

OFFICE OF THE STATE AUDITOR
STATE AUDIT RULE TRAINING
APRIL 4-5, 2016

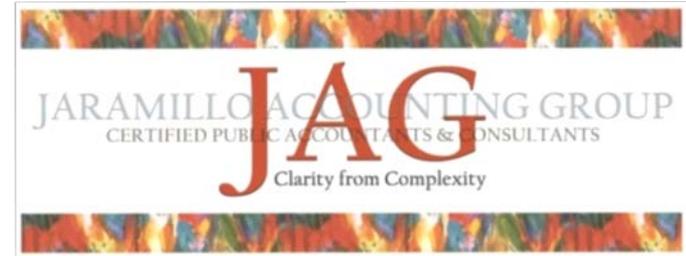
**BUDGET & GRANT
COMPLIANCE**

Presented by:

Jaramillo Accounting Group LLC (JAG)

Scott Eliason, CPA

Audrey Jaramillo CPA, CFE



Contact Information

Scott@JAGnm.com
Audrey@JAGnm.com

www.JAGnm.com

505.323.2035

4700 Lincoln Rd NE Albuquerque 87109

CONTENT

Why Are We Here?

NM State Statutes – Budgetary Compliance

- ▣ Definitions, Audit Opinions
- ▣ Presentation, Disclosure
- ▣ Common Findings

Federal & State – Grant Compliance

- ▣ Executive Order 2013-006
- ▣ Super Circular
- ▣ Common Findings

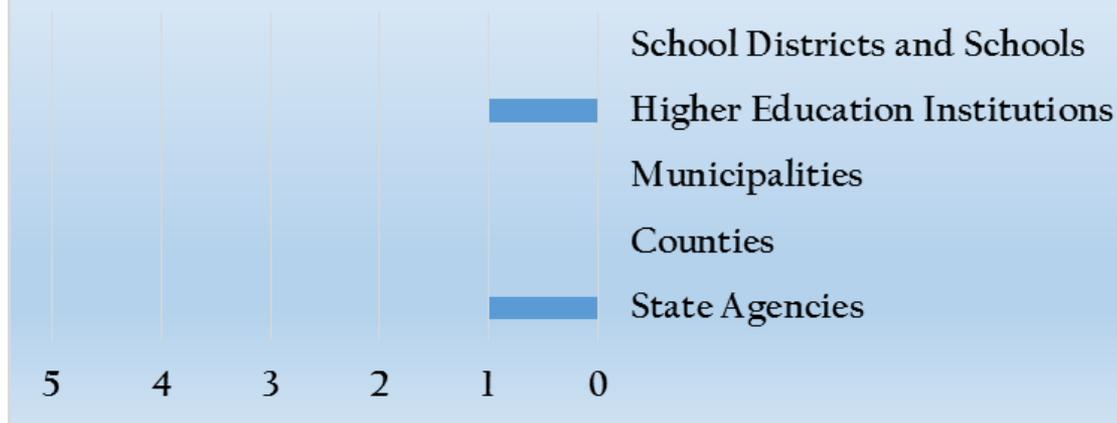
