



Compliance Monitoring of Federal Funds

MSBO Conference – June 8, 2023
Business Manager/CPA Workshop

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Presented by



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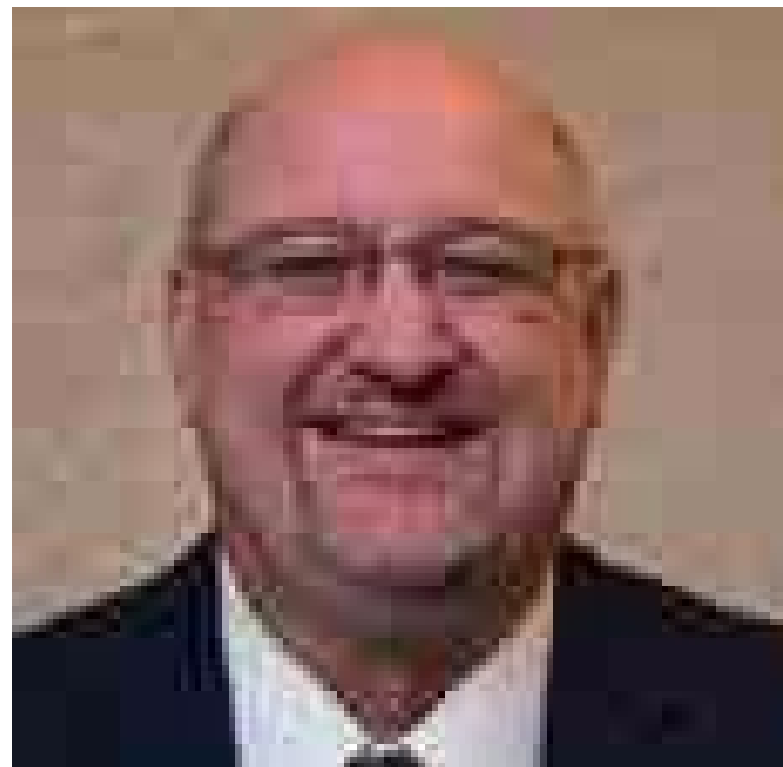
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Topics

History of Monitoring in Michigan

Uniform Guidance Overview

Monitoring Process

Preparing for Monitoring

Latest Iteration

Questions



A History of Monitoring...

The Problem

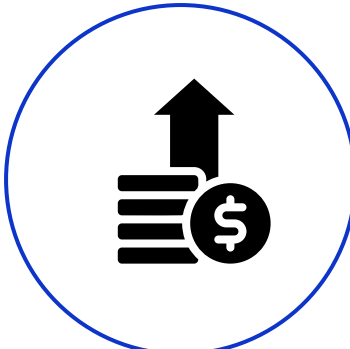


In March 2020, the State of Michigan began facing the COVID-19 public health emergency...

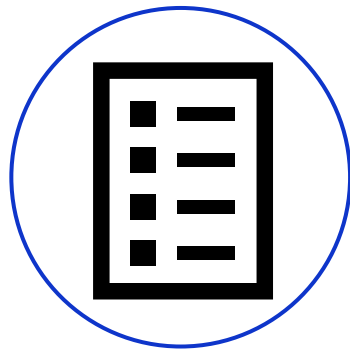


...as well as downward-spiking revenues and budget shortfalls for FY2020

The Objective



In response, the State Budget Office needed assistance to maximize, capture, and optimize use of incoming federal funds.



Using Federal COVID Stimulus funds, the SBO committed to assist agencies with administering such funds.

The Solution



SBO established the Federal COVID Stimulus Program Management Office (PMO) as its action arm coordinating optimization of Federal stimulus revenues for the State of Michigan.



On [May 4, 2020](#), Governor Gretchen Whitmer signed [Executive Directive 2020-5](#), creating the Michigan COVID-19 Office of Accountability within the State Budget Office. The Accountability Office provides oversight of all spending to address this crisis reporting to the governor and the state budget director.

Compliance Responsibilities

6

Subrecipients share responsibility for compliance with Uniform Guidance.

Multiple layers of oversight exists related to COVID-19 Funds through the State PMO Compliance Team, the State Office of the Auditor General, as well as the US Offices of Inspector Generals – whom work together to ensure State programs meet compliance requirements.



PMO Compliance Team

- Performs ongoing, continuous monitoring of **COVID-19 federal stimulus funds (CARES, CRRSA, and ARPA)** as required by Uniform Guidance for Federal Awards (2 CFR 200).
- Detects noncompliance **prior to** formal audits - federal or state.



Office of the Auditor General

- **Independent, oversight arm** for all state branches, departments, offices, boards, and other entities.
- Audits occur on periodic, distinct basis.
- **Performs financial, performance, and investigative audits**, including the State Single Audit.



Federal Audits

- Performed by **Offices of Inspectors General** in Federal Agencies
- Audits occur when state programs are **sampled** by federal OIG
- Determine compliance with 2 CFR 200 and federal program requirements

COVID Stimulus PMO



Jennifer Edmonds



Rick Lowe



Doug Roosa



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Coordination



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LaShanda Thomas



Chip Armstrong



DeWayne Grey



Neil Jain

Compliance and Monitoring



Uniform Guidance

Uniform Guidance Overview

Single Audits (Subpart F, 200.501, 200.514)

- Required for non-Federal entity **spending above \$750k** of federal funds in the entity's fiscal year
- **Starts with a financial audit** conducted in accordance with GAAS and GAGAS
- **Adds requirements** for testing compliance with federal grant regulations
- Stages of a single audit:
 - Determine need (Federal expenditures > \$750,000)
 - Select major programs (by Assistance Listing Number/cluster)
 - Test internal controls and compliance
 - Reporting (three reports, plus a SFQC, and a DCF)

Pre/Post Award Requirements (Various Subparts, see below)

Pre-Award:

- **Grant document** info: Performance goals, general information, terms and conditions (Subpart C)

Post-Award:

- **Recipients:** Requirement compliance, performance measurement, financial management systems (Subpart D, 200.302)
- Payments: Advances or reimbursements from US gov't (Subpart D, 200.305)
- **Cost matching:** Must be verifiable, exclude other federal awards (Subpart D, 200.306)
- **Performance period:** Allowable costs charged during agreed period (Subpart D, 200.309)

Procurement (Subpart D, 200.318)

- States may follow their own policies and procedures
- **All others must follow the general procurement standards**
 - Use documented procurement procedures
 - No conflicts of interest
 - Consider most economical purchase option
- Procurement transactions: **full and open competition**
- Methods:
 - Micro purchases, small purchases, sealed bids, competitive proposals, sole source

Uniform Guidance Overview

10

Direct & Indirect Costs (Subpart E, 200.413-414)

Direct costs:

