

DRNA TRAINING

Federal Funds Management Area (CAROI)
Changes to the OMB Circular
Single Audit Findings and Corrective Actions

December 17, 2015

FEDERAL FUNDS MANAGEMENT AREA



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PUERTO RICO FEDERAL FUNDS
MANAGEMENT AREA



OMB
OFFICE OF MANAGEMENT AND BUDGET
GOVERNMENT OF PUERTO RICO

Federal Funds Management Area (FFMA)

FFMA is a program ascribed to the Puerto Rico Office of Management and Budget

Created by Administrative Order 148-15

Purpose of improving capacity of the government entities to identify, acquire and manage competitive and non-competitive federal grants



Hon. Alejandro García Padilla
Governador
Luis F. Cruz Batista,
Director

20 de marzo de 2015

ORDEN ADMINISTRATIVA NÚM. 148-15

TODO EL PERSONAL


Luis F. Cruz Batista
Director

CREACION DEL ÁREA DE GERENCIA DE FONDOS FEDERALES

I. Introducción

Los retos fiscales que enfrenta el Estado Libre Asociado (ELA) de Puerto Rico ameritan que las entidades gubernamentales establezcan estrategias para identificar oportunidades en la utilización de los recursos fiscales que puedan destinarse a incrementar y sostener servicios esenciales para el bienestar común y el desarrollo económico. A esos fines y enmarcado en las responsabilidades que la ley le impone a la Oficina de Gerencia y Presupuesto (OGP), se autoriza la creación del Área de Gerencia de Fondos Federales (AGFF) en la estructura oficial de la entidad con el objetivo de fortalecer la capacidad del gobierno para acceder y administrar los fondos de subvenciones federales asegurando que están en consonancia con las políticas públicas del gobierno de Puerto Rico y el gobierno federal. Se ha identificado que existe la necesidad de adoptar criterios definidos y las mejores prácticas disponibles, mejorar la infraestructura tecnológica para obtener información integrada y confiable y proveer el adiestramiento necesario al personal que maneja los programas de fondos federales en las distintas agencias y organismos gubernamentales, de forma tal que tengan las herramientas necesarias para lograr mayor acceso a fondos federales y poder cumplir con los estándares establecidos por el gobierno federal para el uso y manejo adecuado de fondos federales.

El presupuesto consolidado del ELA para el año fiscal 2015 es de \$28,127 millones de dólares, de los cuales \$6,001 millones, o el 21.3%, corresponden a aportaciones del gobierno federal para programas y proyectos de entidades gubernamentales.

El informe de marzo del 2011 del *President's Task Force on Puerto Rico's Status* resaltó señalamientos recurrentes relacionados a la administración de fondos federales. El informe de la Casa Blanca menciona que las entidades gubernamentales locales y las organizaciones sin fines de lucro no están compitiendo para recibir todos los fondos discrecionales federales que podrían estar disponibles para Puerto Rico, de tal manera que se están perdiendo oportunidades para añadir recursos necesarios o adicionales a áreas esenciales de política pública. Se recomendó que las agencias federales que trabajan en conjunto con agencias locales colaboren para desarrollar estrategias que fortalezcan la capacidad de la Isla de incrementar y manejar los recursos federales de forma más efectiva y eficiente. Reconociendo que la economía de la Isla enfrenta sus mayores retos desde la recesión de 1980, el *Task Force* recomendó que el Gobierno local incremente la capacidad de su administración pública, particularmente en las áreas de manejo de programas federales para mitigar la crisis fiscal.

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Federal Funds Management Area



FFMA Primary Responsibilities':

- Maximize funding to Puerto Rico by providing support to grant research effort through a consolidated database of available opportunities
- Set an infrastructure to track and monitor government compliance and performance with regards to grants awarding and management
- Establish a basic view of the Commonwealth's grants portfolio composition to accurately identify grants and support additional analysis
- Development of training, policies, standards, and strategies that allow for a well-trained staff with required skills
- Investigate the training, technical assistance, systems or any other capacity building needs of the grant management units of the government entities

