

# Grant Accountability and Transparency Act

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FINANCIAL AND STREAMLINING SUBCOMMITTEES  
AUTHORITATIVE SOURCES TRAINING MAY 21, 2015

# GATA Implementation

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- The Grant Accountability and Transparency Unit has been working with JCAR to adopt rules applicable to Federal and Federal pass-through grants. The goal is to have those adopted by July 1, 2015.
  
- The areas that have flexibility in the Federal rules and the State grant rules will be drafted through the ILSAC subcommittees and workgroups made up of subject matter experts from State grant-making agencies and the grantee community. Work will be in three phases:
  - 1 - Develop and propose general State rules
  - 2 - Develop and submit process for implementation
  - 3 - Monitor implementation and review process for revision

# GATA Implementation

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- Phase 1 Subcommittees and Workgroups will include:
  - Development and proposal of rules
  - Identification of performance measures for GATA effectiveness
  - Development of benchmarks for performance measures
  - Reporting benchmarks to the Performance Measures and Reporting Subcommittee
  - SharePoint Site – Check regularly for meeting handouts and updates

Stay on Topic  
and on Time!



## Financial and Streamlining Subcommittee Training

- Subcommittee Structure and Guidelines
- GATA Subcommittee – Goals and Objectives
- Federal Regulations – 2 CFR Part 200.
- GATA – Grant Accountability and Transparency Act Requirements
- GATA Subcommittee Interrelationships
- Timeline Overview
- Next Steps

***Successful agency oversight and successful grantees will result in a successful Illinois.***

# Subcommittee Structure and Guidelines

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- Meeting Site
- Video/Call-in Arrangements – Limited access
- Meeting Reports
- Meeting Norms
- Meeting Closure Process – Next steps/tasks

***The purpose is to ensure efficient and effective meetings.  
Our time is valuable. Let's make it count!***

# Subcommittee Structure and Guidelines

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## Meeting Norms

- *Meetings will start and end on time with members in attendance.*
- *Members agree to stay focused on meeting's purpose.*
- *Members agree to be respectful of other members and their ideas.*

# GATA Objectives - “Meeting Purpose”

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- Focus on outcomes.
- Determine what we want to accomplish in the long term.
- Determine purpose of today’s meeting.

Focused Meetings = Successful Outcomes

# Subcommittees

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## FINANCIAL WORKGROUPS

- ❖ Pre-Qualification
- ❖ Budget & Financial Reporting
- ❖ Cost Principles

## STREAMLINING WORKGROUPS

- ❖ Fiscal & Administrative Onsite Reviews
- ❖ Indirect Cost Rate Proposal
- ❖ Audit

# Authoritative Sources Federal Regulations

## Financial Subcommittee

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### PRE-QUALIFICATION

- ❖ 2 CFR 200.205 – Federal awarding agency review of risk posed by applicants
- ❖ 2 CFR 200.207 – Specific Conditions

### BUDGET AND FINANCIAL REPORTING

- ❖ Financial Management 2 CFR 200.302
- ❖ Budget Revisions 2 CFR .308, .415
- ❖ Financial Reporting 2 CFR 200.327, .415
- ❖ Payment 2 CFR 200.308, .415
- ❖ Property Standards 2 CFR 200.310-.316
- ❖ Monitoring and reporting program performance 2 CFR 200.328
- ❖ Reporting on real property
- ❖ Close Out 2 CFR 200.343

# Authoritative Sources Federal Regulations Financial Subcommittee

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## Cost Principles

- ❖ Policy guide 2 CFR 200.400
- ❖ Application 2 CFR 200.401
- ❖ Basic Considerations 2 CFR 200.402-.411
- ❖ Direct and Indirect (F&A) 2 CFR 200.412-.414
- ❖ Required Certifications 2 CFR 200.415 (b), (d) and Appendix III-IV and IX, 2 CFR 200.450
- ❖ Selected items of cost 2 CFR 200.420
- ❖ Capped Salaries 2 CFR 200.430 (d) (2)

# Authoritative Sources State Regulations Financial Subcommittee

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## **PRE-QUALIFICATION**

- ❖ Minimum Requirements 30 ILCS 708/25 (6) (A-I)
- ❖ Fiscal and Administrative Risk Assessment 30 ILCS 708/25 (4) (H)
- ❖ Fiscal Agents 30 ILCS 708/60 (D) (4)

## **BUDGET AND FINANCIAL REPORTING**

- ❖ Prohibition against profit 30 ILCS 60 (a)(7)

## **COST PRINCIPLES**

- ❖ Capped Salaries 30 ILCS 708/25 (5)(E)

# Pre-Qualification Objectives

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- Review the pre-qualification state and federal statutes and regulations;
- Determine if any additional attributes need to be added for pre-qualifications
- Review Internal Control Standards for Federal Government for potential Internal Control Questionnaires
- Finalize Internal Control Questionnaires
- Determine and propose a weighted system for each attribute used to classify the level of risk for applicants as low, medium and high risk
- Determine specific conditions to be adapted as a result of medium or high risk evaluation
- Write recommendations for proposed rules
- Determine the IT systems necessary for implementation
- Develop performance measures

# Pre-Qualification interrelationships with other Subcommittees and Workgroups

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- Fiscal and Administrative On-Site review – risk assessment testing
- Programmatic Risk Assessment – Fiscal and Administrative Risk Assessment
- Indirect Cost Rate – to determine if grantee has submitted, negotiated and approved rate
- Audit – prior findings
- Performance Measures – specific GATA metrics
- Contracts and Grant Agreements – specific conditions must be included in award agreement
- Training and Communication – Agencies and Grantees must receive training on areas impacted by recommended rules
- Technology – system requirements necessary for the implementation of recommended rules

# Authoritative Sources

## Federal Regulations – Pre-Qualification

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### **2 CFR §200.205 Federal awarding agency review of risk posed by applicants**

