

# Implementing the OMB's “Super Circular” (aka UGG)

**Presented by:**

**Anne Fritz, Finance Director, City of St.  
Petersburg, Florida**

**Acknowledgement to Heather Acker, Partner,  
Baker Tilly, Virchow Krause, LLP for her  
assistance in preparing this presentation!**

**Thank you!**



# Session Summary

- Refresh on the “Super Circular” Uniform Grants Guidance (UGG)
- Challenging areas and implementation suggestions
- Single Audit changes this year
- Resources



# Background

*Final Grant Reform rules were issued by the US Office of Management and Budget (OMB) in December 2013 and is the largest rewrite of pre- and post-award grant policy since the origin of the circular management system in the early 1970's.*



# Effective date

- ▶ Uniform Guidance administrative rules and cost principle are applicable to new awards and additional funding increments of existing awards **made on or after December 26, 2014.**
  - ▶ Only area with a time extension is procurement (two year extension)
- ▶ Does not retroactively change the terms and conditions for awards received prior to December 26, 2014.
  - ▶ However, you will not be penalized for implementing entity-wide system changes to comply with the Uniform Guidance after December 26, 2014.
- ▶ Single audit changes effective for years ending December 31, 2015 and after.



# Previous Circulars Impacted

A-21	Cost Principles for Educational Institutions
A-50	Audit Follow-Up, related to Single Audit
A-87	Cost Principles for State, Local, and Indian Tribal Governments
A-89	Federal Domestic Assistance Program Information
A-102	Awards and Cooperative Agreements with State and Local Governments
A-110	Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
A-122	Cost Principles for Non-Profit Organizations
A-133	Audits of States, Local Governments and Non-Profit Organizations



# Challenging Areas and Implementation Suggestions



# City of St. Petersburg Experience





# City Background

- 4<sup>th</sup> Largest City in Florida (2013 Census)
- Population 250K
- Strong-Mayor form of government with appointed city administrator
- 2015 Budget \$500 million




# Internal Controls - Overview

Changes	Section
Required to establish and maintain effective internal controls over federal programs	200.303
(Previously only in single audit requirements)	
COSO and federal green book tied in although Q&A clarifies usage as “best practice”	



# Internal Control Challenges

- Centralization vs. decentralization of controls
  - Spending department ownership of responsibility for internal control over compliance
  - Resources and examples
- 



# Internal Controls – St. Petersburg Experience

- Central internal controls summaries for grants
- Review of grant-related internal controls throughout central and recipient departments
- Uniform guidance reference to COSO and Green book (best practice)