**BEST PRACTICES
PITFALLS**

Why We Are Here

“Helping Government Work Better” OSA’s Mission

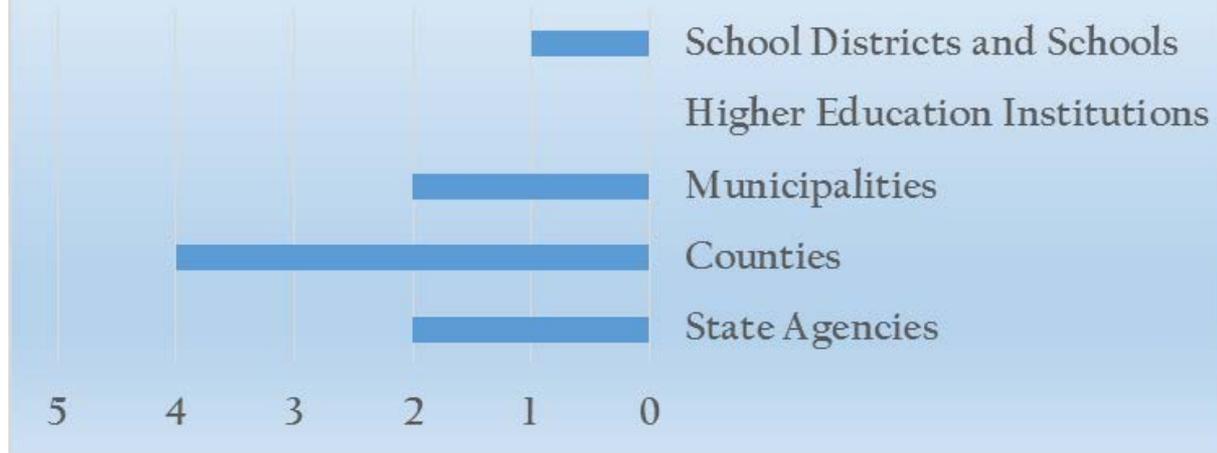
- OSA GAO Report Findings
- Ethical, Compliant Practices
 - Efficiency & Effectiveness
- Learn Common Compliance Pitfalls
 - Share Best Practices

OSA GAO Report Payroll & Related Liabilities - Findings Rank #1



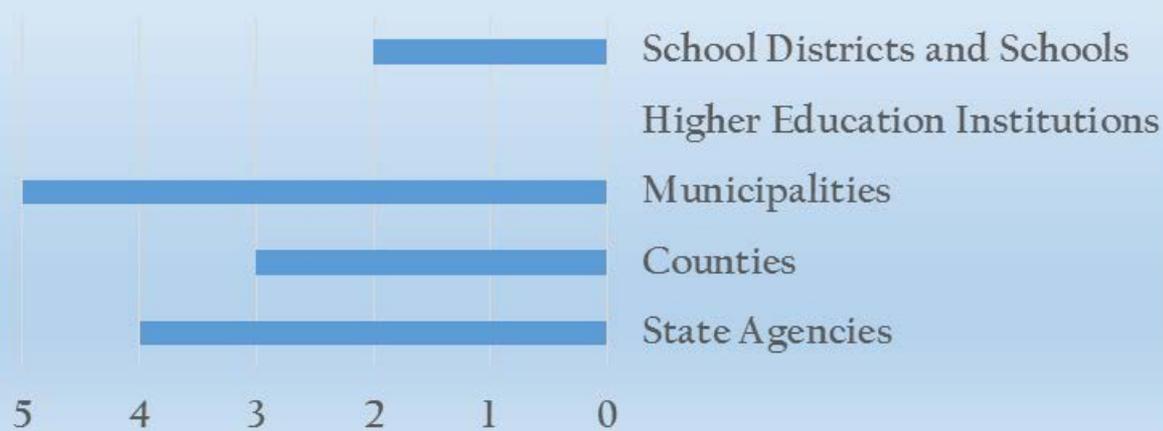
An exception or deficiency associated with amounts owed for payroll-related expenditures that are not yet paid, creating a liability or any violation of federal, state, or local requirements regarding employment, required forms, or payroll reporting.