- For competitive grants the awarding agency must have in place a framework for evaluating the risks posed by applicants before receiving awards
- If an awarding agency determines that an award will be made, special conditions that correspond to the degree of risk assessed may be applied to the award
- Criteria to be evaluated must be described in the announcement of funding opportunity described in 200.203 Notices of funding opportunities

# Authoritative Sources

## Federal Regulations – Pre-Qualification

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### **2 CFR §200.205 Federal awarding agency review of risk posed by applicants**

In evaluating the risk posed by applicants, the awarding agency may use a risk-based approach and may consider any items such as the following:

- Financial Stability
- Quality of management systems and ability to meet the management standards prescribed in 2 CFR §200
- History of performance. The applicant's record in managing state and federal awards, if it is a prior recipient, including:
  - Timeliness of compliance with applicable reporting requirements
  - Conformance with terms and conditions of previous awards
  - If applicable, the extent to which any previously awarded amounts will be expended prior to future awards

# Authoritative Sources

## Federal Regulations – Pre-Qualification

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### **2 CFR §200.205 Federal awarding agency review of risk posed by applicants**

- Reports and findings from audits performed under Section F of 2 CFR §200 or the reports and findings of any other available audits
- The applicant's ability to effectively implement statutory, regulatory, or other requirements imposed
- The awarding agency must comply with 2 CFR Part 180, Debarred and Suspended – Excluded Parties List for the State and Federal government, 30 ILCS 708/25 (4) (H) and (6)(A-I)

# Authoritative Sources

## Federal Regulations – Pre-Qualification

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### 2 CFR §200.207 Specific Conditions

**The awarding agency or pass-through entity may impose additional specific award conditions as needed, under the following conditions:**

- Based on criteria set forth in 2 CFR §200.205 Federal awarding agency review of risk posed by applicants:
  - When an applicant or recipient has a history of failure to comply with the general or specific terms and conditions of the award
  - When an applicant or recipient fails to meet expected performance goals
  - When an applicant is otherwise not responsible

# Authoritative Sources

## Federal Regulations – Pre-Qualification

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### 2 CFR §200.207 Specific Conditions

These additional award conditions may include items such as the following:

- Requiring payments as reimbursements rather than advance payments
- Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance
- Requiring additional, more detailed financial reports
- Requiring additional project monitoring
- Requiring the awardee entity to obtain technical or management assistance (Fiscal Agent)
- Establishing additional prior approvals

# Authoritative Sources

## Federal Regulations – Pre-Qualification

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### 2 CFR §200.207 Specific Conditions

The awarding agency or pass-through agency must notify the applicant or the awardee as to:

- The reason why the additional requirements are being imposed
- The nature of the action needed to remove the additional requirement, if applicable
- The time allowed for completing the actions if applicable
- The method for requesting reconsideration of the additional requirements imposed
- Any special conditions must be promptly removed once the conditions that prompted them have been corrected

# Authoritative Sources State Regulations – Pre-Qualifications

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**(30 ILCS 708/25 (6))** The development of pre-qualification requirements for applicants, including the fiscal condition of the organization and the provision of the following information:

- (A) Organization name;
- (B) Federal Employee Identification Number;
- (C) Data Universal Numbering System (DUNS) Number;
- (D) Fiscal condition;
- (E) Whether the applicant is in good standing with the Secretary of State;
- (F) Past performance in administering grants;
- (G) Whether the applicant is or has ever been on the Debarred and Suspended List maintained by the Governor's Office of Management and Budget;

# Authoritative Sources State Regulations – Pre-Qualifications

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**(30 ILCS 708/25 (6))** The development of pre-qualification requirements for applicants, including the fiscal condition of the organization and the provision of the following information:

(H) Whether the applicant is or has ever been on the Federal excluded parties list;

(I) Whether the applicant is or has ever been on the Sanctioned Party list maintained by the Illinois Department of Healthcare and Family Services;

# Budget and Financial Reporting Objectives

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- Review the federal and state regulations
- Review federal reporting and budget formats
- Allow for flexibility for unique items to be reported when required under State and Federal statutes and regulations
- Develop a chart of accounts when appropriate, when a chart of accounts is already dictated, develop a role up method
- Determine the minimum frequency of reporting
- Develop budget revision requirements
- Finalize recommendations for proposed rules
- Determine the IT systems necessary for implementation
- Develop performance measures
- Determine training requirements

# Budget and Financial Reporting Interrelationships with other Subcommittees and Workgroups

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- Performance Reporting – federal requirements to correlate financial information with program performance
- Grant Application – budget requirements with application – two prong approval approach – programmatic and financial and administrative
- Fiscal & Administrative On-Site reviews – review of reporting supporting documentation
- Audit workgroup – Agreed Upon procedures – reporting
- Training and Communication – Training plan for state agencies and grantees
- Technology - IT system implementation needs and document business processes
- Contracts and Grant agreements – reporting requirements

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## **2 CFR §200.302 Financial Management**

- Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds
- The state's and other non-Federal entity's financial management systems, including records documenting compliance with federal and state statutes, regulations and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by the general and program-specific terms and conditions; and tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the federal and state statutes, regulations, and the terms and conditions of the award (grant agreement)

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## 2 CFR §200.302 Financial Management (Con't.)

The financial management system of each non-federal entity must provide for the following:

- 1) Identification, in its accounts, of all State and Federal awards received and expended and the State and Federal programs under which they were received and expended and must include:
  - a) CFDA or SCFA title and number
  - b) Federal and State Award Identification number and year
  - c) Name of the State and Federal awarding agency
  - d) Name of the pass-through agency, if applicable

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## 2 CFR §200.302 Financial Management (Con't.)