- Can be charged directly to the program
- Can be identified specifically with a particular final cost objective
- Minor items may be treated as indirect for reasons of practicality, if consistently applied
- Unallowable costs may still be direct

Indirect (F&A) costs:

- Classified as “facilities” (space costs) or “administration” (overhead costs)
- Cannot be identified specifically with a particular final cost objective
- Subject to negotiated rate w/ federal agency or de minimis 10% rate

Subrecipient Monitoring (Subpart D, 220.331-333)

- Pass-through entities must:
 - Evaluate subrecipient risk based on their prior award experience, prior monitoring/audit results, extent of new personnel/systems
 - Review financial and programmatic reports, verify appropriate audits are conducted
 - Depending on assessed risks: Provide training/technical assistance, perform on-site reviews
 - Follow-up on identified deficiencies, issue a “management decision” on audit findings, consider taking enforcement action for noncompliance
- The state departments are the pass-through entities

Recipient Determination

Subrecipients

- Determine who is eligible to receive what Federal assistance
- **Have performance measured** in relation to whether program objectives were met
- Have responsibility for **programmatic decision making**
- Are **responsible for adherence to applicable Federal program requirements** specified in the Federal award
- **Use the Federal funds to carry out a program**, as opposed to providing goods or services for the benefit of the pass-through entity

Contractors

- **Provide goods and services within normal business operations**
- Provides similar goods or services to **many different purchasers**
- Normally operate in a **competitive environment**
- Provide goods or services that are ancillary to the operation of the Federal program
- Are **not subject to compliance requirements** of the Federal program as a result of the agreement

Beneficiaries

- May be **individuals or entities** who receive federal funding from the State
- Are not using payments to carry out a program on behalf of the State
 - In contrast, leverage federal funding for the purpose of directly benefitting the individual or entity as a result of experiencing a public health impact or negative economic impact of the pandemic

Subrecipient Monitoring

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PMO Compliance Team performs subrecipient monitoring on behalf of MDE, meaning *most* of the testing is focused on activities of the subrecipients. In this case, the education agencies that received and expended ESSER/GEER dollars in the form of federal financial assistance are considered subrecipients.

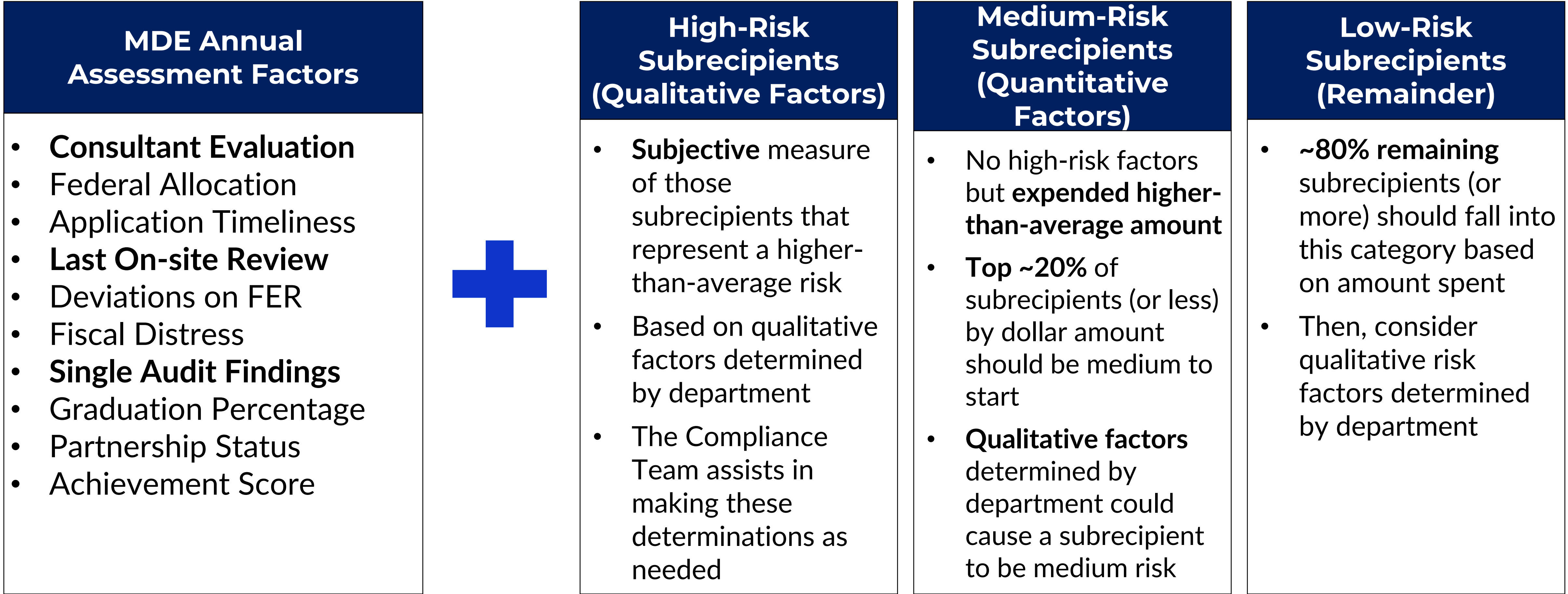
- **MDE**, as State of Michigan department, is considered the **pass-through entity** and provided information to evaluate each the **risk of noncompliance** of each education agency.
- **Financial and Programmatic reports** are reviewed not only through monitoring, but through regular processes of MDE.
- Observations from monitoring may ultimately lead to the need for **training** of agency staff, **technical assistance** from a third party, or **on-site visits** from MDE.
- MDE **reviews and provides feedback on any deficiencies** (observations) that result from monitoring, in addition to **management decisions** on things like Single Audit Findings.