OSA GAO Report Budgetary Compliance - Findings Rank #1, #2, #4



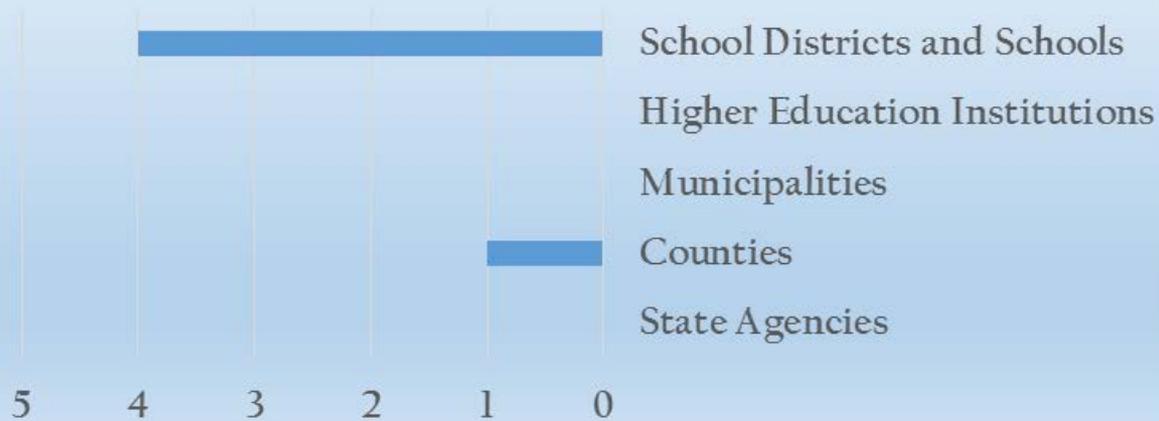
An exception or deficiency wherein the governmental entity did not comply with state or local governmental budget requirements.

OSA GAO Report State Law Compliance - Findings Rank #2, #3, #4, #5



Any violation of state statutory requirements, including, but not limited to, the Anti-Donation Clause of the NM Constitution, the Governmental Conduct Act, the Open Meetings Act, and the Public Monies Act.

OSA GAO Report Grant Compliance - Findings Rank #1, #4



An exception or deficiency wherein the governmental entity failed to comply with state or federal requirements related to a grant agreement.

OSA GAO Report 2015

MOST COMMON CATEGORIES OF FINDINGS

The most common categories of findings overall were as follows:

Payroll and Related Liabilities	252
State Law Compliance	187
Budgetary Compliance	183
Grant Compliance	175
Expenses and Expenditures	147
Capital Assets	145
Financial Reporting	145
Cash and Investments	143
Lack of Policies, Procedures, and Internal Controls	128
Travel and Per Diem	86

FOCUS



OSA GAO Report 2015

BUDGETARY COMPLIANCE FINDINGS	
Sub-Category	Total
Exceeded Budgetary Authority	137
Over-budgeted Cash	25
Other - Approvals, Detailed Support	7
Over-budgeted Carry-over	6
Reporting	4
Internal Controls	2
Deficit Fund Balance	1
Improper Budget Adjustment (BAR)	1
Grand Total	183

Budget must balance



75% of problem



Retain proper backup



Relevant NM State Auditor Rule Requirements

http://www.saonm.org/media/uploads/Audit_Rule_March_15_2016.pdf

- GAGAS 4.23
- AU-C 260.09; AU-C 260.A37 Examples
- AAG-GAS 4.12; AAG-GAS 23.35 Table 23-2
- Section 12-6-5 NMSA 1978 requires that “each report set out in detail, in a separate section, any violation of law or good accounting practices found by the audit or examination.”
- GAGAS Section 4.05 (2011 revision) py findings
- Findings are not subject to negotiation. The agency should also prepare “planned corrective actions” as required by GAGAS 4.33

BUDGETARY COMPLIANCE

2.2.2.10 A (e) – Legally Adopted Budget

A legally adopted budget exists anytime the agency prepares a budget and in every case where an entity receives federal funds, state funds, or any other “appropriated” funds.

2.2.2.10 A (e) – Legally Adopted Budget - CU COMPONENT UNITS

- Individual fund budgetary comparisons are required if the CU receives any federal funds, state funds, or any other appropriated funds whose expenditure authority derives from an appropriation bill or ordinance that was signed into law.

2.2.2.10 A 2 (a) – Level of Planning Materiality

The level of planning materiality required by the NM State Auditor's Office is at the individual fund level.

