

OMB's Super-Circular

*Understanding and Complying with the
New OMB Administrative Requirements,
Cost Principles, and Audits Requirements
for Grants and Other Agreements*

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This course will attempt to cover:

- The Federal shift from compliance to performance
- New focus on risk
- New time and effort certification
- New rules on procurement
- Written controls on cash management and allowability
- New rules on travel, meals, and conferences
- New controls on computers
- Conflicts/fraud/gratuity rules
- New rules on audits of Non-federal recipients
- Changes to close-out/management decisions

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We will also try to cover:

- Developing and negotiating cost allocation plans & indirect cost rates
- Effective Sub-recipient monitoring
- Successfully applications for grants and agreements
- OMB, GAO & COFAR plans for the future

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The screenshot shows the homepage of the Office of Management and Budget. At the top, there is a navigation bar with links for BRIEFING ROOM, ISSUES, THE ADMINISTRATION, PARTICIPATE, and 1600 PENN. A search bar is located on the right. Below the navigation bar, the breadcrumb trail reads "Home • The Administration • Office of Management and Budget". The main header features the OMB seal and the text "Office of Management and Budget". A secondary navigation bar includes links for About, OMBlog, The Budget, Management, Regulation & Information Policy, Legislative Information, Join, and Contact. The main content area has a blue background with a large quote on the left and a photograph of a bridge on the right. The quote reads: "We have risen from recession freer to write our own future than any other Nation on Earth. It's now up to us to choose what kind of country we want to be over the next 15 years, and for decades to come. This Budget shows what we can do if we invest in America's future and commit ourselves to an economy that rewards hard work, generates rising incomes, and allows everyone to share in the prosperity of a growing America." The photograph shows a bridge structure with a sign that says "FISCAL YEAR 2014 BUDGET OF THE U.S. GOVERNMENT".

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We have risen from recession freer to write our own future than any other Nation on Earth. It's now up to us to choose what kind of country we want to be over the next 15 years, and for decades to come. This Budget shows what we can do if we invest in America's future and commit ourselves to an economy that rewards hard work, generates rising incomes, and allows everyone to share in the prosperity of a growing America.

FISCAL YEAR 2014
BUDGET
OF THE U.S. GOVERNMENT

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Super-Circular – a chronology

- February 28, 2012: OMB advance notice of proposed guidance
- February 1, 2013: OMB notice of proposed guidance
- December 26, 2013: OMB issuance of uniform guidance
- December 26, 2014: Super-Circular implementation
 - Administrative rules and cost principles for grant years starting after December 25, 2014
 - Single Audits for fiscal years starting after December 25, 2014

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Super-Circular

- Title 2 CFR – Grants and Agreements
 - Subtitle A – Office of Management and Budget Guidance for Grants and Agreements
 - Chapter 1 – Office of Management and Budget Government-wide Guidance for Grants and Agreements (§1 – §199)
 - Chapter II – Office of Management and Budget Circulars and Guidance (§200 – §299)
 - Subtitle B – Federal Agency Regulations for Grants and Agreements (§300 – §5999)
 - Chapters III (DHHS) through LIX (Gulf Coast Ecosystem Restoration Council)

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2 CFR Part 1 – About Title 2 and Subtitle A

- Subpart A – Introduction to Title 2 of the CFR (§1.100 – §1.110)
- Subpart B – Introduction to Subtitle A §1.200 – §1.1.230)
- Subpart C – Responsibilities of OMB and Federal Agencies (§1.300 – §1.305)

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2 CFR Chapter 1

- Parts 2 – 24 = **Reserved**
- Part 25 = Universal Identifier and System of Award Management
- Parts 26 – 169 = **Reserved**
- Part 170 – Reporting Sub-award and Executive Compensation Information
- Parts 171 – 174 = **Reserved**
- Part 175 = Award Terms for Trafficking in Persons
- Part 176 = Award Terms for Assistance Agreements That Include Funds Under the American Recovery and Reinvestment Act of 2009 (P.L. 111-5)

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2 CFR Chapter 1 (*Continued*)

- Parts 177 – 179 = **Reserved**
- Part 180 = OMB Guidelines to Agencies on Government-wide Debarment and Suspension (Non-procurement)
- Part 181 = **Reserved**
- Part 182 = Government-wide Requirements for Drug-Free Workplace (Financial Assistance)
- Parts 183 – 199 = **Reserved**

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The Super-Circular 2 C.F.R. Part 200

- **Subpart A** – Acronyms and Definitions (§200.0 – §200.99)
- **Subpart B** – General Provisions (§200.100 – §200.113)
- **Subpart C** – Pre-Federal Award Requirements and Contents of Federal Awards (§200.200 – §200.212)
- **Subpart D** – Post Federal Awards Requirements (§200.300 – §200.345)
- **Subpart E** – Cost Principles (§200.400 – §200.475)
- **Subpart F** – Audit Requirements (§200.500 – §200.521)
- **Appendix I** through XI

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Appendices in the Super-Circular

- I – Full text of notice of funding opportunity
- II - Contract Provisions for Non-federal Entity Contracts Under Federal Awards
- III - Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs)
- IV - Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Non-profit Organizations

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More Appendices

- V - State/Local Government and Indian Tribe-Wide Central Service Cost Allocation Plans
- VI - Public Assistance Cost Allocation Plans
- VII - States and Local Government and Indian Tribe Indirect Cost Proposals

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Still more Appendices

- VII – Non-profit Organizations Exempted
From Subpart E, Cost Principles of Part 200
- IX - Hospital Cost Principles
- X - Data Collection Form (Form SF–SAC)
- XI – Compliance Supplement
- XII – Award Terms and Conditions for
Recipient Integrity and Performance Matters
(NEW)

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Final guidance covers all aspects of Federal Government grants

- Administrative rules
- Cost principles
- Single Audit requirements
- Issued December 26, 2013 (**Merry Christmas
or Baa Humbug!**)
- Becomes effective December 26, 2014
- Federal Government Departments/Agencies
must issue any needed implementing
regulations to meet that deadline

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Supersedes many OMB Circulars

- Administrative Rules
 - A-102
 - A-110 (2 CFR 215)
- Cost Principles
 - A-21 (2 CFR 220)
 - A-87 (2 CFR 225)
 - A-122 (2CFR 230)
- Other
 - A-50 (Audit follow up on Single Audits)
 - A-89 (Catalog of Federal Government Domestic Assistance)
 - A-133 (Single Audit Requirements)

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Intended to streamline grant rules

