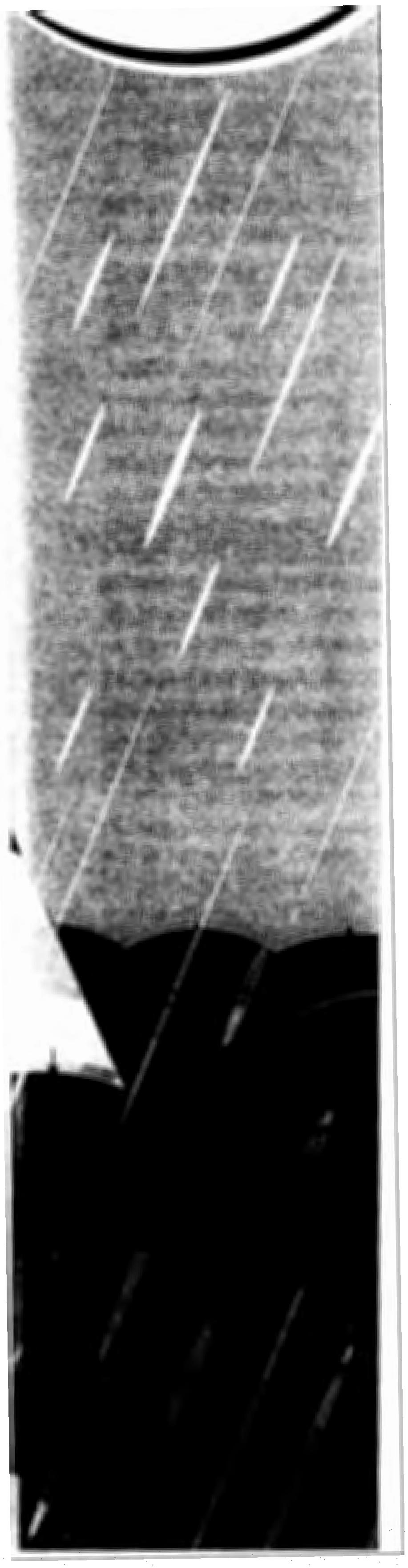
Preparing for the Impending Storm of Enforcement Related to Final Financial and Programmatic Closeout

By James D. Luther

Summary

Over the past several years and particularly with the rollout of the Uniform Guidance (*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*), there is renewed focus on timely financial reporting. Many federal agencies are implementing policies and practices to enforce timely submission of final project reporting and associated draw down of funds. Similarly, the focus on programmatic reporting is increasing as well. Universities vary greatly on their readiness to meet this enforcement; for those that are prepared, are adequately staffed, and have adequate IT and reporting transparency to manage this enforcement, the impact will likely be minimal. For others, the impact could be broad and significant and include financial risk, compliance risk, and disruption of business processes at both the departmental and central level and research in the lab. To adapt, these universities may need to restructure and revise core business practices for management of sponsored projects, and revise or create policies, technology solutions, training and monitoring. And it is likely that this will have to happen in a compressed timeframe. There has been an escalation in communication from federal agencies that confirms their commitment to closeout requirements.

This article will provide some context on what to expect as the Uniform Guidance (UG) drives even more enforcement, the background on the renewed enforcement, and one institution's technology and business process initiatives that are underway to prepare.



Background

While previous decades have seen escalating compliance expectations imposed on universities, recent directives from federal sponsors regarding timely closeout and award management have significantly increased pressure on universities. What is the impetus for this increased concern? Universities are facing added pressure from federal agencies in response to the Government Accounting Office (GAO) reports and the Offices of Inspector General directing higher levels of enforcement for award management. Most notably was the July 2012 GAO report entitled *Improving the Timeliness of Grant Closeouts by Federal Agencies and Other Grants Management Challenges* in federally funded projects that had not been appropriately closed. The GAO cited some projects that were as late as 5-10 years past closing dates. In tight budget times, the potential of so many federal dollars remaining encumbered and unspent raised concerns across all agencies, and even rose to the level of congressional discussion. Offices of Inspector General began to issue strong directives to the agencies regarding improvement of closeout processes and fundamental award management. In response, many federal agencies are currently reviewing their grantee oversight models and considering methods to increase levels of transparency and accountability. For example, one agency's approach has been to implement new reporting requirements, such as subaccount reporting to provide for increased transparency and reimbursement control.