Therefore, Budgetary Comparisons must be audited and included as part of the basic financial statements - GASB 34 footnote 53 and AAG-SLV 11.13

2.2.2.10 A 2 (b) – Audit Opinions on Budgets

BASIC FINANCIAL STATEMENTS

- Government-wide financial statements
- Fund financial statements
- Budgetary comparison statements (for only the General Fund and Major Special Revenue Funds when the budget info is available on the same fund structure basis as the GAAP fund structure
- Notes to the financial statements

2.2.2.10 A 2 (c) – Audit Opinions on Budgets

REQUIRED SUPPLEMENTAL INFORMATION (RSI)

- Budgetary comparison statements for the General Fund and Major Special Revenue Funds data on a fund, org, or program (P-code) structure basis because the budget info is not available on the GAAP fund structure basis for those funds (GASB Stmt 41, budgetary comparison schedules – perspective differences and amendment of GASB Stmt 34)

2.2.2.10 A 2 (d) – Audit Opinions on Budgets

SUPPLEMENTAL INFORMATION (SI)

- Example at AAG-SLV Appendix A at 15.103
- CU fund FS and combining and individual fund FS
- Combining and individual fund FS
- Individual fund budgetary comparison statements for the remaining funds including any Major Capital Projects fund or Debt Service fund, Non-major governmental funds, Enterprise funds, and Internal Service funds.

2.2.2.12 A II – Budgetary Basis

STATE AGENCIES

- Per the General Appropriation Act, Laws of 2015, Chapter 101, Section 3, item L:
- “....the state of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by [DFA].”
- The budget is adopted on the modified accrual basis of accounting (except A/P not accrued by deadline per Section 6-10-4 NMSA 1978)

Year Ended June 30, 2015

	Original Budget	Revised Budget	Actual Budgetary Basis	Variance Favorable (Unfavorable)
Revenues				
State General Fund appropriation	\$ 13,659,300	13,659,300	13,460,500	(198,800)
Special Appropriation	186,200	186,200	186,200	-
Federal funds	250,000	483,000	10,544	(472,456)
Other licenses and permits	-	-	163,893	163,893
Other revenue	-	-	94,626	94,626
Other financing sources	2,147,600	2,297,600	2,206,403	(91,197)
Reversion to State General Fund	-	-	(563,115)	(563,115)
Total revenues	<u>16,243,100</u>	<u>16,626,100</u>	<u>15,559,051</u>	<u>(1,067,049)</u>
Expenditures				
Personnel services and employee benefits	13,353,100	12,447,310	12,011,904	435,406
Contractual services	808,900	1,559,009	499,741	1,059,268
Other	2,081,100	2,619,781	3,191,535	(571,754)
Total expenditures	<u>16,243,100</u>	<u>16,626,100</u>	<u>15,703,180</u>	<u>922,920</u>
Excess (deficiency) of revenues over expenditures (prior year cash balance required to balance budget)	-	-	\$ (144,129)	\$ (144,129)
Cash balance carryforward	-	-	-	-
Total	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

See Notes to Financial Statements.

2.2.2.10 N – Budgetary Presentation

Include prior year balance

- If agency budget on accrual/modified accrual, the comparisons should include amounts of fund balance required to balance the budget
- If agency budget on cash basis, include the amounts of prior-year cash balance required to balance the budget

2.2.2.10 N – Budgetary Presentation

Budget to GAAP Reconciliation

- Required at the individual fund level
- On statement (preferred) or in Notes to FS
- IF in SI, (2.2.2.10 N (3) (c) NMAC) present recon at bottom of Budget comparison
- IF in RSI, (2.2.2.10 N (3) (b) NMAC) present recon in either a separate schedule or in Notes to RSI (AAG-SLV 11.14)

2.2.2.10 N – Budgetary Presentation

Required Elements

- Original Appropriated Budget
- Final Budget approved by DFA, HED, PED
- Actual Amounts on budgetary basis
(normally agrees to fund statements)
- Variance column for difference between
Final and Actual amounts
- BEST PRACTICE = + # = Favorable
Difference; (-) # = Unfavorable

