



A HIGHER GRADE OF ACCOUNTANTS

The Proprietary Institution HEERF Audit Guide – Are You At Risk of a Finding?

May 6, 2021

Moderator

Mike Wherry, CPA

Director

McClintock & Associates

mwherry@mcclintockcpa.com



Speakers



Ted Blendermann, CPA

Director

McClintock & Associates

tblendermann@mcclintockcpa.com



Scott Z. Goldschmidt, Esq.

Counsel

Thompson Coburn LLP

SGoldschmidt@thompsoncoburn.com



Jayna Marie Rust, Esq.

Associate

Thompson Coburn LLP

jrust@thompsoncoburn.com



Disclaimer

- The contents of this webinar contain general information and do not constitute accounting, financial, legal or regulatory advice. No one should act, or refrain from acting, upon the information in this webinar without consulting with a qualified and individualized professional advisor or legal counsel.
- The views expressed in this webinar are the views of the speaker only. The opinions expressed are not necessarily the views of McClintock & Associates and Thompson Coburn LLP.
- The information contained within this webinar is subject to change due to pending guidance, changes, and/or clarifications of accounting and regulatory standards from the Department of Education and/or other regulatory bodies.

COVID-19 Updates

<https://www.mcclintockcpa.com/category/covid-19-updates/>



**A HIGHER GRADE
OF ACCOUNTANTS**

STAYING AHEAD OF THE CORONAVIRUS

Stay informed with the
latest Title IV and Tax
updates

LEARN MORE



COVID-19 Resources

<https://offer.mcclintockcpa.com/covid-19>

COVID-19 Resources

Stay informed with the latest Title IV and Tax updates.

TRUSTED ADVISORS IN AN UNPREDICTABLE WORLD

After the COVID-19 pandemic affected students' education and institutions' operations alike, the past months have seen a flurry of new laws, programs and announcements by governments and regulatory bodies. These developments have a major impact on Title IV aid, financial statements and far more. Check out these resources for a primer on the most important programs and processes for institutions.

Window Snip



Covid-19 Updates

[Insights | Thompson Coburn LLP](#)

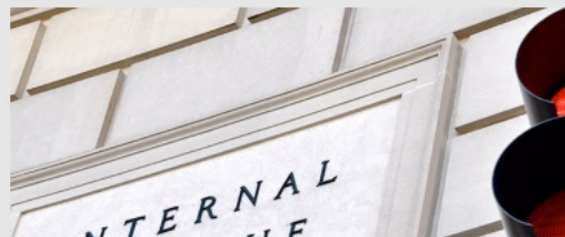


PEOPLE SERVICES 🔍 ☰

PUBLICATIONS (62)

IRS clarifies legislative changes to the employee retention tax credit

March 8, 2021



What employers need to know about mandatory COVID-19 vaccines and exceptions

Key tax provisions in the coronavirus relief bill

December 22, 2020



Re: U.S. Department of Labor modifies Families First Coronavirus Response Act Leave Rules and limits prior scope of health care worker

Covid-19 Resource

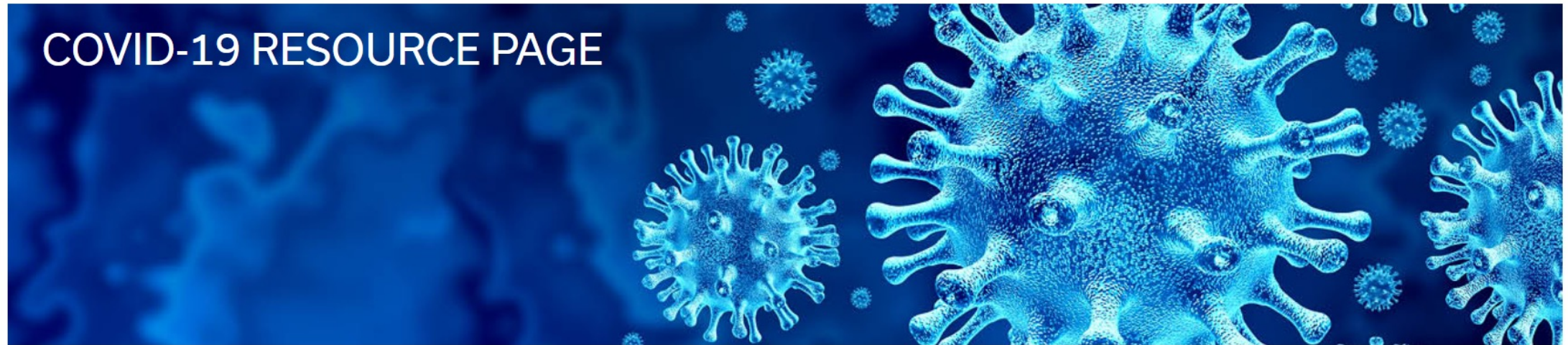
<https://www.thompsoncoburn.com/services/practices/covid-19-resource-page>