- Eliminate duplicative and conflicting guidance
- Focus on performance over compliance
- Encourage efficient use of IT
- More consistent treatment of costs
- Limit costs to best use Federal Government resources
- Strengthen oversight
- Target audits to risk of fraud, waste, and abuse

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Subpart A: Acronyms and Definitions

- Acronyms are all in §200.0
 - Lots of acronyms (45)
- Definitions in §200.1 to §200.99
 - Lots of definitions

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Subpart B: General Provisions (§200.100 – §200.113)

- Rules flow down to sub-recipients
- Federal agencies cannot impose additional or conflicting provisions
- Table shows which requirements relate to which grant types
- Federal agencies must establish conflict-of-interest policies on awards
- Recipients must disclose all illegal acts to Federal Government in writing (Appendix XII)

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Subpart C: Pre-award Requirements (§200.200 – §200.212)

- Federal Government **and pass-through entities** must use Federal Grant and Cooperative Agreement Act (FGCA) to determine appropriate award instrument
- Agencies can make fixed-amount awards, but shouldn't permit profit
- Pass-through entities that have prior approval, can make fixed-amount sub-awards

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Public Notice

- Federal agencies must include programs in CFDA
- Must provide specific information to GSA
- Provide public notice of all competitive grant opportunities

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Federal agency review of competitive applications

- Must have a merit review process that is described in public notice
- Agency must consider risk posed by grant applicants before making award
- Agency or pass-through agency may impose additional restrictions for “high-risk” grantees
- Agency must publicize all grant awards

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Subpart D – Post-award Requirements

- Standards for Financial and Program Management (§200.300 – §200.309)
- Property Standards (§200.310 – §200.316)
- Procurement Standards (§200.317 – §200.326)
- Performance and Financial Monitoring and Reporting (§200.327 – §200.329)
- Sub-recipient Monitoring and Management (§200.330 – §200.332)

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Subpart D – Post-award Requirements

- Record Retention and Access (§200.333 – §200.337)
- Remedies for Non-Compliance (§200.338 – §200.342)
- Closeout (§200.343)
- Post-Closeout Adjustments and Continuing Responsibilities (§200.344)
- Collection of Amounts Due (§200.345)

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Subpart D – Post-award Requirements

- Cover financial management and program management
- Must administer grants in accordance with National Priority Requirements (public welfare, anti-discrimination, environment, etc.)
- Agency must require financial and performance reporting in accordance with OMB standards

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Financial Management Rules

- States follow their own procedures
- Financial management systems of **all** entities:
 - Must allow for required reports
 - Must permit tracing of funds to be sure they were spent in accordance with the rules

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Financial Management Rules (*continued*)

- Show **all** Federal funds received and expended
- Accurate, current, and complete accounting information
- Records show fund source and application
- Adequate internal controls
- Comparison of budget vs. expenditures
- Written procedures dealing with advance payments and allowability of costs

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Internal Controls

- Reasonable assurance that grant programs are in compliance
 - Follow **GAO** internal control standards
 - Follow **COSO** internal control framework
- Take prompt action when non-compliance identified
- Reasonable measures to protect Personally Identifiable Information (**PII**)

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Payments (advance funding)

- States are covered by CMIA
- Other entities must minimize the time for advance funding
- Advancing funds is the norm
- Advance payments should be consolidated
- Grantees can request funds as frequently as they want with EFT
- Otherwise can request funds at least monthly

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Other Rules on Payments

- If entity does not qualify for advance funding, reimbursement is first choice
- If entity doesn't have financial resources for reimbursement, Federal Government can provide advance of working capital
- Agencies cannot withhold any funds unless:
 - Grantee has violated requirements
 - Grantee is delinquent on Federal debt

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Depository Accounts for Advanced Funds

- Federal Government cannot require separate bank accounts
- Funds must be kept in insured accounts
- Use interest bearing accounts, unless:
 - Grantee receives <\$120,000 per year
 - Account not expected to earn >\$500 per year
 - Minimum balance requirements not feasible
- Grantee can keep first \$500 of interest
- Additional interest should be remitted to HHS

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Cost Sharing/Matching

- Not required
- Voluntary committed matching is not expected, and can't be used as a factor in the award decision
- Criteria for considering voluntary matching must be described in notice of funding opportunity

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Cost sharing must be accepted when it is:

- Verifiable from the entity's records
- Not charged to, or used as cost sharing on, another award
- Necessary, reasonable, and allowable
- Included in the approved award budget

Unrecovered indirect costs can be claimed as cost sharing only with the agency's approval

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Valuing Third Party Contributions

- For real property donated as direct cost, lesser of:
 - Book value at time of donation
 - Current FMV
- Use FMV for equipment
- Volunteer time should be valued at usual rates
- Employee time donated by third parties valued at usual rates, including fringe benefits

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Program Income

- Grantees encouraged to earn program income
- Grantee governmental revenues are not considered program income
- Agency may approve offsetting income with costs
- Revenue from selling property is not program income

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Use of Program Income

- Deductive method
- Additive method
- Cost sharing
- Default methods
 - For most grants, use deductive method
 - For IHE's and non-profit research institutions, use additive method
- No obligation after the grant period

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Budget revisions needing approval – Non-construction Grants

- Change in scope or objectives
- Change or significant reduction of time of a key person (PI or PD)
- Transfer out of participant support costs
- Change in cost-sharing
- Switch between construction and non-construction
- For grants >\$150,000 then transfers >10% of total award

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Budget revisions needing approval – Construction Grants

- Change in scope or objectives
- Need for additional funds
- Need for costs requiring prior approval

No other restrictions on budget revisions can be placed on construction or non-construction grants

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Property Standards

- Same insurance for property acquired under Federal award
- Real property
- Title vests in grantee
 - Use for original purpose as long as needed
 - When no longer needed, Federal Government decide:
 - Keep and reimburse Federal Government
 - Sell and reimburse Federal Government
 - Give to Federal Government and get reimbursed

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Federal Government-Owned Property

- Federal Government retain title
- Entities submit annual report of Federal-owned property in the their custody
- When no longer needed, report to the Federal Government
- If agency doesn't need it any more, they declares it excess
 - May be able to donate research equipment to educational/research institution
- “Exempt” property: acquired under award and Federal Government decided to give it to entity

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Supplies

- Title vests with grantee
- If FMV at end of project <\$5,000 then no further obligation to the Federal Government

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Equipment

- Title vests in grantee, but cannot encumber the property
- Use until project ends or need for it ends
- States manage equipment under their rules
- Others: when equipment is no longer needed, can be used on other Federal Government programs
- For disposition, if FMV is over \$5,000 per unit, then treat like real property
- If FMV <\$5,000 per unit no accountability