2.2.2.10 N – Legal Level of Budgetary Control

MUST DISCLOSE IN THE FS FOOTNOTES

- Local Governments = Fund level
- School Districts = Major Function level
 - General Fund must include comparisons for: operational, transportation, instructional materials, and teacherage
 - Charters' budgetary statements must be included in SI

2.2.2.10 N – Legal Level of Budgetary Control

MUST DISCLOSE IN THE FS FOOTNOTES

- State Agencies = Level of Appropriation Unit code reflected in the final approved budget, normally:
 - Expenditures: 200, 300, 400, 500, 600 and
 - Revenues: State General Fund, OSF, INSF/Inter-agency Transfers, Federal funds

2.2.2.10 N – Legal Level of Budgetary Control

MUST DISCLOSE IN THE FS FOOTNOTES

- State Agencies = Level of Appropriation
Program Level
 - A-Code = capital outlay appropriations
 - P-Code = operating funds
 - R-Code = ARRA funds
 - Z-Code = special appropriations
- Total expenditures for the Program need to be compared to the program's approved final budget for compliance

2.2.2.10 N – Legal Level of Budgetary Control

MUST DISCLOSE IN THE FS FOOTNOTES

- Colleges & Universities = Budgetary Functions
(5.3.4.10 NMAC):
 - Unrestricted expenditures
 - Restricted expenditures
 - Instruction and General
 - Each budget function in current funds other than I&G
 - Within Plant Funds Budget: major projects, library bonds, equipment bonds, minor capital outlay, renewals and replacements, and debt service
 - Each individual item of transfer between funds and/or functions

2.2.2.10 N – Budgetary Compliance Statutes

State Agency budget compliance with Sections 6-3-1 to 6-3-25 NMSA 1978

Local Government budget compliance with Section 6-6-2 and Sections 6-6-5 to 6-6-7 NMSA 1978

School District budget compliance with Sections 22-8-5 through 22-8-12.2; 6.20.2

Month End Close – Budget

It is necessary to review budget and prepare projections on a monthly basis.

- Regular review will help ensure continued compliance with HB2 and any other appropriation acts
- Monthly projections need to be prepared to properly manage your budget
- Projection methodology should be developed and documented in order to provide consistency from period to period

2.2.2.10 O – Budget Related FINDINGS

- If Actual \gt Final (at legal level of control)
- If Budgeted Expenditures \gt Budgeted Revenues (after py cash balance and any Federal A/R required to balance the budget)
- If there are control deficiencies over the budgetary process
- If BARs are not approved or lack of supporting documentation

2.2.2.10 O – Budget Related FINDINGS

NOTE FOR STATE AGENCIES

- Section 6-10-4 NMSA 1978 – “Actual” expenditures in budgetary comparison exclude any A/P not paid timely (request to pay py bills out of cy budget), no legal authority to obligate the state for liabilities once the appropriation period has lapsed
- Thus the agency cannot keep the Cash related to py A/P This will result in negative fund balance.
- Your Reversions must be calculated using the budgetary basis expenditures

2.2.2.10 O – Budget Related FINDINGS

BEST PRACTICE

Anticipate all journal entries including audit JEs so that expenditures do not go over budget.

Example) Repairs and Maintenance reclass to Capital Outlay to properly reflect Capital Asset additions

2.2.2.10 O – Budget Related FINDINGS

BEST PRACTICES

- Development: involve ALL parties to gain understanding and involvement (Agency Mgmt, HR, Program Staff, Purchasing, A/P, CR, Acct, Budget)
- Schedule Regular Meetings (follow up on areas needing clarification or correction in-between meetings)
- Flat budget does not mean no work
- Approp at Category; Review at Line

2.2.2.10 O – Budget Related FINDINGS

BEST PRACTICES

- Work with your auditor to prepare the Budget schedules, Budget to GAAP recons
- Innovate ways to pull the information from your accounting system
- Run budgets in Month-End Close process
- Review the Final Draft FS carefully – they are Management/Board’s responsibility!