- 2) Accurate, current, and complete disclosure of the financial results of each State and Federal award or program in accordance with the requirements set forth in §§ 200.327 Financial Reporting and §200.328 Monitoring and reporting program performance
- 3) Records that identify adequately the source and application of funds for state and federally funded activities. These records must contain information pertaining to awards:
  - a) Authorizations
  - b) Obligations
  - c) Unobligated balances
  - d) Assets
  - e) Expenditures
  - f) Income and interest
  - g) Be supported by source documentation

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## 2 CFR §200.302 Financial Management (Con't)

- 4) Effective control over and accountability for, all funds, property and other assets
- 5) Comparison of expenditures with budget amounts for each State and Federal award
- 6) Written procedures for determining the allowability of costs in accordance with Federal Cost Principles

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## **2 CFR §200.308 Revision of budget and program plans**

- The approved budget for the State or Federal award summarizes the financial aspects of the project or program as approved during the award process
- Recipients and subrecipients are required to report deviations from budget or project scope or objectives and require prior approval from the awarding agencies budget and program revisions
- It may include either the federal/state and non-federal/state share or just the federal/state share depending on the awarding agency requirements
- It must be related to performance for program evaluation purposes, whenever appropriate

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## 2 CFR §200.308 Revision of budget and program plans

- Recipients and subrecipients are required to report deviation from budget or project scope or objective, and request prior approvals for one or more of the following program or budget-related reasons:
  - Change in the scope or the objective of the project or program (even if the scope does not include budget revisions)
  - Change in a key person specified in the application or the award
  - The disengagement from the project for more than three months or a 25% reduction in time devoted to the project by the project director or principal investigator
  - The transfer of funds budgeted for participant support costs as defined in §200.75
  - Unless approved in the application and funded with State and Federal awards, the subawarding, transferring or contracting out of any work under a State and Federal award, including fixed amount subawards as described in §200.332 Fixed amount subawards. This does not apply to the acquisition of supplies, material, equipment or general support services

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## **2 CFR §200.308 Revision of budget and program plans**

- Changes in the approved cost-sharing or matching provided by the awardee
- Additional State and Federal funding to complete the project
- No other prior approvals requirements for specific items may be imposed unless an exception has been approved by OMB, also see Exceptions in §200.102 Exceptions and 200.407 Prior written approval

# Federal Regulations Financial Subcommittee – Budget and Financial Report

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## 2 CFR §200.415 Required Certifications

- To assure that expenditures are proper and in accordance with the terms and conditions of the award and approved project budgets, that annual and final fiscal reports or vouchers requesting payment under the agreements must include a certification, signed by an official who is authorized to legally bind the awardee entity, which reads as follows:

“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 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 (US Code Title 18, Section 1001 and Title, Sections 3729-3730 and 3801-3812).”

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## 2 CFR §200.327 Financial Reporting

- Unless otherwise approved by OMB (GOMB), the awarding agency may solicit only the standard, OMB (GOMB) approved government-wide data elements for collection of financial information
- This information must be collected with the frequency required by the terms and condition of the award, but not less frequently than annually nor more frequently than quarterly except in unusual circumstances, for example where more frequent reporting is necessary for the effective monitoring of the award or could significantly affect program outcomes and preferably in coordination with performance reporting

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## **2 CFR §200.328 Monitoring and reporting program performance**

- The non-Federal entity is responsible for oversight of the operations of the award supported activities to ensure compliance with applicable State and Federal requirements and performance expectations are being achieved
- The non-Federal entity must use standard, OMB/GOMB approved data elements for collections of performance information including performance progress reports, submitted at the interval required by the awarding agency or the pass-through entity to best inform improvements in program outcomes and productivity.
- Intervals must be no less frequent than annually nor more frequent than quarterly except in unusual circumstances, for example where more frequent reporting is necessary for the effective monitoring

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## **2 CFR §200.328 Monitoring and reporting program performance**

- Due dates – Annual reports must be due 90 calendar days after the reporting period; quarterly or semiannual reports must be due 30 calendar days after the reporting period
- Alternatively, the awarding agency or pass-through entity may require annual reports before the anniversary dates of multiple year awards
- The final performance report will be due 90 calendar days after the period of performance end date
- If a justified request is submitted by a non-federal entity, the awarding agency may extend the due date for any performance report

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## **2 CFR §200.328 Monitoring and reporting program performance**

The non-Federal entity must submit performance reports using OMB/GOMB approved government-wide information collection including:

- a Comparison of actual accomplishments to the objectives of the award established for the period. Where the accomplishments can be quantified, a computation of the cost (for example, related to units of accomplishment) may be required if that information will be useful
- Where performance trend data and analysis would be informative to the awarding agency program, the awarding agency should include this as a performance reporting requirement
- The reasons why the established goals were not met, if appropriate
- Additional pertinent information including, when appropriate, analysis and explanation of cost overruns of high unit costs

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## 2 CFR §200.328 Monitoring and reporting program performance

- Construction performance reports. For the most part onsite technical inspections and certified percentage of completion data are relied on heavily by the awarding agencies and pass-through entities to monitor progress under awards and subawards for construction, the awarding agency may require additional performance reports only when considered necessary
- Significant developments. Events may occur between the scheduled performance reporting dates that have significant impact upon the supported activity. In such cases, the non-Federal entity must inform the awarding agency or the pass-through entity as soon as possible following the types of conditions become known:
  - Problems delays or adverse conditions which will materially impair the ability to meet the objective the award. This disclosure must include a statement of the action taken or contemplated, and any assistance needed to resolve the situation
  - Favorable developments which enable meeting time schedules and objectives sooner or at less cost than anticipated or producing more or different beneficial results than originally planned

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## 2 CFR §200.313 – Equipment

**Procedures for managing equipment (including replacement equipment) whether acquired in whole or part under a State, Federal or pass-through award, as a minimum must meet the following requirements:**

- Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the funding for the property (including a FAIN), who hold title, the acquisition date, the cost of the property, the percentage of State and Federal participation in the project cost, the location, use and condition of the property and any ultimate disposition data including the date of disposal and sale price of the property
- Controls to ensure that property or equipment purchased with grant funds are not included in the depreciation charged against the grant
- A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years
- A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property.

