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Grant Administration and Compliance

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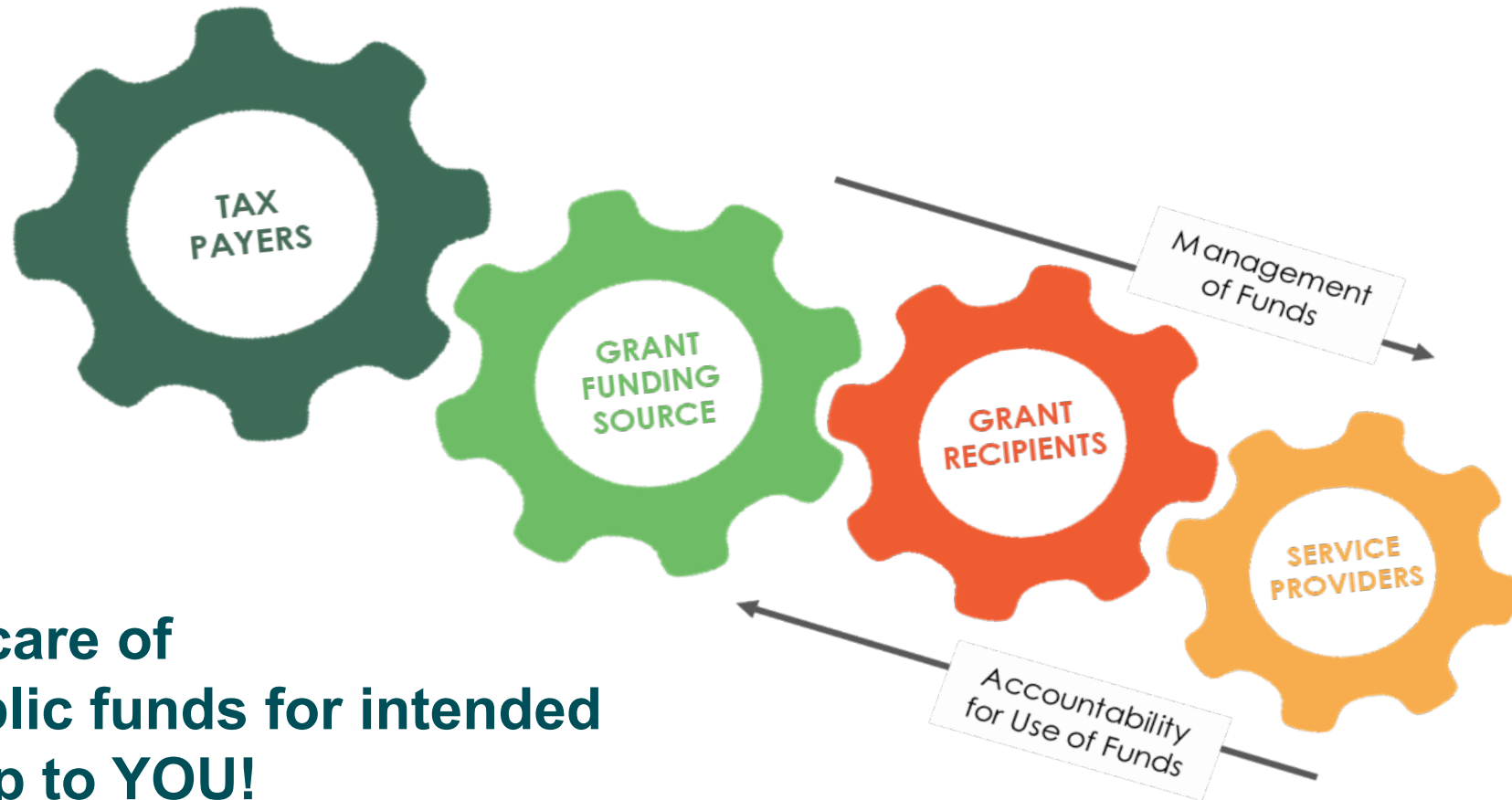
Learning Objectives