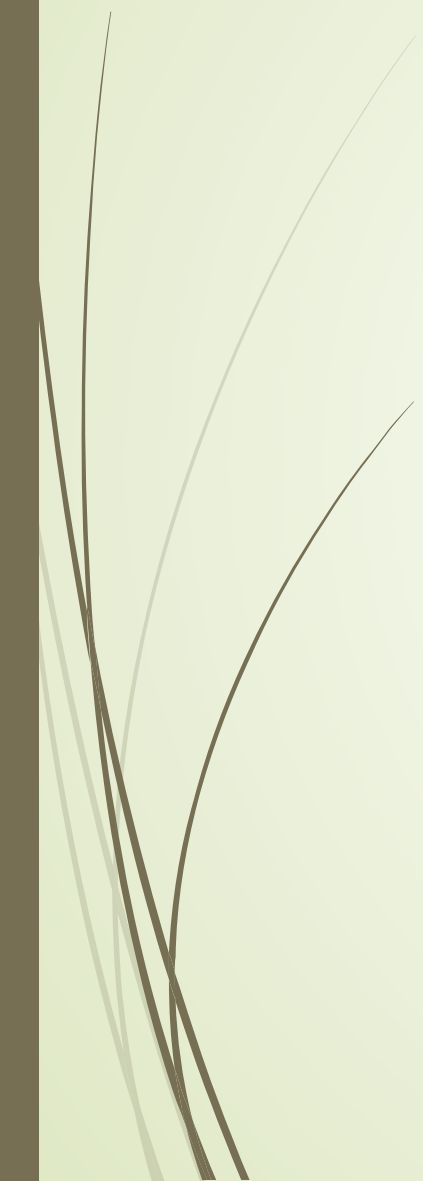


# Payroll-related Recordkeeping (Time and Effort Reporting) - Overview

Changes	Section
Focus on high standards for maintaining strong internal controls to justify costs of salaries and wages	200.430
Flexibility in process used to meet those standards	200.430
Personnel activity reports not specifically required – focus shifted to appropriate internal controls in place to ensure that charges to federal awards for salaries and wages are based on records that accurately reflect the work performed	200.430
Maintained that when charges based on budgeted amounts, internal controls must exist to ensure adjustments are made so final amounts charged to federal awards are proper	200.430



# Payroll Challenges

- Adjusting allocations based on budgeted amounts
  - Policies will vary depending on the size and complexity of the organization
  - Available technology
- 



# Payroll-related Recordkeeping (Time and Effort Reporting) – St. Petersburg Experience

- Reviewed current grants accounting time keeping process for charging labor and related costs to grants
- Review of financial system compliance
- Update processes to comply with specific identification of hours worked






# Payroll-related Recordkeeping (Time and Effort Reporting) – St. Petersburg Experience

- ▶ Focus on developing and maintaining strong internal controls
- ▶ Less prescriptive format than previously in A-87





## Implementation: Accounting Procedures

- Current process was in place for charging labor and benefits to grants from payroll time entry
- Process updated for labor distribution adjustments to add finance review before any adjustments allowed

# Indirect Costs - Overview

Changes	Section
Clarification that administrative costs may be treated as direct costs when they meet certain conditions	200.413
Provision for de minimis indirect rate of 10% of modified total direct costs (MTDC) for those who have never had a negotiated indirect rate	200.414
For those with negotiated rates, requires federal agencies to accept (usually)	200.414
Entities may apply for a negotiated rate at any time	200.414
Existing negotiated rates may be extended for up to four years	200.414
Pass through entities required to provide indirect cost rate to subrecipients	200.331



# Indirect Cost Challenges

- ▶ Pass-through entities not understanding or honoring indirect rates for subrecipients
  - ▶ Proactive efforts often necessary
  - ▶ Sometimes may decide to use entire award for direct costs
- ▶ Federal agency negotiation process
  - ▶ Section 200.414 describes negotiation process defines cognizant agency for indirect costs



# Indirect Costs – St. Petersburg Experience

- Extension of negotiated rate?
- Update to indirect cost study considerations
- 10% de minimis rate considerations (can't do it as we had negotiated rate)



# Implementation: Administrative Costs

- Administrative costs – first determined to choose to extend current administrative reimbursement
- Issue discovered about how administrative charges assessed to grants
- Choice of simplified method as consideration for future methodology



# Pass Through Entity and Subrecipient Impact –

## Changes

## Section

Heightened focus on subrecipient monitoring

200.331

- Various required elements of subaward
- Mandatory risk assessment to determine appropriate monitoring
- Verify subrecipients have audits, if required
- Review audit results and adjust pass-through entity records, if needed
- Determine necessary action for subrecipient noncompliance, follow up, issue management decision



# Pass Through Entity and Subrecipient Impact – Overview

## Federal Award Identification

- Subrecipient name and DUNS number
- Federal award identification number (FAIN) and award date
- Subaward period of performance – start and end date
- Amount of federal funds obligated by the action
- Total amount of federal funds obligated to the subrecipient
- Total amount of the federal award
- Federal award project description
- Name of the federal awarding agency, PTE, and contact information for awarding official
- CFDA number and name; must identify the dollar amount made available under each CFDA number at time of disbursement
- Whether the award is R&D
- Indirect cost rate for the federal award, including if de minimis rate is charged