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## 2 CFR §200.313 – Equipment

- Adequate maintenance procedures must be developed to keep the property in good condition
- If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return
- Disposition of the equipment will be made as follows, in accordance with the awarding agency disposition instructions:
  - Items of equipment with a current per unit fair market value of \$5,000 or less may be retain, sold or otherwise disposed of with no further obligation to the awarding agency
  - Items of equipment with a current per-unit-fair-market value greater than \$5,000 may be retained or sold, if the property is sold than the awarding agency may permit the non-Federal entity to deduct \$500 or ten percent of the proceeds, whichever is less for its selling and handling expense. The proportionate share of the awarding agency's share of the property must be returned to the awarding agency

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## **2 CFR §200.329 Reporting on Real property**

- The Federal awarding agency or pass-through entity must require a non-Federal entity to submit reports at least annually on the status of real property in which the State or Federal government retains an interest.
- If the interest in the property extends past 15 years, the State, Federal or pass-through awarding agency may, at its option require the non-Federal entity to report at various multi-year frequencies (for example, every 2 years, every 3 years, not to exceed a five-year reporting period)

# Federal Regulations Financial Subcommittee – Budget and Financial Reporting

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## 2 CFR §200.344 Post-closeout adjustments and continuing responsibilities

- The closeout of an award does not affect any of the following:
  - The right of the awarding agency or pass-through entity to disallow costs and recover funds on the basis of a later audit or other review. The awarding agency or pass-through entity must make any cost disallowance determination and notify the non-Federal entity within the record retention period
  - The obligation of the non-Federal entity to return any funds due as a result of later refunds, corrections or other transactions including final indirect cost rate adjustments
  - Audit requirements
  - Property management and dispositions requirements

# Cost Principles Objectives

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- Review Federal Cost Principles regulations;
- Determine if any additional requirements should be added
- Determine the various levels of training necessary to be developed based on job duties
- Write recommendations for proposed rules
- Determine IT systems are necessary for implementation
- Develop performance measures

# Cost Principles - Interrelationships with other Subcommittees and Workgroups

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- Budget and Financial Reporting Workgroup – include rate on budget and financial reporting
- Indirect Cost Rate and Training – to develop various levels of training depending on grant management role
- Grant Application – to provide approved indirect cost rates for budget
- Fiscal and Administrative On-site and Audit – for review of allowable costs
- Performance measures – to measure the state agency staff and grantee training

# Federal Regulations Financial Subcommittee – Cost Principles

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## 2 CFR §200.400 Policy Guide

**The application of these cost principles is based on the fundamental premises that:**

- The non-Federal entity is responsible for the efficient and effective administration of the State and/or Federal award through the application of sound management practices
- The non-Federal entity assumes responsibility for administering State and Federal funds in a manner consistent with underlying agreements, program objectives, and terms and conditions of the award
- The non-Federal entity, in recognition of its own unique combination of staff, facilities and experience, has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary in order to assure proper and efficient administration of the award

# Federal Regulations Financial Subcommittee – Cost Principles

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## 2 CFR §200.400 Policy Guide

- The non-Federal entities may not earn or keep any profit resulting from State or Federal financial assistance, unless explicitly authorized by the term and conditions of the award

## 2 CFR §200.401 Application

- **General.** These principles must be used in determining the allowable costs of work performed by the non-Federal entity under the awards. These principles also must be used as a guide in the pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price

# Federal Regulations Financial Subcommittee – Cost Principles

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## Basic Considerations - 2 CFR §200.402 Composition of Costs

- Total Costs – The total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits

## 2 CFR §200.403 Factors affecting allowability of costs

- Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under State and Federal awards:
  - Be necessary and reasonable for the performance of the award and be allocable thereto under these principles
  - Conform to any limitations or exclusion set forth in these principles or in the award as to types or amount of cost items
  - Be consistent with policies and procedures that apply uniformly to both federally or state financed and other activities of the non-Federal entity

# Federal Regulations Financial Subcommittee – Cost Principles

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## 2 CFR §200.403 Factors affecting allowability of costs

- Be accorded consistent treatment. A cost may not be assigned to a State or Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the State or Federal award as an indirect cost
- 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 state or federally financed program in either the current or prior period
- Be adequately documented.

# Federal Regulations Financial Subcommittee – Cost Principles

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## 2 CFR §200.404 Reasonable Cost

- A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time that the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly state or federally funded. In determining the reasonableness of a cost consideration must be given to:
  - Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the award
  - The restraints or requirements imposed by such factors as: sound business practices; arm's length bargaining; Federal, state, local and other laws and regulations; and terms and conditions of the award

# Federal Regulations Financial Subcommittee – Cost Principles

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## 2 CFR §200.404 Reasonable Cost

- Market prices for comparable goods or services for the geographic area
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the State and Federal government
- Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the award's cost

# Federal Regulations Financial Subcommittee – Cost Principles

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## 2 CFR §200.405 Allocable costs

A cost is allocable to a particular award or other cost objective if the goods or services involved are chargeable to assignable to that award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (1) Is incurred specifically for the award;
- (2) Benefits both the award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the award in accordance with the principles in this subpart.

# Federal Regulations Financial Subcommittee – Cost Principles

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## **2 CFR §200.405 Allocable costs**

(b) All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.

(c) Any cost allocable to a particular State and/or Federal award under the principles provided for in this Part may not be charged to other State and/or Federal awards to overcome fund deficiencies, to avoid restrictions imposed by State and Federal statutes, regulations, or terms and conditions of the awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the award

# Federal Regulations Financial Subcommittee – Cost Principles

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## **§200.406 Applicable credits.**

(a) Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the non-Federal entity relate to allowable costs, they must be credited to the award either as a cost reduction or cash refund, as appropriate.

(b) In some instances, the amounts received from the Federal government to finance activities or service operations of the non-Federal entity must should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) should be recognized in determining the rates or amounts to be charged to the award (See §§200.436 Depreciation and 200.468 Specialized service facilities, for areas of potential application in the matter of State and Federal financing of activities.)

