

NMSBA – February 23, 2019



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# **SPEAKER BIO**

- Audrey J. Jaramillo, CPA, CFE has been serving federal, state, and local Governments, non-profits, and commercial entities for 20 years throughout NM and is Managing Partner of Jaramillo Accounting Group, LLC.
- She has served on the AICPA's Taskforces on Training Young CPAs and Scholarships and has spoken on various topics for the AICPA, NM AGA, NM ASBO, NM GFOA, NMSBA, NM State Auditor, and other organizations.
- She is passionate about public service and served 8 years on her local school Board of Education and currently serves as an elected Councilor for the Town of Edgewood.







- Scott Eliason, CPA has been serving NM Governments for almost 25 years and joined Jaramillo Accounting Group LLC (JAG) as Partner in 2014. Formerly as Partner at a regional firm and throughout his career in public accounting, Scott has specialized in the audits of Governments across the Southwestern United States. Scott delivers high quality, timely, friendly audit and consulting services to a variety of governmental entities throughout NM. He is an expert in analysis of financial data and fraud discovery.
- Scott has trained on various governmental, accounting and auditing topics throughout the Southwest such as: GASB requirements, Leadership training, AICPA Clarity standards, Resolution of findings, UGG and State Compliance testing, Preparation of Financial Statements, and State Law, Grants, and Budgetary Compliance.

# **SPEAKER BIO**





# **CONTENT**

# FEDERAL FUNDS REQUIREMENTS

# Polling question 1

# Who is here today?

- A. School District
- B. Charter School
- C. Governance / Elected Official
- D. Administration / Superintendent
- E. Finance / Business Office
- F. CPA Firm
- G. Other

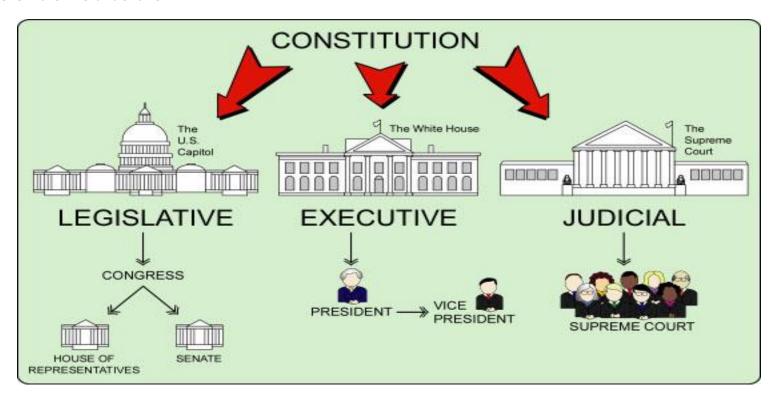
# Polling question 2

## How familiar are you with UGG?

- A. I've heard of the acronym, but haven't thought about it much
- B. I've done some basic research on the federal guidance
- C. I'm an expert, just attending this class to confirm that I know everything about how to spend federal funds
- D.UGG??? I'm just here for the Conference Friends & Food
- E. I have no idea Can't we just leave everything to our Business Office?

# **HISTORY**

• US Constitution



Govt of the US.pdf

# **HISTORY**

- Dockery Act of 1894
  - Establishes an Office of the Comptroller within the Department of Treasury
- Budget and Accounting Act of 1921
  - Bureau of Budget within the Department of Treasury
  - General Accounting Office within the legislative branch
- Government auditing history plagued with corruption and inefficiency
- Lack of uniform accounting and inadequate financial reporting

# **HISTORY**

- 70's, 80's and 90's
  - Increased interest in governmental activities and laws passed to address inadequacies in governmental auditing

### Result

- "Federal audits must satisfy several constituencies: legislative overseers, federal regulatory agencies, the rules of other federal departments, and a host of accounting and auditing standard developers."<sup>2</sup>
- "The practice of federal auditing must conform to a blend of laws, regulations, rules, customs, and practices, enunciated by a patchwork of congressional committees, governmental agencies, offices, and boards and by nongovernmental groups."<sup>2</sup>