# Pass Through Entity and Subrecipient Impact – Overview (cont.)

## Factors to consider in evaluating Subrecipient Risk

- Prior experience with same or similar subawards
- Results of previous audits
- Whether new or substantially changed personnel or systems
- Extent and results of Federal awarding agency monitoring

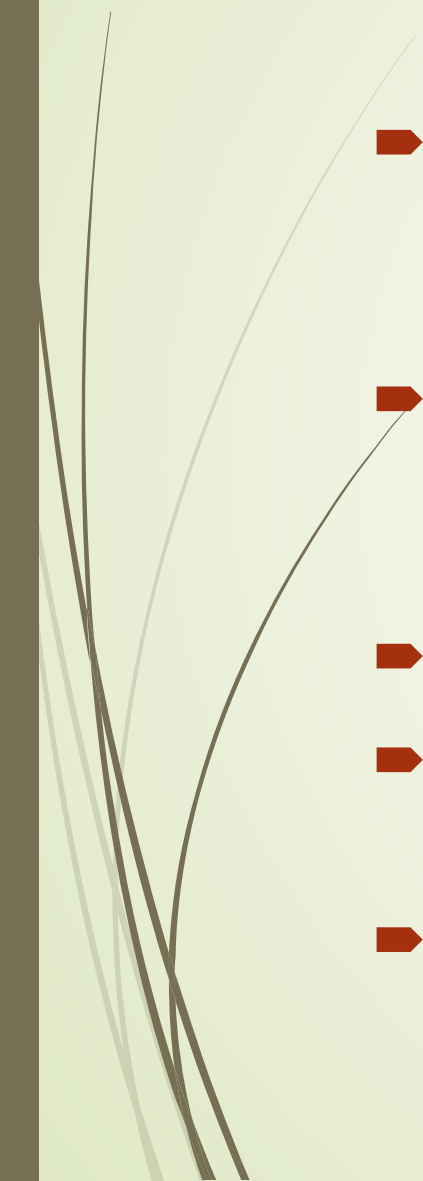



# Subrecipient vs. Contractor

<b>Subrecipient</b>	<b>Contractor</b>
Creates a Federal assistance relationship	Purpose is to obtain goods and services for the non-Federal entity's own use and creates a procurement relationship
Determines who is eligible to receive what Federal assistance	Provides the goods and services within normal business operations
Has its performance measured in relation to whether objectives of a Federal program were met	Provides similar goods or services to many different purchasers
Has responsibility for programmatic decision making	Normally operates in a competitive environment
Is responsible for adherence to applicable Federal program requirements specified in the Federal award; and	Provides goods or services that are ancillary to the operation of the Federal program; and
In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing stature, as opposed to providing goods or services for the benefit of the PTE	Is not subject to compliance requirements of the Federal program as a result of the agreement, though similar requirements may apply for other reasons




# Subrecipient Challenges

- Subcontracts property identifying required federal award identifying information
  - Subrecipients unable to determine if a pass through federal award is pre-UG or UG
  - Subrecipient risk assessment process
  - Timely management decision on subrecipient reports
  - Linking risk assessment results with monitoring activities
- 




# Pass Through Entity and Subrecipient Impact – St. Petersburg Experience

- Subrecipient monitoring
- Reviewed current policies and procedures
- Staff training and new procedures
- Definition changes (vendor/contractor)
- Required elements of an award and subaward
- Evaluation of subrecipient risk



# Implementation: Risk Assessment

- Compliance review
- Standardized process
- Risk assessment methodology
- Documentation
- Audit considerations



# Implementation: Subrecipient Monitoring

- Formation of new process for ongoing monitoring
- Use of standard forms for monitoring
- Documentation of process
- Using the information gathered for additional assessment