# Federal Regulations Financial Subcommittee – Cost Principles

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## **§200.407 Prior written approval (prior approval).**

Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the State or Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this Part:

- (a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
- (b) §200.306 Cost sharing or matching;
- (c) §200.307 Program income;

# Federal Regulations Financial Subcommittee – Cost Principles

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## **§200.407 Prior written approval (prior approval).**

- e) §200.311 Real property;
- (f) §200.313 Equipment;
- (g) §200.332 Fixed amount subawards;
- (h) §200.413 Direct costs, paragraph (c);
- (i) §200.430 Compensation—personal services, paragraph (h);
- (j) §200.431 Compensation—fringe benefits;
- (k) §200.438 Entertainment costs;
- (l) §200.439 Equipment and other capital expenditures;
- (m) §200.440 Exchange rates;
- (n) §200.441 Fines, penalties, damages and other settlements;
- (o) §200.442 Fund raising and investment management costs;
- (p) §200.445 Goods or services for personal use;
- (q) §200.447 Insurance and indemnification;
- (r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);
- (s) §200.455 Organization costs;
- (t) §200.456 Participant support costs;
- (u) §200.458 Pre-award costs;
- (v) §200.462 Rearrangement and reconversion costs;
- (w) §200.467 Selling and marketing costs; and
- (x) §200.470 Taxes (including Value Added Tax); and
- (y) §200.474 Travel costs.

# Federal Regulations Financial Subcommittee – Cost Principles

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## **§200.408 Limitation on allowance of costs.**

The Federal award may be subject to statutory requirements that limit the allowability of costs. When the maximum amount allowable under a limitation is less than the total amount determined in accordance with the principles in this Part, the amount not recoverable under the award may not be charged to the award.

In addition to the basic considerations regarding the allowability of costs highlighted in this subtitle, other subtitles in this Part describe special considerations and requirements applicable to states, local governments, Indian tribes, and IHEs. In addition, certain provisions among the items of cost in this subpart, are only applicable to certain types of non-Federal entities, as specified in the following sections:

(a) Direct and Indirect (F&A) Costs (§§200.412Classification of costs through 200.415 Required certifications) of this subpart;

# Federal Regulations Financial Subcommittee – Cost Principles

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## Direct and Indirect (F&A) Costs

### **§200.412 Classification of costs.**

There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of State and Federal awards. Guidelines for determining direct and indirect (F&A) costs charged to awards are provided in this subpart.

# Federal Regulations Financial Subcommittee – Cost Principles

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## **§200.413 Direct costs.**

(a) General. Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a State and/or Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs. See also §200.405 Allocable costs.

# Federal Regulations Financial Subcommittee – Cost Principles

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## **§200.413 Direct costs.**

(c) The salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if all of the following conditions are met:

- (1) Administrative or clerical services are integral to a project or activity;
- (2) Individuals involved can be specifically identified with the project or activity;
- (3) Such costs are explicitly included in the budget or have the prior written approval of the State and/or Federal awarding agency; and
- (4) The costs are not also recovered as indirect costs.

# Federal Regulations Financial Subcommittee – Cost Principles

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## **§200.414 Indirect (F&A) costs.**

(a) Facilities and Administration Classification. For major IHEs and major nonprofit organizations, indirect (F&A) costs must be classified within two broad categories: “Facilities” and “Administration.”

“Facilities” is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. ‘

‘Administration’ is defined as general administration and general expenses such as the director’s office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of “Facilities” (including cross allocations from other pools, where applicable).

Major nonprofit organizations are those which receive more than \$10 million dollars in direct Federal funding.

# Federal Regulations Financial Subcommittee – Cost Principles

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## §200.414 Indirect (F&A) costs.

(b) Diversity of nonprofit organizations. Because of the diverse characteristics and accounting practices of nonprofit organizations, it is not possible to specify the types of cost which may be classified as indirect (F&A) cost in all situations. Identification with a Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of State and Federal awards. However, typical examples of indirect (F&A) cost for many nonprofit organizations may include depreciation on buildings and equipment, the costs of operating and maintaining facilities, and general administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting

# Federal Regulations Financial Subcommittee – Cost Principles

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## **§200.414 Indirect (F&A) costs.**

(c) State and Federal Agency Acceptance of Negotiated Indirect Cost Rates.

(1) The negotiated rates must be accepted by all State and Federal awarding agencies. A State and Federal awarding agency may use a rate different from the negotiated rate for a class of awards or a single award only when required by statute or regulation, or when approved by a awarding agency head or delegate based on documented justification as described in paragraph (c)(3) of this section.

(2) The State and/or Federal awarding agency head or delegate must notify OMB/GOMB of any approved deviations.

(3) The State and Federal awarding agency must implement, and make publicly available, the policies, procedures and general decision making criteria that their programs will follow to seek and justify deviations from negotiated rates.

# Federal Regulations Financial Subcommittee – Cost Principles

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## **§200.414 Indirect (F&A) costs.**

(g) Any non-Federal entity that has a current federally negotiated indirect cost rate may apply for a one-time extension of the a current negotiated indirect cost rates in that agreement for a period of up to four years. This extension will be subject to the review and approval of the cognizant agency for indirect costs. If an extension is granted the non-Federal entity may not request a rate review until the extension period ends. At the end of the 4-year extension, the non-Federal entity must re-apply to negotiate a rate. Subsequent one-time extensions (up to four years) are permitted if a renegotiation is completed between each extension request.

# Federal Regulations Financial Subcommittee – Cost Principles

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## **§200.415 Required certifications.**

(b) Certification of cost allocation plan or indirect (F&A) cost rate proposal. Each cost allocation plan or indirect (F&A) cost rate proposal must comply with the following:

- (1) A proposal to establish a cost allocation plan or an indirect (F&A) cost rate, whether submitted to a Federal cognizant agency for indirect costs or maintained on file by the non-Federal entity, must be certified by the non-Federal entity using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as set forth in Appendices III through VII, and Appendix IX.
- (2) The certificate must be signed on behalf of the non-Federal entity by an individual at a level no lower than vice president or chief financial officer of the non-Federal entity that submits the proposal.