PEOPLE SERVICES 🔍 ☰

Home > Services > COVID-19 Resource Page

COVID-19 RESOURCE PAGE



OVERVIEW

INSIGHTS

Since it was first detected in late 2019, the Coronavirus (COVID-19) has affected every aspect of business around the globe. Travel is restricted, employees and customer are homebound, and the global economy has been shaken.

REGucation

<https://www.thompsoncoburn.com/insights/blogs/regucation>



PEOPLE SERVICES 🔍 ☰


Home > Insights > Blogs > REGucation

REGUCATION

(By accessing, browsing or using the pages below, you agree to the Blog Conditions of Use/Disclaimer available under "Links.")

SUBSCRIBE TO THIS BLOG

LINKS

-  [About](#)
-  [Conditions of Use/Disclaimers](#)
-  [REGucation RSS](#)
-  [Student Litigation](#)
-  [Higher Education](#)
-  [Follow on Twitter](#)

CONTRIBUTORS

Higher Education Emergency Relief Funds reporting requirements

 [Scott Goldschmidt](#)  [Aaron Lacey](#)  December 29, 2020



Here at REGucation, we have been closely monitoring the CARES Act and compliance obligations under the Higher Education Emergency Relief Fund. As we now have a clearer picture of HEERF reporting and data collection obligations, the following post may provide a timely recap and reminder of institutional obligations. [READ MORE](#)

COVID IV legislation: A summary of provisions most impacting higher education

Overview

- Section I: Audit Thresholds and Timing
- Section II: Audit Testing and Implications of CFR Provisions
- Section III: Procurement, Suspension and Debarment Requirements
- Section IV: Audit Reports and CAPs

Audit Thresholds and Timing

Section I

Audit Thresholds and Timing

- Audit thresholds
 - Each main OPE ID number
 - If multiple main OPE ID numbers, these are *not* aggregated for audit purposes.
 - OPE ID number is subject to an audit if total HEERF expenditures exceed \$500,000 in the institution's fiscal year or if the institution was on Heighted Cash Monitor (HCM) 1 or 2 status during *any part* of the fiscal year.
 - Future audits - The \$500,000 threshold will also include HEERF II (CRRSAA) and HEERF III (ARP)

Audit Thresholds and Timing

- Due date
 - Later of 120 days from the Audit Guide's (Guide) issuance date (March 31, 2021), or the institution's Title IV audit submission deadline (including any extensions)
 - Submitted via eZ-Audit
 - Fiscal year ends from April 30, 2020, through December 31, 2020
 - Deadline is July 29, 2021
 - Can submit with the annual audits by June 30, 2021
 - For subsequent fiscal years, the due date will be the institution's Title IV audit submission deadline

Audit Thresholds and Timing

- Best practices
 - Institutions should be ensuring their supporting documentation, policies and procedures, and reports are thoroughly complete and accurate in advance of the audit.
 - Review the Guide and begin to gather the necessary information
 - The lack of an audit requirement does not relieve an institution from any potential review or audit by ED officials

Audit Thresholds and Timing

- General requirements
 - Auditors must consider internal controls over HEERF grants to help assess the risk
 - Materiality must be defined for each of the six compliance requirements - Guide does not define materiality, but it should be based upon qualitative and, when applicable, quantitative factors.
 - The Guide does not define any minimum sample sizes - auditors will be relying on professional judgement subject to the Standards. M&A's approach:
 - Student grants – test 60 for populations greater than 250 (AICPA Audit Guide – Government Audit Standards)
 - Institutional expenditures – A) scope material and judgmentally selected items; and B) sample remaining population

Audit Testing and Implications of CFR Provisions

Section II

Compliance Requirements

The Guide defines the six specific compliance requirements to be tested:

1. Activities Allowed or Unallowed
2. Allowable Costs and Cost Principles
3. Earmarking
4. Period of Performance
5. Procurement, Suspension, and Disbarment
6. Reporting

Activities Allowed or Unallowed

- Purpose
 - Verifying that the HEERF grant funds were expended only for allowable activities.
 - It is basically requiring that charges to the grants were consistent with the statutory provisions.
- Risk analysis
 - Broad discretion provided by ED
 - Emergency financial aid grants to students – CRRSAA expanded uses
 - Costs associated with the significant changes to the delivery of instruction – CRRSAA expanded uses
 - Low risk

Allowable Costs and Cost Principles

- Purpose
 - Determine whether direct charges to the HEERF program were for allowable costs.
 - Determine whether indirect costs were charged properly
- Risk analysis
 - Moderate risk as most for-profit institutions had limited experience with these requirements
 - ED provided guidance on the uses of the HEERF grant expenditures

Allowable Costs and Cost Principles

- 2 CFR 200.403 - This is a requirement that ensures the costs claimed under the grants are necessary, uniformly applied, consistently treated, determined in accordance with generally accepted accounting principles, not claimed twice, and have adequate documentation
- Guide indicates - 200.420 to 200.476
 - Various specific costs

- * 200.426 - Bad debt expense
- * 200.430 - Compensation - personal services
- * 200.439 - Equipment and other capital expenditures
- * 200.453 - Material and supplies cost, including costs of computing devices
- * 200.458 - Pre-award costs
- * 200.459 - Professional service costs
- * 200.465 - Rental costs of real property and equipment
- * 200.471 - Telecommunication costs and video surveillance costs
- * 200.473 - Training and education costs

Allowable Costs and Cost Principles

- Guide indicates - 34 CFR 75.533 and 34 CFR 77.1

Under 34 C.F.R. § 75.533, a school may not use its grant funds for the acquisition of real property or for construction. However, *minor remodeling* such as adding barriers to enable social distancing or installing an HVAC air filtration system, is allowable where such alterations occur within the confines of a previously completed building and meet the other characteristics of the minor remodeling definition under 34 C.F.R. § 77.1.

- Guide indicates 200.407
 - Related to prior written approval for some expenditures
 - But ED provided its prior approval for certain cost items for all formula grants under the HEERF program

- § 200.308 Revision of budget and program plans
- § 200.313 Equipment
- § 200.430 Compensation – personal services, paragraph (h)
- § 200.431 Compensation – fringe benefits
- § 200.456 Participant support costs (defined at § 200.75)
- § 200.458 Pre-award costs
- § 200.475 Travel costs

Earmarking

- Purpose
 - Verifying that at least 50% of HEERF grant funds were used to provide emergency financial aid grants to students
 - Not required to test student eligibility
- Risk analysis
 - Main risk is if you expended 50% of the HEERF I grant on institutional uses and you subsequently voided uncashed HEERF I student grant disbursements which weren't reissued
 - Low risk

Period of Performance

- Purpose
 - Verifying that only allowable costs incurred during the grant period of performance were charged to the grant, and obligations were liquidated within the required time period
 - One-year anniversary from the date of the Grant Award Notification, or “GANniversary”
 - 90 calendar days to liquidate their obligations as part of the grant closeout procedures.
- Risk analysis
 - Uncertainty over spending of the grant – most institutions seem to be aware of the time frame
 - Low risk

Procurement, Suspension, and Debarment

- Purpose
 - Compliance with the procurement regulations in 2 CFR Part 200 and ensuring that contractors and subrecipients were not suspended, debarred, or otherwise excluded from receiving federal funds.
 - Because the regulations require schools to have documented procurement policies and procedures and contract files reviewed and audited, the compliance requirements may pose the most risk to proprietary institutions because of the potential for a lack of documentation.
 - Requires institutions to have followed certain procedures for contracts, subcontracts and subawards under federal grants

Procurement, Suspension, and Debarment

- Risk analysis
 - Substantial risk of findings – discuss requirements in Section III
 - Most for-profit institutions had limited experience with these requirements
 - Institutions must review this area in-depth prior to beginning their HEERF audit
 - High risk