SUPER CIRCULAR CHANGES

Julio C. Rivera Camacho, CPA

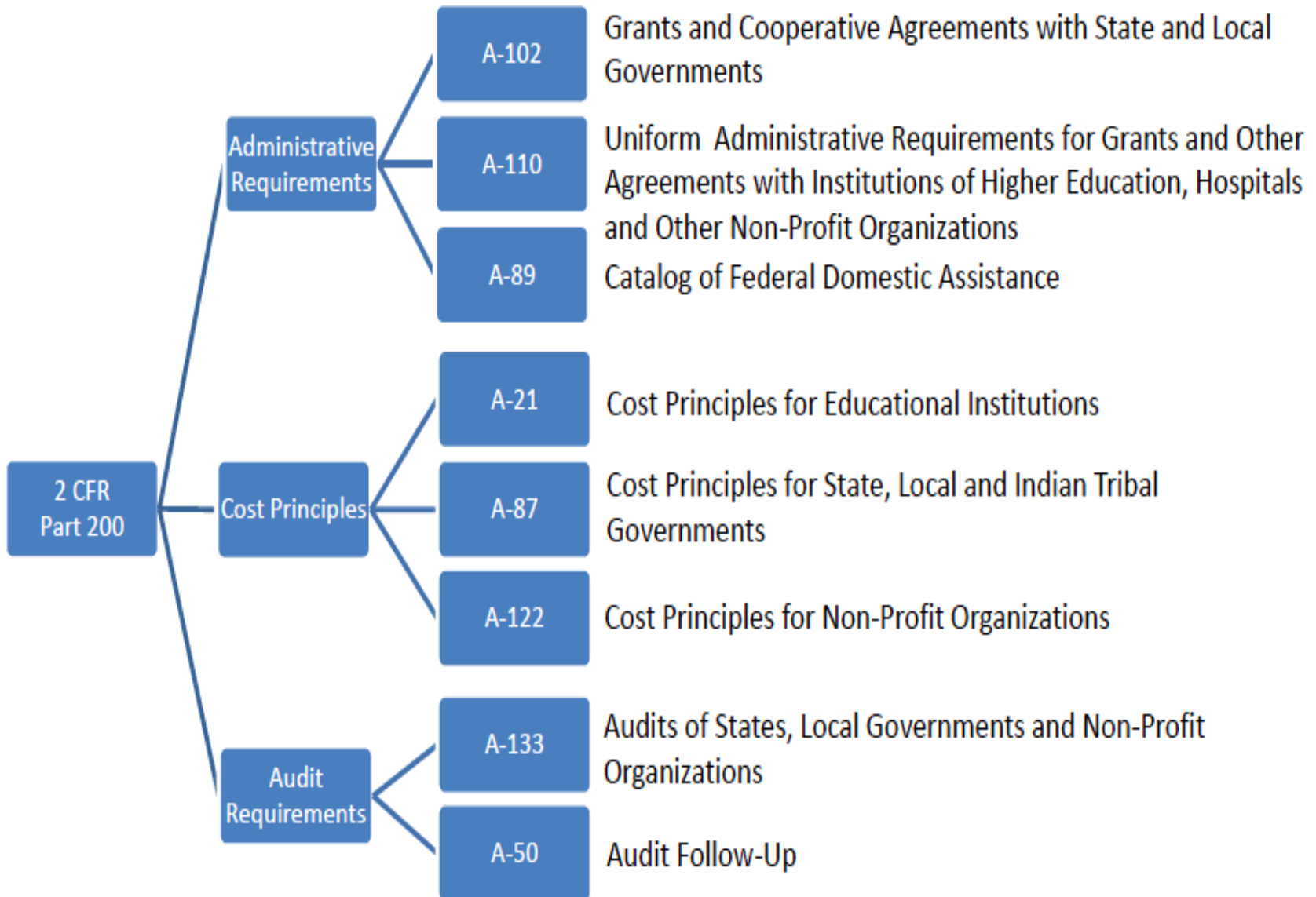
What is the Uniform Guidance (UG!)?

- OMB's consolidation of circulars for costing, administration and audit of Federal awards
 - 2 CFR 200 replaces 8 circulars and applies to universities, state and local governments, nonprofits, native tribes
 - Issued on December 26, 2013
 - Effective largely on December 26, 2014
- UG is still being interpreted and clarified

What are the high level goals of the Omni-Circular?