# Federal Regulations Financial Subcommittee – Cost Principles

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## **§200.415 Required certifications.**

(2) Unless the non-Federal entity has elected the option under §200.414 Indirect (F&A) costs, paragraph (f), the Federal government may either disallow all indirect (F&A) costs or unilaterally establish such a plan or rate when the non-Federal entity fails to submit a certified proposal for establishing such a plan or rate in accordance with the requirements. Such a plan or rate may be based upon audited historical data or such other data that have been furnished to the cognizant agency for indirect costs and for which it can be demonstrated that all unallowable costs have been excluded. When a cost allocation plan or indirect cost rate is unilaterally established by the Federal government because the non-Federal entity failed to submit a certified proposal, the plan or rate established will be set to ensure that potentially unallowable costs will not be reimbursed.

# Federal Regulations Financial Subcommittee – Cost Principles

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## **Special Considerations for States, Local Governments and Indian Tribes**

§200.416 Cost allocation plans and indirect cost proposals.

§200.417 Interagency service.

## **Special Considerations For Institutions Of Higher Education**

§200.418 Costs incurred by states and local government

§200.419 Cost accounting standards and disclosure statement.

# Federal Regulations Financial Subcommittee – Cost Principles

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## General Provisions for Selected Items of Cost

- Advertising and public relations
- Advisory councils
- Alcoholic beverages
- Alumni/ae activities
- Audit services
- Bad debts
- Bonding costs
- Collections of improper payments
- Commencement and convocation costs
- Compensation- personal services
- Compensation- fringe benefits
- Conferences
- Contingency provisions
- Contributions and donations
- Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements
- Depreciation
- Employee health and welfare costs
- Entertainment costs
- Equipment and other capital expenditures

# Federal Regulations Financial Subcommittee – Cost Principles

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## General Provisions for Selected Items of Cost

- Exchange rates
- Fines, penalties, damages and other settlements
- Fund raising and investment management costs
- Gains and losses on disposition of assets
- General costs of government
- Goods or services for personal use
- Idle facilities and idle capacity
- Insurance and Indemnification
- Intellectual property
- Interest
- Lobbying
- Losses on other awards or contracts
- Maintenance and repair costs
- Materials and supplies costs, including costs of computing devices
- Memberships, subscriptions, and professional activity costs
- Organization costs
- Participant support costs
- Plant and security costs
- Pre-award costs
- Professional service costs
- Proposal costs
- Publication and printing costs
- Rearrangement and reconversion costs

# Federal Regulations Financial Subcommittee – Cost Principles

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## General Provisions for Selected Items of Cost

- Recruiting costs
- Relocation costs of employees
- Rental costs of real property and equipment
- Scholarship and student aid costs
- Selling and marketing costs
- Student Activity costs
- Taxes (Including Value Add Tax)
- Termination costs
- Training and education costs
- Transportation costs
- Travel costs
- Trustees

# Streamlining Subcommittee

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FISCAL AND ADMINISTRATIVE ON-SITE REVIEWS  
INDIRECT COST RATE PROPOSAL  
AUDIT REQUIREMENTS

# Authoritative Sources Federal Regulations Streamlining Subcommittee

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## FISCAL & ADMINISTRATIVE ONSITE REVIEWS

- ❖ Financial Management 2 CFR 200.302
- ❖ Internal controls 2 CFR 200.303, Standards for Internal Control for the Federal government (Green Book)
- ❖ Financial Reporting 2 CFR 200.327
- ❖ Subrecipient Monitoring and Management 2 CFR 200.330
- ❖ Uniform procedures
- ❖ Uniform reporting requirements and format
- ❖ Corrective action plan submission and approval

## INDIRECT COST RATE PROPOSAL

- ❖ Indirect Cost Identification, Assignment and Rate Determination for Nonprofit Organizations 2 CFR 200, Appendix IV
- ❖ Format
- ❖ Submission
- ❖ Training
- ❖ RFP requirements

# Authoritative Sources Federal Regulations Streamlining Subcommittee

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## AUDIT

- ❖ Audit requirements 2 CFR 200.500
- ❖ For profit subrecipient 2 CFR 200.501 (h)
- ❖ Relation to other audit requirements 2 CFR 200.503
- ❖ Audit Services 2 CFR 200.425
- ❖ Post close out and continuing responsibilities 2 CFR 200.344,.345

# Authoritative Sources State Regulations Streamlining Subcommittee

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## **FISCAL & ADMINISTRATIVE ONSITE REVIEWS**

- ❖ (30 ILCS 708/25 (6) The development of pre-qualification requirements for applicants
- ❖ Coordination of on-site reviews of grantees and subrecipients 30 ILCS 708/60 (10)

## **AUDIT**

- ❖ Coordination of financial and Single audit reviews 30 ILCS 708/60 (11)

# Subcommittee Objectives Financial and Administrative On-Site Review Objectives

To set forth policies and procedures for On-site reviews including:

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- Uniform protocol for conducting on-site reviews
- Uniform reporting requirements
- Coordination of On-site reviews between agencies
- Provide information for pre-qualification and risk assessment
- Ensuring the policies and procedures meet federal requirements for Financial and Program Management
- Training for staff conducting Fiscal & Administrative On-Site Reviews
- Determine IT systems necessary for implementation
- Develop performance measures

# F & A On-site Review - Interrelationships with other Subcommittees and Workgroups

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- Pre-Qualification – Provide information on the results of On-site reviews for subsequent risk assessment, review responses to internal control questionnaires
- Budget and Financial Reporting – meets federal requirements of financial systems and reporting
- Cost Principles – Framework to ensure only allowable costs are charged
- Audit – review prior audits to determine internal control weaknesses and corrective action
- Performance measures – Coordination of On-site reviews
- Training Plan – minimum training curriculum requirements for On-site review staff
- Technology – required system requirements for coordination and dissemination of reports

# Fiscal & Administrative On-site Review Federal Regulations

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## **§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” issued by the Comptroller General of the United States or and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission(COSO).
- (b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.

