

OMB Uniform Grant Guidance: Complying with the New Requirements

New requirements from the OMB affect the way school districts manage federal grants.

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The Office of Management and Budget’s “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards”—also known as the Super Circular, Omni Circular, or Uniform Guidance—brought numerous changes that will affect all government entities, particularly school districts and how they manage their federal grants. As the respective state departments of education begin implementing the new requirements, which took effect on December 26, 2014, school districts that aren’t in compliance risk losing funding and might be required to return funds.

Although the guidance’s new audit threshold has received much of the attention, school districts must heed several other critical changes as well.

Audit Requirements

The Uniform Guidance increases from \$500,000 to \$750,000 the federal award spending threshold that triggers single audits, which should exclude some school districts. Grantees that spend less than the threshold amount need only make their records available for review or audit by the awarding federal agency, any pass-through agency, and the U.S. Government

Accountability Office. It's worth noting, though, that the guidance maintains oversight "audit coverage" at 99.7% of the current coverage, so the federal government's overall oversight changes very little.

More significantly, the minimum threshold for Type A/B program determination increases from \$300,000 to \$750,000, which could reduce the number of major programs in an individual district (higher thresholds apply as the amount of the federal awards expended increases). The minimum total for federal awards expended that must be audited as major programs is reduced to 20% from 25% for low-risk auditees and to 40% from 50% for all others. The number of high-risk Type B programs that must be audited is reduced to at least 20% of the number of low-risk Type A programs from at least 50%.

Fewer school districts will be subject to audit under the Uniform Guidance, but all will remain responsible for monitoring contractors or subrecipients.

A school district is considered low risk (and eligible for reduced thresholds) if *all* of the following circumstances occurred for the preceding two years:

- Single audits were performed annually in accordance with the provisions of the Uniform Guidance, including submitting the data collection form and the reporting package to the Federal Audit Clearinghouse within the time frame specified in Section 200.512.
- The auditor determined that the financial statements were prepared in accordance with U.S. generally accepted accounting principles or a basis of accounting required by state law.
- No material weaknesses were identified under the generally accepted government auditing standards.
- The auditor didn't report a substantial doubt about the organization's ability to continue as a going concern.
- None of the Type A programs had internal control deficiencies identified as material weaknesses, modified opinions on a major program, or questioned costs exceeding 5% of the total federal awards expended.

Fewer school districts will be subject to audit under the Uniform Guidance, but all will remain responsible for monitoring contractors or subrecipients. If a district previously used audit reports as a monitoring tool, it will need to implement changes to obtain the necessary understanding of contractors and subrecipients' controls if the reports are no longer being obtained.

Financial Management Systems

Under the new guidance, a school district might need to expand the information that its financial management systems currently track for its grants. A district must be able to identify all federal awards received and expended and the federal programs under which they were received. The following information should be included:

- Catalog of Federal Domestic Assistance number and title
- Federal award identification number and year
- Awarding federal agency
- Pass-through entities, if applicable
- Accurate, current, and complete disclosure of the financial results of each federal award or program
- Records that identify the source and application of funds for federally funded activities
- Documentation of effective control over and accountability for all funds, property, and other assets
- Comparison of expenditures with budget amounts for each federal award
- Written procedures to implement cash management requirements
- Written procedures for determining the allowability of costs in accordance with cost principles

Compensation should be based on records that accurately reflect the work performed.

Support for Personnel

If audited, a school district must be prepared to support its personnel costs that are attributed to individual grants, in accordance with the Uniform Guidance's "Standards for Documentation of Personnel Expenses." Compensation includes all remuneration paid currently or accrued for employee services rendered during the period of performance under the federal award, including but not limited to wages, salaries, and fringe benefits. The compensation must be reasonable for the services rendered (subject to a ceiling) and must conform to the district's established written compensation policy.