- Streamline guidance on federal awards
- Reduce administrative burden for the government
- Strengthen federal oversight of funding, to reduce potential for waste, fraud and abuse.
- Set standard requirements for financial award management uniformly across all federal agencies
- Includes all OMB Circulars into Title 2 of the CFR (i.e. – consolidation of 8 OMB Circulars into Title 2 of the CFR)
- Increase efficiencies and effectiveness of Federal Award making (i.e.- best use of funds)

Codification of Eight OMB Circulars



Organization of the Omni-Circular, 2 CFR Part 200 Uniform Guidance

- Subpart A – Acronyms & Definitions
- Subpart B – General Provisions (Section 200.1xx)
- Subpart C – Pre-Award Requirements (Section 200.2xx)
- Subpart D – Post Award Requirement (Section 200.3xx)
- Subpart E – Cost Principles (Section 200.4xx)
- Subpart F – Audit Requirements (Section 200.5xx)

- TERMS TO REMEMBER:
 - “**Must**” means “Required”
 - “**Should**” means not required but is best practice
 - “**Pass-Through Entity**” is Prime Recipient

Uniform Grant Guidance Effective Dates

- Federal agencies (FA) must implement policies and procedures by promulgating regulations to be **effective December 26, 2014.**
 - **Non-federal entities** will need to implement the new administrative requirements and cost principles **for all new Federal awards made after December 26, 2014** and **funding increments after that date** where Federal agencies change award terms and conditions
 - FAQ .110-6 - Effective Dates and Grace Period for Procurement.
 - FAQ .110-7 – Effective Dates and Incremental Funding.
 - NFE may implement entity-wide system changes to comply with the UG without penalty.
 - **Audit requirements** effective for fiscal **years beginning on or after December 26, 2014:**
 - No early implementation of audit provisions.

A Closer Look at Effective Dates

- All 2014 year ends: No impact from the UG for NFE and auditors.
- Quarters ending March 31; June 30; and Sept 30, 2015: NFE use new Administrative Requirements and Cost Principles for all new awards and **funding increments with changed terms and conditions.**
- OMB Circular A-133 audit requirements remain.
- NFE likely have awards subject to the old requirements and awards subject to the new requirements.
- December 31, 2015, year-ends and beyond: New Single Audit requirements apply.

Key Sections – Subpart C

200.204 Federal Agency Review of Merit (NEW)

- This is new requirement, and helps the small or middle size applicants understand the ‘playing field’
- Federal agencies must design and execute merit review processes for applications
- The merit review process must be described in the funding opp (i.e. - transparency to the applicant)
- Talking point: *This is a good addition that allows applicants to fully understand the merit review criteria, and review process.*

Key Sections – Subpart C

200.205 Federal Agency Review of Risk

- Federal agencies must have a framework for evaluating risks by applicants, prior to making awards.
- Possible risk items considered by the agencies
 - Financial stability
 - History of performance
 - Audit reports
 - Applicants ability to implement effective systems
- Conversation point: *Importance of delivery of timely progress reports, having effective management systems implemented, etc. is amplified.*

Risk Assessment of Applicant-Subpart C

Agency must perform risk assessment of awardees:

- Debarment List
- Do Not Pay List
- Federal Awardee Performance and Integrity Information System (FAPIIS) – past performance
- Dun and Bradstreet reports
- Prior audits
- Death Master File of SSA
- Debt Check Database of US Treasury
- Credit Alert System HUD
- Incarcerated individuals

Performance Reporting

§200.301

- Continued pressure from agencies to relate research progress to financial information and other “data” (e.g., number of students, publications, patents)
- The Federal awarding agency must require the recipient to use OMB-approved government wide standard information collections when providing financial and performance information. The Federal awarding agency must require the recipient to relate financial data to performance accomplishments of the Federal award. Also, in accordance with above mentioned government wide standard information collections, and when applicable, recipients must also provide cost information to demonstrate cost effective practices (e.g., through unit cost data).
- Guidance provides for research sponsors to use standard Research Performance Progress Report (RPPR) format – depends on agency implementation (NSF is on board!)

Key Sections – Subpart D

200.306 Cost Sharing or Matching

- Clarification is made that voluntary committed cost sharing is not expected under federal research proposal
- Voluntary Committed Cost Share cannot be used as a factor during the merit review of the proposal
- Cost Sharing may only be offered/considered when it's required by regulation and transparently displayed in the funding opportunity

Conversation point: This is a great clarification that is similar to NSF's policy on cost share.