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Intangible Property

- Title vests with grantee
- Cannot encumber it without approval from Federal Government
- For disposition, treat like equipment
- Federal Government have a royalty-free, non-exclusive right to use, and can authorize others
- For research data, FOIA may apply

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Procurement

- States follow their own rules
- All entities must incorporate required contract provisions
- Non-state entities have extra requirements
 - Use their own procedures
 - Have conflict-of-interest rules, including organizational conflicts-of-interest
 - Deal with only responsive/responsible contractors
 - Ensure full and open competition
 - No geographical preferences

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Additional Rules for Non-state Agencies

- Simple rules for micro-purchases
 - Usually <\$3,000
 - \$2,000 if Davis-Bacon applies
- Small purchase procedures
 - For procurements <\$150,000
 - But organization must follow its own rules
- Large procurements require formal quotes
- Must have a cost or price analysis of any procurement >\$150,000

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Monitoring

- Pass-through entity must monitor sub-recipients
- Frequency of reporting
 - At least annually
 - At most quarterly
- Use OMB approved reporting data
- Promptly report any known problems or favorable events
- Agency can make site visits as warranted

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Differentiate between Vendors/ Contractors and Sub-recipients

- Use the proper award instrument
- Impacts the amount of monitoring that is required
- Substance of agreement is more important than the form of the agreement

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Factors indicative of a Sub-recipient

- Determines eligibility (e.g., of beneficiaries)
- Performance measured against grant objectives
- Responsible for programmatic decision-making
- Required adherence to Federal grant rules
- Uses the funds to support its program as distinct from providing goods or services for a program of the “pass-through” entity

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Factors indicative of a Vendor/Contractor

- Provides goods and services in normal course of business
- Provides similar goods/services to other customers
- Operates in a competitive environment
- Goods/services are ancillary to the Federal Government program
- Not subject to Federal assistance program rules

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Requirements for Pass-through Entities

- Provide necessary information to sub-grantees
- Impose Federal Government regulations
- Evaluate each applicant for sub-grant for risk of non-compliance in order to determine appropriate monitoring

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Indirect Cost Rate Requirements for Pass-through Entities

- Accept Federal Government negotiated rate, when applicable
- Negotiate an indirect cost rate using Federal cost principles
- Allow a minimal rate of 10% of modified total direct costs for entities that are unable to develop an indirect cost rate
 - Entity cannot have had a negotiated rate in the past
 - Not for some state and local governments

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Records Retention

- Generally 3 years from filing of financial reports
- For real property and equipment, 3 years after disposition
- Many individual issues — all relating to 3 years
- Keep records if there is litigation, audit issue, etc.

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Access to Records

- Agency, its Inspector General and GAO have access to all award-related records
- That requirement should be passed on to sub-recipients
- Includes timely and reasonable access to employees
- Access continues as long as records are retained

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Remedies for Non-compliance

- Withhold cash payments
- Disallow costs claimed
- Wholly or partly terminate
- Initiate suspension and debarment
- Withhold future awards
- Other remedies that are legally available

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Termination can be effected by:

- Agency, if grantee fails to perform
- Agency, with consent of grantee
- Grantee can terminate
 - If grantee wants to terminate in part, Federal Government may decide to terminate entire project
- Termination must be in writing
- Obligations after termination are unallowable

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Close-out does not affect

- Federal Government right to disallow costs
- Obligation to make appropriate refunds
- Continuing responsibilities
 - Audit
 - Property management
 - Records retention

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QUESTIONS!

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Subpart E: Cost Principles

- General Provisions (§200.400 – §200.401)
- Basic Considerations (§200.402 – §200.411)
- Direct and Indirect (F&A) Costs (§200.412– §200.415)

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Subpart E: Cost Principles

- Special Considerations for State, Local Governments, and Indian Tribes (§200.416 – §200.417)
- Special Considerations for Institutions of Higher Education (§ 200.418 – §200.419)
- General Provisions for Selected Items of Cost (§ 200.420 – §200.475)

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Subpart E: Cost Principles

- Grantee is responsible for operating effectively and efficiently
- Grantee must follow the rules
- Accounting practices must be in accordance with the cost principles
- For IHEs, recognize the dual role of students as trainees and research workers
- Federal Government can provide prior approval for some costs ahead of time

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To be allowable, costs must:

- Be necessary and reasonable
- Be allocable
- Conform to the cost principles and award
- Be treated consistently
- No double dipping
- Be adequately documented
- Reduced by any applicable credits
- Conform to GAAP

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Reasonableness

- Prudent person rule
- Ordinary and necessary
- Sound business practices
- Arms-length bargaining
- Use of established practices

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Allocability

- Charges relate to benefits
- All activities are charged a fair share
- Cannot reallocate to avoid restrictions
- But can reallocate if costs are OK under either program

64

Conform to any limitations

- Program laws and regulations
- Specific grant provisions
- Cost principles

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Consistent treatment

- Like costs in like circumstances are treated consistently
 - Direct vs. indirect
 - Federal Government vs. Non-federal Government
 - Budgeted costs vs. un-budgeted costs

66

Not claimed twice

- All costs can be claimed only once
- They cannot be charged to two grants
- Cannot be charged to one grant and used as cost sharing on another

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Adequate documentation

- The regulations generally do not set forth specific documentation standards
- However, they provide more guidance for salary and wages
- Otherwise, the reasonable person (auditor?) must decide
- Contemporaneous documentation is always more credible than documentation prepared after-the-fact

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Total costs

- Include both direct and indirect
- No one rule for classification
- Must be consistent

Note how frequently consistency is cited

69

Direct costs

- Identified with final cost objective. Examples include:
 - Salaries of persons working on project
 - Travel associated with the project
 - Approved capital expenditures
- un-allowable costs must be allocated indirect costs if they:
 - Include salaries
 - Occupy space
 - Benefit from the indirect costs

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Indirect costs

- Indirect costs are those having a common or joint purpose
- Not readily assignable
- Minor items can be classified as indirect, if treated consistently
- Allocation plan can be simple or complex
- Indirect costs may be limited by law
- The rules contain some special provisions for IHEs and State/Local governments

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Facilities and Administrative costs

- Major IHEs and non-profits must classify their indirect costs as either facilities costs or administrative costs
- Facilities costs:
 - Depreciation on buildings and equipment
 - Operations and maintenance expenses
- Administrative costs
 - General expenses
 - Other indirect costs not included as facilities expenses