Reporting

- Purpose
 - Verifying the timeliness, accuracy and completeness of the quarterly and annual reports are in accordance with the governing requirements
 - Quarterly reports posted to the institution's website and the annual report submitted to ED
- Risk Analysis
 - Required to test the annual report and a sample of the quarterly reports (student and institutional grants - auditors must pick at least one of each)
 - Detailed expenditures must tie into the reports
 - Moderate risk

Procurement, Suspension, and Debarment Requirements

Section III

Procurement, Suspension, and Debarment

- Procurement - Key requirements are the standards in 2 CFR 200.318 to 200.326
 - 200.318 – Requires that documented procurement procedures exist and are followed.
 - 200.319 – Requires full and open competition consistent with standards at 200.320
 - Limitations on noncompetitive pricing between affiliates or consultants on retainer
 - Prohibits unreasonable restrictions or requirements, or excessive bonding
 - Clear and accurate description of technical requirements
 - Pre-qualification lists must be current and have sufficient qualified sources

Procurement, Suspension, and Debarment

- Procurement - 200.320
 - Requires use of a “formal” procurement method with full and open competition (allowing anyone to submit bids/offers) in many situations
 - Sets the ceiling for purchasing thresholds for certain procurement methods (institution must determine if it will use that ceiling or something lower)
 - Micro-purchases – An informal procurement method where competitive bids are not required if the institution considers the price to be reasonable; aggregate does not exceed the entity’s micro-purchase threshold, which can be no higher than \$10,000.
 - Each purchase is evaluated separately but purchases can’t be intentionally split to avoid the aggregation rules
 - Micro-purchases must/should be distributed equitably among qualified vendors

Procurement, Suspension, and Debarment

- Procurement 200.320 – *Continued*
 - Small Purchases – An informal procurement method where acquisition of property or services exceeds the entity's micro-purchase threshold but does not exceed the entity's simplified acquisition threshold, which can be no higher than \$250,000.
 - This methodology requires obtaining an adequate number of quotations from qualified sources for prices or rates
 - Acquisitions exceeding the entity's simplified acquisition threshold (which may be \$250,000 or may be lower) must have formal procurements seeking competitive bids or proposals
 - 200.324 – Requires that the institution conduct a cost or price analysis for each acquisition above the simplified acquisition threshold

Procurement, Suspension, and Debarment

- Procurement 200.320 – *Continued*
 - A noncompetitive procurement (*i.e.*, award of a contract without broad solicitation of offers/proposals) is allowed when certain circumstances are met, including
 - Single source vendor
 - Public exigency or emergency for the requirement will not permit a delay resulting from publicizing a competitive solicitation
 - Guide specifically notes this exception and notes that institutions must document rationales and determinations to use it
 - Guide indicates that exceptions are more likely to be acceptable the closer the procurement occurred to March 13, 2020
 - Consistent with ED's October 14, 2020 webinar

Procurement, Suspension, and Debarment

- Procurement
 - 200.321 – Uses minority businesses, women's business enterprises, and labor surplus area firms when possible
 - 200.321 – Uses bonding requirements that protect the Federal interest

Procurement, Suspension, and Debarment

- Suspension and Debarment
 - Prohibited from awarding contracts or making subawards that are “covered transactions” to parties that are suspended, debarred, or otherwise excluded from participation in Federal programs or activities
 - Covered transactions include contracts for goods and services awarded using HEERF funds that are expected to equal or exceed \$25,000

Audit Reports and CAPs

Section IV

Audit Reports and CAPs

- Report
 - An opinion on the institution's compliance or noncompliance with the HEERF grant requirements
 - All instances of noncompliance must be reported
 - Each finding should include the criteria or specific requirement upon which the finding is based. Each should disclose the criteria, condition, cause, effect and auditor's recommendation as well as the views of the institution's responsible officials
 - The finding should report, if applicable, the number of expenditures / grants in error and the applicable dollar amount. The population and sample size must be disclosed as well.

Audit Reports and CAPs

- Corrective Action Plans (CAPs)
 - For any audit findings, a school must prepare a CAP
 - The CAP must be on the institution's letterhead and signed by a responsible official which the Guide defines as the person who prepares the CAP
 - The CAP must include contact information of the responsible official which includes the applicable title, telephone number, and email address
 - The CAP should indicate whether the responsible official concurs or doesn't concur with the finding along with actions taken or planned actions to correct the finding
 - For planned actions an anticipated completion date must be included

Questions?