Monitoring Process

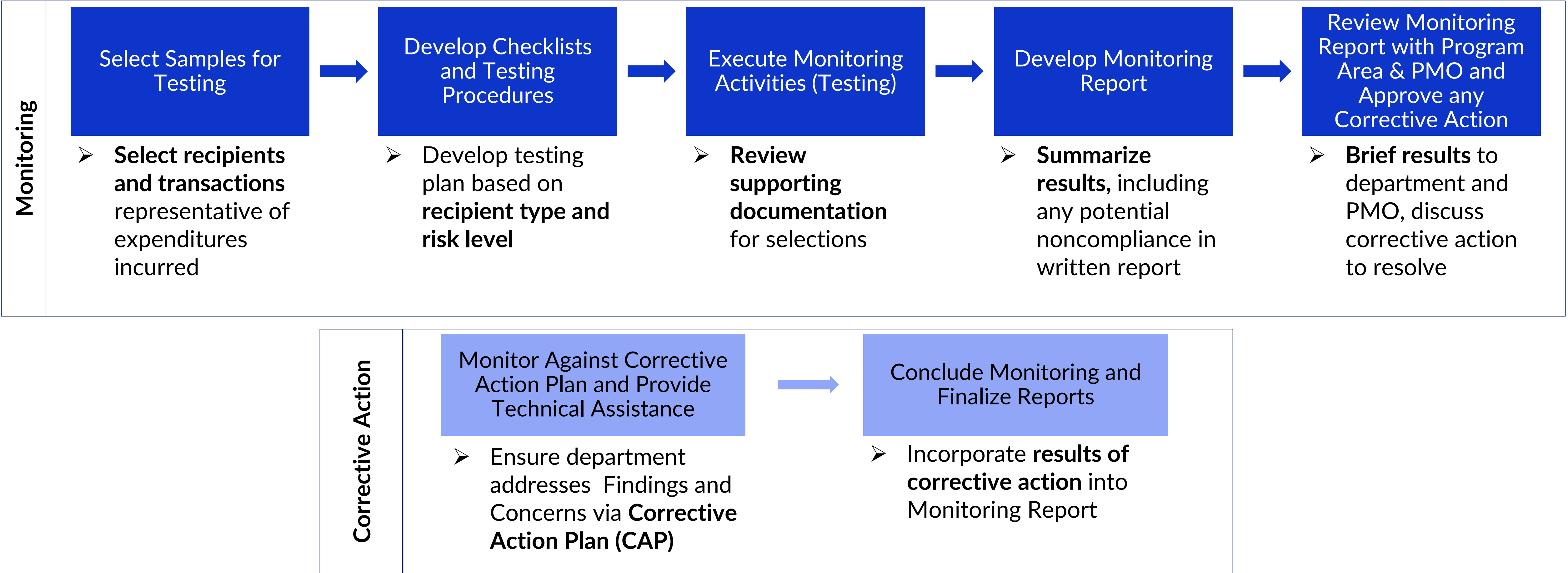
Risk Assessment of Subrecipients

MDE performs an annual risk assessment, which was then used in conjunction with the factors below to rank subrecipients as high, medium, or low risk.



General Monitoring Approach

Upon completion of risk assessment, the following steps are taken in the monitoring effort.



Sampling and Testing Examples

The amount of sampling and testing during the monitoring effort is a matter of professional judgment and is **based on the assessed level of risk** for the program overall and the subrecipient. The Compliance Team worked with MDE to assess overall program risk and subrecipient risk.

The following are examples of monitoring steps that the Compliance Team will take to test expenditures.

All costs: Compare against general program requirements and the Uniform Guidance

Equipment and real property: Agree amount to purchase order, invoice, receiving report, and equipment inventory

Other goods and services (including payments to contractors): Agree amount to purchase order, invoice, and receiving report

Payroll costs: Verify payroll register documentation matches total value of payroll expenditures

Monitoring Approach for FY 2020 & 2021

17

Evaluate program risk assessment

ESSER and GEER were assessed an overall risk

Utilized 2019 – 2020 **Consultant Assessment** provided by MDE to rank agencies

Subrecipients (education agencies) were selected **based on their assessed risk**

Obtain data files & determine population

FID data represented actual expenditures for Fiscal Years 2020 & 2021

Eligible applicants were LEAs, including public school academies and ISD, or certain other educational entities

Design sampling & testing plan

Sampling was performed **based on risk ranking** and samples distributed between funding sources

Funding sources applicable to this monitoring included ESSER I, ESSER II, GEER I*, and GEER II*

Testing of Controls and Transactions

Testing Pt. 1 included:
Reviewing MEGS+ application, comparing FID to Budget, **Verifying Single Audits**

Testing Pt. 2 included:
Reviewing GL detail, Transactional sampling

Testing Pt. 3 included:
Reviewing supporting documentation, Survey responses, Additional follow up as needed

Review and Report to MDE

Preliminary Results (Observations) provided to MDE

Discuss **Observations** at Exit Conference #1

Worked with department to **clarify observations**

Bring **Corrective Action** necessary to Exit Conference #2

Work with agencies to **implement corrective action**

Testing and Review

18

PART 1

- Review Application Materials in MEGS+
- Compare Budget to FID Data
- Request GL Detail to Support FID Data
- Verify Single Audit Reviews by MDE



PART 2

- Review GL Detail and **sample transactions**
- Request Supporting Documentation
- Send **Subrecipient Survey** and any follow up with questions



PART 3

- Review **Supporting Documentation**
- Review survey responses and follow up
- Explain Variances, if any
- Recommend **Corrective Action**, if applicable

RESULTS

Detail review by managers and principals.

Follow Up performed as needed.

Results (Observations, Findings, and Concerns)

Overall, the monitoring effort for ESSER & GEER expenditures utilizing CARES showed:

- The **application process** for ESSER/GEER funding was **well documented** in MEGs+ and was validated against the FID data, as the basis of the expenditures in the period monitored.
- **Expenditures** incurred by agencies under the CARES iterations of ESSER/GEER **were supported** and in line with eligible uses, with few unsupported or ineligible expenditures.
- Many agencies had policies and procedures, but often these **policies and procedures could be more detailed** for federal grants management – including policies for PII or PHI.
- Noted that a few schools included **sales tax** in the charges to the federal award, which may require funds to be recouped.




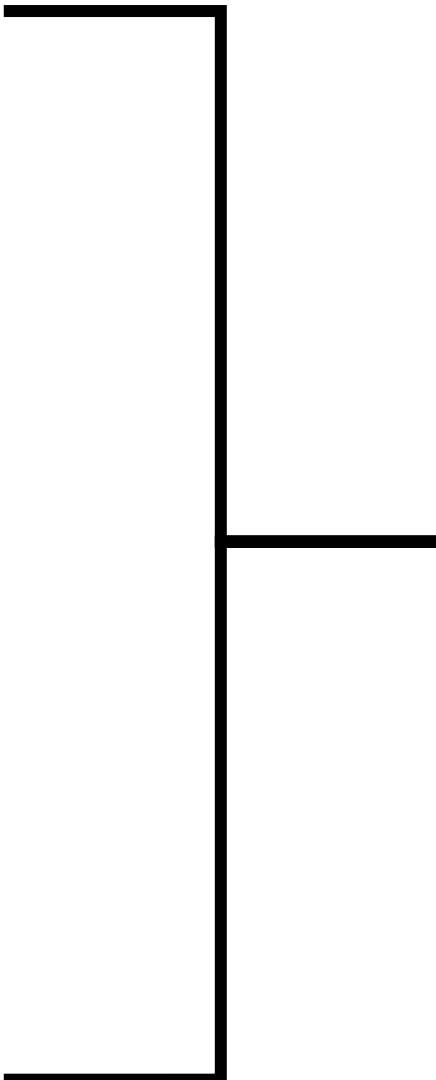
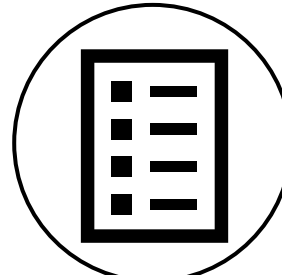

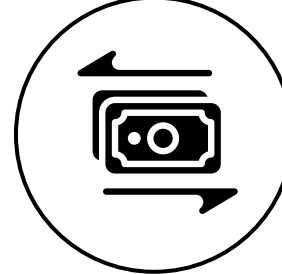

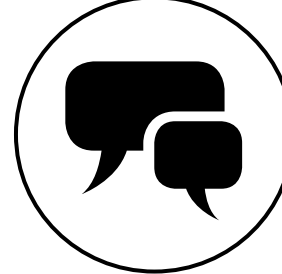

Observations are defined as potential issues that may be resolved prior to or converted to a finding or concern upon in depth review.