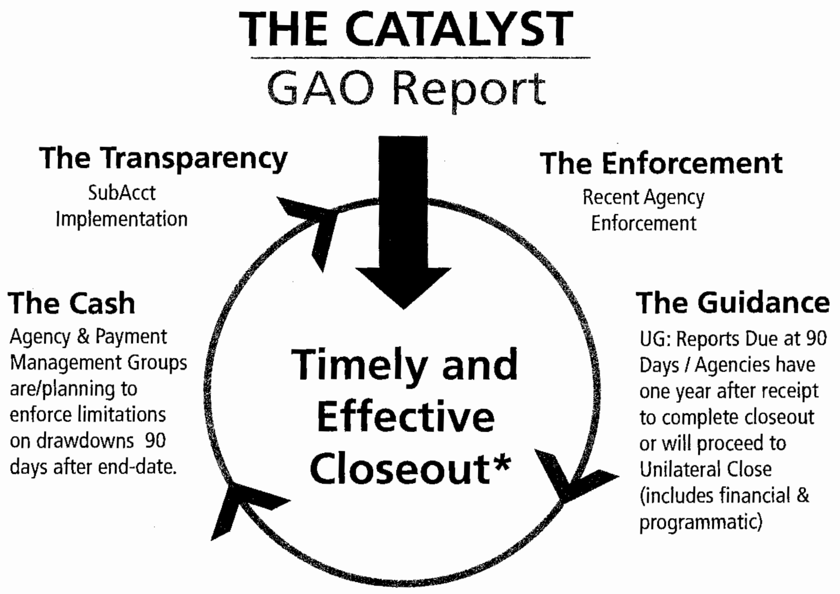
This single change alone - transition to sub-accounting - may require institutions to devote extensive resources to significant technology support, changes in business process, and additional personnel.

Does this mean that federal agencies may potentially begin to deny reimbursement on projects that do not observe a timely 90 day close? It appears that this will indeed be the case, as agency enforcement of this requirement is more strictly imposed.

With a long history of productive agency /institutional partnership, all parties are committed to a timely and effective closeout; however, there may be obstacles within a university that can challenge this process. Some are easily surmountable, but others may have complex facets that require greater levels of coordination, resourcing, and internal policy change:

- Timing issues related to resource workload management (timely closeouts may be a challenge): The conflicting demands on institutional grant managers may be significant and require difficult prioritization among proposal submission, appropriate fiscal management of active projects, and closeout, each task with finite deadlines.
- Complexities of managing subrecipients: International subawardees, or awards that have more complex terms and conditions may pose additional problems in achieving a timely close.
- Institutions may struggle with timing issues related to postings that are entirely driven by the institution's general ledger or payroll posting frequency which may only occur once per month.

Closeout, Final Reporting, Cash Draw Process & SubAcct Integration



**** Timely and Effective Closeout:***
- Safeguard sponsor and institutional funds
- Accurate & compliant close-out that does not require revisions

- Late postings from service centers, vendors, and service providers may also need to be addressed.

The closeout process is complex and can be demanding if adequate personnel and system support are not readily available. Within 90 days, institutions must complete a final financial reconciliation of project expenses, ensure that all programmatic and financial requirements and documentation standards of subawards have been met, verify that effort has been appropriately managed and documented, close down any standing orders, outstanding encumbrances, remove all payroll assigned to the project and manage a final financial reconciliation. The issue is further exacerbated by limitations on resources dedicated to closeout and the variety and inconsistency of project closeout dates.

What, then, are the risks to the institution?

- Financial risk: universities incur a cost but due to other challenges are not able to draw down funds for reimbursement in time;
- Compliance risk: late financial and programmatic reports
- Business disruption risk: pressure research administrators and principle investigators who are challenged to manage competing priorities may ultimately lead to reduced quality of research

What role does the new Uniform Guidance play in addressing this issue?