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Selected items of cost

- Lists 55 items (alphabetical order)
- Some items relate to just one type of grantee
- If a cost is not in the list, that doesn't mean that it's allowable or that it's un-allowable
- In a conflict between the cost principles and the Federal award, the award takes precedence
- We will cover items that have changed or that sometimes create problems

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Some costs are almost always un-allowable

- Alcoholic beverages
- Uncollectible debts
- Contingency reserves
- Contributions
- Entertainment and employee morale
- Fund raising
- Goods or services for personal use
- Under-recovery on other Federal grants
- Use allowances

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Salaries and Wages (Compensation for personal services)

- Salary must be reasonable
- There may be limits on total salary rate
- Reasonable incentive compensation is permissible
- Many special provisions for IHEs

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Documentation requirements

- Rules are more flexible
- Charges must be supported by:
 - System of internal controls
 - In official records of entity
 - Reflect total compensated activity
 - Include Federal Government and Non-federal activity
 - Comply with entity's accounting policies
- Special, more flexible rules for IHEs

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Using budget estimates for salary allocations

- Use for interim accounting purposes, if
 - System produces reasonable estimates
 - Timely recording of significant changes
 - Short-term fluctuations can be ignored
 - Internal control system compares actuals with budgets

**Cost sharing should be supported
the same as direct charges**

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Fringe benefits include time not worked

- Fringe benefits must be based on law, agreement, or established policy
- Can use cash basis (charge leave when it is taken)
- Can accrue leave costs
- When employment terminates, payments for leave are indirect costs

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Pension plan costs

- Pension accruals
 - Must conform to GAAP
 - Must be funded within 6 months of year end
- “Golden parachutes” are prohibited

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Legal defense costs

- All related costs are un-allowable if:
 - Organization is defending criminal, civil, or administrative charges, *and*
 - Organization loses or agrees with a compromise disposition
- Lots of detailed rules which should be consulted in the event of criminal or civil suits

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General governmental costs prohibited for State and Local Governments

- General governmental costs include:
 - Governor, State Legislature, Judiciary, etc.
 - General public support (e.g., police and fire)
- For Councils of Government and Tribes:
 - CEO direct costs are OK
 - 50% of such costs can be included in indirect cost rate without documentation
- Agency may approve **the travel costs** of general government employees if they are related to a specific award

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Idle facilities and idle capacity

- Idle facilities are unused, in excess of current needs
 - Generally un-allowable, but OK if needed for workload fluctuations
 - If the need for the facilities has been reduced because of changed circumstances, costs are OK for up to one year
- Reasonable idle capacity is OK

82

Interest

- Generally un-allowable
- Building related interest OK:
 - for State and Local Governments, after October 1, 1980
 - For land, after September 1, 1995
 - For IHEs, after September 23, 1982
 - For non-profits, September 29, 1995
- For all equipment related interest is OK
- For fiscal years starting after December 31, 2015, interest related to acquiring intangible assets is OK

83

Lobbying

- Costs to improperly influence Federal Executive Branch employee regarding a grant or regulation are un-allowable
- For IHEs and non-profits:
 - Attempts to influence any election, referendum, Federal or state legislation are un-allowable
 - OK to factually respond to legislative requests
 - OK to try to reduce costs or otherwise assist Federal grant

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Costs of memberships

- Professional, technical associations, and publications are OK
- Civic or community organizations are OK, with approval
- Country clubs or social clubs are un-allowable
- Organizations whose primary purpose is lobbying are un-allowable

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Rental costs

- Generally OK
- Only cost of ownership allowed if:
 - Sale and leaseback arrangement, or
 - Less-than-arms-length lease
- If GAAP requires treatment as capital lease
 - No more than maximum allowable if item was purchased at time of lease
 - Interest calculation based on rules in effect at theoretical purchase date

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Taxes

- OK if legally required to pay
- For State and Local Governments, taxes are not OK if:
 - They are self-assessed, and
 - They have a disproportionate effect on Federal programs

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Travel

- Generally OK
- Must conform to grantee's policies
- First or business class is un-allowable
- If no policy, use Federal rules
- Costs limited to commercial rates
- Direct foreign travel must be approved in advance

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Subpart F: Single Audit Requirements

- General (§200.500)
- Audits (§200.501 – §200.507)
- Auditees (§200.508 – §200.512)
- Federal Agencies (§200.513)
- Auditors (§200.514 – §200.520)
- Management Decisions (§200.521)

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Subpart F: Single Audit Requirements

- A Non-federal entity that expends \$750,000 in Federal funds in a fiscal year must have a Single Audit or program-specific audit
- No Single Audit required if entity is below the threshold
- Federal funds do not include procurements
- Pass-through entities responsible for adequate review of sub-recipients

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Other audits must build upon the Single Audit

- Single Audit substitutes for other audit requirements
- GAO & OIGs must consider Single Audit and build upon it for their additional audits
- No restriction on GAO & OIGs from conducting audits
 - Federal Government must pay for them
- 2014 Compliance Supplement will contain a list of available program-specific audit guides

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Auditee responsibilities

- Procure the Single Audit
- Prepare financial statements
- Follow up and correct findings
- Provide the auditor with all necessary access to information
- Prepare Schedule of Expenditures of Federal Government Awards (SEFA)

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Auditor selection

- Use normal procurement processes
- Objective is to obtain high quality audit
- Must obtain the auditor's peer review report
- Consider experience, availability of staff, etc.
- Try for affirmative action
- Auditor who prepares indirect cost rate proposal for entity that receives over \$1 million in indirect costs cannot perform the audit

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Audit submission and follow-up

- Auditee must prepare schedule of prior findings
- Prepare corrective action plan for current findings
 - Show the status of findings
 - Can drop corrected findings
- Auditee must submit reporting package

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Federal agency may act as cognizant agency or oversight agency for audits

- Cognizant: auditees receive >\$50 million
 - Provide technical audit advice, coordinate audits, etc.
 - Obtain or conduct quality control reviews of selected audits
 - Coordinate resolution of cross-cutting findings
- Otherwise oversight agency
 - May assume the responsibilities of a cognizant agency

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Auditor requirements

- Comply with GAGAS
- Cover the entire entity
- Cover the financial statements and SEFA
- Cover internal control
- Cover compliance & performance
- Follow up on prior findings
- Auditor must complete and sign parts of the Data Collection Form

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Reporting requirements

- Opinion on financial statements and SEFA
- Report on internal control over financial reporting and grant compliance
 - Show scope of testing and results
- Compliance for each major program
- Schedule of findings and questioned costs
- Material weaknesses and significant deficiencies