- Key tips for effectively managing grants and ways to avoid common audit pitfalls
- Ways to manage risks of noncompliance through review of Compliance Supplement and effective internal controls throughout the grant lifecycle
- Audit guidance for CARES Act funding and recent Compliance Supplement updates

Overview of Grant Administration & Compliance

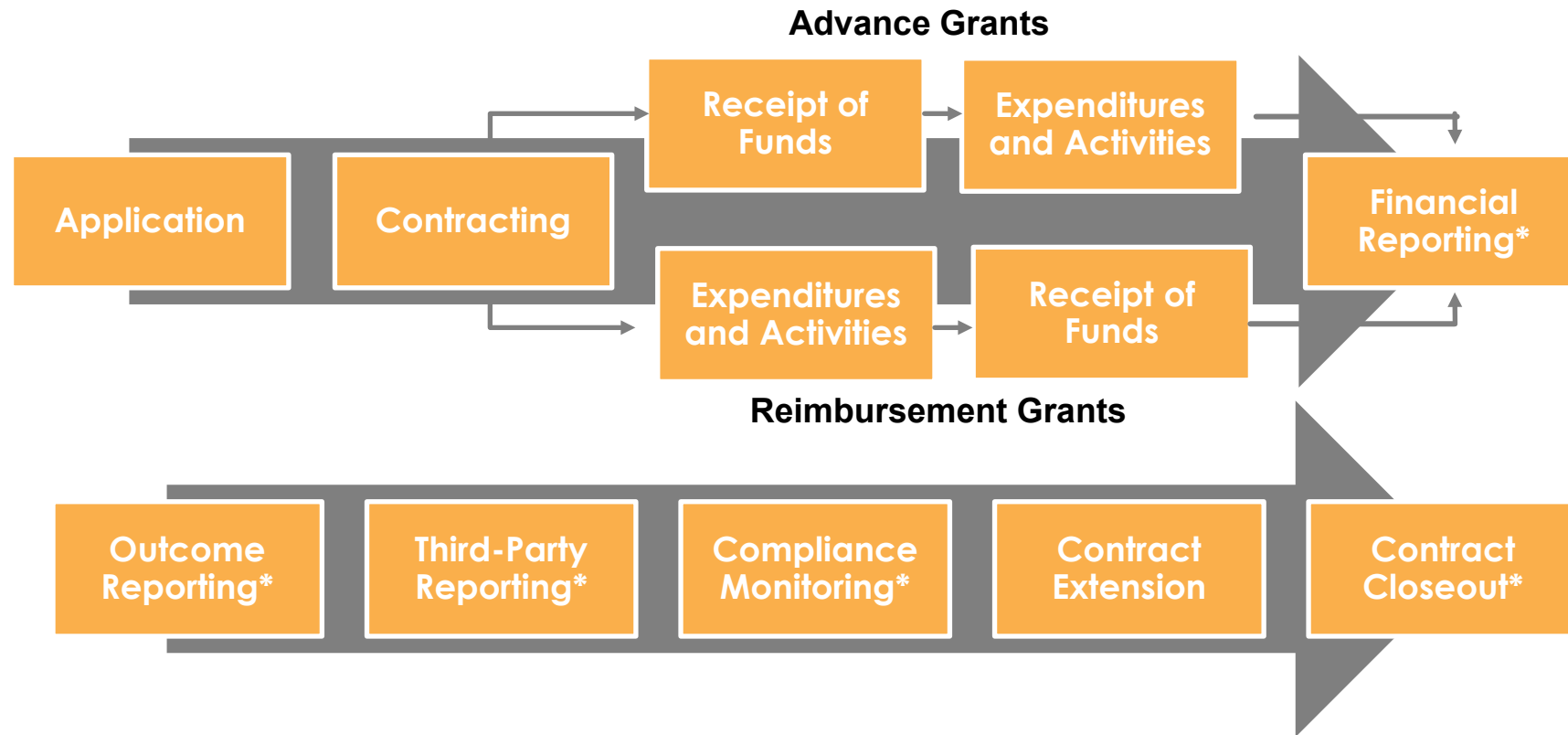
- Effective grant management is a **collaborative** approach to managing and administering grants enabling all stakeholders involved to:
 - Meet the **mission** of the grant and organization
 - Efficiently and effectively use grant funds, while maintaining **compliance** with grant requirements
 - Establish **accountability** for the use of grant funds
 - Provide **assurance** that funds are deployed appropriately
- Grant management can be centralized or decentralized, but **coordination** with all parties is key for compliance

Grant Stakeholders



**Custody and care of
deploying public funds for intended
purposes is up to YOU!**

The Grant Cycle (Grantee)



* Compliance *

* Compliance *

* Compliance *

* Compliance *

COMPLIANCE IS EVERYWHERE

* Compliance *

* Compliance *

So...where do we start?