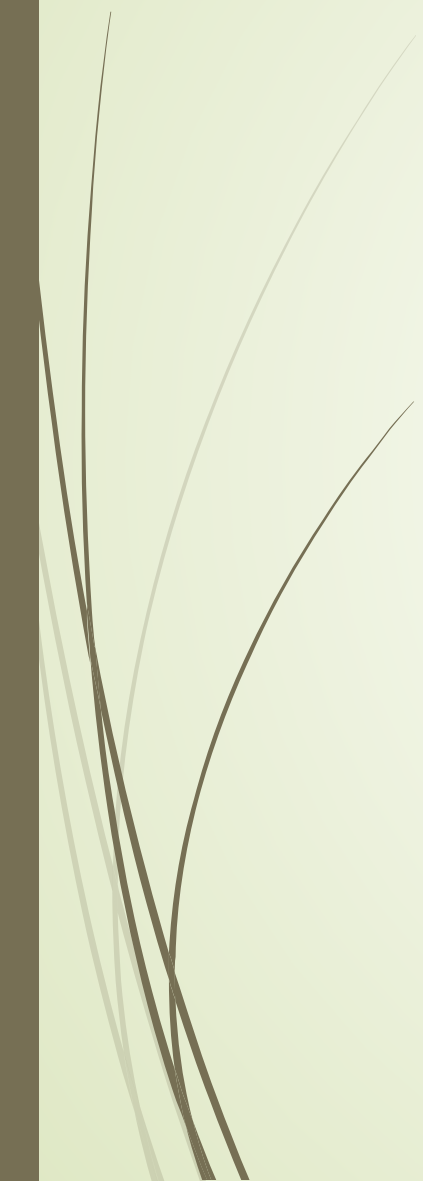


# Asset Related Compliance - Overview

Overview	Section
Insurance coverage requirements	200.310
Real property requirements	200.311
Federally-owned property requirements	200.312
Equipment requirements	200.313



# Asset Compliance Challenges

- Tracking all required elements of federal property
  - Adhering to the inventory requirements
- 





# Asset Related Compliance – St. Petersburg Experience

- Changed system to show grant award source in asset record
- Inventory of grant related assets
- Update to disposal policy as required for grant acquired assets



# Procurement

Overview	Section
General Requirements and 5 methods for procurement – most closely follow the previous OMB Circular A-102 requirements	200.318 – 200.326
Specific contract requirements – non-federal entities should review that contracts in compliance	200.326 Append II
Grace period – two years after effective date of uniform guidance!	



# General Provisions - Procurement

Overview	Section
A. Documented policies which reflect federal law, standards of UGG, and any state regulations	200.318
B. Necessary (and economical – shared service purchases recommended where practical)	
C. Written conflict of interest policies required	
D. Documentation of procurement activities/steps required	
Full and Open Competition	200.319
1. Contractors who draft specifications for RFPs must be excluded from competing for those opportunities	
2. Cannot have unreasonable requirements to limit competition	
3. Complexities with geographic preference criteria	

# 5 Methods of Procurement

1. Micro Purchase		Section
A.	Aggregate dollar amount does not exceed \$3,500 (\$2,000 if subject to Davis Bacon)	200.320
B.	When practical, distribute equitably among qualified suppliers	
C.	No competitive quotes required if management determines price is reasonable	

2. Small Purchase		Section
A.	Purchases up to the Simplified Acquisition Threshold (currently \$150,000)	200.320
B.	Informal procedures acceptable	
C.	Price or rate quotes must be obtained from an adequate number of sources	



# 5 Methods of Procurement (cont.)

3. Sealed Bids	Section
A. Purchases over the Simplified Acquisition Threshold (currently \$150,000)	200.320
B. Formal solicitation required	
C. Fixed price (lump sum or unit price) awarded to responsible bidder who conformed with all material terms and is the lowest in price	
D. Most common for construction contracts	
E. See section for additional detail	



# 5 Methods of Procurement (cont.)

4. Competitive Proposals	Section
A. Purchases over the Simplified Acquisition Threshold (currently \$150,000)	200.320
B. Formal solicitation required	
C. Fixed price or cost-reimbursement contracts	
D. Used when sealed bids not appropriate	
E. Awarded to responsible firm whose proposal is most advantageous to the program, with price being one of various factors	
F. See section for additional detail	