Findings are defined as violations of statutory, regulatory, or program requirements for which sanctions or other corrective actions may be issued.

Concerns are defined as other deficiencies not necessarily based on statutory, regulatory, or program requirements which could become findings if not addressed.

Common Issues Observed in Michigan

Issue/Trend 		Measures to Combat 
 Supporting Documentation: Lack of supporting documentation for transactions and/or eligibility		<ul style="list-style-type: none">Ensuring the department and/or subrecipients are collecting supporting documents to verify expensesVerifying that subrecipients have policies / procedures for managing federal fundsInstituting a rigorous process to check reimbursed amounts for accuracy, including using analytics
 Policies and Procedures: Although the majority of subrecipients had adequate policies, many subrecipients lacked documentation of administrative procedures for grant management, increasing risk		
 Reimbursement Discrepancies: Variances in reimbursed amount indicate potential larger error, increasing risk		
 “Pass Through” Implications: Subrecipients granting funds to other subrecipients, potential loss of oversight		When a State subrecipient passes funds to other subrecipients, the State subrecipient must be informed that this new relationship was created and the State subrecipient must perform their own monitoring.
 Responsiveness: Nonresponsive recipients prevent testing from continuing, increasing risk		As soon as a recipient is non-responsive to the Compliance Team, Compliance Team and Program Area quickly coordinate to resolve or escalate.

Common National Trends



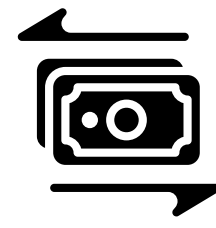
Risk Assessments: States must perform risk assessments of each pandemic stimulus-backed program to determine the extent of monitoring



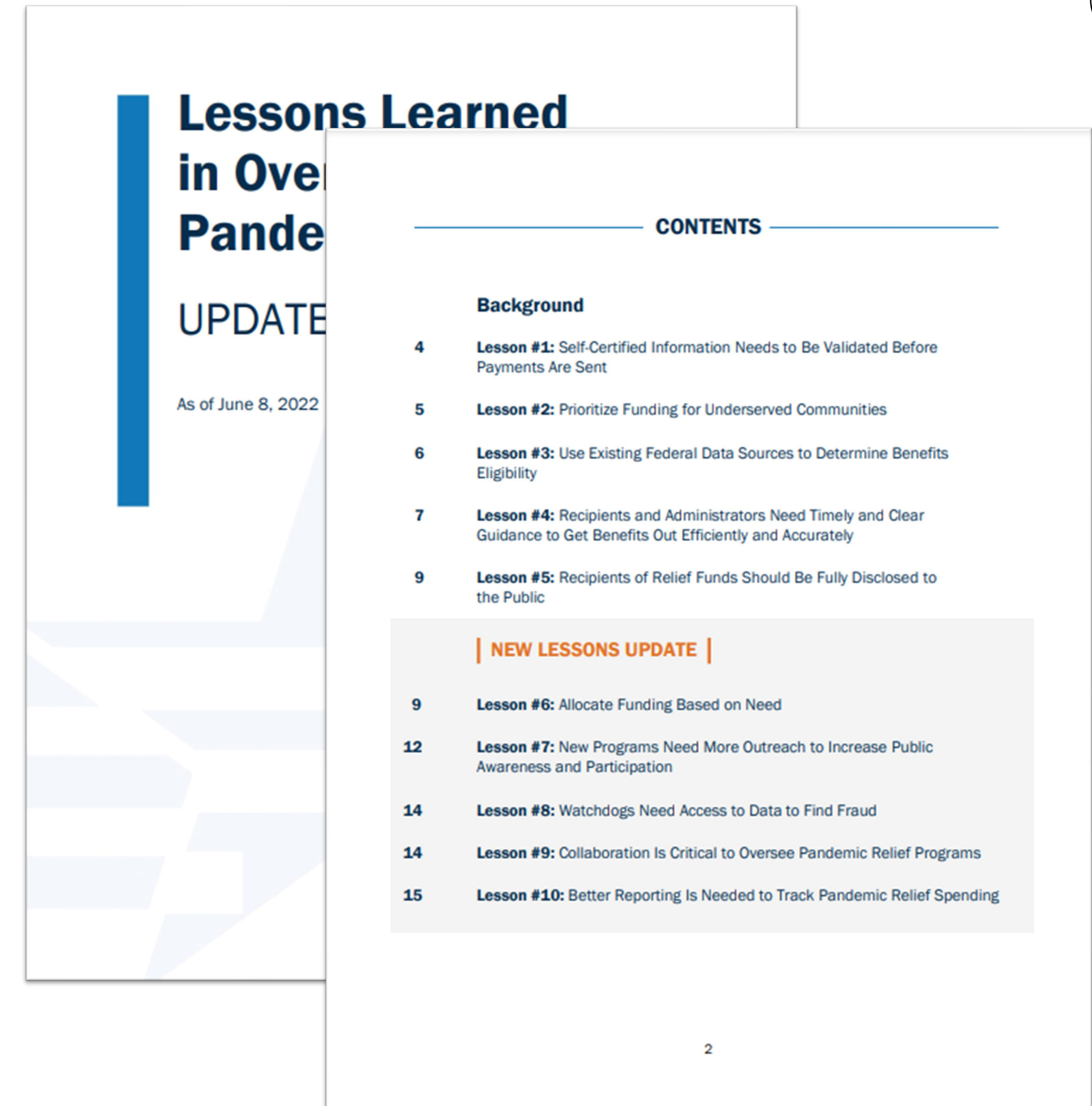
Supporting Documentation: States must ensure that they are collecting documentation to verify expenditure allowability and recipient eligibility



Subrecipient Monitoring: States must consistently sample transactions from subrecipients to ensure compliance with State and Federal Guidance



Concurrent Monitoring: States should engage in monitoring during a program's operation in order to implement corrective action and optimize performance outcomes



For more details, visit the latest [report](#) from the Pandemic Response Accountability Committee.