* Compliance *

* Compliance *

* Compliance *

Identifying Compliance Requirements and Compliance Supplement Basics

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Knowing Your Compliance Requirements

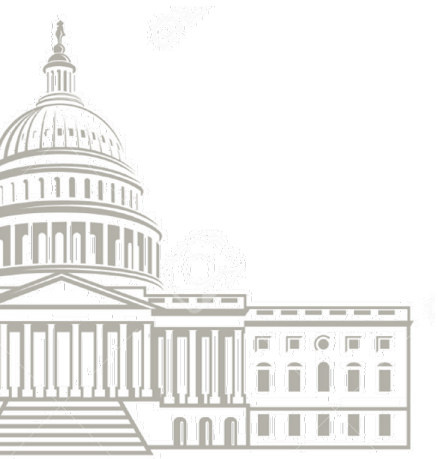
Each grant is unique, and each contract has its own terms, conditions and requirements.



Identify and know the following:

- Contract amount and terms
- Scope of work
- Key contacts
- Allowable vs. unallowable costs & activities
- Funding sources and applicable guidance
- Reporting requirements

Compliance Standards

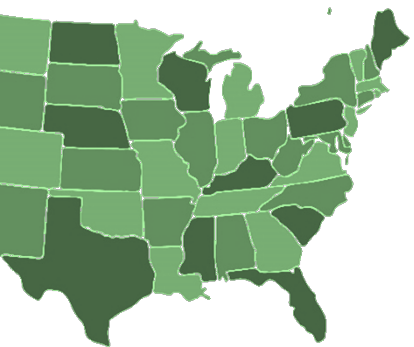


Federal Standards

Uniform Grant Guidance 2 CFR 200 (Super Circular)

- Streamlines grant administration by creating uniform regulations for cost principles and audit requirements
- Focuses on compliance and internal controls

State Standards



Uniform Grant Management Standards

- Look to see what your state grant management standards are
- Will follow federal standards but may be more restrictive

OMB Compliance Supplement

- Issued by the **Office of Management and Budget** (OMB)
- Latest issuance is August 2020 with Addendum issued in December 2020
- Identifies important **compliance requirements** of the Federal Government expected to be considered as part of an audit under Uniform Grant Guidance
- Provides an **efficient and cost-effective** approach to performing research on individual programs
- Source of information to understand:
 - Federal program's objectives, procedures, and compliance requirements **relevant** to the audit
 - Audit objectives and suggested audit procedures for determining compliance



OMB Compliance Supplement

- **Part 1:** *Background, Purpose and Applicability*
- **Part 2:** *Compliance Requirements Matrix*
- **Part 3:** *Compliance Requirements*
- **Part 4:** *Individual Compliance (for each CFDA, by department)*



OMB Compliance Supplement

- **Part 5:** *Clusters of Programs*
- **Part 6:** *Internal Control*
- **Part 7:** *Guidance for Auditing Programs Not Included in the Compliance Supplement*
- **Appendix V:** *List of Changes for 2020*
- **Appendix VII:** *Other Audit Advisories*
- **Addendum:** *Separately issued document to be used in conjunction with Compliance Supplement*