# Standard Setters

- AICPA
  - Prescribes GAAS
  - Underlying foundation for Gov't Auditing Standards since 1972

http://www.aicpa.org/RESEARCH/STANDARDS/Pages/default.aspx

- GAO (Gov't Accountability Office)
  - Primary responsibility investigate the receipt, disbursement, and application of public funds
  - Reports to congress annually on its work and recommendations for needed legislation
  - Issues "yellow book"

http://www.gao.gov/yellowbook

- GAO (continued)
  - Also publishes FAM (Financial Audit Manual)
  - Contains 3 volumes from Planning through Reporting and includes checklists
  - Think of it as the Bible to conducting a Federal audit http://www.gao.gov/special.pubs/gaopcie/
- FASAB (Federal Accounting Standards Advisory Board)
  - Body that promulgates GAAP for federal reporting entities

http://www.fasab.gov/codifica.html

- OMB (Office of Management and Budget)
  - Typically issued when the nature of the subject requires a single action by federal departments and agencies or when a subject is of continuing effect until rescinded or superceded.
  - A-133 Audits of States, Local Governments, and Non-profit Organizations (recipients of federal assistance)
  - A-110 covers administrative requirements for grants and other agreements with higher ed., hospitals, and other non-profits
  - A-123 management's responsibility for internal controls
  - A-134 Financial Accounting Principles and Standards
  - A-136 Financial Reporting Requirements
  - These became UGG UNIFORM GRANT GUIDANCE

http://www.whitehouse.gov/omb/circulars\_default

- Offices of Federal Inspectors General (OIG)
  - Major function is to conduct intra-agency and intra-entity audit, inspection, and investigation. Including addressing issues of fraud, waste, and abuse.
  - Issues public audit and inspection reports.
  - Use for planning purposes as OIG reports may identified issues to be aware of.

http://oig.hhs.gov/reports.asp

# Laws

- Anti-deficiency Act
  - Cannot spend more than Congress provides
  - Congress appropriates money which is then apportioned (approved) by OMB.
- Federal Credit Reform Act of 1990
  - Covers loans and loan guarantee programs including farmers' home loans, veterans' mortgage loans, and student loans
  - Requirement to account for loan costs at full cost (the true cost that the
    program is likely to incur) projected default costs, interest subsidy costs, and
    recognition of the current market rate of interest at time of loaning.
  - Typically only a cash disb. for the loan amount was recorded

- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
  - Requires a system of accounting and administrative controls be established and report the results of an annual evaluation to the President and Congress on its adequacy.
- Chief Financial Officers Act of 1990 (CFO Act)
  - Primary objective is the improvement in each agency's systems of accounting, financial management, and internal controls to ensure issuance of reliable financial information to detect fraud, waste, and abuse of government resources.
  - Requires that persons appointed to senior federal financial management positions be competent

- CFO Act (continued)
  - Establishes a series of performance metrics to track performance in certain areas such as prompt payment
  - Appoints CFO's to departments and agencies and establishes their responsibilities
  - Requires annual independent audits of agency financial statements
- Federal Financial Management Improvement Act of 1996 (FFMIA)
  - Required implementation of the federal standard general ledger system at the transaction level
  - Required compliance with applicable federal accounting standards

- Single Audit Act of 1984 (amended 1996)
  - Recipients of federal assistance of \$500,000 or more need to undergo only one audit, each year, by one auditor
  - Federal assistance includes cost-reimbursement contracts, grants, loans, cooperative agreements, interest subsidies, insurance, and food commodities
  - Aimed at reducing costs related to duplicative and uncoordinated federal audits and reviews
  - Requires working papers to be made available to a federal agency or the Comptroller General which in turn equated to the requirement that auditors maintain those working papers for at least 3 years after issuance

- What laws do we test?
  - FAM 245 specifically states "To design relevant compliance-related audit procedures, the auditors should identify the significant provisions of law and regulations. These provisions are those (1) for which compliance can be objectively determined and (2) that have a direct and material effect on the determination of financial statement amounts".
  - The FAM lists some laws that OMB has deemed possibly significant and the client should provide its own list
  - Beyond the OMB list in the FAM and the clients list the auditor is to identify any other laws or regulations that have a direct and material effect

# **APPLICABILITY**

UGG applies to anyone receiving federal funds (referred to as a non-federal entity) including:

- PED
- School Districts
- Charters
- Institutions of Higher Education
- Community Based Organizations (CBOs)
- Private Providers

