2020 FEDERAL GRANTS MANAGEMENT UPDATE FOR NONPROFIT ORGANIZATIONS

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Objectives

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

• Discuss current developments in grants management including COVID Relief
• Describe key changes to Uniform Guidance revisions
• Describe key changes in the 2020 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
- Revisions to 2 CFR 200 (Uniform Guidance)
- 2020 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 15 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!
Cheat Sheet

- 2 CFR 200 – Uniform Guidance ([Link](#))
- 2 CFR 200 – revised ([Link](#)) – Hot off the presses!
- OMB Compliance Supplement
  - 2019 ([Link](#)) (AICPA searchable version)
  - 2020 ([Link](#)) – Hot off the presses!
  - 2020 Addendum for COVID programs – Not yet available
- 2018 Revision to *Government Auditing Standards* ([Link](#))
- Federal Green Book ([Link](#))
- COSO – 2013 Model ([Link](#))
CURRENT DEVELOPMENTS IMPACTING GRANTS MANAGEMENT
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

It turns out that OMB did not have the authority to increase these thresholds via this memo. It was directed to federal agencies and they were asked to approve these requests if made. Technically the old thresholds of $3,500 (Micro) and $150,000 (SAT) are/were still in place.

2019 Compliance Supplement address this issue and auditors were told not to add findings for those organizations who relied upon the memo.
COVID Relief Funding/OMB Directives

• Billions of dollars have been pumped into the economy under a variety of federal laws/programs – Implications to federal awards and related audit rules have led to confusion

• OMB has authorized a series of memos to the federal agencies for “Administrative Relief” for those impacted by COVID-19 due to “loss of operations”
  - M-20-26 (June 18, 2020)
    - (M-20-11/M-20-17/M-20-20)
    - Advice meant to be short-term administrative, financial, and audit requirements under Uniform Guidance without compromising federal financial assistance accountability requirements
    - Older memo expired between June 16, 2020 and July 26, 2020
    - Extension for allowability of salaries and other project activities to September 30, 2020 (need permission from awarding agency for alternatives)
    - Phase out of the single audit extension (see next slide)
• UG Audit Due dates
  - Six-month extension (15 months from year-end)
    • June 30, 2019 = September 30, 2020
    • July 31, 2019 = October 31, 2020
    • August 31, 2019 = November 30, 2020
    • September 30, 2019 = December 31, 2020
  - Three-month extension (12 months from year-end)
    • October 31, 2019 = October 31, 2020
    • November 30, 2019 = November 30, 2020
    • December 31, 2019 = December 31, 2020
  - FY20 year-end = back to regular 9 month deadline
COVID Relief Funding/OMB Directives

• M-20-17 Flexibilities
  1. Flexibility with SAM registration
  2. Flexibility with application deadlines
  3. Waiver for Notice of Funding Opportunities Publication
  4. No-cost extensions on expiring awards
  5. Abbreviated non-competitive continuation requests
  6. Allowability of salaries and other project activities
  7. Allowability of costs not normally chargeable to awards
  8. Prior approval requirement waivers
  9. Exemption of certain procurement requirements
  10. Extension of financial, performance, and other reporting
  11. Extension of currently approved indirect rates
  12. Extension of closeout
  13. Extension of Single Audit submission
COVID Relief Funding/OMB Directives

• PPP Loans
  - Can’t double-dip!!!!!
  - Amounts charged to federal awards cannot be eligible for loan forgiveness per Memo M-20-26
  - PPP loans or forgiveness will not be considered federal awards for purposes of the Single Audit process
COVID Relief Funding/OMB Directives

• Family First Coronavirus Response Act (FFCRA)
  - Signed into law March 18, 2020
  - Provides small and mid-sized employers refundable tax credits that reimburse dollar-for-dollar for the cost of providing paid sick and family leave wages to their employees for leave related to COVID-19
  - Coronavirus Aid, Relief, and Economic Security (CARES)
    • Paycheck Protection Program (PPP)
    • Employee Retention Credit
    • Expanded SBA’s EIDL (Economic Injury Disaster Loan) Program
    • NEA received $75 million to re-grant to state/local/nonprofit arts programs
    • HUD – $5 billion Community Development Fund
    • Coronavirus Relief Fund (CRF) - $150 billion – distributed to state, territorial, local, and tribal governments – push down to subs from these funds
    • Provider Relief Fund (PRF) - $175 billion from HHS to hospitals and healthcare providers on the front lines of the coronavirus response
COVID Relief Funding/OMB Directives

• Single Audit applicability
  - PPP loans (59.073) – No
  - PRF (93.498) – Yes (and for-profits have audit obligations as well under 45 CFR 75.501)
  - CRF (21.019) – Yes
  - Education Stabilization (84.425) – Yes
  - EIDL Emergency Advance (59.072) – No
  - EIDL Loans (59.008) – Yes
  - Several other programs are being added or supplemented with expanded funding – most have Single Audit implications for states, local governments and nonprofit organizations

• OMB will be issuing an addendum to the 2020 Compliance Supplement to provide further guidance to recipients of Coronavirus relief and their auditors – expected in September 2020

• No new clusters expected
2020 COMPLIANCE SUPPLEMENT
August 2020 OMB Compliance Supplement was released on August 17, 2020
Part of the UG at Appendix XI
Effective for UG audits for fiscal years beginning after June 30, 2019 (i.e. FYE 6/30/20 – 5/31/21)

Major changes
- “Pick 6” approach to applicable compliance retained from 2019 Supplement
- Novel Coronavirus (COVID-19) alert (Addendum to come)
  
  COVID-19 funding to be separately identified on the schedule of expenditures of federal awards (SEFA) and data collection form (SF-SAC) – “COVID-19” as a prefix to the program name on the SEFA and “COVID-19” on a separate row of the SF-SAC in Part II, Item 1c (Additional Award Information)
  