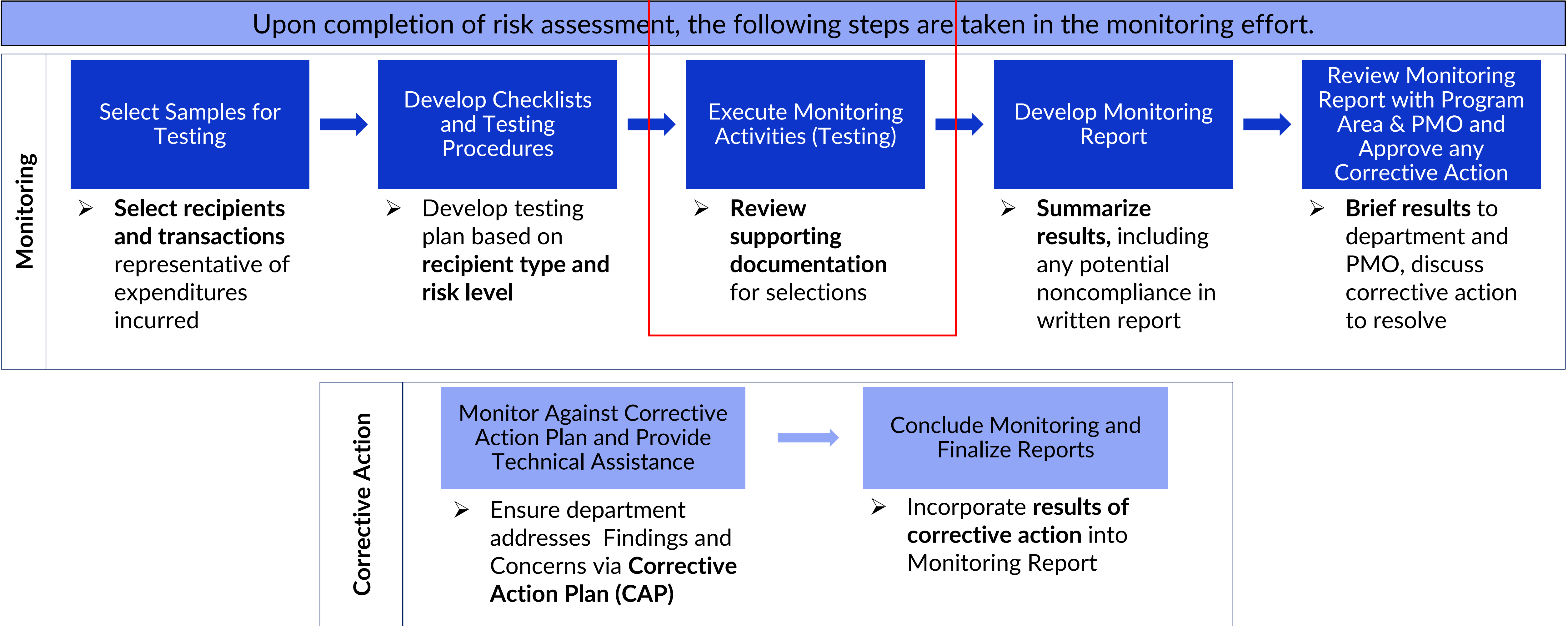
Timing and Communications

- Please take the time to **update your contact information** for key officials throughout your agency with MDE and EEM, **especially when there is turnover in staff.**
- **Anticipate monitoring to occur regularly** each year between **April to June** timeframe, instead of during the traditional audit period for schools.
- Compliance team is open to communicating other than via email or phone, like **recurring virtual meetings** during monitoring. Preference is **up to each agency.**

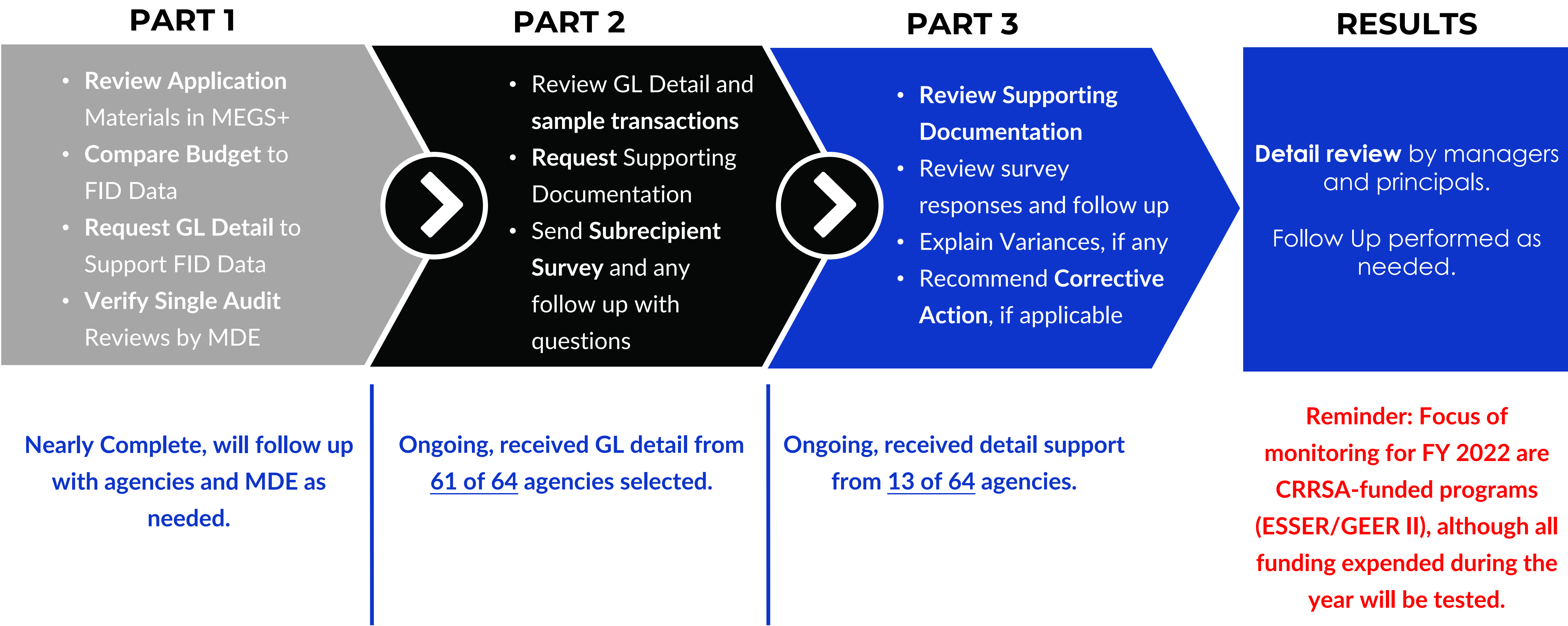
Testing and Review

- More streamlined approach to payroll expenditures – compliance team will **segregate payroll transactions up front** and **sample based on employees** instead of individual transactions.
- **Payroll registers** are the best support when it comes to payroll, and that is what will be expected during this next iteration.
- **Prompt responses** are expected during monitoring to ensure steps are not missed. Support should be turned around **within two weeks**, unless specified otherwise.
- Compliance team working to have more team members **focused on like agencies** to **expedite** testing and provide **consistency.**
- Emphasis on **Internal Controls**, leveraging another survey
- Additional testing in future will be based on specific elements of enabling legislation

Monitoring of FY 2022 – Status, overall



Monitoring of FY 2022 – Status, testing





QUESTIONS

For additional questions...