# TIME FRAME

- July 1, 2015 Applicability date for all UGG requirements, except procurement which was extended
- Dec 25, 2017 Applicability date for procurement
- July 1, 2017 Applicability date for direct grants to IHEs and non-profits

### Manual

General Federal Guidance Manual

### GENERAL FEDERAL GUIDANCE WEBPAGE

http://dese.mo.gov/financial-adminservices/general-federal-guidance

### **Equipment Guidance**

Equipment Inventory

### **Financial Management Guide**

Federal Award Identification

### **Time and Effort Guidance**

- OMB Time and Effort Reporting Quick Reference Guidelines
- Semi-Annual Time Certification
- Semi-Annual Time Certification Alternate
- Personnel Activity Report
- Substitute System Information (School Districts/CBOs)
  - Substitute System Management Annual Certification Form
  - Substitute System Employee Certification Form Sample
  - Substitute System Fixed Work Schedule SAMPLE
- Time and Effort Report (Institutions of Higher Education)

### **Department of Elementary and Secondary UGG Policies**

- Travel and Expense Account Guidelines
- Cash Management Improvement Act (CMIA)
- Purchasing
  - Bid Sheet
- Allowability of Costs
- Sample RFPs
  - Behavior Consultation Invitation for Bid
  - Orientation & Mobility Service Invitation for Bid
  - Occupational Therapy Invitation for Bid
  - Speech Therapy Invitation for Bid
  - Physical Therapy Invitation for Bid
  - Vision Service Invitation for Bid

### Standards of Conduct

Code of Ethics

### **GENERAL FEDERAL GUIDANCE WEBPAGE**

http://dese.mo.gov/financial-adminservices/general-federal-guidance

### **Other Federal Resources**

- Education Department General Administrative Regulations (EDGAR)
- Uniform Grant Guidance
- Uniform Grant Guidance (UGG) Circular
  - Frequently Asked Questions
- OMB Circulars
- Office of Inspector General (OIG)
- Revised Missouri State Status (RSMo)
- Financial Management Service (FMS), Department of the Treasury

### **GENERAL FEDERAL GUIDANCE WEBPAGE**

http://dese.mo.gov/financial-adminservices/general-federal-guidance

# PROCEDURES / POLICIES

# REQUIRED WRITTEN POLICIES/PROCEDURES

- Allowability procedures 200.413 & 200.414
- Cash management procedures 200.305
- Procurement procedures 200.318 200.323
  - Gratuity 200.113
  - Conflict Interest 200.112
- Procedures for managing equipment 200.313 (d)
- Travel policies (including relocation costs) 200.474 and 200.464
- Written compensation and leave policies 200.430

# **ALLOWABILITY**

- Generally, a cost is allowable if its Necessary, Reasonable,
   Allocable, and Documented
- Written PROCEDURE for allowable Federal award costs should:
  - Serve as a roadmap that indicates the expenditure process from the start (grant budget to the end (receipt of federal reimbursement).
  - Indicate which employees are responsible for preparing the budget, approving and expending funds, reporting payments, and submitting final expenditure reports.
  - Be a training tool and guide for all employees.

# **CASH MANAGEMENT**

- Payment requests must be on a reimbursement basis or that will have been expended upon receipt (eliminates 3 day allowance to expend funds).
- Retained threshold increased from \$100 to \$500 and applied to all grants (not on an individual grant basis).
- May request more than one payment per month, but most notify program, contact of intent to request multiple payments.
- Written PROCEDURE for cash management and payments should explain the process used to request reimbursement of Federal funds.

# **PROCUREMENT**

- Standards apply to the purchase of supplies, equipment, and other services.
- Written PROCEDURE for procurement should:
  - Reflect applicable Federal State, and local laws and regulations
  - Cover conflict of interest (Must maintain written standard of conduct, including conflict of interest POLICY)
  - Cover gratuity
  - Provide disciplinary actions for violations of such standards

# **PROCUREMENT**

For all other entities except states, the <u>NDAA of 2018</u> increases the simplified acquisition threshold to \$250,000 and the micro-purchase threshold to \$10,000 for all auditees. The NDAA of 2018 was to update the definitions in the Federal Acquisition Regulations (FAR) at <u>48 CFR Part 2.1</u>.

The 2018 OMB Compliance Supplement made clear that entities were not to implement the higher thresholds until the FAR definitions were updated and became effective. M-18-18 changed this and allows for early adoption.

