

# The Audit Guide, GASB 75, and Federal Award Compliance under the Uniform Guidance

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# TODAY'S OBJECTIVES

- ❖ The audit guide – current updates and possible updates for the future
- ❖ GASB 75 – What You Need to Know!
- ❖ Uniform Guidance - Why should we care about compliance?
  - ❖ Background
  - ❖ Changes and New Requirements
  - ❖ Federal Program Compliance Requirements
- ❖ Resources

# The 2016-2017 Audit Guide – What's New?

- Mental Health Expenditures added with the issuance of the Supplemental Audit Guide on January 4, 2017
  - SACS Resource Code 6512
  - Expenditures used to provide mental health related services
  - Link provided to the CDE website regarding use of funds
  - SACS Forum provided FAQs

# The 2016-2017 Audit Guide – What's Been Updated?

- Educator effectiveness
  - Determine whether the LEA developed and adopted a plan, in 2015-16 *or 2016-17*
  - Verify the LEA is separately tracking the following items required to complete the final expenditure report
    - c. The numbers of teachers and administrators that receive professional development aligned to each of the state content standards as identified by Assembly Bill 104, Section 58(b)(1)(C)

# The 2016-2017 Audit Guide – What's Been Updated?

- Unduplicated Local Control Funding Formula Pupil Counts
  - If a student in the sample transferred to another LEA, the LEA may obtain the documentation from the LEA the student transferred to, or another student may be selected for the sample

# The 2016-2017 Audit Guide – What's Been Updated?

- Immunizations
  - Section 3a: Verify that each pupil in the sample had two doses of a measles vaccine as required by Title 17, California Code of Regulations Section 6020 prior to admission, or has either a current medical exemption or personal beliefs exemption on file, **filed prior to January 1, 2016**

# The 2016-2017 Audit Guide – What's Been Updated?

- Immunizations (continued)
  - Section 7B. If the pupil did not receive the Tdap dose, and does not have a current medical ~~or~~ ~~personal belief~~ exemption on file, or does not have a California School Immunization Record, PM 286 (1/02) or CDPH 286 (1/14) on file, verify the pupil was excluded from attendance

# The 2016-2017 Audit Guide – What's Been Updated?

- California Clean Energy Jobs Act
  - Reference the Multi-year Schedule and website, final project completion report, and reference California Clean Energy's Program Implementation Guidelines applicable to the audit year



# The 2016-2017 Audit Guide – What's Been Updated?

- Charter School - Mode of Instruction
  - Section 2: If any ADA reported to the CDE as classroom-based instruction was not generated in compliance with all of the preceding conditions, it is not eligible for apportionments unless it but was generated in full compliance with the requirements set forth in Audit Guide Section CC, state in a finding the number of units of ADA that were misreported as classroom-based instruction but eligible for nonclassroom-based ADA

# The Audit Guide – What's Next?

- Educator Effectiveness
- California Clean Energy Jobs Act
- Immunizations
- Charter School – Nonclassroom-Based
- Schedule of Charter Schools
- 2017-18 Governor's Budget Omnibus Education Trailer Bill (Proposition 51)
- Materiality thresholds
- Sample sizes
- Attendance procedures revision

# GASB Statement 75 – What You Need to Know!

- Update of GASB Statement 45 (*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*)
- GASB Statement 75 (*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*) is almost identical to its pension sibling GASB 68
  - Minor tweaking to better fit retiree healthcare have been made (e.g., recognizing implicit rate subsidies or requiring sensitivity analysis for healthcare trend rate)
  - Alternative method for very small plans (100 or fewer total participants) is still included in the new guidance

