

Accounting Newsletter for Grant Schools

Determining Reasonableness

by Michael L. Lauzon, CPA, Audit Manager

Typically a determination of allowability is made whenever a decision is made to purchase an item or service or to pay an employee. The Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments (located at http://www.whitehouse.gov/sites/default/files/omb/assets/agencyinformation_circulars_pdf/a87_2004.pdf) can be utilized as guidance for this determination of allowability. Other guidance is available in the compliance supplements issued for individual federal programs.

However, there is another important step that must be taken before the expenditure is made: determining reasonableness of the expenditure. The dictionary definition of reasonable is "fair, sensible, and not extreme or excessive." OMB Circular A-87 provides an even more detailed definition and includes several components which must be considered when determining reasonableness:

1. Ordinary and necessary.
2. Sound business practices, laws and regulations and conditions of the Federal award.
3. Market prices for comparable goods or services.
4. Consideration of responsibilities to the School and public at large.
5. Significant deviations from the established practices of the governmental unit.

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Changes to Federal Financial Management and Audit Requirements

by Michael A. Hoerig, CPA, Partner

The Office of Management and Budget (OMB) was tasked by the President in 2009 to seek out potential reforms that would help increase the effectiveness and efficiency of Federal financial management. This directive led to the creation of the Council on Financial Assistance Reform (COFAR). COFAR membership consists of the OMB, eight of the largest federal granting agencies, and one other federal agency. The over-arching goals of the COFAR are to identify more efficient financial management practices through standardization of business processes, data standards and information technology; as well as to eliminate regulatory overburden and inconsistencies. In February 2012 the COFAR and OMB published their initial proposed guidance in the Federal Register for public comment. Over 300 comments were received from various agencies, organizations, and practitioners.

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How to Engage Your Volunteers

Once an individual expresses an interest in volunteering at your organization, every effort should be made to engage her or him quickly. Proper matching of volunteer positions to individual interests and skills is crucial for this process. People will spend their energies where they are happy, when they feel satisfaction, where they feel responsible and where they see growth in themselves and in their role.

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How to Engage Your Volunteers

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It is important to have a good understanding of what motivates a volunteer and what skills, talents and experiences they bring to their volunteer work. Some volunteers want to use current skills while others prefer to learn new skills. The selection and interviewing process helps managers of volunteers understand what each volunteer is bringing to and seeking from the volunteer experience.

Volunteers remain active and engaged when they:

- Feel appreciated
- See their presence makes a difference
- Have opportunities for personal growth
- Receive public/private recognition
- Have a sense of belonging and teamwork
- Are involved in problem solving, decision-making, etc.
- Feel capable of handling the tasks
- See that something is happening
- Feel their personal needs are being met



On the other hand, volunteers can lose interest and leave organizations when they:

- Find discrepancies between expectations and reality
- Do not feel they are making a difference
- Do not receive praise or reward
- Have no variety and the work is too routine



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Determining Reasonableness

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Issues can arise when the expenditure is deemed allowable but may still be unreasonable. For example, the use of Federal Funds for students' educational field trip to a far off locale such as Alaska. Although an educational field trip might be allowable, the reasonableness of taking students to Alaska utilizing Federal funds would most likely not meet the definitions of reasonableness noted above (for cost reasons), unless a grant had been received for that specific purpose or the money had been raised by other means.

Another potential area of concern is personnel compensation. It is allowable, of course, to hire principals, superintendents, and other employees and fund their salaries with federal funds; however a salary that is disproportionately high in comparison to salaries offered for the same position by other schools could be considered unreasonable. Providing stipends for an individual simply for completing existing duties as defined by their job description could also fail the criteria for reasonableness.

To ensure compliance with both allowability and reasonableness, all expenditures should be subject to review. The good news is that a multitude of resources are available to help determine reasonableness, including discussions with federal awarding agencies, local education line officers, and other schools. As your auditor or consultant, our firm can also provide guidance based our general experience with other schools to help expand your knowledge to make these determinations.

Need help reviewing your expenditures?

Contact CW Payne, CPA, at (928) 774-4201, ext 204 or cwp@heinfeldmeech.com. ■

Changes to Federal Requirements

(cont'd from P.1)

This feedback prompted several changes and ultimately led to the final guidance issued in December 2013.