Identify the
Catalog of
Federal
Domestic
Assistance
(CFDA)
number of the
grant

	Types of Compliance Requirements													
CFDA	A. Activities and/or Unallotted	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. Subrecipient Monitoring	N. Special Tests and Provisions
11 – Department of Commerce (DOC)														
11.300	Y	Y	Y		N	Y	Y	Y	N	N		Y	Y	Y
11.307														
11.557	Y	Y	Y		N	Y	Y	Y	N	Y		Y	Y	Y
12 – Department of Defense (DoD)														
12.400	Y	Y	Y		N	N	Y	Y	Y	N		Y	Y	N
12.401	Y	Y	Y		N	N	Y	Y	Y	Y		Y	Y	N
14 – Department of Housing and Urban Development (HUD)														
14.157	Y	Y	Y		Y	N	N	N	Y	N		Y	N	Y
14.169	Y	Y	Y		N	N	N	Y	Y	Y		Y	Y	N
14.181	Y	Y	Y		Y	N	N	N	Y	N		Y	N	Y
14.182														
14.195														
14.249	N	N	Y		Y	N	N	N	N	N		Y	N	Y
14.856														
14.218	Y	Y	Y		N	Y	Y	Y	Y	Y		Y	Y	Y
14.225														

Reserved for future use

Use the matrix
to identify the
requirements

Part 2: Compliance Matrix

Part 3: Compliance Requirements

A. Activities Allowed or Unallowed

Specifies activities that can or cannot be funded under a specific program

B. Allowable Costs/ Cost Principles

Specifies costs that can or cannot be funded under a program

C. Cash Management

- Reimbursements & advances are properly supported & managed
- Interest earned on advances is remitted to grantor

E. Eligibility

Participants meet program criteria to receive grant funding

F. Equipment & Real Property Mgmt

Management, use & disposal of equipment and real property

G. Matching, Level of Effort, Earmarking

- M - required cost share
- LOE – required participation from period to period
- EM – setting aside funds for a purpose

H. Period of Performance

Expenditures are within the granting period

I. Procurement & Suspension/Debarment

- Comply with federal & state procurement laws
- Vendors not suspended and debarred

J. Program Income

Income generated by federal funds used for program expenses

L. Reporting

- Performance
- Financial
- Special

M. Subrecipient Monitoring

Monitoring pass-through funding

N. Special Tests and Provisions

Unique requirements of individual grants

Part 7: Missing CFDA #s

- Not all federal financial assistance programs are included in the OMB Compliance Supplement
- Federal programs not included in Part 4 compliance requirements can be found in:



- *Grant agreement, grant application or notice of grant award*
- *Process documentation or other internally prepared information related to operation and requirements of the grant*
- *Communication from grantor regarding requirements*
- *Review program specific website*

Compliance Reporting

Financial Reporting

- Grant recipients must prepare appropriate financial statements, including Schedule of Expenditures of Federal Awards (SEFA)
- Reports must be submitted within 30 calendar days of receiving auditor's report, or within 9 months after the end of the audit period

Financial Status Reports (FSRs)

- FSRs must include all costs to be reimbursed by the grant funds
- Must be submitted at least quarterly, but not more frequent than monthly
- Failure to submit reports timely may result in unreimbursed costs

Compliance Reporting (cont.)

Programmatic Reporting

- Individual grants have different programmatic reporting requirements, based on the grant contract
- Careful review of the grant contract to identify compliance requirements will identify reporting requirements

Grant Risk Considerations and Common Pitfalls & Audit Issues

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Risk Considerations

The primary risks associated with grants and ineffective grant management include:

- Misuse of grant funds
- Failing to achieve the grant objectives
- Violating laws, regulations, or grant conditions
- Misrepresentation of grant results
- Reputational damage from grant misuse
- Loss of future funding



These risks affect each phase of the grant, including pre-award, award, and post-award processes.

Common Pitfalls and Issues

- **Missing** or **incomplete** supporting documentation
 - Expenditures
 - Allocations & indirect cost
 - Procurement procedures
 - Budget Amendments
 - Budget Transfers
 - Program Changes
- Lack of appropriate approvals of expenses, reports, etc.
- Untimely reporting to the Grantor
- Inappropriate or **unallowable expenditures**
- Lack of achievement of performance metrics



Audit Issues: Common Causes

- Lack of established policies and procedures
- Lack of coordination in a decentralized grant management function
- Limited understanding and knowledge of compliance requirements



Audit Issues: Common Causes (cont.)