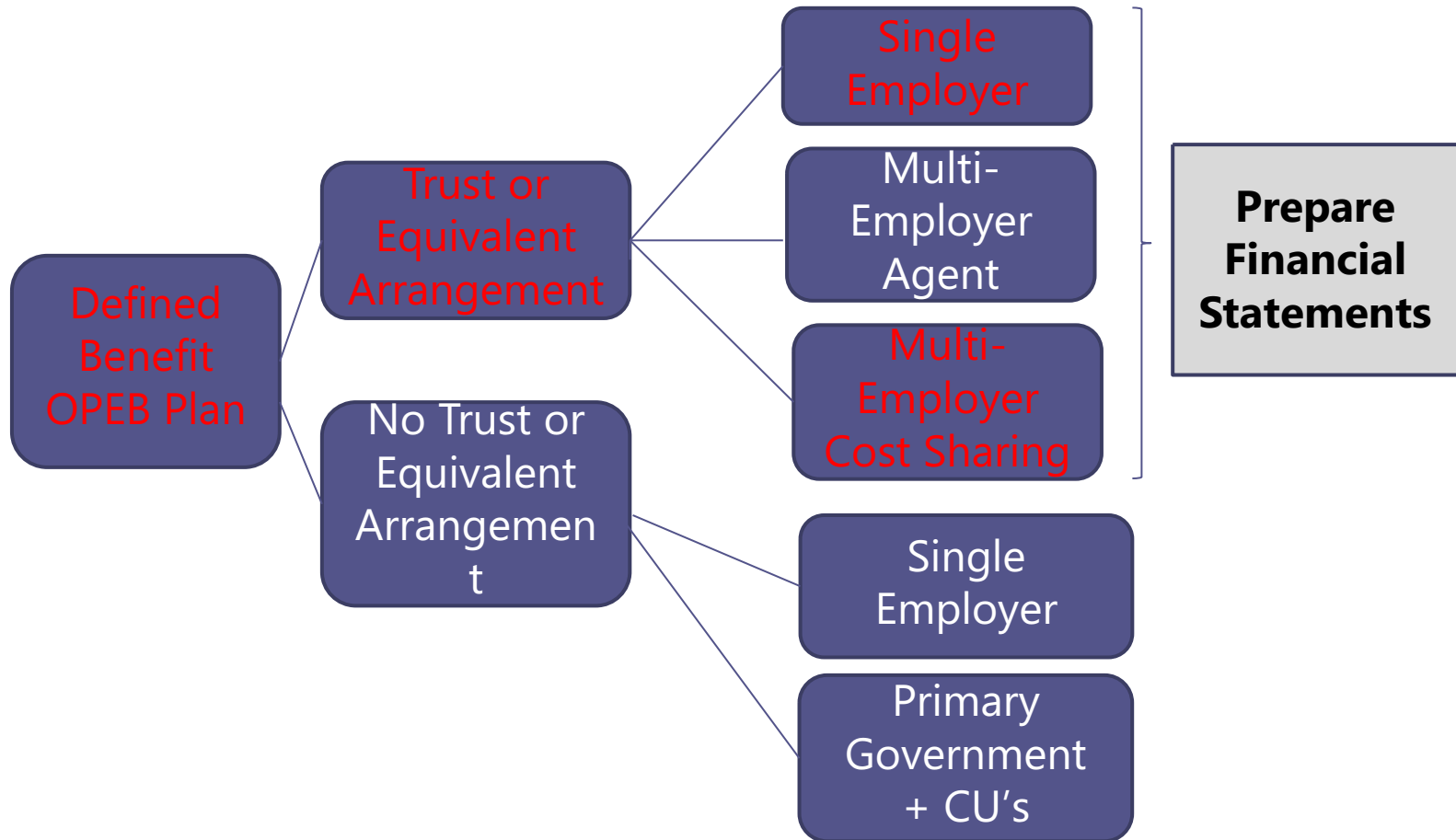
# GASB Statement 75 – OPEB In Brief

- Major impacts of GASB 75 vs. its predecessor (GASB 45)
  - Net or total OPEB liability is now recorded in Statement of Net Position (new if there exists Plan assets)
  - Strictly prescribed actuarial methodology and discounting guidance will produce a different (often higher) OPEB liability than GASB 45
  - Annual measurement dates are now required using either annual or biennial valuations (triennial valuations no longer allowed)
  - Much more robust note and required supplementary information (RSI) is required

# GASB Statement 74 – Trust Plans

- OPEB reimbursement trusts whose sole purpose is to accumulate and invest assets and make reimbursement payments to the employer is a common model
- Effective for June 30, 2017, plan year-ends and later
- Plan financial statements may be either issued separately or as a fiduciary fund in the financial statements of the sponsoring government
- Apply changes retroactively by restating financial statements for all periods presented, if practical
  - 10-year RSI schedule of employer contributions should be presented in year of transition
  - Other 10-year RSI schedules present information that is available until 10-years has been accumulated