Key Sections – Subpart D

200.313 Equipment

- Property records must contain percentage of federal participation in the project costs for the federal award that the equipment was purchased.
- Property records must contain the “use” of the equipment
200.313 (d) (1)
- Subpart also includes disposition rules

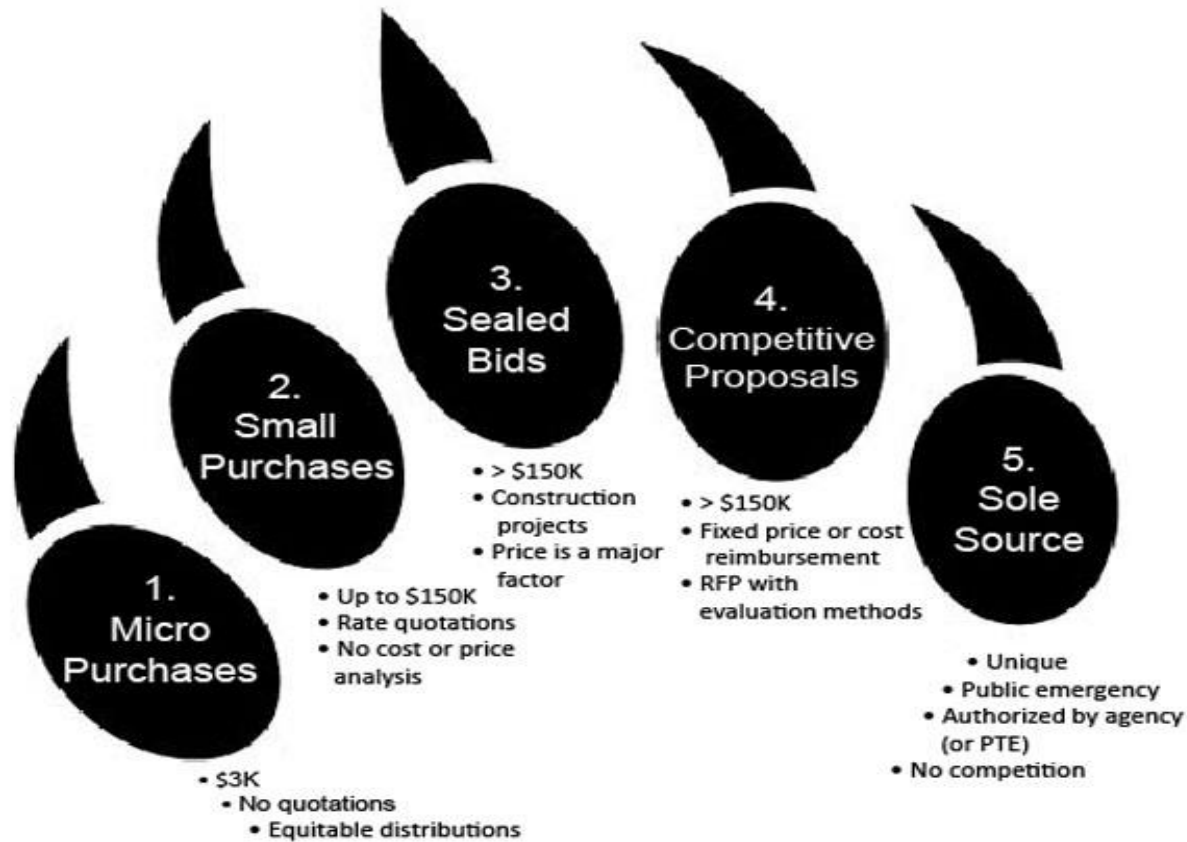
Procurement Standards - NEW

Procurement "Claw" (Sections 200.317-326)



Procurement Standards - NEW

Procurement "Claw" (Section 200.320)



Competition

§200.319

- The non-Federal entity must conduct procurements in a manner that prohibits the use of statutorily or administratively imposed state or local geographical preferences in the evaluation of bids or proposals, except in those cases where applicable Federal statutes expressly mandate or encourage geographic preference.

Methods of Procurement

§200.320

- A prescriptive list of 5 procurement methods are provided
- New category of “micro-purchase” which appears to allow purchases of up to \$3,000 without competition
- Small purchases over \$3,000 would rate quotations – at least two
- Concern: This could have implications on procurement card programs and bid thresholds. The current threshold on P-Cards is \$5,000
- COFAR issued FAQ granting a 1-year grace period to review additional options for implementation.