# 5 Methods of Procurement (cont.)

## 5. Noncompetitive Proposals

Section

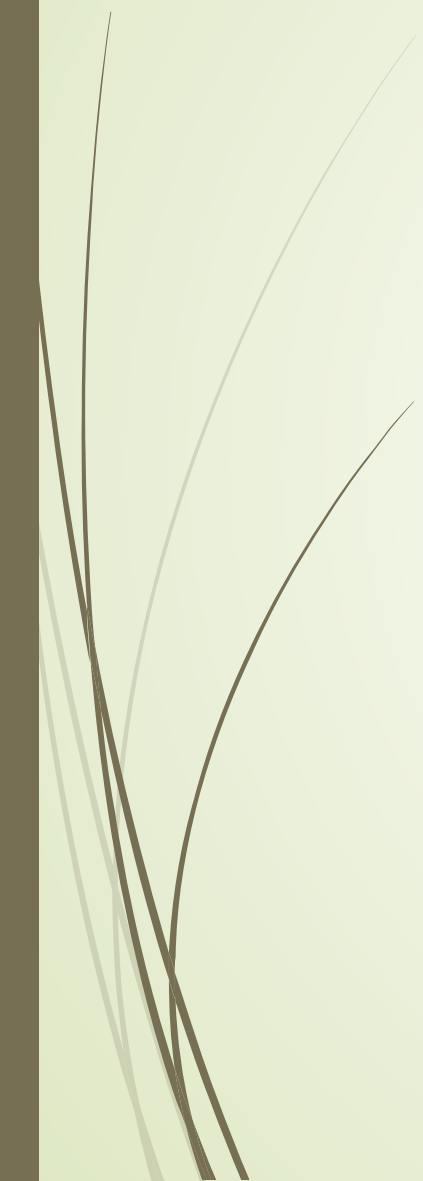
May be used only when one or more of the following apply:

200.320

- The item is available only from a single source
- The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation
- The Federal awarding agency (or pass-through entity) expressly authorizes this method in response to a written request from the non-Federal entity
- After solicitation of a number of sources, competition is determined inadequate



# Procurement Challenges


- Reviewing and updating existing policies
  - Determining if uniform criteria will be applied to all procurement transactions or if federal awards will follow separate policy
  - Balancing state and local requirements
- 



# Procurement Compliance – St. Petersburg Experience

- Update to procurement policy to new requirements
- Additional training planned to review process citywide





# Implementation: Accounting Procedures

- Project accounting process updated requiring central finance recording of miscellaneous adjustments to projects and grants
- Required identification of pre-UGG and post-UGG grants to grants process
- Further compliance review at central finance



# Federal Agency Adoption

- As part of implementing the UG, each federal agency had to adopt the regulations
- Agency differences exist
- Partial list of agency adoptions with links on next slide

# Agency Adoption as of 04/18/16

resource: AICPA Government Audit Quality Center

Agency	Federal Register Notice Date
State	<a href="#"><u>6/2/2015</u></a>
US Agency for International Development (USAID)	<a href="#"><u>9/17/2015</u></a>
Energy	<a href="#"><u>9/24/2015</u></a>
Commerce	<a href="#"><u>7/28/2015</u></a>
Environmental Protection Agency (EPA)	<a href="#"><u>10/9/2015</u></a>
National Aeronautics and Space Administration (NASA)	<a href="#"><u>9/11/2015</u></a>
Archives	<a href="#"><u>8/25/2015</u></a>
Homeland Security (FEMA)	<a href="#"><u>10/2/2015</u></a>
Institute of Museum and Library Services (IMLS)	<a href="#"><u>9/21/2015</u></a>
National Endowment for Humanities (NEH)	<a href="#"><u>9/16/2015</u></a>
Office of National Drug Control Policy (ONDCP)	<a href="#"><u>9/23/2015</u></a>