# Fiscal & Administrative On-site Review Federal Regulations

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## **§200.303 Internal controls.**

(c) Evaluate and monitor the non-Federal entity's compliance with statutes statute, regulations and the terms and conditions of Federal awards.

(d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.

(e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state, and local, and tribal laws regarding privacy and obligations of confidentiality

# Fiscal & Administrative On-site Review

## Federal Regulations

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### Subrecipient Monitoring and Management

#### **§200.330 Subrecipient and contractor determinations.**

The non-Federal entity may concurrently receive Federal awards as a recipient, a subrecipient, and a contractor, depending on the substance of its agreements with Federal awarding agencies and pass-through entities. Therefore, a pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor.

(a) Subrecipients. A subaward is for the purpose of carrying out a portion of a Federal award and creates a Federal assistance relationship with the subrecipient. See §200.92 Subaward. Characteristics which support the classification of the non-Federal entity as a subrecipient include when the non-Federal entity:

- (1) Determines who is eligible to receive what Federal assistance;
- (2) Has its performance measured in relation to whether objectives of a Federal program were met;

# Fiscal & Administrative On-site Review

## Federal Regulations

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### Subrecipient Monitoring and Management

#### **§200.330 Subrecipient and contractor determinations.**

(3) Has responsibility for programmatic decision making;

(4) Is responsible for adherence to applicable Federal program requirements specified in the Federal award; and

(5) In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.

(b) Contractors. A contract is for the purpose of obtaining goods and services for the non-Federal entity's own use and creates a procurement relationship with the contractor. See §200.22 Contract. Characteristics indicative of a procurement relationship between the non-Federal entity and a contractor are when the non-Federal entity receiving the Federal funds: (1) Provides the goods and services within normal business operations;

(2) Provides similar goods or services to many different purchasers;

# Fiscal & Administrative On-site Review

## Federal Regulations

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### Subrecipient Monitoring and Management

#### §200.330 Subrecipient and contractor determinations

(3) Normally operates in a competitive environment;

(4) Provides goods or services that are ancillary to the operation of the Federal program; and

(5) Is not subject to compliance requirements of the Federal program as a result of the agreement, though similar requirements may apply for other reasons.

(c) Use of judgment in making determination. In determining whether an agreement between a pass-through entity and another non-Federal entity casts the latter as a subrecipient or a contractor, the substance of the relationship is more important than the form of the agreement. All of the characteristics listed above may not be present in all cases, and the pass-through entity must use judgment in classifying each agreement as a subaward or a procurement contract.

# Indirect Cost Rate Proposal Workgroup Objectives

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- Determine needs to include in RFP:
  - Determine the required format(s) and templates for Indirect Cost Proposal Submission
  - Determine desired submission platform – Online direct input, upload spreadsheet template and word documents
  - Determine the required training to assist grantees in preparing an indirect cost rate proposal
  - Determine the level of grantee technical assistance necessary for the submission and negotiation of an indirect cost rate proposal
  - Identify contractor training requirements for the preparation and submission, negotiation and approval
  - Identify contractor information data on approved indirect cost rates
  
- Identify system requirements for Indirect Rate Cost Proposal tracking system
- Identify Performance measures
- Write RFP requirements

# Indirect Cost Rate Proposal Interrelationship with other Subcommittees and Workgroups

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- Cost Principles – various levels of training based on role in grant management
- Training - for state agencies staff and grantees
- Performance Measures – coordination of negotiation and approval
- Technology – Indirect Cost Rate tracking system

# Audit Requirements - Objectives

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- Review State and Federal Statutes and regulations
- Determine “For Profit Audit Requirements”
- Determine Audit requirements for non-federal entities that do not meet the Single Audit threshold including Government Auditing Standards, Agreed-Upon Procedures and Program Audit requirements
- Training on audit requirements and “How to hire a qualified audit firm”
- State Agency coordination
- IT requirements for Audit report submission, review and coordination of agencies
- Write recommendations for proposed rules
- Develop Performance measures

# Audit Requirements – Interrelationship with other Subcommittees and Workgroups

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- Pre-Qualification – Prior Audit findings and corrective action implementation
- Fiscal and Administrative review - Prior Audit findings and corrective action implementation
- Contracts and Grant Agreement – Audit requirements
- Training – Audit requirements
- Performance Measures – audit coordination
- Technology – Audit report review and data tracking system

# Federal Regulations Streamlining Subcommittee – Audit Requirements

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## **§200.501 Audit requirements.**

(a) Audit required. A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this Part.

(b) Single audit. A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit conducted in accordance with §200.514 Scope of audit except when it elects to have a program-specific audit conducted in accordance with paragraph (c) of this section.

# Federal Regulations Streamlining Subcommittee – Audit Requirements

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## **§200.501 Audit requirements.**

(f) Compliance responsibility for contractors. In most cases, the auditee's compliance responsibility for contractors is only to ensure that the procurement, receipt, and payment for goods and services comply with Federal statutes, regulations, and the terms and conditions of Federal awards. Federal award compliance requirements normally do not pass through to contractors. However, the auditee is responsible for ensuring compliance for procurement transactions which are structured such that the contractor is responsible for program compliance or the contractor's records must be reviewed to determine program compliance. Also, when these procurement transactions relate to a major program, the scope of the audit must include determining whether these transactions are in compliance with Federal statutes, regulations, and the terms and conditions of Federal awards.

# Federal Regulations Streamlining Subcommittee – Audit Requirements

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## **§200.501 Audit requirements.**

(h) For-profit subrecipient. Since this Part does not apply to for-profit subrecipients, the pass-through entity is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients. The agreement with the for-profit subrecipient must describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post-award audits. See also §200.331 Requirements for pass-through entities.

