



How Uniform Guidance Will Impact Your Single Audit

What to expect from your auditor, and what your organization can do to prepare.

Organizations impacted by the Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* — commonly known as Uniform Guidance — may find that their auditor is updating and changing methodologies so that testing procedures take the new guidance into account. Some single audits in 2015 will be “transitional” since there will be some grants governed by older guidance, and some governed by the new Uniform Guidance.

Following is a review of some of the changes, important dates, and other issues that your organization should be aware of before your audit begins.

Uniform Guidance effective dates

The Uniform Guidance contains multiple dates that your organization and auditors need to know to ensure proper compliance and testing procedures:

- Administrative requirements and cost principles (Subparts A – E) apply to new awards and to additional funding (funding increments) to existing awards made after December 26, 2014.
- Subpart F, Audit Requirements, will apply to audits of the fiscal years of non-federal entities that begin on or after December 26, 2014. The revised audit requirements do not apply to fiscal years beginning prior to that date. For organizations whose fiscal year ends on December 31, this will be your December 31, 2015, audit. For those with a June 30 fiscal year end, this will be your June 30, 2016, audit.
- The effective date for subawards is the same as the effective date of the federal award from which the subaward is made.

Some single audits may straddle the line between the old guidance and the new Uniform Guidance, leading auditors to implement changes in testing procedures and methodologies.

- Federal awards made prior to December 26, 2014, will continue to be governed by the existing terms and conditions of the federal award.
- Organizations subject to both the old regulations and the Uniform Guidance may make changes to their entity-wide policies (for example, to payroll or procurement systems). Likewise, organizations wishing to implement entity-wide system changes to comply with the Uniform Guidance will not be penalized for doing so regardless of whether they have new awards.

Implications for single audits

Organizations with grants under the Uniform Guidance can expect a number of changes during their next single audit. If those grants are considered a major program, their auditors will be testing to ensure proper compliance with changes to the administrative requirements and cost principles. OMB also came out with its 2015 Compliance Supplement, which includes some minor changes and provides guidance for auditors on how to test grants under the Uniform Guidance.

Compliance Supplement changes

Changes published in the 2015 Compliance Supplement may impact your audit:

- **D – Davis Bacon Act and K – Real Property Acquisition and Relocation Assistance** — These sections have been removed from Part 3. However, Davis Bacon requirements were moved to the Special Tests and Provisions section of individual programs and may still be applicable to your grant.
- **FFATA audit requirement in reporting** — Your auditor will no longer be required to test subaward reporting audit requirements under the *Federal Funding Accountability and Transparency Act* (FFATA). However, the reporting requirement may still be applicable to your organization.
- **New section of Part 3 addressing Uniform Guidance** — Part 3 has now been divided into Part 3.1, which includes compliance requirements that apply to federal awards made prior to December 26, 2014, and Part 3.2, which applies to federal awards subject to the Uniform Guidance (i.e., new awards or funding increments made on or after December 26, 2014).
- **Period of Availability title change and testing** — The Compliance Supplement changes the title of “Period of Availability of Funds” to “Period of Performance” in Part 3.2. To test the period of performance compliance requirement, auditors must test a sample of charges made at either the beginning or the end of the grant period of performance (depending on if the grant began or ended during the fiscal year being tested) to ensure that charges were within the acceptable time period.

Administrative requirements

The new guidance includes significant reforms to current administrative requirements (formerly circulars A-102 and A-110). Here are some of the significant reforms that your auditors will need to test if you have grants under the Uniform Guidance:

Procurement (§200.317-326)

Procurement requirements are significantly expanded; they now focus on competition. Five procurement methodologies (defined in §200.320) can be used depending on the procurement amount, and there are specific requirements within each. Regardless of the methodology used, organizations must do the following:

- Have written procurement policies that are in compliance with regulations
- Take all necessary affirmative steps to ensure that minority businesses, women’s business enterprises, and labor surplus area firms are used when possible
- Engage in full and open competition
- Ask for representations regarding actual or potential conflicts of interest
- Perform a cost or price analysis when a purchase exceeds the simplified acquisition threshold (currently at \$150,000)
- Keep procurement records that sufficiently detail the history of all procurements

The OMB has allowed a grace period of a full fiscal year that begins on or after December 26, 2014. This means December 31 year-ends would have until December 31, 2015, June 30 year-ends until June 30, 2016, and so on, to be in compliance. Your organization must document whether it is in compliance with the old or new standard, and then must meet the requirements of that standard.