Agency	Federal Register Notice Date
Housing and Urban Development (HUD)	<a href="#"><u>12/7/2015</u></a>
National Science Foundation (NSF)	<a href="#"><u>11/27/2015</u></a>
Corporation for National and Community Service (CNCS)	<a href="#"><u>11/17/2015</u></a>
Social Security Administration	<a href="#"><u>11/10/2015</u></a>
Veteran's Affairs (VA)	<a href="#"><u>12/1/2015</u></a>
Education	<a href="#"><u>11/2/2015</u></a>
Department of Transportation	<a href="#"><u>12/17/2015</u></a>
Health and Human Services	<a href="#"><u>1/20/16</u></a>
Agriculture	<a href="#"><u>2/16/16</u></a>



# Agency Adoption Challenges

- Tracking the differences!
- Implementing exceptions in policy documents



# Audit, SEFA and Single Audit Changes



# Implementation: Audit

- Determining pre-UGG or post-UGG proved to be not so easy
  - Grants managers contacting funding agency for guidance
  - State pass-through added another layer
- Preparation of SEFA
- Audit implications – more grants required to be selected to meet requirements



# SEFA Changes/Reminders

- ▶ Subtotals by CFDA and cluster
- ▶ Total amount provided to subrecipients from each federal program on SEFA
- ▶ Noncash awards on SEFA
- ▶ Loan and loan guarantee beginning balance and amount expended on SEFA
- ▶ Pass through entity ID numbers
- ▶ Include in the notes to the SEFA whether or not the 10% de minimis cost rate was used





# Single Audit Changes

- Effective for years ending on and after December 31, 2015 (no early implementation)
- Single audit threshold raised from \$500,000 to \$750,000 (5,000 audits eliminated, 1% of federal awards previously audited)



# Single Audit Changes

- Low risk auditee criteria updated
  - Going concern added
  - Must be GAAP (minor exception if state mandated regulatory basis)
  - Inability for cognizant/oversight agency to approve exceptions

# Single Audit Changes (cont.)

- Changes to risk assessment process and program coverage
- Testing awards pre-UG and post-UG
- Extensive focus on internal control over compliance
- Changes to reporting of findings
  - Increased questioned cost threshold
  - Identification if repeat finding
- Online publication of reports
  - Federal Audit Clearinghouse is sole point of submission
  - Pilot project for SEFA/DCF combination

# Single Audit Changes (cont.)

- ▶ Corrective Action Plan (CAP) – Auditee responsibility
  - ▶ UG more clearly articulates that CAP is a separate document from management’s response and planned corrective action section of the respective current year auditor’s finding.
  - ▶ Include reference numbers the auditor assigns to findings.
  - ▶ CAP and Summary of Prior Audit Findings must include findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards (Yellow Book report findings).



GFOA Best Practice

## Framework for Entity-wide Grants Internal Control

### **Background:**

Federal, state, local and private entity grant funds often represent a significant source of funding for governments. In some governmental functions they represent the primary source of funding (e.g. housing, social services, etc.). As a result, it is crucial that governments have the proper framework for internal control to ensure that:

- These resources are being utilized efficiently and effectively;
- Assets purchased or developed with them are being safeguarded properly;
- Financial reporting required by these grants is accurate and timely; and
- Grant resources are being utilized in compliance with appropriate laws and regulations.



## GFOA Best Practice

### **Framework for Entity-wide Grants Internal Control**


#### **Recommendation:**

The most widely recognized source of guidance on internal control is the Council of Sponsoring Organizations (COSO), which updated its classic Internal Control—Integrated Framework in 2013. The GFOA has organized the following best practice steps for grant internal control into COSO's five essential, comprehensive, integrated components as follows:

#### ***Control Environment***

- Alert agencies that policy decisions concerning grants are made entity-wide to ensure consistency and adherence to strategic planning goals;
- Each area of the grant process (programmatic, budgeting, accounting, etc.) should be managed by competent staff who are knowledgeable in their areas of responsibility;
- Staff should be given authority and responsibility for their tasks associated with the grant;
- Staff should be held accountable for their tasks;
- Larger organizations should create cross-functional teams to support entity-wide grants management.