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Audit findings

- Known or likely questioned costs >\$25,000 for major programs
 - Provide information to help judge the prevalence and consequences of the questioned costs
- Known questioned costs >\$25,000 for non-major programs
- Explain any qualification of opinion on major programs
- Known or likely fraud
- Sufficient detail for a corrective action plan

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More requirements for audit findings

- Information about the programs
- Criteria and condition
- Statement of cause that can serve as a basis for recommendations
- Possible effect to enable agency or pass-through entity to facilitate prompt corrective action
- How the questioned costs were computed
- Whether the sample was statistically valid

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Major program determination

- Step one is identify the Type A programs (large dollar programs)
- Inclusion of large loan programs should not exclude other programs as Type A
- For most entities, Type A programs are larger of \$750,000 or 3% of total Federal funds expended

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Step two

- Identify “Type A” programs that are low risk by applying risk factors contained in §200.519 and determining that programs have:
 - Been audited as major in one of the last two years
 - No material weaknesses in internal control
 - No modified opinion on compliance
 - Questioned costs of less than 5% of funds expended in the program

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Step three

- Identify “Type B” programs that are “high risk” by applying criteria contained in §200.519 but:
 - Limit the number of Type B programs on which to assess risk to $\frac{1}{4}$ the number of Type A programs and
 - Use an approach which provides that different Type B programs are audited as major over time

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Step four

- Determine and audit as major programs:
 - All Type A programs not determined to be low risk
 - All Type B programs determined to be high risk
 - Any additional needed to comply with the “percentage of coverage” rule

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Percentage of Coverage Rule

- Current
 - For normal auditees, 50% of the Federal funds expended
 - For low risk auditees, 25% of the Federal funds expended
- Future (§200.518(f))
 - For normal auditees, **40%** of the Federal funds expended
 - For low risk auditees, **20%** of the Federal funds expended

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Criteria to Be a “Low Risk” Auditee

- Audits completed annually and reporting packages submitted on time
- Unmodified opinions on financial statements and Schedule of Expenditures of Federal Awards
- No material weaknesses in internal control
- No doubt about ability to continue as a “going concern”

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Low-risk criteria (*continued*)

- No findings in the past two audits related to:
 - Material weakness in internal controls over major programs
 - Modified opinion on major program compliance
 - Known or likely questioned costs exceeding 5% of the total expended in a Type A program

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Management Decision

- The decision **must** clearly state whether or not the finding is sustained, the reasons, and the expected action
 - Federal Agency
 - Pass-through entity
 - Time requirements
 - Reference numbers

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OMB's Proposed changes to the Compliance Supplement

- Proposed guidance contained information on reducing the number of compliance issues to be tested
- Specific compliance issues not cited in the "Super-Circular"
- Will presumably show up in the 2016 Compliance Supplement

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OMB proposed six areas to be tested instead of fourteen

- Allowable activities and costs
 - Combines the first two issues in current compliance Matrix
- Cash management
- Eligibility
- Reporting
- Sub-grantee monitoring
- Special tests

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Seven areas would be dropped

- Davis-Bacon
- Equipment and real property management
- Matching, level of effort, and earmarking
- Period of availability of Federal funds
- Procurement and suspension and debarment
- Program income
- Real property acquisition and relocation assistance

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June 2015 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

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Part 1 – Background, Purpose, and Applicability

- Effective for audits of fiscal years beginning after June 30, 2014
- Auditors **shall** consider the Supplement and laws, regulations and OMB Guidance in determining compliance requirements
- Auditors should **not** consider the Supplement to be a “safe harbor” for identifying audit procedures.

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Part 2 – Matrix of Compliance Requirements

June 2015 Matrix of Compliance Requirements

CFDA	Types of Compliance Requirements													
	A: Activities Allowed or Unallowed	B: Allowable Cost/ Cost Principles	C: Cash Management	D: Reserved	E: Eligibility	F: Equipment and Real Property Management	G: Matching, Level of Effort, Earmarking	H: Period of Performance	I: Procurement and Suspension and Debarment	J: Program Income	K: Reserved	L: Reporting	M: Sub-recipient Monitoring	N: Special Tests and Provisions
10 – United States Department of Agriculture (USDA)														
10.000*	Y	Y	Y			Y		Y	Y	Y		Y		Y
10.500	Y	Y	Y			Y	Y	Y	Y	Y		Y	Y	Y
10.551	Y	Y	Y		See Part 4	Y	Y	Y	Y			Y	Y	Y
10.561														
10.553														
10.555	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
10.556														
10.539														
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	Y
10.566	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
10.565														
10.568	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
10.569														
10.582	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	
10.665														Y
10.666	Y	Y	Y				Y	Y						
10.760	Y	Y	Y			Y	Y	Y	Y			Y		
10.781														
10.766	Y	Y	Y			Y		Y	Y			Y		
10.780														

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Part 3 – Compliance Requirements

A = Activities Allowed or Un-allowed	B = Allowable Cost – Cost Principles
C = Cash Management	D = <i>Reserved</i>
E = Eligibility	F = Equipment and Real Property Management
G = Matching, Level of Effort, Earmarking	H = Period of Performance
I = Procurement and Suspension and Debarment	J = Program Income
K = <i>Reserved</i>	L = Reporting
M = Sub-recipient Monitoring	N = Special Tests and Provisions

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Part 4 – Agency Program Requirements

- For each Federal program (except R&D & SFA) included provides:
 - Program Objectives and Program Procedures
 - Information about compliance requirements specific to a program
 - Other Information where it is considered useful
 - Example, when a program allows funds to be transferred to another program

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Part 5 – Clusters of Programs

- As defined in 2 CFR §200.17 and §200.518
 - Research and Development (R&D)
 - Student Financial Aid (SFA)
 - Certain other programs designated by a State for Federal awards that the State provides to sub-recipients that meet the definition of “cluster of programs”