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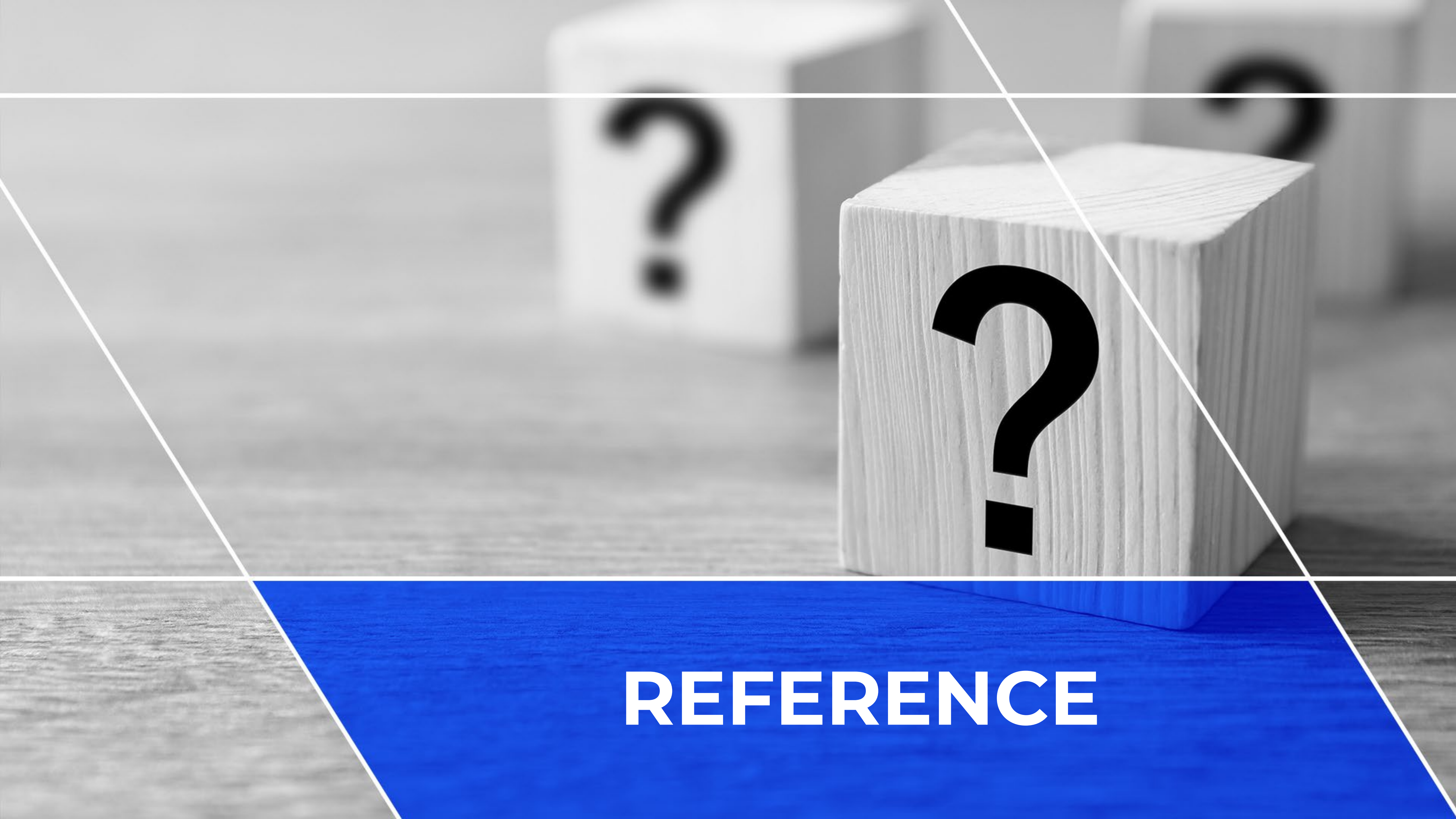
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**Slides will be
available for
download on
MSBO's website.**



REFERENCE

Education Stabilization Fund



The [Education Stabilization Fund](#) (ESF) was originally created under the CARES to provide relief to educational agencies across the country through four different mechanisms Education Stabilization Fund Discretionary Grants; **Governor's Emergency Education Relief Fund (GEER)**; **Elementary and Secondary School Emergency Relief Fund (ESSER)**; and Higher Education Emergency Relief Fund.

CARES

Provided \$30.75B in funding for these programs, Michigan was allocated \$402M in funding under ESSER and \$89M in funding under GEER.

CRRSA

Provided \$81.9B in funding for these programs, Michigan was allocated \$1.6B in funding under ESSER and \$125M in funding under GEER. Funding was also provided under EANS for private schools.

ARPA

Provided \$122B in funding for these programs, Michigan was allocated \$3.46B in funding under ESSER and GEER was not funded under the American Rescue Plan. Additional funding was provided under EANS.

Key Definitions



Pass Through Entity

- The pass-through entity is the entity that is passing federal funds through to a subrecipient, in this case education agencies. The Michigan Department of Education (MDE) is a State Education Agency (SEA) and the pass-through entity for our purposes.

Target Populations

- Local education agency (LEA), institution of higher education (IHE), or other education agency is receiving funds.

Allocations, Earmarks, Set Asides

- Allocations meaning what amount of funding must be provided to target populations in total.
- Earmarks meaning what specified amounts need to be provided to agencies as explicitly stated in statute.
- Set Asides meaning what funding must be reserved for use at a later time.

Allowable Uses

- Allowable meaning does it align with the program requirements.

Eligible Expenditures

- Eligible meaning was the specific expenditure incurred by an agency not only aligned but appropriately supported.

Maintenance of Level of Effort

- Maintenance of effort provisions are designed to keep States from substantially reducing their support for K-12 education and higher education.