OMB A-110 has long had a requirement for timely reporting but with expanded oversight and attention, the UG is reinforcing and clarifying the requirements. Section § 200.343 of the Uniform Guidance is very clear and states:

(a) The non-Federal entity must submit, no later than <u>90 calendar days after the end date</u> of the period of performance, all financial, performance, and other reports as required by or the terms and conditions of the Federal award. The Federal awarding agency or pass-through entity may approve extensions when requested by the non-Federal entity.

(b) Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal <u>entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date</u> of the period of performance as specified in the terms and conditions of the Federal award.

(c) The Federal awarding agency or pass-through entity should complete all closeout actions for Federal awards no later than one year after receipt and acceptance of all required final reports.

To summarize, the guidance reaffirms that all final reports (financial, performance, and other) and liquidation of obligations must occur within 90 days of the end date.

"Transparency, Enforcement and the Cash": Subaccount Reporting

In response to the GAO report and audit pressure, many agencies are increasing their enforcement of these deadlines in advance of the implementation of the UG. Perhaps most compelling is the NIH announcement of a sweeping change to subaccounting financial reporting. While NSF had previously adopted the requirement that federal drawdowns must be done by individually funded project accounting, this has not previously been the practice at NIH. NIH announced its plans to transition to subaccounting in September, 2013 but delayed the transition start to 10/1/14. Other HHS agencies like HRSA are also communicating their planned enforcement.

Changing to subaccounting provides greater transparency as to the specifics of individual project financial accountability, and also enables the identification of late charging on projects past their closing end date. For institutions that have long relied on a consolidated drawdown process, this change is significant. The transition may require substantial technology support, institution-wide change in business process, and considerable drain on personnel resources. Aside from NSF and NIH, other federal agencies differ in their ability to readily enforce or support this change in financial systems, potentially creating a bifurcated business process at the institutional level.

Depending on the size of an institution's portfolio, the transition to subaccounting can be a significant business process change that may represent a >30 percent increase in annual FFR submission. Additionally, institutions may have to develop technology solutions to support a code-by-code draw process and may need to significantly increase their draws from 1-5 time/month to almost daily to ensure that there are no inadvertent internal timing issues that would cause the institution to miss the 90 day deadline.

Duke University's Approach

As research administration at many institutions is highly decentralized, it is often challenging to develop institutional solutions to federal requirements that reflect best-practice and still allow the flexibility inherent in individual department culture and business environment. This is especially the case when there is a significant sense of urgency from the government competing with other institutional priorities outside of the research portfolio for resources and priority. The dilemma is further exacerbated when the changes necessary to meet new federal standards will impact university-wide systems, process and policy.

Changing what has been a traditional approach to timely closeout can become quite an extensive scope of work. Thus, prioritizing the risk, understanding upcoming deadlines, and assessing which policy/processes and technology items have the longest lead times, are critical to getting prepared. Following is a very high level summary of the approach that Duke University is taking:

A. Conduct "Readiness" analysis of upcoming end-dates

   a. What are the peak months of activity for closeouts? What are the competing priorities (proposal deadlines, academic & financial calendar)?

B. Identify the transactions/areas that create the greatest risk to an untimely closeout

   a. Are there G/L accounts or types of transactions that routinely cause late closeout? Possibly internal billing for recharge centers (e.g. lab animals and DNA sequencing); is there a consistent pattern of late invoicing from subawardees; is it problematic to manager closeout when faculty are cross-appointed or are "owned" by separate units?

C. Determine if internal business process and policies need to be revised.

   a. Examine the current Closeout Process – What tools are available to support the process, and are there early warning signals in the system to advise if a closeout is in danger of being late?

   b. Peer Invoicing Timeline – If late subrecipient billing is an issue, what measures can be taken to mitigate?

   c. Procurement Terms and Conditions – Is there consistent late invoicing among certain vendors, or is the internal process too slow?

   d. Internal billing (shared resources, clinical systems, student systems, etc.) – What systems can be improved to enhance timely and transparent billing?

   e. Role of Parent – When internal "convenience" subaccounts are established, are the roles and "march in" rights of the parent clear so that internal subaccounts can be "taken over" if necessary to bring the project to close?

   f. Cost Transfer policy – Should this be changed to eliminate late transfers that impede closing?

   g. NCE Management – Is there a process for units to advise early in the project that a NCE will be requested?

   h. FFR policy – Is there a clearly defined policy on FFR revisions, and a system that supports production of the FFR?