# Types of Plans



# GASB Definition of a Trust

- Paragraph 4 of GASB 75 creates three “substance over form criteria” for determining whether the plan qualifies as a trust
  - Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
  - OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
  - OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

# GASB 75

- GASB 75
  - Effective for June 30, 2018, employer year-ends and later
- Apply changes retroactively by restating financial statements for all periods presented, if practical
  - May not be practical to present balances all deferred outflows and inflows of resources at beginning of period
  - Report beginning deferred outflow of resources for any contributions or OPEB payments after the measurement date
- Divided into two primary sections:
  - OPEB provided through plans administered as trusts or equivalent arrangements (i.e., meets paragraph 4 of GASB 75 requirements)
  - OPEB provided through plans that are NOT administered as trusts or equivalent arrangements (i.e., does not meet paragraph 4 of GASB 75 requirements)



# OPEB Liability



- Plan administered as a trust or equivalent arrangement:
  - Employer reports a net OPEB liability in their financial statements
- Plan NOT administered as a trust or equivalent arrangement:
  - Employer reports a total OPEB liability in their financial statements

Plans with fewer than 100 members (active and inactive) may use the alternative measurement method to determine the liability.

# Contrasting Pensions to OPEB

- While the basic actuarial and accounting methodology is similar, there are key differences:
  - Pensions are salary and time based projections vs. OPEB is claims based projections
    - In pensions, the longer you work and the more your salary, the higher your pension
    - In OPEB years of service and amount of pay do not typically impact the value of the retirement benefit
  - OPEB actuaries must have experience in both pensions and health claims development or have two certifications
  - There are many actuarial assumptions used for OPEB that do not exist in pension valuations
  - Even when the same assumption is used, an extremely significant assumption for pensions may not be significant for OPEB and vice versa

# Substantive OPEB Differences Affecting Valuations

- Both pension and OPEB valuations utilize standard actuarial methodology of Project, Discount and Attribute, however, with OPEB:
  - Expertise in health claim development is needed
  - More likely to utilize biennial valuations which will now require roll-forwards
  - Benefit can end or be substantially reduced at age 65
  - Even when trusts exist, they are less likely to be well funded and single blended discount rate more likely

# Why Should We Care About Compliance?

- #1 Questioned Costs – subject to reimbursement from unrestricted sources. Creates financial burden
- #2 Subject to additional scrutiny from the administering Federal agency or pass-through entity. Potential increase in oversight activities (MORE AUDITS!)
- Subject to financial sanctions – may lose future funding for continued non-compliance. Disruption in operations and potential job displacements.



# What Possibly Could Go Wrong?

- The nature of OPEB creates multiple opportunities for errors including:
  - Hiring an actuary who does not have the proper qualifications and experience
  - The actuary not using the most current health plan document or administrative policy for the valuation
  - Ambiguous language in these documents resulting in HR administering the policy differently than what finance understands or the actuary was told
  - Inaccuracies in the census data

# Uniform Guidance

- ❖ The Uniform Guidance is the final guidance on administrative requirements, cost principles and audit requirements for federal awards
  - ❖ Replaced and consolidated eight OMB Circulars
- ❖ Actual legislation: 2 CFR Part 200
- ❖ Effective for federal awards granted after December 26, 2014



# Uniform Guidance Applicability

- ❖ Federal awards granted prior to December 26, 2014 are still subject to OMB Circulars A-133 and A-87
  - ❖ Multi-Year Direct Awards
- ❖ Federal awards dated after December 26, 2014 are subject to Uniform Guidance compliance requirements
  - ❖ Non-Competing Continuation (NCC) Grants = 99%
  - ❖ Formula & Discretionary Grants



# Uniform Guidance v. A-133

- ❖ The Uniform Guidance requirements are similar to those of A-133 and A-87
  - ❖ Shift from rule-based to principle-based
  - ❖ Broader and subject to more interpretation
    - ❖ There may be different interpretations from either the administering LEAs or even by an oversight agency
  - ❖ Emphasis on development of written policies and procedures
  - ❖ Emphasis on **internal control** over compliance requirements