Audit implications — Auditors will be taking a closer look at your procurement policies and procedures, and will be testing a sample of your procurement transactions to ensure that they are all following the correct regulations and requirements. The key to compliance will be to have the most robust procurement records possible.

About Uniform Grant Guidance

Once referred to as the “Super Circular” or “Omni Circular,” Uniform Grant Guidance (UGG) was issued by OMB on December 26, 2014. It consolidates and streamlines eight previous federal regulations into one comprehensive guidance codified at 2 CFR Part 200 in Subparts A-F. The Uniform Guidance promises to increase competition for grant funds, add new administrative processes, change long-established cost principles, and impact the audits of organizations receiving federal awards.

CLA's Subrecipient Risk Assessment Matrix tool can help in documenting a subrecipient's risk of noncompliance.

Subrecipient monitoring (§200.330-332)

The Uniform Guidance places greater responsibilities for subrecipient monitoring on pass-through entities. It requires that subawards contain specific information, including 13 data sets, as outlined in §200.331, as well as an approved, federally recognized indirect cost rate negotiated between the subrecipient and the federal government. If no such rate exists, either a negotiated rate or a 10 percent de minimis rate should be included. Pass-through entities are also required to evaluate each subrecipient's risk of noncompliance. This risk assessment must be documented.

Certain monitoring activities must be performed, regardless of the risk assessment results. These include:

- Reviewing financial and programmatic reports
- Verifying that an audit is being performed (if necessary) and following up on audit findings and deficiencies
- Issuing management decisions on audit findings

Depending on the pass-through entity's assessment of risk posed by the subrecipient, the following monitoring tools may be useful to help with accountability, compliance, and achievement of performance goals:

- Providing training and technical assistance
- On-site reviews of program operations
- Arranging for agreed-upon procedures

Audit implications — During your single audit, auditors will be testing a sample of your subrecipient relationships to ensure that a risk assessment of the subrecipient was documented, that the subaward contained the required information, and that proper monitoring was performed.

Cost principles

The new guidance also includes significant reforms to cost principles (formerly circulars A-21, A-122, and A-87). Here are some of the significant reforms that your auditors will need to test if you have grants under the Uniform Guidance:

Indirect costs (§200.414)

Under the new rules, federal agencies must accept a negotiated indirect cost rate if one exists. Likewise, pass-through entities are required to honor an organization's negotiated indirect cost rate, or negotiate a rate in accordance with federal guidelines. Organizations that are receiving direct funding and do not have a previously negotiated rate may need to negotiate a rate with its

cognizant agency, or they have the option to automatically use the de minimis rate of 10 percent of modified total direct costs. In the event that they are required to obtain a negotiated rate, organizations will have up to three months after the effective date of their next grant to submit a proposal for a negotiated rate.

Entities with an approved federally negotiated indirect cost rate can now apply for a one-time extension of up to four years without further negotiation. Organizations can only use the one-time extension if there have been no major changes to indirect costs and approval from the organization's designated cognizant agency is received. If the extension is approved, the organization cannot request a review of the negotiated rate until the extension period is over.

Audit implications — Auditors will need to review grant agreements to determine whether a negotiated indirect cost rate was used, or whether the de minimis rate was used. They will then need to test a sample of your indirect cost charges during the year to ensure that the proper rate was documented and used.

Time and effort reporting (§200.430)

To prevent duplicating efforts in entities that have good internal controls, the final guidance allows for alternatives to the current reporting requirements for salaries and wages. The Uniform Guidance is less prescriptive on required documentation, and places more emphasis on strong internal controls. The changes are intended to reduce the administrative burden of documenting time and effort.

The Uniform Guidance requires that personnel charges for all organizations must be based on records that accurately reflect the work performed and must:

- Be supported by a system of internal controls that provides reasonable assurance that the charges are accurate, allowable, and properly allocated
- Reasonably reflect the total activity for which the employee is compensated by the organization
- Comply with the established accounting policies and practices of the organization
- Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award

The new regulation allows for the use of budget estimates (made before the services are performed) for accounting purposes, provided that:

- The system for estimating produces reasonable approximations of activity actually performed
- Significant changes in work activity (as defined in written organizational policies) are identified and entered into the records on a timely basis

- There is a process to review the charges, and that the process is based on the budget estimates and adjustments made after the fact, so that the final amount charged to the federal award is accurate, allowable, and properly allocated

A series of white papers from CLA provides side-by-side comparisons of the old regulations regarding personnel costs to the new. Comparisons are available for higher education, nonprofits, and state and local government.