- Internal control deficiencies:
 - Oversight and Authorization
 - Purchasing (including cost coding) and Disbursements
 - Program Operations
 - Information Technology
- Lack of management coordination oversight of grant amounts, usage, and administration
- Lack of internal reviews or audits of grant files



Avoiding Pitfalls

- Understand your grant administration processes
- **Ask the following questions:**
 - How many grants do we have?
 - What are the funding sources?
 - Who is responsible for managing the grants?
 - What are our grant requirements?
 - What have been our past issues?
 - Does adequate documentation exist?
 - Are the current controls adequate?



Avoiding Pitfalls

- Identify weaknesses and control gaps
 - Involve your auditor
 - Coordinate with program managers
 - Policies and procedures
 - Remember your funding agency for assistance
- Determine appropriate remediation steps and timelines
- Focus on high risk areas and compliance



Designing Effective Internal Controls over Compliance

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Effective Internal Controls

Organizations must establish and maintain effective internal controls over grant awards to provide reasonable assurance that awards are managed in compliance with laws and regulations.



- Internal controls should align with either:
 - Standards for Internal Control in the Federal Government (Comptroller General of the United States)
 - Internal Controls Integrated Framework (Committee of Sponsoring Organization of the Treadway Commission [COSO])
 - COSO Framework includes consideration of controls in the following five components—
Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring

Effective Internal Controls (cont.)

- Policies and procedures must be in writing (IT included)
- Management must exercise judgment in determining the most appropriate and cost effective internal control in a given circumstance



Internal Controls: Examples

- Defined and disseminated policies and procedures
- Segregation of duties
- Approval and authorization (expenditures and reports)
- Program monitoring
- Segregation of physical responsibilities and IT access
- Physical restrictions
- Documentation of grant timelines and milestones
- Timely and accurate reconciliations



Internal Controls over Compliance

Funds are provided to grantees, processed and accounted through their internal controls. Key areas where risk should be considered include:



1. Management Control Design
2. Accounting Information Systems and Access
3. Purchasing and Accounts Payable
4. Expenditures
5. Human Resources and Payroll
6. Cash and Treasury Management
7. Asset Inventory/Property Management
8. Preparation of Journal Entries
9. Financial Close
10. Financial Reporting

Management Control Design

Issues	Risks	Prevention
Segregation of duties is not feasible due to the size of the accounting department, and compensating controls are not instituted.	Inappropriate system access creates endless opportunities for errors and fraud, including created fictitious vendors and grant recipients, creating fictitious payments, concealing theft, posting erroneous transactions and beyond.	Institute review and authorization procedures when segregation of duties is not possible.
Access to data and transaction files is not appropriately restricted.	Ability by one person to generate transactions and set up or change the data related to the entities involved in the transactions allows transactions involving fictitious entities and incorrect amounts to be processed fraudulently or erroneously.	Segregate maintenance of data from access to transaction files.
The Delegation of Authority Matrix does not exist, is outdated, or is poorly-documented.	Transactions may not be reviewed and approved by the appropriate supervisory personnel, resulting in numerous potential control issues.	Establish a formal process for periodically reviewing the Delegation of Authority Matrix to ensure effectiveness.
Matching Funds reported as dedicated to grant-funded projects are not used for those projects.	Grantees are in violation of grant policies and could lose funding.	Establish these funds as restricted and require supervisor review of coding.

Purchasing and Accounts Payable

Issues	Risks	Prevention
Credit memos are not reviewed for accurate and complete processing.	These transactions are often not processed accurately and completely.	Create a formal process for processing and reviewing credit memos.
Vendor set up and editing functions are not segregated from the accounts payable function.	Employees can create and pay fictitious vendors.	Separate vendor master file access from the accounts payable function.
Accrual entries are not reversed .	Unreversed accruals create an overstatement of liabilities and double-billings.	Set up accrual entries to auto-reverse and ensure that the general ledger total matches the billings for the period.

