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DEPARTMENT OF EDUCATION
LANSING

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Michigan Department of Education Guidance on Federal Grant Programs
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BACKGROUND

As a pass-through entity for Federal grants, the Michigan Department of Education (MDE) has the responsibility to administer and monitor all grants and grant programs for which MDE serves as the State Education Agency (SEA). Educational agencies that receive grant funds include traditional school districts, intermediate school districts, and public school academies. MDE also serves numerous subrecipients that are not school districts. These other non-school recipients include non-profit organizations that serve children, child and adult program sponsors, institutions of higher education, and other education-related institutions or entities.

PURPOSE

The purpose of the guidance is to provide up-to-date information related to the administration, management, and performance of Federal grants administered by MDE. This document will be a work in progress and will be updated based on the latest guidance from Federal awarding agencies, results of internal audits of MDE practices, results of subrecipient single audits, and results of MDE monitoring visits of Federal grant subrecipients.

MDE is updating the Department's approach to monitoring Federal grant programs in order to conform to the Federal guidance outlined in 2 CFR 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards that was enacted on December 26, 2014. This Federal guidance will be known as Uniform Guidance (UG). In order to comply with recently updated Federal regulations and the latest Federal guidance, MDE is working to create a consistent monitoring protocol to be followed by all MDE offices.

The new Federal guidance was the result of U.S. Office of Management and Budget (OMB) combining many federal circulars into a single document of government-wide grant management policies and guidelines. These regulations became effective December 26, 2014 (2 CFR 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards). Federal agencies, such as the United States Department of Education, are required to rewrite their policies and procedures based on the new Uniform Guidance. These new policies and procedures are intended to focus on increased efficiency and strengthened oversight of Federal programs. Internal controls and written policies, mentioned numerous times in the guidance, are two major areas with changes related to the UG. Subrecipients of

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Federal funds are required to have strong internal controls and documented processes, supplemented with written policies and procedures, in order to maintain eligibility for Federal funds.

UG is intended to:

- Provide a balance between grant program performance and fiscal compliance
- Provide for consistent treatment of costs
- Target audit requirements on risk of waste, fraud, and abuse
- Emphasize the need for internal controls

MONITORING GRANT PROGRAMS

A comprehensive monitoring program is integral to the success of all grant-funded programs and will occur throughout the year. Appropriate monitoring will be based on an evaluation of each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward. Monitoring activities may take various forms, such as:

- Performing site visits, desk audits, or document reviews
- Reviewing financial and performance reports submitted by the subrecipient
- Inquiring about program activities through regular contact with the subrecipient
- Reviewing policies and procedures that guide subrecipients in their performance and management of grant activities

In addition to complying with MDE monitoring, entities that expend more than \$750,000 of Federal funds through grants are required to have a single audit performed in accordance with 2 CFR 200.514 and have the results submitted to MDE. Single audits do not take the place of the SEA's monitoring activities, but are part of the overall management approach for managing Federal programs.

The UG specifies new requirements related to administrative requirements for both pass-through entities and subrecipients, including updated cost principles and audit requirements for Federal grants. A shift in emphasis in several areas is apparent when contrasted to the previous guidance or lack of previous guidance. Subrecipients will have to demonstrate that they have proper internal controls to manage their grants, both programmatically and financially.

The UG emphasis on internal controls is intended to provide reasonable assurance that a non-Federal entity is managing its awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal grant. Specifically, it addresses:

- Effectiveness and efficiency of operations
- Reliability of reporting for internal and external use
- Compliance with applicable laws and regulations

Written policies and procedures. The UG has specific requirements for establishing written policies and procedures. Previous guidance recommended written policies; however, subrecipients are now required to have written policies and procedures. These policies should address the reasons subrecipients administer their grant program a certain way and should also contain goals or objectives. The procedures should detail how subrecipients perform the functions necessary to conform to the policies. The policies and procedures will pertain to both state-administered grants and those received directly from Federal agencies. As they are developed, subrecipient policies and procedures should be specific to the subrecipient.

The following policies and procedures are required by UG:

1. Written Cash Management Procedures (§200.302(b)(6)). Written procedures to implement the requirements of §200.305 Payment.
2. Written Allowability Procedures (§200.302(b)(7)). Written procedures for determining the allowability of costs in accordance with Subpart E—Cost Principles of this part and the terms and conditions of the Federal award. Written allowability procedures should not be a re-statement of Subpart E.

Note: Allowability procedures are not a restatement of Subpart E, but rather broader guidance that the subrecipient will follow related to the development of the grant application and grant budget. With all Federal grants, costs related to the grant must always be necessary, reasonable, and allocable. Each budget must conform to Federal laws and the terms of the grant. The budget and associated costs should be consistent with state and local policies and be adequately documented.

3. Written Conflict of Interest Policy (§200.318(c)). Maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts.

Note: A conflict of interest arises when an employee, officer, agent, or member of a family has a financial or other interest in the firm selected for award. In addition to the written policies, the subrecipient organization must disclose in writing any potential conflict to MDE.