# Uniform Guidance v. A-133

- Comparison Example:

<p><b>C-5. Audit Services</b></p>	<p>4. a. The costs of audits required by , and performed in accordance with, the Single Audit Act, as implemented by Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" are allowable. Also see 31 U.S.C. 7505(b) and section 230 ("Audit Costs") of Circular A-133.</p> <p>b. Other audit costs are allowable if included in a cost allocation plan or indirect cost proposal, or if specifically approved by the awarding agency as a direct cost to an award.</p> <p>c. The cost of agreed-upon procedures engagements to monitor subrecipients who are exempted from A-133 under section 200(d) are allowable, subject to the conditions listed in A-133, section 230 (b)(2).</p>	<p>a. The costs of audits required by, and performed in accordance with, the Single Audit Act, as implemented by Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" are allowable. Also see 31 U.S.C. 7505(b) and section __,230 ("Audit Costs") of Circular A-133.</p> <p>b. Other audit costs are allowable if included in an indirect cost rate proposal, or if specifically approved by the awarding agency as a direct cost to an award.</p> <p>c. The cost of agreed-upon procedures engagements to monitor subrecipients who are exempted from A-133 under section __,200(d) are allowable, subject to the conditions listed in A-133, section __,230 (b)(2).</p>	<p>a. The costs of audits required by, and performed in accordance with, the Single Audit Act, as implemented by Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" are allowable. Also see 31 U.S.C. 7505(b) and section 230 ("Audit Costs") of Circular A-133.</p> <p>b. Other audit costs are allowable if included in an indirect cost rate proposal, or if specifically approved by the awarding agency as a direct cost to an award.</p> <p>c. The cost of agreed-upon procedures engagements to monitor subrecipients who are exempted from A-133 under section 200(d) are allowable, subject to the conditions listed in A-133, section 230 (b)(2).</p>	<p>(1) A reasonably proportionate share of the costs of audits required by, and performed in accordance with, the Single Audit Act Amendments of 1996 (31 U.S.C. 7501 et. seq.), as implemented by subchapter G- Audit Requirements of this guidance, are allowable. However, the following audit costs are unallowable:</p> <p>(A) No audit costs may be charged to Federal awards when audits required by the Single Audit Act and subchapter G of this guidance, have not been conducted or have been conducted but not in accordance therewith; and</p> <p>(B) The cost of auditing a non-Federal entity that is exempted from having an audit conducted under the Single Audit Act and Subchapter G- Audit Requirements of this guidance because its expenditures under Federal awards are less than \$500,000 per year. But see paragraph (3) of this section, below.</p> <p>(2) Other audit costs are allowable if included in an approved cost allocation plan or indirect cost proposal, or if specifically approved by the awarding agency as a direct cost to a Federal award.</p>
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# Internal Controls

## § 200.303 Internal controls.

The **non-federal entity must: (a) Establish and maintain effective internal control over the Federal award** that provides reasonable assurance that the non-federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. **These internal controls should be in compliance with** guidance in “Standards for Internal Control in the Federal Government” [**Green Book**] issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (**COSO**).

# Internal Controls

- Elements of Internal Controls Under the COSO Framework
  - Control Environment
  - Risk Assessment
  - Control Activities
  - Information & Communication
  - Monitoring

# **Federal Program Compliance Requirements**

**New Requirements  
Significant Changes**

# Changes/New Compliance Requirements

- ❖ Development of written policies and procedures
  - ❖ Procurement (2 CFR Part 200.318(a))
    - ❖ Conflict of interest (2 CFR Part 300.318(e)(1))
  - ❖ Cash management (2 CFR Part 200.305(b)(1))
  - ❖ Allowability of costs (2 CFR Part 200.475)
    - ❖ Personnel costs (2 CFR Part 200.400(a)(1))
    - ❖ Travel (2 CFR Part 200.474(a))
- ❖ All other major compliance requirements and processes (Suggested but not explicit in the regulations)

# Changes/New Compliance Requirements (Continued)

- ❖ Development of written policies and procedures
  - ❖ Procurement
    - ❖ “The non-Federal entity must use its **own documented** procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part.”
  - ❖ Conflict of interest
    - ❖ “The non-Federal entity must maintain **written** standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts.”