Issues	Risks	Prevention
Use of vendors does not require formal review and authorization .	Payment to fictitious vendors or other transactions and payments that are not in the organization's best interest could occur.	Institute a formal vendor review and approval process.
Vendor information changes, continued existence, and conflicts of interest are not monitored .	Payment to fictitious vendors or other transactions and payments that are not in the organization's best interest could occur.	Establish a formal process for periodically monitoring the vendor database for validity and relation to the organization and its employees.

Expenditures

Issues	Risks	Prevention
Direct administrative costs (DAC) are charged to the wrong funding streams.	Expenses charged to projects do not accurately reflect the expenses incurred by the projects, allowing for errors and manipulation of costs.	Require recording of administrative time spent throughout the day, and attach this documentation to DAC expense journal entries. Require reviews of entries and supporting documentation.
Expenses are coded to the incorrect fund/grant or general ledger account.	Unallowable expenses or costs associated with other funding streams could be included on invoices.	Ensure effective review and authorization and reconciliation controls are in place to prevent incorrect coding.
Expenditure rates are not checked against funding stream expenses.	An inappropriate expenditure rate may be used.	Institute procedures to track funding stream expenses against pro rata use and compare the results to expenditure rates used.
Expenses for traditional contractors are erroneously coded to the subcontractor line item on the request for reimbursement.	Incorrect information is reported, in violation of contract policy.	Review contract definitions and require supervisor review of coding, checking for this issue in particular.

Human Resources and Payroll

Issues	Risks	Prevention
<p>New hire procedures are not formally documented, and activities such as performance of background checks, drug testing, and granting of system access cannot be verified.</p>	<p>Undetected drug use, criminal</p>	<p>Establish hiring policies and</p>
Issues	Risks	Prevention
<p>Payroll charged to funding streams does not match actual time incurred by employees.</p>	<p>Expenses charged to projects do not accurately reflect the expenses incurred by the projects, allowing for errors and manipulation of costs.</p>	<p>Conduct regular review of employees' allocation of time to grants and those employees allowed to charge time to grants and reallocate payroll charges accordingly. If system automation is not used, institute regular approvals and/or reviews.</p>
<p>Access to payroll data is not periodically reviewed for appropriateness.</p>	<p>Editing of employee master files is not segregated from payroll processing.</p>	<p>Segregate human resources activities related to employee master file changes from payroll processing.</p>
	<p>Termination checklists are not performed.</p> <p>Termination procedures do not include formal evidence that access to critical systems was removed upon termination.</p>	<p>Establish termination procedures and checklists that include evidencing removal of terminated employees from critical systems and review of that evidence.</p>

Financial Close

Issues	Risks	Prevention
Asset and liability accounts are not reconciled monthly.	Errors and fraud may not be detected, resulting in increased asset misappropriation and financial statement errors.	Establish procedures for asset and liability account reconciliation , requiring supervisory review and approval.
General ledger account reconciliations are not reviewed and approved by appropriate supervisory personnel.	Errors and fraud may not be detected, resulting in increased asset misappropriation and financial statement errors.	Establish deadlines for supervisory personnel to review and approve general ledger account reconciliations.
There is not a formal general ledger cut-off .	May create cut-off errors and prevent timely closing of the books.	Create a formal general ledger cut-off calendar and institute system controls that prohibit posting to closed periods.
A formal walkforward of general ledger accounts is not performed.	General ledger errors may not be detected.	Perform a walkforward , adding the period balances of each GL billed to grant and reconcile that to the latest billing report.

What's New? – 2020 Compliance Supplement Addendum and COVID-19 Funding

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Supplement Addendum Key Sections

■ Part 1 – Scope

A description is provided of which parts of the August 2020 Supplement are being modified, as well as which sections are new

■ Part 2 – Matrix

Identifies the requirements subject to audit for all new programs (noted with “new” after the title and bolded), as well as existing programs that are included in the addendum

■ Part 3.L – Reporting

A new reporting requirement has been added relating to Federal Funding Accountability and Transparency Act reporting (FFATA) for direct recipients who make first-tier subawards of \$25,000 or more

Supplement Addendum Key Sections

■ Part 4

Relevant program additions/changes for School Districts include:

Department of Education 84.425, Education Stabilization Fund (ESF)

Divided into grant types or subprograms designated by letters (84.425A - 84.425P). The subprograms are further grouped into two sections in the Supplement addendum.