## **§200.502 Basis for determining Federal awards expended.**

(a) Determining Federal awards expended. The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards such as:

# Federal Regulations Streamlining Subcommittee – Audit Requirements

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## **§200.502 Basis for determining Federal awards expended.**

- Expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct appropriations;
- The disbursement of funds to subrecipients;
- The use of loan proceeds under loan and loan guarantee programs;
- The receipt of property; the receipt of surplus property;
- The receipt or use of program income;
- The distribution or use of food commodities;
- The disbursement of amounts entitling the non-Federal entity to an interest subsidy; and the period when insurance is in force

# Federal Regulations Streamlining Subcommittee – Audit Requirements

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## **§200.503 Relation to other audit requirements**

Any additional audits must be planned and performed in such a way as to build upon work performed, including the audit documentation, sampling, and testing already performed, by other auditors.

- The provisions of this Part do not limit the authority of Federal and State agencies to conduct, or arrange for the conduct of, audits and evaluations of Federal awards, nor limit the authority of any State and Federal agency Inspector General or other Federal official. For example, requirements that may be applicable under the FAR or CAS and the terms and conditions of a cost-reimbursement contract may include additional applicable audits to be conducted or arranged for by State or Federal agencies.
- Federal agency and pass-through entities to pay for additional audits. A Federal agency or pass-through entity that conducts or arranges for additional audits must, consistent with other applicable Federal statutes and regulations, arrange for funding the full cost of such additional audits.

# Federal Regulations Streamlining Subcommittee – Audit Requirements

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## **§200.505 Sanctions.**

In cases of continued inability or unwillingness to have an audit conducted in accordance with this Part, Federal agencies and pass-through entities must take appropriate action as provided in §200.338 Remedies for noncompliance.

**§200.506 Audit costs.** See §200.425 Audit services.

## **§200.425 Audit services.**

(a) A reasonably proportionate share of the costs of audits required by, and performed in accordance with, the Single Audit Act Amendments of 1996 (31U.S.C. 7501–7507), as implemented by requirements of this Part, are allowable. However, the following audit costs are unallowable: (1) Any costs when audits required by the Single Audit Act and Subpart F—Audit Requirements of this Part have not been conducted or have been conducted but not in accordance therewith; and

(2) Any costs of auditing a non-Federal entity that is exempted from having an audit conducted under the Single Audit Act and Subpart F—Audit Requirements of this Part because its expenditures under Federal awards are less than \$750,000 during the non-Federal entity's fiscal year.

# Federal Regulations Financial Subcommittee – Audit Requirements

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## **§200.425 Audit services.**

(b) The costs of a financial statement audit of a non-Federal entity that does not currently have a Federal award may be included in the indirect cost pool for a cost allocation plan or indirect cost proposal.

(c) Pass-through entities may charge Federal awards for the cost of agreed-upon-procedures engagements to monitor subrecipients who are exempted from the requirements of the Single Audit Act and Subpart F—Audit Requirements of this Part. This cost is allowable only if the agreed-upon-procedures engagements are:

(1) Conducted in accordance with GAGAS attestation standards;

(2) Paid for and arranged by the pass-through entity; and

(3) Limited in scope to one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; and reporting.

# Federal Regulations Financial Subcommittee – Audit Requirements

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## **§200.509 Auditor selection.**

(a) In procuring audit services, the auditee must follow the procurement standards prescribed by the Procurement Standards in §§200.317 Procurement by states through 20.326 Contract provisions or the FAR (48 CFR Part 42), as applicable.

When procuring audit services, the objective is to obtain high-quality audits. In requesting proposals for audit services, the objectives and scope of the audit must be made clear and the non-Federal entity must request a copy of the audit organization's peer review report which the auditor is required to provide under GAGAS.

Factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of peer and external quality control reviews, and price.

# Federal Regulations Financial Subcommittee – Audit Requirements

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## **§200.509 Auditor selection.**

(b) Restriction on auditor preparing indirect cost proposals. An auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the Single audit required when the indirect costs recovered by the auditee during the prior year exceeded \$1 million. This restriction applies to the base year used in the preparation of the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs.

# Consequences of non-compliance with State and Federal Regulations

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- Audit findings and questioned cost
- Repayment of misused grant funds and improper payments
- Increased risk of fraud, waste and abuse of State and Federal grant funding
- Loss or decreased future State and Federal funding
- Increased specific conditions, State and Federal monitoring and cost of administering State and Federal grant programs
- Stop payment of current grant payments
- Potential placement on the State and Federal Debarment and Suspended and Excluded Parties List

# Timeline Overview

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- Subcommittees and workgroups have four phases for completing drafts of the rules:
  - **First phase - first draft completed by June 30, 2015**

The first draft is submitted to the GATU Chair and ILSAC Subcommittee Co-Chairs for review
  - **Second phase - interrelated subcommittee draft rules review completed by July 15, 2015**

The draft rules are provided to interrelated subcommittees for impact review and consideration of each subcommittee's rules development.
  - **Third phase – second draft completed by July 30, 2015**

The second draft is submitted to the GATA Steering Committee for review
  - **Fourth phase – final draft presented to ILSAC at August/September meeting**

# GATA Next Steps

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- GATU submits general State rules to JCAR.
- General rules provided to State agencies for State agency-specific rule development.
- State agencies submit agency-specific rules to GATU for review.
- State agency rules submitted to JCAR.
- After rules are submitted, the implementation phase begins.

# GATA is Good Government

It is GATA time.



Landmark legislation.

Sets the bar for grant accountability.

Sets the bar for grant transparency.

Win-win for government and grantee community.

Improves performance outcomes.

Reduces risk of fraud, waste, and abuse.

Saves State agencies and grantees hundreds of millions of dollars.

*Successful agency oversight and successful grantees will result in a successful Illinois.*