4. Written Procurement Procedure (§200.319(c)). Written procedures for procurement transactions.
5. Written Procedure for Conducting Technical Evaluations of Proposals and Selecting Participants (§200.320(d)(3)). The non-Federal entity must have a written method for conducting technical evaluations of the proposals received and for selecting recipients.
6. Written Travel Policy (§200.474(b)). Lodging and subsistence costs incurred by employees and officers for travel will comply with the non-Federal entity's written travel policy.

Compensation. MDE offices have traditionally addressed the issue of compensation under the heading of Time and Effort. Tracking compensation for personnel services, including all remuneration for services of employees rendered during the period of performance of the federal award, includes, but is not limited to, salary and benefits. For school year 2015-16, MDE guidance has been to follow the previous policy and procedure. Starting with the 2016-17 school year, all MDE offices will expect their subrecipients to follow the Uniform Guidance (2 CFR Part 200 §200.430). The new guidelines give subrecipients additional flexibility, but there is responsibility on the subrecipient's internal controls and the corresponding policies and procedures. Charges must be based on records that accurately reflect the work performed. If the records are supported by a system of internal controls that provide a reasonable assurance the charges are accurate, allowable, and properly allocated, then subrecipients will not be required to provide additional support or documentation. Personnel activity reports may no longer be required. MDE will provide additional information separately regarding MDE's expectations for areas of Compensation.

Procurement. Federal UG guidance deferred the effect of new procurement guidelines outlined in UG. Subrecipients of Federal grants can elect a deferment of procurement requirements in 2 CFR 200.317 to 200.326 for two years after the regulations would otherwise apply to a grant. Subrecipients that elect to defer the effect of the new procurement guidelines must have a statement specifying their intent to delay the implementation of the new standards.

The UG created new flexibilities permitting grantees to establish more informal procurement procedures for micro purchases. Other procurement methods are not significantly changed from the requirements in EDGAR Parts 74 and 80. For SEAs, refer to 2 CFR § 200.317. For all other non-Federal entities, including subrecipients, refer to 2 CFR § 200.318.

Subrecipients must have written procurement policies that require purchases to be necessary and reasonable, and adequately documented. Policies must include principles for avoiding potential conflicts of interest, identify individual responsible, and include written standards or conduct. Any potential conflicts of interest and any violations of Federal criminal law potentially affecting the award are required to be disclosed in writing. Procurement procedure must also reflect applicable state, local, and tribal laws and regulations.

Supplies and Computing Devices. Supplies means all tangible personal property other than those described in §200.33 Equipment. A computing device is a supply if the acquisition cost is less than the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or \$5,000, regardless of the length of its useful life. MDE expects that there will be procedures in place to manage inventory, especially of supplies subject to theft.

Pass-Through Entity Responsibilities. If an organization that receives Federal funds from MDE passes those dollars along to subrecipients, it becomes a pass-through entity and must comply with subrecipient monitoring and management tasks specific in Subpart D of the UG (§ 200.330-§ 200.332). When an organization serves as a pass-through entity, that organization has responsibilities to ensure that its

subrecipients are in compliance with applicable Federal and grant requirements. The UG describes explicit pass-through entity requirements for both the pre-award process, as well as the post-award period. All pass-through entities must understand the requirements and how those requirements have changed from the existing grant standards.

Pre-award Responsibilities. For awards to subrecipients over \$25,000, the pass-through entity must ensure the subrecipient is not suspended or debarred by the Federal government prior to issuing the award. The pass-through entity must ensure the grant agreement with the subrecipient includes specific data elements. The data elements that are required to be listed in a subrecipient agreement are included in § 200.331.

Post-award Responsibilities § 200.331. Under the UG, pass-through entities are required to ensure that subrecipients are adequately monitored after the initial award is made. Monitoring protocols will be based on an evaluation of each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward.

Applicability. Transition between grant years and audit periods can cause confusion over which rules and guidance to follow during a specific grant year. The UG was effective for all Federal awards made after December 26, 2014. For MDE grants, grant award numbers that start with 16XXXX will follow the UG. Grants with a grant number of 15XXX will follow the previous rules and regulations. Years in which funds from both years are spent will likely cause confusion about which rules are to be followed. When programs are monitored, staff will be looking to the original source of the funds used to fund the program. Was it awarded before or after December 26, 2014? For single audits of school districts conducted starting July 1, 2015, (October 1, 2016, for subrecipients on standard fiscal year) it is possible that activities and programs being audited were funded under a pre- and post-UG award. The specific source will dictate which rules and regulations to follow. MDE award letters and grant award notifications are the best source to determine the start and end dates of grants from MDE. For school districts, the first audit period under UG ends June 30, 2016, with the audit due March 31, 2017.

Subrecipients with existing approved policies and procedures that implement entity-wide system changes to comply with Uniform Guidance after the effective date of December 26, 2014, will not be penalized. MDE staff will work with subrecipients to clarify any issues that arise from monitoring programs that are in transition.

Training. To provide the broadest dissemination of this Federal grant guidance, MDE will establish a training program with published guidance, resources on the MDE website, and supporting materials. MDE will work with the Education Alliance to participate in conferences and meetings. MDE also will work with its Internal Monitoring and Compliance committee to create consistency across MDE for all grant-related monitoring activities.