By issuing M-18-18, the OMB is requiring all federal agencies to adopt exceptions to the FAR definitions, making the increases in both the micro-purchase and simplified acquisition thresholds effective as of the date of M-18-18, **June 20, 2018**.

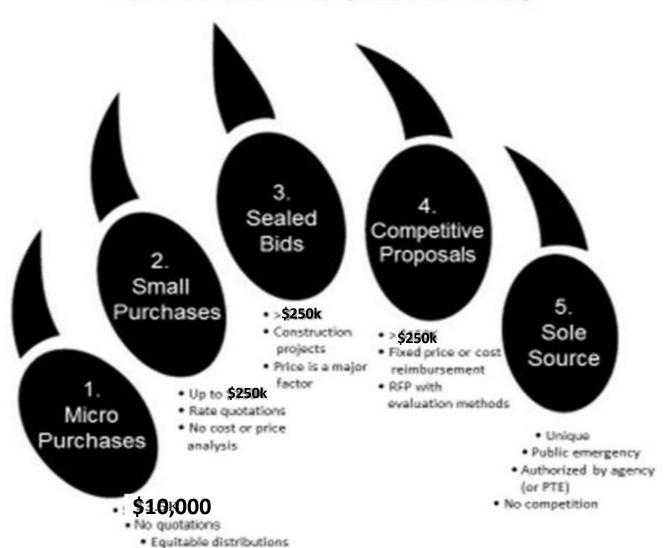
# **METHODS OF PROCUREMENT**

- All procurement transactions must be conducted in a manner providing full and open competition
- Real or perceived unfair advantages must be avoided
- Results in best value (not always lowest price)

# **CANNOT RESTRICT COMPETITION**

- Placing unreasonable requirements on vendors to quality
- Unnecessary experience requirements
- Excessive bonding
- Specifying only a brand name instead of allowing an equal product to be offered

### Procurement "Claw" (Section 200.320)



# **CONFLICT OF INTEREST**

- A conflict of interest arises when any of the following has a financial or other interest in the firm selected for award:
  - Employee, officer or agent;
  - Any member of that person's immediate family;
  - That person's partner; or
  - An organization which employs, or is about to employ, any of the above or has a financial interest in the firm selected for award.

# **GRATUITY**

- Must neither solicit nor accept gratuities, favors, or anything of monetary value from contractors/ subcontractors
- However, may set standards for situations in which <u>the</u> <u>financial interest is not substantial or the gift is an</u> <u>unsolicited item of nominal value</u>
- Standards of conduct must include disciplinary actions applies for violations

#### PROPERTY MANAGEMENT

- Supplies/Computing Devices 200.314
  - All tangible personal property other than equipment
  - Computing devices are supplies if less than \$1,000
- Equipment 200.313
  - Tangible personal property with a useful life of more than one year and an acquisition cost of \$1,000+ per unit
  - Software license (\$5,000+), Internally created software (\$5,000+)
- Attractive Items 200.302(b)(4)
  - Cost under \$1,000 per unit, considered attractive or easily pilfered (iPads, cameras, laptops, etc.)

#### **INVENTORY MANAGEMENT**

All <u>equipment and attractive items</u> are subject to the inventory management and control requirements.

Inventory records must be maintained and include the following;

- Description
- Serial/ID Number
- Funding Source
- Federal Award identification Number (FAIN) New
- Title Holder (if applicable)
- Acquisition Date
- Cost
- % of Federal Participation
- Location
- Use and Condition
- Disposition (if applicable)

http://dese.mo.gov/financial-admin-services/general-federal-guidance

#### **TRAVEL**

- Written POLICY for travel reimbursements should:
  - Explain the requirements of travel status
  - Indicate method for reimbursement (per diem, actual mileage, combinations, etc). The method used must be applied to entire trip and not selected days.
- Must retain documentation that indicates:
  - Participation of the individual is necessary to the Federal award
  - The costs are reasonable and consistent with established travel policy

### **Most Significant Changes**

- > Time and effort requirements
- "Specific conditions" option
- Subrecipient monitoring requirements
- Monitoring findings and resolution requirements