  Programs included in Part 2 (Matrix) impacted by COVID-19 funding would require the auditor to verify if the Matrix is still accurate (additional requirements may be needed due to the nature of the new funding)
  
  Pass-through entities must communicate these nuances to their subrecipients of COVID-19 funding
• Reminders
  - Awards from NSF and NIH are presumed to fall under the Research & Development cluster
  - Late submissions of the audit and SF-SAC will preclude the recipient from qualifying for “Low-risk Auditee” status for the next two years
  - Auditors must follow the sampling guidance in the AICPA’s Audit Guide applicable to Single Audits when testing internal controls and compliance over major programs (don’t shoot the auditors for the large sample selections 😊)
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)
UPDATES TO UNIFORM GUIDANCE (2 CFR 200)
UG Revisions

• Issued: August 13, 2020
• Effective: November 12, 2020 (except for amendments to §§ 200.216 and 200.340, which are effective August 13, 2020)
• Some questions/clarifications are needed from OMB – they are expected to explain more at a schedule web event on August 27
• Objectives for the revisions
  ∘ Modernize reporting by recipients (GREAT Act)
  ∘ Strengthen the government-wide approach to performance and risk
  ∘ Improve goals and objectives, share lessons learned, and spread the adoption of promising performance practices
UG Revisions

• Revisions also include updates due to changes in statutory requirements
• Clarify areas of misinterpretation
• 2 CFR 183 added in order to implement “Never Contract with the Enemy”
  - Flow down on award terms (standard agreement language included)
  - Only applies to grants and cooperative agreements that are expected to exceed $50,000 and that are performed outside the U.S. and that are in support of a contingency operation in which members of armed forces are actively engaged in hostilities.
  - Actions available

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UG Revisions

• Emphasizing stewardship and results-oriented accountability for grant program results
  - A series of changes mainly impacting federal agencies in how they award and evaluate their grants, etc.

• Expanded use of the de minimis rate (10% indirect rate option)
  - Previously only available to those entities that NEVER had a formal rate with the government.
  - Non-federal entities (except states, local governments and Indian Tribes) can take advantage of this option
  - Not required to provide proof of indirect rate pools (the rate is the rate)
UG Revisions

• Eliminate references to non-authoritative guidance
  - Support E.O. 13892 (promoting the rule of law through transparency and fairness … )
  - To prohibit federal awarding agencies from including references to non-authoritative guidance in terms and conditions of federal awards

• Promoting Free Speech
  - In support of several executive orders around free speech, freedom of religion, etc. The revisions are meant to underscore the importance of compliance with the First Amendment
UG Revisions

• Standardization of terminology and implementation of standard data elements
  - Align terminology with DATA Act definitions
  - Example – “Catalog for Federal Domestic Assistance (CFDA) number” and “CFDA program title” have been replaced with the terms “Assistance Listings number” and “Assistance Listings program title”

• Support for domestic preferences for procurement
  - New section 200.322
  - Encouraging federal award recipients, to the extent permitted by law, to maximize use of goods, products, and materials produced in the United States when procuring goods and services under Federal awards
• Changes to procurement standards (200.320)
  - Micro-purchase threshold officially raised to $10,000 (from $3,500)
  - Simplified Acquisition Threshold (SAT) officially raised to $250,000 from $150,000.
  - Allows for non-federal entities to request a micro-purchase level higher than $10,000 under certain conditions
Non-Federal entity increase to the micro-purchase threshold up to $50,000. Non-Federal entities may establish a threshold higher than the micro-purchase threshold identified in the FAR in accordance with the requirements of this section. The non-Federal entity may self-certify a threshold up to $50,000 on an annual basis and must maintain documentation to be made available to the Federal awarding agency and auditors in accordance with § 200.334. The self-certification must include a justification, clear identification of the threshold, and supporting documentation of any of the following:

- (A) A qualification as a low-risk auditee, in accordance with the criteria in § 200.520 for the most recent audit;
- (B) An annual internal institutional risk assessment to identify, mitigate, and manage financial risks; or,
- (C) For public institutions, a higher threshold consistent with State law
Non-Federal entity increase to the micro-purchase threshold over $50,000. Micro-purchase thresholds higher than $50,000 must be approved by the cognizant agency for indirect costs. The non-federal entity must submit a request with the requirements included in paragraph (a)(1)(iv) of this section. The increased threshold is valid until there is a change in status in which the justification was approved.
UG Revisions

- Emphasis on machine-readable information format
- Changes to closeout provisions to reduce recipient burden and support GONE Act implementation
  - Increase closeout from 90 days to 120 days
- Changes to performing the Government wide Audit Quality Project
  - Date moved from 2018 to 2021
- Prohibition on certain telecommunication and video surveillance services or equipment
- Never contract with the enemy
UG Revisions

- Requirement for the FAPIIS (Federal Awardee Performance and Integrity Information System) to include information on non-federal entity’s parent, subsidiary, or successor entities
- Increase transparency through FFATA, as amended by the DATA Act
  - Beyond grants and cooperative agreements to also include loans, insurance, contributions and direct appropriations
- Aligning 2 CFR with authoritative sources
- Responsibilities of the pass-through entity to address only a subrecipient’s audit findings related to their subaward
UG Revisions

- Reducing burden on universities by clarifying timing of the Disclosure Statement (200.419)
  - DS-2 – language added to the timing of submissions, which is only required of institutions of higher education that meet certain thresholds (defined in 48 CFR 9903.202-1(f))
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
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
- 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
QUESTIONS AND ANSWERS?
THANK YOU FOR YOUR TIME AND ATTENTION