CONTENT

Why Are We Here?

NM State Statutes – Budgetary Compliance

- ▣ Definitions, Audit Opinions
- ▣ Presentation, Disclosure
- ▣ Common Findings

Federal & State – Grant Compliance

- ▣ Executive Order 2013-006
- ▣ Super Circular
- ▣ Common Findings

**BEST PRACTICES
PITFALLS**

EXECUTIVE ORDER 2013-006

Whereas:

- Oversight of grantees' accounting methods is needed to safeguard appropriations and assets
- Independent audits provide the best assessment of grantees' accounting methods
- Lack of audits or findings that raise concern about a grantee's ability to be a good steward of capital outlay funds increase risk of fraud, waste, and abuse

EXECUTIVE ORDER 2013-006

Therefore: To be Eligible

1. Budget has been approved and compliant with financial reporting requirements
2. Annual audit required by the Audit Act for most recent fiscal year must be public record, or
3. If audit contains MW, SD, or findings that raise concerns about a grantee's ability to properly account for funds and assets,...

EXECUTIVE ORDER 2013-006

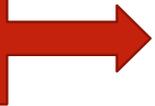
Therefore: To be Eligible

- A. Grantee must have remedied the problem, or
- B. State agency must be able to adequately address the problem through special grant conditions, or
- C. State agency must find another fiscal agent

GRANT COMPLIANCE

OSA GAO Report 2015

Risk drives the audit



GRANTS COMPLIANCE FINDINGS	
SUB-CATEGORY	Total
Reporting/ Data Collection Form/ SEFA	41
Payroll/ Time & Effort Certifications	29
Eligibility/ Tenant Files	24
Other - Specific Compliance	20
Internal Controls - Receipts	13
Procurement/ Suspension & Debarment	13
Internal Controls - Expenditures	10
Financial Close & Reporting	8
Awarding Process/ Subrecipients	7
Capital Assets Inventory	6
Matching	2
Cash Management	1
Exceeded Grant Amount	1
Grand Total	175

Budget / Actual



Know your grants well



SEFA Preparation

- ✓ Internal Controls must be very strong over preparation of the SEFA. It is like a Financial Statement. Prep, Review, Approval
- ✓ Verify Completeness – ALL federal awards
- ✓ Do a Roll-forward from prior year
- ✓ Contractor vs. Subrecipient Checklist - in/out
- ✓ Federal Revenue = SEFA Expenditures

Subrecipient OR Contractor?

- ✓ Contracts with Vendors are not on SEFA
- ✓ Vendor = receiving a contract that per Section 200.22 is a legal instrument to purchase property or services needed to carry out the program. However, they are NOT subject to any compliance requirements.
- ✓ Subrecipients are more common
- ✓ ALWAYS complete the Checklist (JAG can provide) to ensure SEFA is complete and accurate

Reporting

- ✓ Know your grants!
- ✓ Assign responsibilities for Prep, Review, Approval, Submission
- ✓ Don't leave everything up to the Program side
- ✓ Use the information in strategic planning
- ✓ Don't submit late – or get email permission

Data Collection Forms

Audit report and DCF must be submitted to the Federal Clearing House before the due date of either 30 days after the date of the audit report is issued OR 9 months after year-end.

This affects your risk assessment!

OMNI Circular – Compliance “OMB Uniform Guidance”

MUST establish and maintain effective internal controls over federal awards.