### **Time and Effort Requirements**

> Certifications

Substitute system

### **Specific Conditions**

"High-risk" grantee designation

> Review of each subrecipient's risk level

### **Subrecipient Monitoring Requirements**

Scope of monitoring determined by each subrecipient's risk

Possible monitoring activities

### Monitoring Findings and Resolution Requirements

- > Raising thresholds for:
  - Required single audit
  - Questioned costs

# KEY SECTIONS OF UNIFORM GUIDANCE

## Direct Costs (Sec. 200.413)

- Salaries of administrative and clerical charged as indirect costs
- > Can be charged as *direct* costs only if:
  - Services integral to grant
  - Staff specifically identified with activity or project
  - Costs explicitly included in the budget
  - Costs not recovered as indirect costs

### Selected Items of Cost (Sec. 200.420 – 200.475)

- Advertising/Public Relations allowable for programmatic purposes
- Conferences meals, local travel, and finding dependent care resources
- Travel Costs participation in conference was necessary for the project

## Compensation – Personal Services (Sec. 200.430)

- > Time & Effort
- Substitute systems encouraged if approved
- Records that meet standards no further documentation needed

## Contract Cost and Price (Sec. 200.323)

- ➤ Grantee must perform a cost of price analysis for every procurement action in excess of \$150,000
- Independent estimates must be made <u>before</u> receiving bids and proposals

## Methods of Procurement (Sec. 200.320)

- Competitive quotations not required for "micropurchases" of \$10,000 or less
- ➤ Small purchase procedures for services or supplies not exceeding \$250,000
- Sole Source used only under certain circumstances

### Micro-Purchases (200.320)

- Micro-purchases must be distributed equitably among qualified suppliers
- > The price must be reasonable

## Computing Devices (Sec. 200.20)

#### **New Definition:**

"Machines used to acquire, store, analyse, process, and publish data and other information electronically, including accessories..."

## Equipment (Sec. 200.313)

- Cannot encumber property without approval and/or USDE
- Equipment may be used for other projects if it *does not* interfere with the work on the projects for which it was originally acquired
- Preference must be given to certain projects as specified in the Uniform Guidance

## Mandatory Disclosures (Sec. 200.113)

- ➤ Grantee or applicant must disclose *in writing* all violations of Federal criminal law potentially affecting the Federal award, involving:
  - Fraud
  - Bribery
  - Gratuity

## Required Certifications (Sec. 200.415)

- > For grant expenditures, authorized official will certify that:
  - Reports are true and accurate
  - All expenditures are allowable under the grant
  - There is no "false, fictitious, or fraudulent information"
- > This is legally binding certification

## Prior Written Approval (Sec. 200.407)

- ➤ Grantee <u>may</u> seek prior *written* approval for "indirect costs" or "special or unusual costs"
- May prevent future disallowance dispute on "unreasonableness" or "non allocability"

## Internal Controls (Sec. 200.303)

- Establish effective internal control
- > Evaluate and monitor compliance
- Take prompt action when non-compliance identified
- Take reasonable measures to safeguard personally identifiable information

#### What Are Internal Controls?

- ➤ A process that provides "reasonable assurance" that objectives are met
- > A system that reduces the risk of fraud, waste, and abuse
- > Three types of internal controls:
  - Preventive
  - Detective
  - Corrective

#### **Internal Controls Guidance and Resources**

- COSO Integrated Framework
- ➤ GAO Standards for Internal Control (Green Book)

### Written Procedures for Payment (Sec. 200.305 and Sec. 200.302

The grantee must have <u>written procedures</u> to implement the requirements of the Cash Management Improvement Act (CMIA) rules for payments

## Written Procedures for Allowable Costs (Sec. 200.302)

The grantee must have <u>written procedures</u> for determining the allowability of costs in accordance with the Omni-Circular.

## Written Procedures for Procurement (Sec. 200.318)

- ➤ The grantee must have documented procurement procedures
- > Can only contract with responsible contractors

### Conflict of Interest (200.112)

Must establish conflict of interest policies for Federal awards

➤ The grantee or applicant for a Federal award must disclose in writing any potential conflict of interest

### Polling question 5

Now that you've learned about UGG, what are you most concerned about?

- A. The effect on our federal/state reporting and if we are meeting requirements
- B. If what I am approving at Board meetings is compliant
- C. The time and effort it takes staff to comply
- D. Training staff on how to properly use federal funds
- E. Nothing, we've got a good handle on this

Q&A



## Thank you