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Part 6 – Internal Control

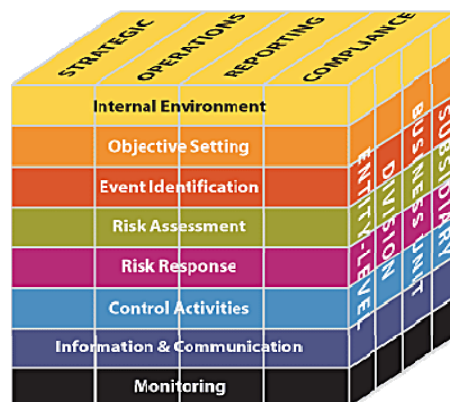
IN 2013, THE COMMITTEE OF SPONSORING ORGANIZATIONS OF THE TREADWAY COMMISSION (COSO) UPDATED THE “INTERNAL CONTROL – INTEGRATED FRAMEWORK,” AND, IN SEPTEMBER 2014, THE GOVERNMENT ACCOUNTABILITY OFFICE (GAO) ISSUED AN UPDATED “STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT,” COMMONLY REFERRED TO AS “THE GREEN BOOK.” DUE TO THE NEED TO UPDATE OTHER PARTS OF THIS SUPPLEMENT FOR THE UNIFORM GUIDANCE IN 2 CFR PART 200, **OMB WAS UNABLE TO ALSO UPDATE PART 6** FOR THE REVISIONS TO COSO AND THE GREEN BOOK WITHOUT DELAYING THE ISSUANCE OF THIS SUPPLEMENT. **SINCE THE 2014 VERSION OF PART 6 IS OUT OF DATE, IT WAS NOT CARRIED FORWARD TO THIS SUPPLEMENT. NON-FEDERAL ENTITIES AND THEIR AUDITORS SHOULD LOOK TO THE COSO AND GREEN BOOK FOR GUIDANCE ON INTERNAL CONTROLS UNTIL PART 6 IS UPDATED. OMB PLANS TO UPDATE PART 6 FOR THE 2016 COMPLIANCE SUPPLEMENT.**

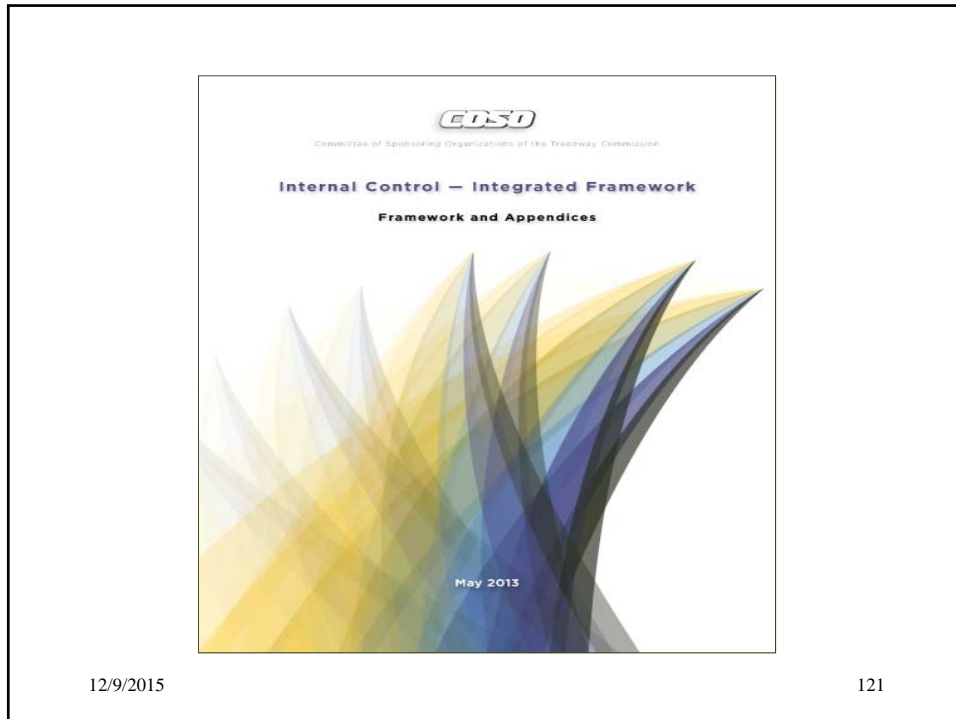
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COSO's **New 2013** Internal Control Integrated Framework

- Has gained wide acceptance following financial control failures in the early 2000's
- Most widely used framework in the US
- Also widely used around the world

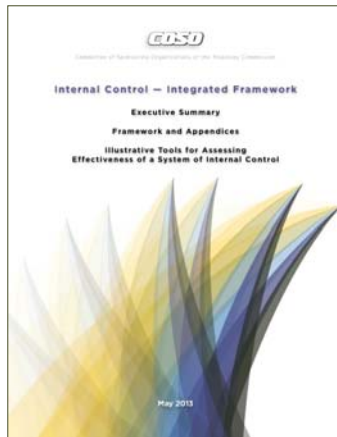




Key Concepts – Timeless

- A process
- Provides reasonable assurance
- Geared to Achievement of objectives related to
 - (1) operation,
 - (2) compliance, and
 - (3) reporting
- In a strategic planning - performance measurement setting

Project deliverable #1 – Internal Control-Integrated Framework (2013 Edition)



- Consists of three volumes:
 - Executive Summary
 - Framework and Appendices
 - Illustrative Tools for Assessing Effectiveness of a System of Internal Control
- Sets out:
 - Definition of internal control
 - Categories of objectives
 - Components and principles of internal control
 - Requirements for effectiveness

Project deliverable #2 – Internal Control over External Financial Reporting: A Compendium....



- Illustrates approaches and examples of how principles are applied in preparing financial statements
- Considers changes in business and operating environments during past two decades
- Provides examples from a variety of entities – public, private, not-for-profit, and government
- Aligns with the updated Framework

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Summary of Updates

Update expected to increase ease of use and broaden application

What was not changed...

- Core definition of internal control
- Three categories of objectives and five components of internal control
- Each of the five components of internal control are required for effective internal control
- Important role of judgment in designing, implementing and conducting internal control, and in assessing its effectiveness



What was changed...

- Changes in business and operating environments considered
- Operations and reporting objectives expanded
- Fundamental concepts underlying five components articulated as principles
- Additional approaches and examples relevant to operations, compliance, and non-financial reporting objectives added

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

GAO U.S. Government Accountability Office

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 **The Green Book**

Internal control is the plans, methods, policies, and procedures an organization employs to ensure effective resource use in fulfilling its mission, goals, objectives, and strategic plan. GAO's Standards for Internal Control in the Federal Government, known as the Green Book, sets these standards for federal agencies.

[View 2013 Exposure Draft](#) [View Current Green Book](#)





[View the Green Book Exposure Draft](#) [View the Current Green Book](#) [Listen to Our Green Book Podcast](#)

OVERVIEW RESOURCES ADVISORY COUNCIL COMMENT LETTERS GAO CONTACTS **Share This:** [f](#) [t](#) [in](#) [e](#)

Federal Managers' Financial Integrity Act (FMFIA) requires that federal agency executives periodically review and annually report on the agency's internal control systems. FMFIA requires the Comptroller General to prescribe internal controls standards. These internal control standards, first issued in 1983, present the internal control standards for federal agencies for both program and financial management.