Subrecipient Monitoring

- **§200.330** Vendor vs. subrecipient classification
 - Clarification that pass-through entity must determine the classification
 - Each agency may supply and require pass-through entities to comply with additional guidance to support their classifications
- **§200.331** Probable increase in subrecipient monitoring burdens
 - Explicit list of mandatory and optional factors to be included in subrecipient monitoring
 - **New obligation to review financial and performance reports**

200.331 Subrecipient Monitoring

(NEW)

- F&A guidance is improved; use the subrecipient's negotiated rates, or subrecipients without a negotiated rate can get an automatic 10% MTDC rate. (200.414)
- Agency must grant prior approval for issuing fixed price subawards
- New maximum limit for fixed price subawards \$150K

Key Sections- Subpart D

- *When a non-Federal entity uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable as indirect costs in the year of payment.*
- OMB issued a clarification in the Aug. 29 FAQ's
 - Will soon issue a clarification of the clarification

200.413 Administrative Costs as Direct Costs

- Administrative and Clerical Salaries are still normally treated as F&A costs. Direct charging of these costs may only be appropriate if all 4 of the following conditions are met:
 1. Admin or Clerical services are integral to the project or activity
 2. Individuals involved can be specifically identified with the project or activity
 3. Such costs are explicitly included in the budget (at proposal) or have the prior written approval of the Agency
 4. The costs are not also recovered as indirect costs
- *This section now removes the ‘major project’ requirement, and recognizes administrative workload, though we note that #4 above is somewhat confusing criteria and await further clarification from the agency implementations; this section may require further analysis*

Key Sections – Subpart E

200.414 Indirect (F&A) Costs

- New de minimis rate of 10% for entities that do not have negotiated rates
- Any non-federal entity that has a federally negotiated rate may apply for a one time extension, for a period up to 4 years.

Key Sections – Subpart E

200.415 Certifications

- Annual and final fiscal reports or vouchers requesting payment must include a certification signed by an official who can **legally bind**
- More strongly worded certification language that introduces **potential penalties** under the false claims act, for fraudulent information for omission of material facts

Required Certifications

§200.415:

“By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the Federal award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise. (U.S. Code Title 18, Section 1001 and Title 31, Sections 3729–3730 and 3801–3812).”

- Extremely strong language may find opposition
 - “...signed by an official who is authorized to legally bind the non-Federal entity“
- **May require signature authority/delegation at institution**
- **Important to ensure all costs are allowable and allocable to the project via periodic reviews of individual transactions.**

Key Sections – Subpart E

200.431 Fringe Benefits

- *When a non-Federal entity uses the cash basis of accounting the cost of leave is recognized in the period that the leave is taken and paid for.*
- *Payments for unused leave when an employee retires or terminates employment are allowable as indirect costs in the year of payment.*

Key Sections – Subpart E

200.431 Fringe Benefits

- Family related leave is allowable (NEW)
- Severance pay by means of an accrual will not achieve equity to both parties

Talking point: Multiple internal stakeholders will be engaged to review this section of the Uniform Guidance and evaluate current and future processes.

Key Sections – Subpart E

200.453 Materials and Supplies

- Material and supplies section now specifically includes ‘computing devices’ as an allowable direct cost.
- ‘In the specific case of computing devices, charging as direct costs is allowable for devices that are **essential** and **allocable, but not solely dedicated, to the performance of a federal award.**’

Key Sections – Subpart E

200.456 Participant Support Costs

- The treatment of participant support costs is now defined uniformly for all federal agencies and not just NSF
- Re-budgeting of participant support costs will require prior approval

Key Sections – Subpart E

200.461 Publication and Printing Costs

- A key grey area has been resolved; charges that are necessary to publish research results and that occur after the period has ended are allowable.
- ‘The non-federal entity may charge the federal award before closeout for the costs of publications or sharing of research results if the costs are not incurred during the period of performance of the federal award.’