Compensation should be based on records that accurately reflect the work performed. The records must meet the following criteria:

- Be supported by a system of internal control that provides reasonable assurance that the charges are accurate, allowable, and allocated properly.
- Be incorporated into the school district's official records.
- Reasonably reflect the total activity for which an employee is compensated, not exceeding 100% of compensated activities.

- Encompass both federally assisted and all other activities compensated by the school district on an integrated basis (but can include the use of subsidiary records as defined in the district’s written policy).
- Comply with the school district’s established accounting policies and practices.
- Support the distribution of an employee’s salary or wages among specific activities or cost objectives if the employee works on (a) more than one federal award, (b) a federal award and a nonfederal award, (c) an indirect cost activity and a direct cost activity, (d) two or more indirect activities that are allocated using different allocation bases, or (e) an unallowable activity and a direct or an indirect cost activity.

The salaries and wages of employees used in satisfying cost-sharing or matching requirements on federal awards must be supported in this same format.

Notably, budget estimates computed before services are performed will no longer qualify on their own as support for charges to federal awards. Under the new guidance, a district must support budget estimates with actual time records in hours or as a percentage distribution of total activities. Similarly, nonexempt employees must now prepare time records indicating the total number of hours worked each day.

Procurement Processes

The Uniform Guidance specifies five different procurement methods, including a new method for procurement by “micropurchases.” The term refers to purchases of supplies or services for which the aggregate amount doesn’t exceed \$3,000 (or \$2,000 for purchases for construction subject to the Davis-Bacon Act). Such purchases do not require the solicitation of competitive quotes if the school district considers the price reasonable, but the district must distribute micropurchases equitably among qualified vendors to the extent possible, as opposed to relying on a single vendor.

For small purchases (those under \$150,000), the guidance permits relatively simple and informal procurement methods. A school district is required only to obtain price and rate quotes from an adequate number of qualified sources.

Sealed bids are required for purchases greater than or equal to \$150,000 and are generally preferred for construction projects of any size. A school district must solicit bids publicly and award a contract to the responsible bidder with the lowest bid. A district must include all specifications, solicit bids from an adequate number of sources, and provide sufficient time to submit bids. Every bid must be opened publicly at a time and place announced in the invitation for bids. Bids can be rejected for “sound documented reasons.”

Competitive proposals are solicited, with more than

one vendor submitting an offer, and typically are used when conditions aren’t appropriate for sealed bids. The contract must be awarded to the “most advantageous” offer. A school district using this approach will need written documentation of its method of evaluation and selection, particularly if it doesn’t go with the lowest bid.

A school district can procure by soliciting a noncompetitive proposal from a single source. This single-source method is available only if one or more of the following circumstances apply:

- The item is available from only one vendor.
- The public exigency or urgency for the requirement won’t allow for the delay associated with competitive solicitation.
- The awarding federal agency or pass-through entity expressly authorizes noncompetitive proposals in response to a written request from the school district.
- Competition is determined to be inadequate after solicitation of a number of sources.

In general, the school district must still follow state or district policies with respect to procurement if those policies are more stringent than the federal guidelines. School districts can take some comfort in the one-fiscal-year grace period that the federal government is allowing for the new procurement standards (and only for the procurement standards).

Specifically, for a school district’s first full fiscal year that began on or after December 26, 2014, the district is required to document only whether it is in compliance with the old or new standards and must satisfy the documented standards. Further information on the required documentation—and how it will affect the single audit in the first year—can be found in the OMB’s FAQs on the Uniform Guidance (<https://cfo.gov/wp-content/uploads/2014/08/2014-08-29-Frequently-Asked-Questions.pdf>).

Going Forward

School districts should already be in the process of implementing the guidance, including the procurement standards. Districts are advised to consult with their auditors to determine how their audits will be affected by the changes in the guidance, but they can’t rely on auditors to implement all of its provisions. The Council on Financial Assistance Reform offers additional guidance (<https://cfo.gov/cofar>).

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