When personnel records do not meet the Uniform Guidance standards listed above, the federal government may continue to require personnel activity reports. Remember that employees working on federal awards may have different situations, and the time and effort reporting that is appropriate may vary, based on the employee's activities. For example, if you have a program director who spends 100 percent of his or her time on one federal program, then a certification at the end of the quarter may be sufficient. However, if you have another employee who changes activities daily and may work two hours one day on an award, four hours the next day, and so on, it may be more appropriate to still have that employee complete daily timesheets to ensure that the proper amount is getting charged to the award.

Audit implications — Auditors will test a sample of payroll expenditures made to the federal award during the year against the appropriate regulation to ensure proper documentation. For multi-year grants that cross over the fiscal year and have one year subject to the old regulation and one year subject to the Uniform Guidance, the population will be all payroll charges during the fiscal year. Your auditor will need to identify which regulation to test the specific charges against. The auditor should not be testing the multi-year grant separately, just differently.

Direct costs

The Uniform Guidance had some changes to how certain direct costs can be treated. Below are two of the more significant changes:

1) Administrative salary direct costs (§200.413) —

Administrative and clerical staff salaries are normally treated as indirect costs, but direct charging may be appropriate if:

- The services are integral to a project or activity
- Individuals involved can be specifically identified with the project or activity
- Costs are explicitly included in the budget or have prior written approval of the awarding agency
- The costs are not also recovered as indirect costs

2) Materials and supplies — The Uniform Guidance changes its definition of “supplies” in §200.94 by stating that if the acquisition cost of computer equipment is less than an organization’s capitalization policy, or \$5,000 (regardless of the length of the device’s useful life), it should be considered a supply. In addition, under the Uniform Guidance §200.453, computer equipment can now be charged as direct costs if it is essential and allocable, but not solely dedicated, to the performance of a federal award.

Audit implications — Auditors will test a sample of charges made to the federal award against the appropriation regulation to make sure that it was treated properly. Similar to payroll charges, for those multi-year grants that cross over the fiscal year and have one year subject to the old regulation and one year subject to the Uniform Guidance, the population will be all charges during the fiscal year. The auditor will need to identify which regulation to test the specific charge against. Therefore, your auditor should not test the multi-year grant separately, just differently.

A proprietary implementation checklist developed by CliftonLarsonAllen can serve as a point-by-point guide through the sweeping changes that will impact nonprofits, higher education institutions, and state and local governments across the country.

Audit changes for December 31, 2015, year ends and after

Several changes will impact how your organization is audited for federal awards for fiscal years ending December 31, 2015, and after. At that point, single audits will be performed under Subpart F of the Uniform Guidance. Here are the significant changes:

- **Increased threshold for an A-133 audit** — A new higher threshold (from \$500,000 to \$750,000) will relieve approximately 5,000 nonfederal organizations from the audit requirement, while still having 99.7 percent of federal award dollars subject to single audit oversight.

- **Increased Type A threshold** — Auditors are now required to use a risk-based approach to determine major programs to be tested. A new table simplifies the Type A/Type B determination. For those organizations with federal expenditures below \$25 million, the threshold is increased from \$300,000 to \$750,000.
- **Fewer expenditures must be tested** — The new percentage-of-coverage rule decreases the level from 25 percent to 20 percent of total federal awards expended for low-risk auditees and from 50 percent to 40 percent for all others.
- **Questioned costs reporting** — Increases the threshold for reporting known or likely questioned costs from \$10,000 to \$25,000.

How we can help

CliftonLarsonAllen professionals have burrowed deep into the Uniform Guidance to find the issues that concern you most, and developed methods for implementing change. No matter how you are impacted, we can help you find effective solutions for your needs. We offer:

- In-person training on the changes in the Uniform Guidance, tailored to your organization
- Assistance in documenting or revising procedures, policies, and/or agreements to be in compliance with the Uniform Guidance
- Readiness assessment reports that review the current status of the organization and what steps need to be taken to be in compliance with the Uniform Guidance
- Other grant compliance consulting and assessments, including: indirect cost rate proposal preparation or review, grant report preparation, subrecipient monitoring assistance, single audit preparation, organizational capacity assessment for new grant opportunities, review of grant applications, or assistance responding to inquiry letters from awarding agencies.

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