Revising the Green Book
Green Book revisions undergo an extensive, deliberative process, including public comments and input from the Green Book Advisory Council. GAO considers all Green Book comments and input from the Green Book Advisory Council in finalizing revisions to the standards.

Timeline: Green Book and Related Publications

			
2013 Exposure Draft GAO-13-830SP, Sep, 2013	Internal Control Management and Evaluation Tool GAO-01-1008G, Aug, 2001	View the Current Green Book GAO(AIMD)-00-21.3.1, Nov 1, 1999	1983 GAO, Accounting Series, Standards for Internal Controls in The Federal Government Jan 1, 1983

GAO United States Government Accountability Office
By the Comptroller General of the United States

September 2014

Standards for Internal Control in the Federal Government

GAO-14-704G

Part 7 – Guidance for Auditing Programs Not Included

- Purpose is to provide the auditor with guidance on how to identify the applicable compliance requirements for programs not included and for program-specific audits when a guide is not available.
 - The Compliance Supplement only includes the largest and/or riskiest Federal programs.

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Appendices to the Compliance Supplement

- I – Federal Programs Excluded from the A-102 Common Rule and Portions of Part 200
- II – Federal Agency Codification of Government-wide Requirements and Guidance for Grants and Cooperative Agreements
- III – Federal Agency Single Audit and Program Contacts
- IV – Internal Reference Tables

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Appendices - *Continued*

- V – List of Changes for the 2015 Compliance Supplement
- VI – Program-Specific Audit Guides
- VII – Other Audit Advisories
- VIII – SSAE 16 Examinations of EBT Service Organizations
- IX – Compliance Supplement Core Terms

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Program-Specific Audit Guides

- **Department of Agriculture** (www.usda.gov/oig/rptsauditsgde)
 - Food and Nutrition Service - Audits of Multi-State Food Processors, (Report No: 27009e), 11/30/1999
- **Department of Housing and Urban Development**
 - HUD Consolidated Audit Guide (www.hudoig.gov/reports-publications/audit-guides/consolidated-audit-guides)
- **Department of Energy**
 - DOE Audit Guidance for For-Profit Recipients, April 2012 energy.gov/management/downloads/policy-flash-2012-39 and related Frequently Asked Questions (energy.gov/sites/prod/files/For-Profit%20Audit%20Guidance%20FAQs%20June%202012.pdf)

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USDA - OIG

The screenshot shows the USDA Office of Inspector General website. The browser address bar displays "http://www.usda.gov/oig/ghauidguide.htm". The page title is "USDA / Office of Inspector G...". The website header includes the USDA logo and the text "United States Department of Agriculture" and "Office of Inspector General". A navigation menu contains links for "Home", "Newsroom", "About OIG", "Web Content", "What's New", "FOIA", and "Contact Us". A search bar is located on the left side. The main content area is titled "News Releases and Reports" and features a dropdown menu for "Audit and Review Guides". Below this, there is a list of recent reports with dates and titles, such as "8/29/2004 - RWS - USDA Office of Inspector General Audit Program for the Rural Housing Service Rural Rental Housing Program (RHP) (Size: 95,700 bytes)". A "Review Guides" section is also visible, listing a report from "2/24/1999 - Review Guidelines For Service Organizations Providing Electronic Benefits Transfer Services For Government Programs In Accordance With SAS-70 (PDF) (Report No. - Size: 402,647 bytes)". A "Hotline 1-800-424-9121" is displayed at the bottom right. The Windows taskbar at the bottom shows the date "12/9/2015" and the time "12:41 PM".

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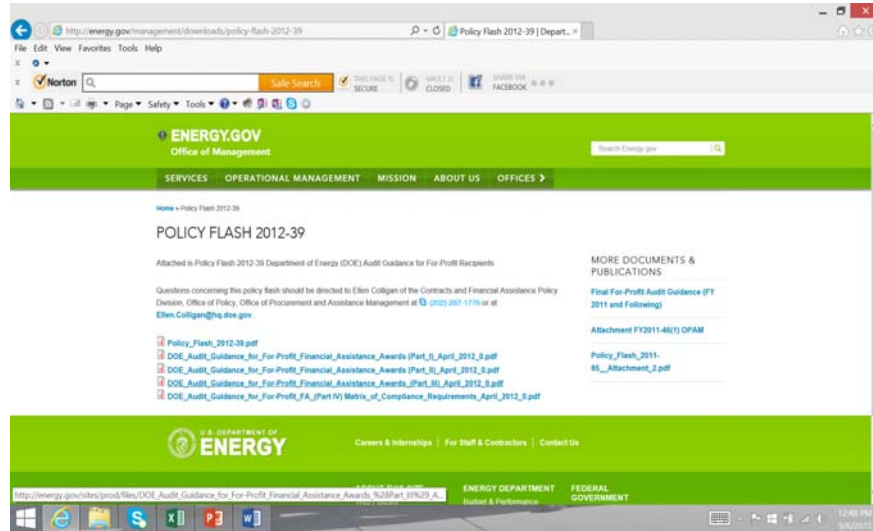
HUD - OIG

The screenshot shows the HUD Office of Inspector General website. The browser address bar displays "https://www.hudog.gov/reports-publications/audit-guides/consolidated-audit-guides...". The page title is "CONSOLIDATED AUDIT GUID...". The website header includes the HUD logo and the text "Office of Inspector General" and "U.S. Department of Housing and Urban Development". A navigation menu contains links for "ABOUT", "REPORTS & PUBLICATIONS", "BOILERPLATE", "FRAUD PREVENTION", "NEWSROOM", and "REPORT FRAUD". The main content area is titled "CONSOLIDATED AUDIT GUIDES" and features a "Table of Contents" section with a list of chapters and their respective dates, such as "Chapter 1 - General Audit Guidance" and "Transmittal Letter (Issued May 2013)". A "Reports & Publications" sidebar is visible on the right side. The Windows taskbar at the bottom shows the date "12/9/2015" and the time "12:40 PM".

