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

**Risk Assessment**
6. Specifies relevant objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

**Control Activities**
10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

**Information & Communication**
13. Uses relevant information
14. Communicates internally
15. Communicates externally

**Monitoring Activities**
16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

Source: www.coso.org
Sample of entity-wide controls

The foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control.

**Principle 1.** The oversight body and management should demonstrate a commitment to integrity and ethical values.

**Illustrative Controls for Principle 1:**

<table>
<thead>
<tr>
<th>Compliance Supplement 2019</th>
<th>6-6</th>
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**June 2019**

<table>
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<tr>
<th>Internal Control</th>
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- A code of conduct is developed, documented, communicated and periodically updated
- A code of conduct explicitly prohibits inappropriate management override of established controls
- Conflict of interest statements are obtained periodically from those charged with governance (TCWG) and key management

**Principle 2.** The oversight body should oversee the entity’s internal control system.

Source: from Part 6 of the 2019 Compliance Supplement
**Sample of activity controls**

### Principle 10. Design Control Activities: management should design control activities to achieve objectives and respond to risks.

<table>
<thead>
<tr>
<th>A. ACTIVITIES ALLOWED OR UNALLOWED</th>
<th>C. CASH MANAGEMENT</th>
<th>E. ELIGIBILITY</th>
<th>F. EQUIPMENT AND REAL PROPERTY MANAGEMENT</th>
</tr>
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<tbody>
<tr>
<td>Management identifies and puts into effect actions needed to carry out specific responses to risks identified in the risk assessment process such as miscoding, inappropriate cost transfers, budget overages, segregation of duties concerns, unauthorized changes to system configurations, fraud, unauthorized payments, etc.</td>
<td>Management identifies and puts into effect actions needed to carry out specific responses to risks identified in the risk assessment process such as time lapses between funds transfer and disbursement, fraud, liquidity pressures, inherent risks with subrecipients, etc.</td>
<td>Management identifies and puts into effect actions needed to carry out specific responses to risks identified in the risk assessment process such as providing benefits to ineligible individuals, calculating amounts to be received for or on behalf of individuals incorrectly, unauthorized changes to system configurations, fraud, unauthorized payments, etc.</td>
<td>Management identifies and puts into effect actions needed to carry out specific responses to risks identified in the risk assessment process for equipment and real property such as inaccurate or incomplete recordkeeping, inappropriate use, unidentified dispositions, segregation of duties concerns, fraud, loss, damage, theft, etc.</td>
</tr>
</tbody>
</table>

Management reviews applicable award agreements or contracts for specific allowable activities requirements, budget parameters, indirect rates, fringe benefit rates, and those activities/costs which require pre-approval by the awarding agency and documents such features into a grant approval form which is submitted to accounting personnel for review and approval before being input into the system as the profile for the grant.

Management reviews applicable award agreements or contracts to determine applicability of drawdown method (advance or reimbursement) to develop its own control activities and to inform its establishment of a method for subrecipients, as applicable.

Management reviews applicable award agreements or contracts and identifies specific eligibility requirements including benefits to be paid.

Management reviews applicable award agreements or contracts and identifies specific equipment and real property requirements.

Supervisors review and approve invoices, cost allocations, efforts of personnel, fringe benefits and indirect charges for allowability, adherence to cost principles, accuracy and

Requests for reimbursement are reviewed/authorized prior to submission by reviewing supporting documentation.

Accuracy and completeness of data used to determine eligibility requirements are reviewed and agreed to by the auditor as necessary.

Property additions purchased with grant funds are recorded timely and compared to source documents for accurate and complete recording.

Source: from Part 6 of the 2019 Compliance Supplement
With the new guidance and illustrations for internal control over compliance, auditees can expect more rigor in their audits over control design and execution (but this is not a new requirement)

Also, some auditees may experience an increase in sample sizes given the highlight placed on AICPA sampling guidelines for UG audits
Before we conclude

How did we do?

- Please take a moment to participate in the attendee survey by following the link in the Resource List to the right of your screen

CPE credit

- Eligible participants will receive 1.5 credit for attending today’s event
- Visit the Certification panel to the right of your screen
  - Be sure to download and save your certificate to your computer before the event concludes
  - Certificates are not available for download from a smart phone. Download your certificate from any computer using the same link you are using to view the webcast
  - You must have Javascript and Cookies enabled to download the certificate
  - RSM employees: CPE will automatically appear on your on My Transcript

Follow-up

- We will respond to all questions following today’s event
- The presentation slides and a link to the call recording will be sent to all participants within a few days
Government Auditing Standards (2018 Revision) (AKA “The Yellow Book”
Yellow Book (2018) revision process

- ED for public comment – April 5, 2017
  - Over 1700 individual comments received
- Advisory Council met in public session on April 10, 2018 to discuss final changes to the draft
- Published by GAO (Government Accountability Office) on July 17, 2018
Yellow Book (2018) effective dates

- Financial audits, attestation engagements, and reviews of financial statements
  - Periods ending on or after June 30, 2020

- Performance audits
  - Audits beginning on or after July 1, 2019

*Early implementation is not permitted*
Yellow Book (2018)

- Supersedes
  - 2011 Revision of GAS
  - 2005 Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education
  - 2014 Government Auditing Standards: Guidance for Understanding the New Peer Review Ratings

Summary of key changes

- New format and organization
- Threats specific to preparing financial statements
- CPE requirements
- Peer review requirements
- Internal control considerations for audits and examinations
- Consideration of waste and abuse
- Reviews of financial statements
- Performance audit standards updated with specific considerations for when internal control is significant to the audit objectives
Threats Specific to Preparing Financial Statements

• “Impairment” exists when preparing the underlying accounting records (retained from 2011 Revision)

• Services related to accounting and f/s preparation (other than those specifically defined as impairments) “in their entirety from a client-provided trial balance or underlying accounting records” create **significant** threat’s to our independence

• Threats are created when we perform any services related to preparing accounting record and financial statements
When preparation of f/s from a trial balance or underlying accounting records by the auditor creates a significant threat to independence

- Requires documentation by the auditor of
  - Management’s SKE (skill, knowledge and experience) to take responsibility for F/S
  - Formal (written) communication with auditee (engagement letter)
  - Identification of applicable threats
  - Identification of safeguards
  - Implementation of safeguards
  - Conclusion as to whether threats have been mitigated

- Management’s SKE only is not a safeguard (it is a pre-condition)
The following scenarios would prohibit the auditor from performing a “non-audit service” and still maintain independence

- Prohibited non-audit services (e.g. management participation)
- Potentially allowed non-audit service, but management lacks the SKE to oversee the service(s)
- Auditor not able to apply safeguards to reduce the threat of non-independence to an acceptable level

All entities, especially smaller organizations, may be significantly impacted by these new rules. If your auditor currently prepares your financial statements, have a discussion now and map out the plan for the June 30, 2020 (or later) audit
Common Findings under Compliance Audits
The list

- Lack of appropriately designed internal controls over compliance
- Federal award identification/SEFA
- Subrecipient monitoring
- Indirect cost rates
- Allowability of costs (direct and indirect)
- Compensation for personal services
- Vendor/subrecipient checks (SAM.gov)
- Special tests/award specific compliance requirements
- Procurement
THANK YOU FOR YOUR TIME AND ATTENTION