## GFOA Best Practice Framework for Entity-wide Grants Internal Control

### ***Risk Assessment***

- Perform a risk assessment of the entity's grants management processes;
- Utilize a comprehensive, internal control questionnaire to facilitate the risk analysis;
- Consider the level of program risk (e.g., high, medium, low) when establishing control activities;
- Perform a cost/benefit analysis prior to installing a new control activity;
- Consider the possibility and likelihood of fraud in the entity's grants management process;
- Identify and assess changes in the regulatory, technology, and operating environment under which the grants are managed.






## GFOA Best Practice Framework for Entity-wide Grants Internal Control

### *Control Activities*


- Document both government-wide and individual grant policies
- Document both government-wide and individual grant procedures
- Develop a timeline and process for updating policies and procedures as changes occur;
- Become knowledgeable of and adhere to federal, state and local laws and regulations;
- Establish control activities to ensure the reliability of information obtained from third parties (e.g., vendors);
- Development comprehensive, information technology policies and procedures;
- Keep information technology policies and procedures current;
- Become knowledgeable of and implement, as necessary, federal and state standards for financial management systems
- Utilize financial management systems to support compliance with grant legal and regulatory requirements;
- Become knowledgeable of and implement, as necessary, federal and state standards for procurement;
- Utilize federal and state official debarment lists to update the government's list of vendors.



## GFOA Best Practice Framework for Entity-wide Grants Internal Control

### *Information and Communication*

- Document the purpose and the government's responsibilities for each of its grants in a format accessible to stakeholders;
- Distinguish grants between federal, state, local and private entity;
- Identify the time periods required by the grants;
- Identify grant reporting requirements;
- Identify grants that require specialized administration;
- Ensure that grant requirements are documented in vendor communication;
- Ensure that grant information is available to internal stakeholders;
- Develop ongoing communication and knowledge of grantors, and pass-thru organizations;
- Develop an ongoing dialogue with external, single audit, and program auditors concerning grant reporting and compliance;
- Develop processes to ensure that quality, supportable information is utilized in grant decision making.



## GFOA Best Practice Framework for Entity-wide Grants Internal Control

### *Monitoring*

- Develop a processes of ongoing programmatic control activities that ensures compliance with laws and regulations;
- Develop a processes of periodic programmatic control activities that ensures compliance with laws and regulations;
- Provide an annual periodic review of the risk assessment process;
- Ensure that program deficiencies are communicated to all responsible parties, including management and elected officials;
- Ensure that corrective action plans are taking place, addressing the control deficiencies and responding to the deficiencies in a timely manner.

**Committee:** Accounting, Auditing, and Financial Reporting

# Resources

- ▶ Baker Tilly Uniform Guidance Resource Center
  - ▶ Your one-stop shop for everything about Uniform Guidance
  - ▶ Visit [bakertilly.com/uniformguidance](http://bakertilly.com/uniformguidance)
  - ▶ Provides direct links to:
    - ▶ FAQs on Uniform Guidance
    - ▶ Electronic Code of Federal Regulations Uniform Guidance
    - ▶ Webinar recordings from Baker Tilly, the AICPA, and COFAR
    - ▶ Baker Tilly published resources on Uniform Guidance

## ➤ Additional resources

- Uniform Guidance e-CFR
  - Accessible via [ecfr.gov](http://ecfr.gov)
- Council on Financial Assistance Reform (COFAR) webpage
  - Accessible via [cfo.gov](http://cfo.gov)
- Office of Management and Budget – Policy statements
  - Accessible via [whitehouse.gov](http://whitehouse.gov)
    - This includes text comparisons for cost principles and audit requirements.
- Federal Compliance Supplement
  - Accessible via [whitehouse.gov](http://whitehouse.gov)



# Questions?

► Thank you! Contact information: [annefritz@stpete.org](mailto:annefritz@stpete.org)