# Changes/New Compliance Requirements (Continued)

- ❖ Development of written policies and procedures
  - ❖ Cash management
    - ❖ The non-Federal entity must maintain "**written** procedures to implement the requirements of §200.305 Payment" (cash management)



# Changes/New Compliance Requirements (Continued)

- ❖ Development of written policies and procedures
  - ❖ Allowability of costs
    - ❖ The non-Federal entity must maintain “**written** procedures for determining the allowability of costs in accordance with Subpart E—Cost Principles of this part and the terms and conditions of the Federal award.”
  - ❖ Travel costs
    - ❖ Travel and conference costs must conform “with non-Federal entity's **written** travel reimbursement policies”.
  - ❖ Personnel costs
    - ❖ Charges for compensation must conform “to the established **written** policy of the non-Federal entity consistently applied to both Federal and non-Federal activities”.

# Changes/New Compliance Requirements (Continued)

- ❖ Development of written policies and procedures
  - ❖ All other major compliance requirements and processes
  - ❖ Formal policies and procedures are an important element of internal control and ensure operations continue in the absence of key personnel

# Changes/New Compliance Requirements (Continued)

- ❖ Financial Management System requirements
  - ❖ Identification of all federal programs, including
    - ❖ CFDA and Title
    - ❖ Award identification
    - ❖ Awarding agency
    - ❖ Pass-through entity and number
  - ❖ Accurate, current, and complete disclosure of financial data for each federal award or program

# Changes/New Compliance Requirements (Continued)

- A. Activities Allowed or Unallowed
- B. Allowable Costs**
- 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, Suspension, and Debarment**
- J. Program Income
- K. Reserved\*
- L. Reporting
- M. Subrecipient Monitoring**
- N. Special Tests and Provisions

## B. Allowable Costs

Allowable Costs requirements govern the types of expenditures allowed and how they are accounted for.

- ❖ Be **necessary and reasonable** for the performance of the Federal award
- ❖ Be **allocable** to the federal award
- ❖ Conform to any limitations or exclusions set forth in the Uniform Guidance or by specific Federal award requirements
- ❖ **Be accorded consistent treatment**
- ❖ **Be adequately documented**
- ❖ **Be consistent with policies and procedures** that apply uniformly to both federally financed and other activities of the non-Federal entity
- ❖ Be determined in accordance with **generally accepted accounting principles (GAAP)**
- ❖ Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program

# Allowable Costs: Personnel Costs

- ❖ Compensation
  - ❖ Requirements under the old regulations (A-87) no longer relevant under the Uniform Guidance.
    - ❖ Time Certifications and Personnel Activity Reports are **no longer explicitly required** (unless there are violations)
  - ❖ But... CDE still requires PARS and Time Certification Forms (CSAM Procedure 905)

# Allowable Costs: Travel

- ❖ Travel costs for lodging and subsistence are allowable if
  - ❖ Costs are reasonable and consistent with the non-Federal entity's **established travel policy**
  - ❖ Temporary dependent care costs above and beyond regular dependent care that directly results from travel to conferences is allowable, with restrictions
  - ❖ Travel costs for dependents are unallowable

## C. Cash Management

- ❖ Must have written procedures for minimizing the time elapsing between drawdown and disbursement of funds
  - ❖ Primarily for advances



# I. Procurement, Suspension, Debarment

- ❖ Procurement standards took full effect for federal award beginning 15/16
  - ❖ Grace period of 2 full fiscal years allowed (really effective 17/18 – July 1, 2017)
- ❖ The entity must develop written procurement policies and procedures, which conform to applicable Federal law
  - ❖ “The non-Federal entity must maintain written standards of conduct covering **conflicts of interest** and **governing the actions of its employees** engaged in the selection, award and administration of contracts.”
- ❖ Non-federal entities must meet general procurement standards, which include oversight of contractors’ performance, maintaining written standards of conduct for employees involved in contracting, awarding contracts only to responsible contractors, and maintaining records to document history of procurements.