Maintenance of Equity

- Specific to ARPA funding, ensuring that the State does not disproportionately reduce per pupil funding to high-need or highest poverty agencies
- Also includes component of ensuring the number of full-time staff (previously maintenance of level of effort).



ESF: ESSER

ESF: Elementary and Secondary School Emergency Relief Fund



The Department awarded these grants to State educational agencies (SEAs) for the purpose of providing local educational agencies (LEAs), including charter schools that are LEAs, with emergency relief funds to address the impact that COVID-19 has had, and continues to have, on elementary and secondary schools across the Nation.

CARES
Of the \$402M in funding under ESSER, the state award funds primarily to elementary and secondary schools. This funding had the **least number of restrictions in terms of use and was focused on providing relief.**

CRRSA
Of the \$1.6B in funding under ESSER, the state award funds primarily to elementary and secondary schools. This funding had a **moderate number of restrictions in terms of use and continued to provide relief.**

ARPA
Of the \$3.46B in funding under ESSER, the state award funds primarily to elementary and secondary schools. This funding had the **most restrictions in terms of use and is focused on recover and prevention for future pandemics.**

ESSER Data Classification Levels

CARES	CRRSA	ARPA
ESSER Formula	ESSER Equity	ESSER 11-t
K-12		
Allocations, Earmarks, and Set Asides		
Allowable Uses and Eligible Expenditures		
Maintenance of the Level of Effort		
Maintenance of Equity		
SEA	LEA	

ESSER

Target Population(s)

- Public or charter elementary schools in Michigan
- Public or charter secondary schools in Michigan

Allocations, Earmarks, and Set Asides

- Each state shall allocate at least 90% of the grant funds allocated to the state as subgrants to local educational agencies including charter schools.
- No required reservations of funds under ESSER I, but may reserve up to 1% of funds, only half of which can be used for administrative costs.
- ARP ESSER has several required reservations
- More information on ESSER can be found [here](#).
- Federal [FAQs](#)
- Federal [Fact Sheet](#)

Allowable Uses and Eligible Expenditures

- Providing principals and other school leaders with the resources necessary to address the needs of their individual schools
- Addressing the needs of low-income children or students, children with disabilities, English learners, racial and ethnic minorities, students experiencing homelessness and foster youth care
- Developing and implementing procedures and systems to improve the preparation and response efforts of local educational agencies
- Hiring, training and professional development of staff of the local educational agency on sanitation and minimizing the spread of infectious diseases
- Purchasing supplies to sanitize and clean the facilities of a local educational agency
- Planning for and coordinating long-term closures including how to provide meals to students and how to provide technology for online learning for all students, how to provide guidance for carrying out requirements under the Individuals with Disabilities

Education Act and how to ensure other educational services can continue to be provided

- Purchasing education technology to support technological capacity and access including hardware and software, connectivity, and instructional expertise to support remote learning that aid in educational interaction
- Providing mental health services and support
- Planning and implementing activities related to summer learning including online, offline and afterschool activities
- Addressing the needs of low-income students, students with disabilities, English learners, migrant students, students experiencing homelessness, and children in foster care
- Other activities that are necessary to maintain the operation of and continuity of services in local educational agencies and continuing to employee existing staff of the local educational agency



ESF: GEER

ESF: Governors Emergency Education Relief Fund



The Department awarded these grants to States (Governor's offices) based on a formula stipulated in the legislation: (1) 60% on the basis of the State's relative population of individuals aged 5 through 24. (2) 40% on the basis of the State's relative number of children counted under section 1124(c) of the Elementary and Secondary Education Act of 1965 (ESEA).

CARES

Of the \$89M in funding under GEER, the state awarded funds to LEAs, IHEs, and other education agencies under 6 different programs including formula grants to schools.