- FOLLOW:
 - Standards for Internal Control in the Federal Government (**Green Book**) – Comptroller General of the US
 - Internal Control – Integrated Framework – Committee of Sponsoring Organizations of the Treadway Commission (**COSO**)

OMNI Circular – Key Changes Subpart F

- Direct and Indirect (F & A) Costs: Increases single audit threshold from \$500,000 to \$750,000
- Increases Type A/B program minimum threshold from \$300,000 to \$750,000
- Decreases the minimum coverage for a non-low risk auditee from 50% to 40%, and for a low-risk auditee from 25% to 20%
- Increases the threshold for reporting known and likely questioned costs from \$10,000 to \$25,000

OMNI Circular – Key Changes

Subpart F

- Certain criteria are modified in the areas of low risk auditee and high-risk Type A and Type B program determination
- Additional and more specific reporting requirements for the Schedule of Expenditures of Federal Awards, audit findings, and corrective action plan
- Contractor: The term “Vendor” as used in Circular A-133 (in contrast to a Subrecipient) is no longer used. The term “Contractor” is defined here and will be used instead of “Vendor” going forward.

OMNI Circular – Key Changes

Subpart F

- Personally Identifiable Information (PII) and Protected Personally Identifiable Information: These terms, which were not previously defined, are now defined. These definitions will be important to auditors and auditees as single audit reporting packages submitted under the Uniform Grant Guidance will be publicly available (with exceptions for Indian tribes).
- The Uniform Grant Guidance states that auditors and auditees must ensure that no protected personally identifiable information is included in their respective parts of the reporting package.
- Program Income: A definition of program income, which was not previously defined in Circular A-133, is now defined.

Allowable Costs & Activities

- Know your grant agreements, budgets well
- Check the Compliance Supplements
- Internal policies or promises made in application
- Supported by detailed backup documentation
- Improper allocation of indirect costs

Time & Effort Documentation

OMNI Circular 200.430

- Most Flexible & Most Changed Rule
- If Federal funds are used for salaries, then time distribution records are required.
- How staff demonstrate allowability
 - If employee paid with federal funds, then **MUST** show that the employee worked on that specific federal program cost objective.

Time & Effort Documentation OMNI Circular 200.430

- This applies to:
 - All employees paid in whole or in part with federal funds **200.430 (i)(1)**
 - Some employees paid with non-federal funds when salaries are used for match/cost share purposes **200.430 (i)(4)**
 - NOT contractors

Time & Effort Documentation OMNI Circular 200.430

- What is a cost objective? **200.28**
 - Program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc.

Time & Effort Documentation

OMNI Circular 200.430

- Multiple Cost Objectives **200.430 (i)(1)(vii)**
 - More than 1 federal award.
 - A Federal award and a non-Federal award
 - An indirect cost activity and a direct cost activity.
 - Two or more indirect activities that are allocated using different allocation bases.
 - An unallowable activity and a direct or indirect cost activity.

Time & Effort Documentation

OMNI Circular 200.430

- It is possible to work on a Single Cost Objective even if an employee works on more than 1 federal award or on a federal award and a non-federal award.
- *The KEY to determine if Single: is the employee's salary and wages supported in full from each of the Federal awards on which the employee is working OR from the Federal award alone if the employee's salary is also paid with non-Federal funds.*

Time & Effort Documentation

OMNI Circular 200.430

Examples – Single Cost Objective

- LEA supports supplemental Math teacher to serve low-achieving students with 50% Title I Part A funds and 50% SEG.
- LEA supports elementary teacher with SEG but pays her with Title I Part A funds to provide after-school tutoring for low-achieving students. (easily separated by schedule)

Time & Effort Documentation

OMNI Circular 200.430

NEW – Standards for Documentation of Personnel Expenses

- Charges for salaries must be based on records that accurately reflect the work performed.
1. Must be supported by a system of internal controls which provide reasonable assurance charges are accurate, allowable and properly allocated.

Time & Effort Documentation OMNI Circular 200.430

NEW – Standards for Documentation of Personnel Expenses

2. Be incorporated into official records
3. Reasonably reflect total activity for which employee is compensated (not to exceed 100%)
4. Encompass all activities (federal and non-federal)
5. Comply with established accounting policies and practices
6. Support distribution among specific activities or cost objectives.