# Procurement Procedures

- ❖ Non-federal entities must conduct all procurement transactions in a manner providing full and open competition
- ❖ Micro-purchases: less than \$3,500
  - ❖ Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable
- ❖ Small Purchase Procedures: less than \$150,000
  - ❖ Price or rate quotations must be obtained from an adequate number of qualified sources
  - ❖ Must be in accordance with the entity's Small Purchase Procedures
    - ❖ CA Public Contract Code bid threshold: \$87,700/\$15,000

# Suspension and Debarment

- ❖ “Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred.”
  - ❖ Contracts for goods or services that are expected equal or exceed \$25,000
  - ❖ All subrecipient pass-throughs
- ❖ The non-Federal entity must verify that the vendor or subrecipient is not suspended or debarred or otherwise excluded from participating in the transaction
  - ❖ SAM.gov

# Subrecipient Monitoring Steps

1. Identify Award and Applicable Requirements

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2. Evaluate Risks

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3. Perform Monitoring Activities

# Subrecipient Monitoring

## **Identify Award and Applicable Requirements**

- ❖ Clearly identify to the subrecipient
  - ❖ The grant at the time of awarding
    - ❖ Award letter or grant contract
  - ❖ All requirements imposed by the LEA on the subrecipient so that the Federal award is used in accordance with Federal statutes
  - ❖ Any additional requirements that the LEA imposes on the subrecipient in order for LEA to meet its own responsibility for the Federal award
- ❖ Obtain DUNS number from subrecipient prior to award

# Subrecipient Monitoring

Subrecipient award documentation (grant contract) must include the following data elements:

- ❖ Federal award identification
- ❖ Subrecipient name
- ❖ Subrecipient's unique entity identifier
- ❖ Federal Award Identification Number (FAIN)
- ❖ Federal award date of awarding by the Federal agency
- ❖ Subaward Period of Performance Start and End Date
- ❖ CFDA Number and Name
- ❖ Amount of Federal Funds Obligated
- ❖ Federal award project description
- ❖ Name of Federal awarding agency, pass-through entity, and LEA contact information
- ❖ Identification of whether the award is R&D
- ❖ Indirect cost rate for the Federal award

# Subrecipient Monitoring

## Evaluate Risks

- ❖ Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward
  - ❖ Subrecipient's prior experience with the same or similar subawards
  - ❖ Results of previous audits including whether or not the subrecipient receives a Single Audit
    - ❖ Has the program been audited as part of a Single Audit?
  - ❖ Whether the subrecipient has new personnel or new or substantially changed systems
  - ❖ The extent and results of Federal awarding agency monitoring
    - ❖ Has the program been subject to an audit or review by State or Federal agents?

# Subrecipient Monitoring

## **Monitoring Activities**

- ❖ Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals
  - ❖ Review financial, performance, and special reports
  - ❖ Following-up and ensuring action on all deficiencies noted through observations or on-site reviews
    - ❖ Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to LEA's records



# Subrecipient Monitoring

## Monitoring Activities

- ❖ Verify that the subrecipient receives a Single Audit
  - ❖ A Single Audit is required if the subrecipient has federal expenditures exceeding \$750,000
- ❖ Issuing a management decision for subrecipient audit findings
- ❖ Consider taking enforcement action against noncompliant subrecipients
  - ❖ Temporarily withhold cash payments pending correction of the deficiency
  - ❖ Disallow all or part of the cost of the activity or action not in compliance
  - ❖ Wholly or partly suspend or terminate the Federal award
  - ❖ Withhold further Federal awards for the project or program

# Resources

Uniform Guidance Legislation (2 CFR 200)

[http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl)

Current Compliance Supplement

[https://www.whitehouse.gov/omb/circulars/a133\\_compliance\\_supplement\\_2015](https://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2015)

This is the document we use to perform the Single Audit.

Catalog of Federal Domestic Assistance

<https://www.cfda.gov/>

Provides additional information on federal programs, including Federal agency contact information.

# Resources

## AICPA Governmental Audit Quality Center

<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Pages/GAQC.aspx>

Provides updates on regulations and audit requirements, as well as trainings and conference opportunities

## COSO Website

<http://www.coso.org/default.htm>

Provides internal control guidance

## System for Award Management Website

<https://www.sam.gov>

Verification of vendor suspension and debarment

- Questions?