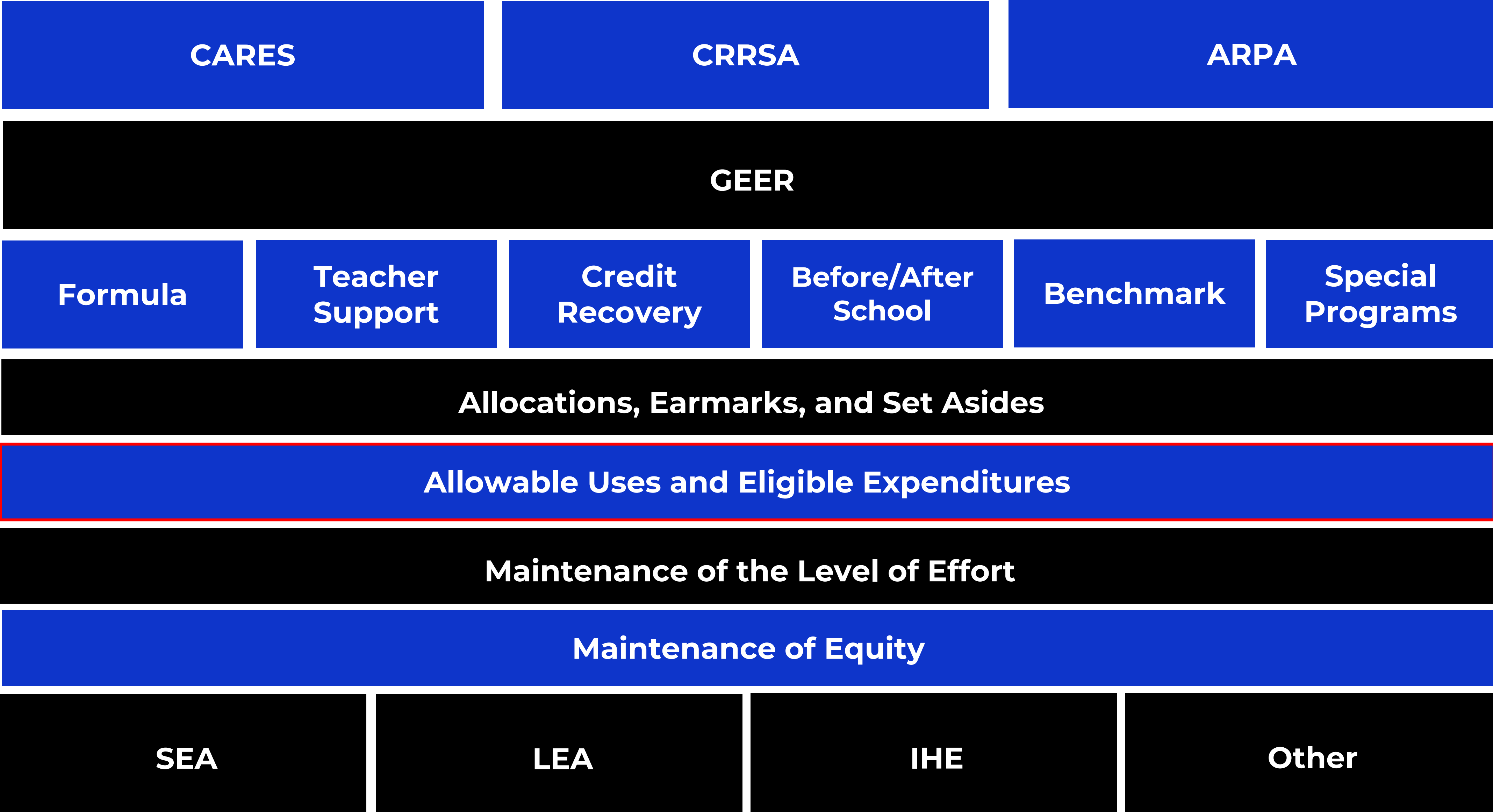
CRRSA

Of the \$125MB in funding under GEER, the state awarded \$38M funds using similar programs under CARES, including formula grants and \$86.7M with a focus on sending funds to private schools (EANS I).

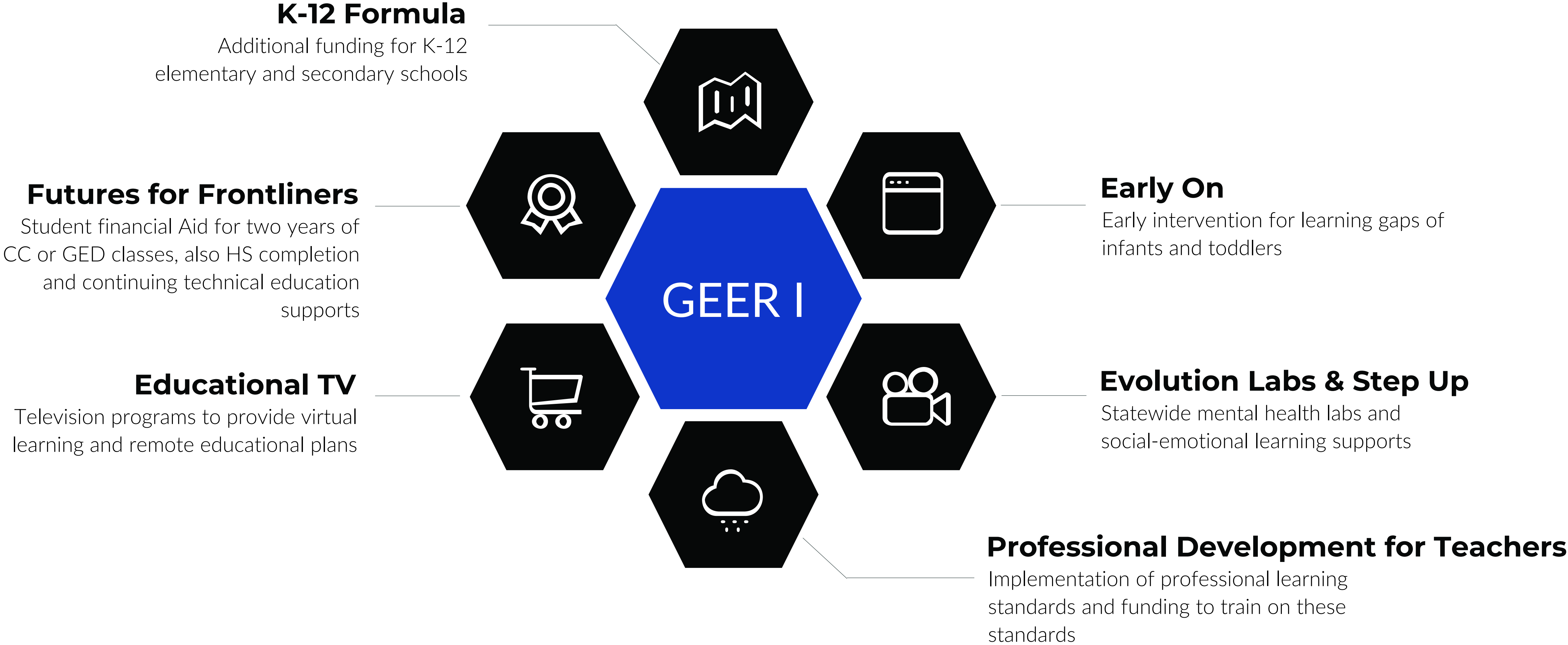
ARPA

Of the \$86.7M in funding under GEER, the state awarded the additional funds to private schools (EANS II).

GEER Data Classification Levels



CARES: GEER I





GEER

Target Population(s)

- SEAs, LEAs, IHEs, other education agencies most significantly impacted by coronavirus

Allocations, Earmarks, and Set Asides

- Each state shall allocate at least 60% based on population of children ages 5-24 and 40 % based on relative number of children counted under Title I, Part A formula grants
- No required reservations of funds under GEER, limited funding for administrative costs
- More information on GEER can be found [here](#).
- Federal [FAQs](#)
- Federal [Fact Sheet](#)

Allowable Uses and Eligible Expenditures

- GEER funds may be used by the Governor of Michigan in support of public elementary and secondary education, institutions of higher education (IHEs), or other education-related entities. A Governor has wide discretion in determining the entities in the State that will receive GEER funds. A Governor can choose to fund only LEAs, only IHEs, only education-related entities, or any combination of eligible entities.
- The Department encourages States, LEAs and IHEs to invest GEER funds in technology infrastructure and professional development that will improve capacity to provide high quality, accessible, distance education, or remote learning.
 - Providing off-campus access to reliable, high-speed internet for students and teachers through the purchase of internet-connected devices/equipment, mobile hotspots, wireless service plans, or installation of Community Wi-Fi Hotspots, especially in underserved communities;
 - Purchasing hardware and software applications for students and teachers;
 - Providing access to high-quality digital learning content, apps, and tools that can deliver engaging and relevant learning experiences that are accessible to all students;
 - Covering costs associated with making materials accessible for students with disabilities or English learners; and
- Providing professional development and training for teachers on effective strategies for the delivery of remote and digital instruction.
- Subject to any restrictions that a Governor places on an IHE's use of GEER funds, an IHE may use the funds, awarded under section 18002(c)(2) of the CARES act, to support a broad array of activities. For example, an IHE might use GEER funds to provide:
 - Staff, infrastructure and technology to support distance education, or remote learning;
 - Academic support for libraries, laboratories, and other academic facilities;
 - Institutional support for activities related to personnel, payroll, security, environmental health and safety, and administrative offices;
 - Student services that promote a student's emotional and physical well-being outside the context of the formal instructional program; and
 - Student financial aid, such as IHE-sponsored grants and scholarships.