One of the largest accomplishments achieved by the COFAR in the final guidance includes the elimination of duplicative OMB Circulars to one centralized guidance document. In particular, the following OMB Circulars have been consolidated:

- A-21, Cost Principles for Educational Institutions
- A-87, Cost Principles for State, Local, and Indian Tribal Governments
- A-89, Federal Domestic Assistance Program Information
- A-102, Awards and Cooperative Agreements with State and Local Governments
- A-110, Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- A-122, Cost Principles for Non-Profit Organizations
- A-133, Audits of States, Local Governments and Non-Profit Organizations
- A-50, Audit Follow-Up, related to Single Audits

This accomplishment, along with a current study to consolidate and standardize key data elements and language, intends to reduce duplicative and inconsistent applications of the required guidance.

Other changes focus on performance achievements and outcomes, rather than prescribed practices and requirements. One example cited by OMB relates to the time and effort requirements. The new guidance focuses more on the importance and necessity for time and effort tracking rather than specific examples of how to track time and effort. The intention is to place more emphasis on the grantees' responsibilities

to develop and maintain strong internal control environments to ensure compliance with financial management requirements.

The most significant change in audit requirements is the increase in the Single Audit threshold to \$750,000 from the current level of \$500,000. According to OMB research, increasing this threshold will eliminate the need for approximately 5,000 Single Audits while still maintaining audit coverage for 99% of the federal grants awarded. Increasing the threshold will reduce the burden on smaller non-federal entities while also reducing the sub-recipient monitoring duties of larger granting agencies. In addition to the Single Audit threshold, the guidance also increases the Type A threshold for major federal programs to \$750,000 from the current level of \$300,000. Other changes in audit requirements affect the determination of the amount of Federal awards to be audited. Specifically, the minimum amount of awards that must be audited for low-risk auditees will decrease from 25% to 20% of annual federal expenditures while audit coverage for high-risk auditees will decrease from 50% to 40% of annual federal expenditures.

All of these changes will require a significant amount of effort at each Federal agency to incorporate the new guidance into their respective granting and oversight processes, as well as their grant literature and forms. As such, the implementation date for Federal agencies is immediate; however the implementation date for non-federal entities is the fiscal year *beginning* on or after January 1, 2015.

Visit the COFAR website (<https://cfo.gov/cofar/>) for more information and guidance to occur over the next year, as well as links to video webinars held in December 2013 and January 2014. The finalized guidance is available at <https://federalregister.gov/a/2013-30465> ■

H&M News

Karin M. Smith, MBA, SFO, was promoted to Partner in January 2014. Karin has been a member of the firm's consulting division since 2011 and also has more than 14 years of experience working in the public sector in Arizona. For more information on Karin, visit [her page on our website](#).



We are also happy to announce these other promotions: *Kara Jungbluth, CPA*, and *James Shankland* to Senior Associate; and *Katlin M. Bryant, CPA*, *Jordan King*, and *Joseph Wagner* to Staff Associate II.

How to Engage Your Volunteers

(cont'd from P.2)

- Lack support from co-workers
- Do not have opportunities for personal growth
- Are not meeting personal needs
- Believe there is little opportunity for initiative or creativity
- Experience tension among co-workers

The loss of valued volunteers can mean increased costs and decreased efficiency to your organization. Just as your organization should ensure policies and procedures are in place to reduce turnover of paid staff, so should similar investments be made to reduce volunteer turnover. Proper recruiting and training of new volunteers, as well as regularly scheduled conversations throughout the volunteering process, can help ensure that your organization retains the best volunteers possible. ■

About H&M

Heinfeld, Meech & Co., P.C., CPAs and Business Consultants, serves schools throughout Arizona and New Mexico, with offices in Tucson, Phoenix, and Flagstaff.

We are focused exclusively on providing accounting and auditing services to governmental and not-for-profit entities. Our active involvement in national and state associations keep us informed about emerging issues affecting Community Schools and Dormitories. We offer this free quarterly newsletter to you as part of our commitment to providing resources and training to business personnel at Community Schools and Dormitories.

For more about our firm, please visit our web site at www.heinfeldmeech.com.



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