Objectives of Changes to the Single Audit Process

- Concentrate audit resources, oversight and resolution on higher \$ and higher risk awards
- Strengthen audit procurement procedures
- Increase threshold triggering a Single Audit
- Reduce compliance issues to be tested
- Clarify and streamline programs to be tested
- Improve reporting on findings
- Improve coordination on audit finding resolution and corrective actions

Major Program Determination

Type A/B Threshold – Step 1

- Programs are grouped based on dollars.
 - Type A programs are those above the threshold.
 - Type B are those below the threshold.
- Type A/B threshold is a sliding scale with minimum.
 - Minimum increases from **\$300,000 to \$750,000**.
 - Audit threshold and Type A/B minimum threshold will be the same at \$750,000.

Single Audit Reports on the Web

- All auditees must submit the reporting package and the DCF electronically to the FAC (200.512).
- FAC submission process will be changed to require text-based PDF and unlocked, unencrypted.
- FAC responsible to make the reports publically available on a website: Exception for Indian tribes.
- Auditors and auditees must ensure reports not include Protected Personally Identifiable Information (PPII); Auditee must sign certification statement (to be revised on DCF) that reporting package does not include PPII

Additional Audit Related Comments

- SEFA- Notes must indicate whether or not the entity elected to use the 10% de minimus cost rate
- Findings- Whether a repeat finding or not from prior year
- Questioned costs- the threshold is increased from \$10K to \$25K
 - Known or Likely questioned costs > \$25K
- Summary schedule of prior year findings must also include findings related to the financial audit
- Corrective action plan must be in a separate document

FAC Repository of Record Reporting Packages (200.36 & 200.512 (b))

- Federal agencies, pass-through entities, and others obtain copies by accessing FAC website.
- Subrecipient only required to submit report to FAC and no longer required to submit to pass-through entity.
- Pass-through entity no longer required to retain copy of subrecipient report as available on the Web.

Sources for Funding Opportunities

- www.FedBizOpps.gov - BAA
- www.Grants.gov
- www.fedconnect.net
- Agency Websites
 - <http://e-center.doe.gov/>
 - <http://nsf.gov/funding/>
 - http://www.darpa.mil/funding_opportunities.html
 - http://www.fta.dot.gov/funding/grants_financing_7829.html
- Federal Register- NOFA
- USASpending.gov

CAROI

- To improve resolution of recommendations contained in reports that require audit follow up.
- Cooperative Audit Resolution (6 CAROI Principles)
 - Means use of audit follow up techniques to promote prompt corrective action by:
 - Improving Audit Resolution
 - Improving Communication
 - Fostering Collaboration
 - Promoting Trust
 - Developing understanding between Federal & Non Federal Agencies

Federal Agency Responsibilities (200.513)

- Use CAROI to improve outcomes
 - Audit Resolution
 - Follow Up
 - Corrective Action
- Management Decision
 - Audit findings sustained or not
 - Reasons for decisions
 - Expected Action or Repayment
 - Appeal Avoidable
 - 6 months of filing with Federal Audit Clearing House (FACH)

DRNA Findings

Fiscal Year	Findings	Questioned Costs	Condition
2012	23	\$ 15,525	Request of cancelled payment
2013	12	\$ 16,000	Lack of report of work performed
		269,059	Not properly supported
		40,894	IC's not properly supported
		217,238	Deficiency in Matching
		<u>\$ 543,191</u>	
2014	10	\$ 30,331	Period of Availability
Totals	45	\$ 1,132,238	

DRNA Findings

Requirement	2012	2013	2014
Financial	F	F	F
Allowable Costs / Cost Principles (Documentation)		F	
Allowable Costs / Cost Principles (Indirect Costs)		F	F
Allowable Costs / Cost Principles (Payroll)		F	
Allowable Costs / Cost Principles (Personnel Files)			F
Cash Management	F	F	F
Davis Bacon Act	F	F	
Equipment Management	F	F	F
Matching	F	F	
Period of Availability	F		
Procurement and Suspension and Debarment	F	F	F
Program Income	F		
Reporting	F	F	F

DRNA Recurring Findings

- Financial Findings - Conditions
 - Lack of timely reconciliation with PRIFAS
 - The accounting system does not provide information that is accurate, current and complete for the preparation of state and federal financial reports
 - Lack of proper cut-off and untimely recording of transactions at closing date
 - Missing financial reports and supporting documentation
 - Inadequate budgeting policies and procedures. The system does not provide a mechanism to ensure that costs do not exceed the budgeted level for each program activity or other budget category.