Section 1 comprises those governed by the ESF and Section 2 comprises those governed by the Higher Education Emergency Relief Fund (HEERF).

Supplement Addendum Key Sections

■ Part 4 continued

Relevant program additions/changes for School Districts include:

Treasury 21.019, Coronavirus Relief Fund

This very large new COVID-19 program was established to provide direct payments to state, territorial, tribal, and certain eligible local governments to cover necessary expenditures incurred due to the public health emergency with respect to COVID-19.

US Dept. of Agriculture, Multiple Program COVID-19 Waivers for Food and Nutrition Service Programs

Guidance on waivers for the following : 10.551, 10.553, 10.555, 10.557, 10.558, 10.559, and 10.572.

Supplement Addendum Key Sections

■ Appendix VII

Additional Audit Advisories:

Three new advisories –

- The first provides a 3-month audit submission extension for single audits of 2020 year-ends through September 30, 2020, year-ends only if the recipient received COVID-19 funding.
- The second states that nonfederal entities that received donated PPE purchased with federal assistance funds should include the fair market value of the PPE at time of receipt in a stand-alone footnote to the SEFA that can be marked “unaudited.”
- The third discusses the status of agency guidance documents which are referred to in many of the agency program sections and explains how auditors should consider them.

Education Stabilization Fund – Elementary and Secondary School Relief (ESSER) Fund (84.425D)

Objective - To provide state educational agencies (SEAs) and LEAs, including charter schools that are LEAs, with emergency relief funds to address the impact that COVID-19 has had, and continues to have, on elementary and secondary schools across the nation

Applicable Compliance Requirements are –

- Allowable Activities/Costs
- Cash Management
- Equipment Management
- Earmarking (State level only)
- Reporting (FFATA for State level only)
- Subrecipient Monitoring

ESSER (cont.)

- Report under special revenue fund 266
- If used funding in FY 2020, most ISDs reported a Due From Other Governments and a Due To Other Funds (General Fund) on the balance sheet and the revenues and expenditures (using pre-award costs if elected) as of year end with zero fund balance in the Statement of Changes
- For FY 2021, no Due To or Due From needed.
- Expenditures on SEFA for CFDA 84.425D for the year in which the ISD is claiming the funds.
- Make sure you are submitting all required expenditure reports.

Coronavirus Relief Fund (21.019)

Objective - To provide direct payments to states and eligible local governments to cover necessary expenditures incurred due to public health emergency in respect to Coronavirus Disease 2019

Units of local government eligible for direct payment include mainly counties, municipalities, and other units of general government below the state level with a population that exceeds 500,000.

Applicable Compliance Requirements are –

- Allowable Activities/Costs
- Period of Performance (costs incurred 3/1/2020 to 12/30/2020)
- Reporting (Direct recipient level only for quarterly reports. If you are a subrecipient refer to grant agreement for requirements from pass-through entity)
- Subrecipient Monitoring

Coronavirus Relief Fund (21.019) Continued

Items to note:

- While pre-award costs are allowed, subrecipients such as ISDs would not report expenditures under this program until they have a Notice of Grant Award
- For preaward costs expenditures will stay in fiscal year in which occurred in the general fund
- Once NOGA is received, expenditures will be recorded in special revenue fund 277
- For reimbursement purposes – revenues will go to the fund with the original expenditures.
- For SEFA – if you overlap in year you will still reconcile as the revenues (even though may be in the general fund pre-NOGA) will reconcile to the SEFA. Similar to indirect costs. Note to SEFA to disclose if you have expenditures incurred in previous year on the current year SEFA.

Grant Compliance Recap

Grant compliance can be complicated, but it is critically important to the achievement of the goals of many organizations. Understanding the steps necessary to meet grant requirements is the first step to avoiding common pitfalls and achieving compliance.

- Use the **appropriate guidance** to understand and communicate grant requirements throughout your organization
- **Work with the granting agency** often to ensure compliance with requirements and meeting expectations
- Avoid common pitfalls by establishing **effective internal controls** for grant management and compliance

Let's Connect

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Questions?