Time & Effort Documentation

OMNI Circular 200.430

NOTE > Budget estimates alone do not qualify as support for charges to Federal awards
200.430(i)(1)(vii)

IF records meet the standards; entity will **NOT** be required to provide additional support or documentation for the work performed **200.430(i)(2)**

BUT IF “records” of grantee do not meet new standards, Feds may require Personnel Activity Reports (PARs) which are not specifically defined.

Eligibility / Completeness of Files

- Know your grant agreements well – requirements are very specific (HUD)
- Check the Compliance Supplements
- Track this monthly/quarterly
- Do periodic Internal Audits of files
- Supported by detailed backup documentation

Cash Management - Reimbursement Requests

- Overspending federal grant creates negative fund balance and cash overdrafts from the pool
- Finance MUST work closely with Program
- Segregation of Duties – prep, review, approve, post, receive
- Advance = Deferred Revenue
- Segregate accounting for federal funds
- Up to \$100/year of interest can be kept for Admin expenses;
Submit promptly but at least quarterly

Suspension & Debarment

SO THAT YOUR AGENCY ISN'T S/D

- Disclose in writing any conflicts of interest
- Disclose in writing any federal criminal law violations involving fraud, bribery or gratuity potentially affecting a federal award

DURING PROCUREMENT

- Check sam.gov (Help, Exclusions Info, Excl Types then on Home Page, Entity/Name, DUNS or CAGE code and search)
- Add language into the RFP
- Include language in the Contract



Property & Equipment – FEDERAL Capital Assets 200 CFR FAR Pt 2

USE/DISPOSAL OF – Section 200.313, .439

- Must be used for the entity in program or project acquired under 1st priority, then for other federal activities
- Must follow state laws and regulations regarding disposals

PROPERTY RECORDS

- **MUST** include: description, serial/other ID #, source of property, who holds title, acquisition date, cost, % federal participation in the project costs, location, use and condition, disposition data (date, sale price)

Property & Equipment – FEDERAL Capital Assets

INVENTORY OF

- Physical inventory must be taken and results reconciled with the property records at least once every two years.

CONTROLS

- Must be developed to ensure adequate safeguards to prevent loss, damage, or theft of property.
- Any loss, damage, or theft must be investigated
- Adequate maintenance procedures to keep in good condition
- If authorized to sell, obtain highest possible return

Subrecipient Monitoring

- CFDA # and Federal Award # not provided to Sub
- Monitoring not adequate – Section 200.331
- Report Sub awards under Federal Funding Accountability and Transparency Act
- Review Subrecipients' audits
- Monitor Subs' corrective action and follow up on non-compliance – Section 200.338
- **MUST** perform a risk assessment to determine appropriate monitoring and perform the monitoring according to that risk assessment!

CONTENT

Why Are We Here?

NM State Statutes – Budgetary Compliance

- ▣ Definitions, Audit Opinions
- ▣ Presentation, Disclosure
- ▣ Common Findings

Federal & State – Grant Compliance

- ▣ Executive Order 2013-006
- ▣ Super Circular
- ▣ Common Findings

**BEST PRACTICES
PITFALLS**

PITFALLS

- Turnover without written procedures
 - Lack of policies
 - No Risk Assessment
- Not knowing the Laws, Regs, Rules
- Not staying up to date, lack of training
- Thinking your Programs do this for you
- Lack of Communication internally and/or externally
 - Lack of Oversight and Accountability
 - No Internal Audits



Questions
Comments?

Thank you for serving our
Great State of New Mexico!

Disclaimer

This presentation is intended solely to provide general information and does not constitute legal advice. Attendance at the presentation or later review of these printed materials does not create an attorney-client relationship with [Jaramillo Accounting Group LLC \(JAG\)](#). You should not take any action based upon any information in this presentation without first consulting legal counsel familiar with your particular circumstances.