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DOE – Management



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Subpart D – Single Audit Information for Recipients of Recovery Act Funds

- Procedures (§176.200)
- Award Terms – Recovery Act transactions listed in Schedule of Expenditures of Federal Awards and Recipient Responsibilities for Informing Sub-recipients (§176.210)

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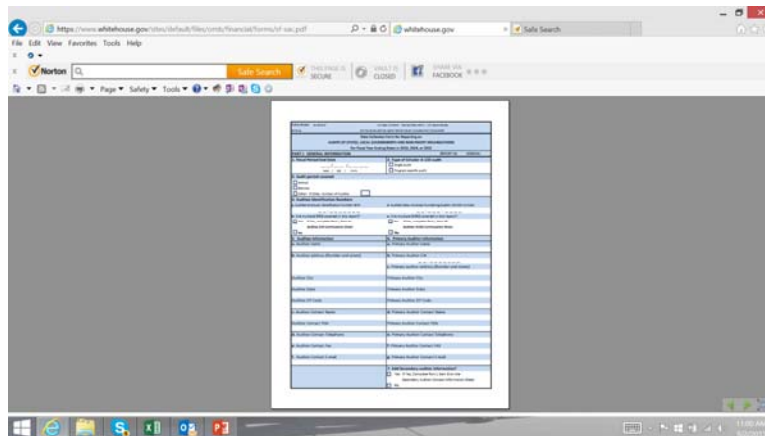
ARRA Award Terms

- Subpart A – Reporting and Registration Requirements Under Section 1512 of the 2009 ARRA
- Subpart B – Buy American Requirements Under Section 1605 of the 2009 ARRA
- Subpart C – Wage Rate Requirements under Section 1606 of the 2009 ARRA
- Subpart D – Single Audit Information for Recipients of Recovery Act Funds

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Data Collection Form (SF-SAC)



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Changes to SF-SAC

- Part I – General Information
- Part II – Financial Statements (To be completed by Auditor)
- Part III – Federal Programs (To be completed by Auditor)

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Requirements for Pass-through Entities

- **§200.425 = *May*** charge Federal awards for the cost of agreed-upon-procedures engagements to monitor sub-recipients. Costs are allowable **only if**:
 1. Conducted in accordance with GAGAS,
 2. Paid for and arranged by the pass-through entity,
and
 3. Limited to activities allowed or un-allowed; allowable cost/cost principles, and reporting.

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GAGAS 2011

- Chapter 5 = Standards for Attestation Engagements
 - Introduction
 - Examination Engagements
 - Review Engagements
 - Agreed-Upon Procedures Engagements

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Agreed-Upon Procedures Engagements

- Additional GAGAS Field Work Requirements
 - Communicating significant deficiencies; material weaknesses; instances of fraud; non-compliance with laws, regulation and agreements; and abuse
- Additional GAGAS Reporting Requirements
 - Reporting auditors' compliance with GAGAS; and distributing reports
- Additional GAGAS Considerations
 - Establishing an understanding regarding services to be performed; and reporting

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AICPA's SSAE

- **AT 20** = Defining Professional Requirements in SSAEs
- **AT 50** = SSAE Hierarchy
- **AT 101** = Attest Engagements
 - AT 9101 = Interpretations of AT 101
- **AT 201** Agreed-Upon Procedures
 - Interpretations of AT 201
- **AT 301** = Financial Forecasts and Projections

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AICPA's SSAE - *Continued*

- **AT 401** = Reporting on Pro Forma Financial Information
- **AT 501** = Examination on an Entity's Internal Control over Financial Reporting that is Integrated with an Audit of its Financial Statements
 - Interpretations of AT 501

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AICPA's SSAE - *Continued*

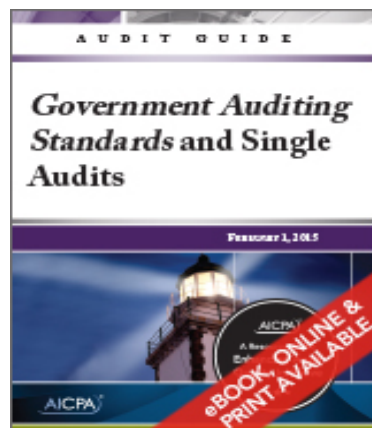
- **AT 601** = Compliance Attestation
- **AT 701** = Management's Discussion and Analysis
- **AT 801** = Reporting on Controls at a Service Organization

- **QC 10** = A Firm's System of Quality Control

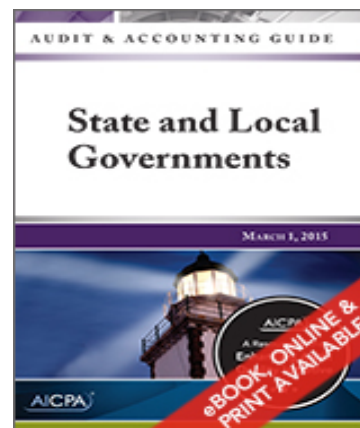
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AICPA's Revised Guides



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Agreed-Upon Procedures Audits

- Non-traditional Audits
 - Applying Agreed-Upon Procedures to Specified Financial Statement Elements
 - Applying Agreed-Upon Procedures to Non-Financial Information
 - Reporting on Specified Elements
 - Reporting on Compliance

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Agreed-Upon Procedures Audits - *Continued*

- Non-traditional Audits
 - Reporting on Internal Control
 - **Control Self-Assessment**
 - Risk Assessment Services
 - Performance Measurement Services

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QUESTIONS!

Remember
E-mail me if you think of
anything later!
CharlesHester@msn.com

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OMB's Super-Circular

*Understanding where they are going next so
as to be ahead of the curve!*

Charles W. Hester

CPA, FCPA, CFF, CFE, CGFM, ICFP

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The screenshot shows the top portion of the CFO Council website. On the left is the CFO Council logo, which includes the text "United States", "CFO", and "Financial Officers Council". To the right of the logo is the text "Office of Executive Councils, Chief Financial Officers Council". Further right is a search bar labeled "SEARCH SITE" with a magnifying glass icon. Below the header is a dark blue navigation bar with the following menu items: "ABOUT CFOC", "CFO COUNCIL INITIATIVES", "NEWS/EVENTS", "RESOURCES", and "COFAR". The main content area features a photograph of a classical building facade. A blue sidebar on the right lists several links: "Uniform Guidance", "Resources for Uniform Guidance", "Measuring Impact of Uniform Guidance", "Uniform Guidance Training Webcasts", "Federal Spending Transparency", and "About COFAR". The page number "151" is visible in the bottom right corner of the screenshot.

So, do we have any clues?

- **2 C.F.R. 300 through 5999**
- Council of Financial Assistance Reform (COFAR) Q&As
 - The CFO Council
- Digital Accountability and Transparency Act of 2014 (DATA Act)
 - P.L. 109-282 as amended by Section 6202(a) of P.L. 110-252 (31 U.S.C. 6101)
- OMB Memorandum M-14-17, Metrics for Uniform Guidance (200 CFR 200) dated Sept. 30, 2014