DRNA Recurring Findings

- Financial Findings - Corrective Action Plan
 - Evaluate and recommend processes for improving the reconciliation of accounts that are in time
 - Improve the supervision of all accounting personnel in charge of the accounting and the recording of the financial transactions of each project funded with federal grants
 - It will include policies and procedures to evidence the supervision by requiring the reviewer to sign and date the relevant source information as a method to document the approval at the supervisory level

DRNA Recurring Findings

- Financial Findings - Corrective Action Plan
 - Provide training to the accounting personnel in charge of financial reporting regarding state and federal laws requirements and regulations
 - The Federal Funds Management Area (FFMA) of the Puerto Rico Office of Management and Budget is collaborating with the Department in the analysis of findings to assist in the identification of the internal control deficiencies that caused the findings and establish short and long-term plans. This initiative is called the Audit Resolution Project
 - Issuance of memorandums with specific instructions to correct these conditions

DRNA Recurring Findings

- Cash Management Findings - Conditions
 - The breakdown of the payments made with the cash requisitions did not agree with the amount requested
 - The time elapsed between the collection of the federal funds and disbursements could not be evaluated because the payments supporting documentation was not available for examination
 - Funds request using an advance method instead of a reimbursement method as required by Program regulations
 - In one case the supporting documents of the disbursement amounting to \$15,525 indicated that the payment was cancelled although the funds were requested during fiscal year 2012

DRNA Recurring Findings

- Cash Management Findings - Corrective Action Plan
 - As part of the Audit Resolution project, the team is evaluating the current process.
 - Establish coordination with the Puerto Rico Governmental Development Bank to obtain electronic data of the checks cleared on a daily basis.
 - Accordingly, petition of funds will be supported with a detail of cleared checks.
 - It will eliminate the risk of non-compliance with cash management requirements.

DRNA Recurring Findings

- Property and Equipment - Conditions
 - Lack of a subsidiary of the property and equipment
 - Lack of a physical inventory and reconciliation of property ledger procedures

DRNA Recurring Findings

- Property and Equipment - Corrective Action Plan
 - Physical inventory of the property performed as of September 30, 2013
 - Currently performing the reconciliation process using the physical inventory, the purchases and decommissions items since the date of the inventory
 - Once the property records are reconciled they will be entered in the Trackmore System
 - As part of the Audit Resolution Project, the property management is being evaluated to identify areas of opportunities and implement procedures that will ensure compliance

DRNA Recurring Findings

- Procurement and Suspension and Debarment - Conditions
 - Physical Contracts without the clause of granting access to GAO or other federal agency to books, documents, paper, and records
 - No evidence of the verification of contracted vendors in the Excluded Party List System (EPLS)
 - One of the bids was not awarded to the bidder with the lowest quotation. There was no justification letter in file explaining the reasons for the decision

DRNA Recurring Findings

- Procurement and Suspension and Debarment - Corrective Action Plan
 - Physical Instructions to personnel in charge of the bidding process regarding the procurement procedures and the documentation required to include in the bid files in accordance with federal regulations
 - Currently the Administration Auxiliary Secretary is completing the implementation instructions and a template to assist in documenting the procurement process

DRNA Recurring Findings

- Reporting - Conditions
 - Reports did not indicate the date on which they were prepared
 - Differences between the federal share of expenditures reported and the accounting records (general ledger)
 - Lack of accounting supporting documentation
 - Lack of evidence of the submission confirmation date

DRNA Recurring Findings

- Reporting - Conditions
 - Late submissions of reports without any waivers (including the Single Audit reports)
 - The Federal Financial Report (SF-425) and Request for Cash Advance or Reimbursement Report (SF-270) applicable to the Cooperative Endangered Species Conservation Fund program were not provided for examination
 - The Department has not reported sub-awards in the FFATA Sub-award Reporting System

DRNA Recurring Findings

- Reporting - Corrective Action Plan
 - The Department reinforced its reporting procedures and, as a result, the Single Audit Reports for the years ended June 30, 2013 and 2014 did not report any finding with such conditions as it relates to financial and performance reporting
 - The Department contracted the firm that will perform the Single Audit for the year ended June 30, 2015
 - A memorandum has being drafted including the requirements to submit the information in the FFATA Sub-award Reporting System