D. Evaluate impact on technology – what changes need to be made to:

   a. Sponsored Programs Billing & Reporting Database

   b. Improved LOC Draw process (code-by-code draw and increased frequency)

   c. Tracking of Programmatic and Administrative Reports

   d. Management Reporting to identify chronically slow units

E. Evaluate impact on training & education (faculty and staff)

F. Support from leadership for technology resources and eventual business process change (and associated disruption)

   a. At Duke, we have a weekly meeting of senior leaders that includes the VP Finance, VP Human Resources, Vice Provost for Research, Vice Dean for Research, Executive Vice Dean Administration from the School of Medicine, and the Executive Vice Provost. This group meets twice a month with leadership from all primary research administration offices to address research support opportunities, improvement to technology and reducing faculty burden.

Critical to the success is evaluating the adequacy of functional resources in central offices, departments, and technology support to staff the initiative. Each university may need to ask: Do we need a dedicated implementation team that can assist with the technology and business process/policy work and then assist the departments during the transition.

As you assemble this project plan and associated team, it is critical that you consider the lead time for changes (what is the cycle time to get the necessary allocation of technology resources to make significant system changes), breadth and depth of stakeholder impact, financial risk, faculty burden, and departmental disruption.

Conclusion

The enforcement of the longstanding requirement to submit final financial and progress reports is accelerating at a significant pace and may catch many institutions by surprise. The ability to meet this requirement, and the implementation of subaccounting may require a consolidated and coordinated effort that addresses improvements to technology and changes to business process and policy. Some institutions, such as Duke, are fully acknowledging this and are meeting the requirement with a project team that includes dedicated staff and strong representation from departments to address the compliance and financial risk in a manner that is supportive of the departments' culture and the faculty research. ■

Editor's Note: All, we are happy to hear that NIH will not implement the subaccounts payment policy until Oct. 1, 2015 per NIH NOT-OD-14-103.

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References

GAO Report on Closeouts (July 2012)

- **http://www.gao.gov/assets/600/592995.pdf**
- GAO identified more than $794 million in funding remaining in expired grant accounts (accounts that were more than 3 months past the grant end date and had no activity for 9 months or more) in the Payment Management System (PMS)

NIH Domestic Awards to Transition to Payment Management System Subaccounts in FY 2014 (9/3/13) - NIH Notice NOT-OD-13-112

- **http://grants.nih.gov/grants/guide/notice-files/NOT-OD-13-112.html**
- NIH would transition to SubAcct reporting starting on 10/1/13 (this was subsequently delayed to 10/1/14 by Notice 13-120)
- Final reports are due 90 days after end-date
- PMS "will now hold payment requests for funds in subaccounts for awards that are 90 days or more beyond the project period end date"

NIH Domestic Awards to Transition to Payment Management System Subaccounts in FY 2014 and FY 2015 (September 26, 2013)

- **http://grants.nih.gov/grants/guide/notice-files/NOT-OD-13-120.html**
- Transition to SubAcct reporting (initially conveyed via 13-112) would be delayed until 10/1/14

Uniform Guidance (*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*), Section § 200.343

- (a) The non-Federal entity must submit, no later than 90 calendar days after the end date of the period of performance, all financial, performance, and other reports as required by or the terms and conditions of the Federal award. The Federal awarding agency or pass-through entity may approve extensions when requested by the non-Federal entity.
- (b) Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award.
- (g) The Federal awarding agency or pass-through entity should complete all closeout actions for Federal awards no later than one year after receipt and acceptance of all required final reports.

NIH Updating Grant Closeout Policies and Procedures to Align with New HHS Requirements (April 24, 2014)

- **http://grants.nih.gov/grants/guide/notice-files/NOT-OD-14-084.html**
- All reports required for closeout must be submitted no later than 90 days after the project end date.
- Clarifies when Agency can proceed to a unilateral closeout if the grantee is non-communicative
- Includes FAQ's to clarify aspects of the Notice **http://grants.nih.gov/grants/closeout/faq_grants_closeout.htm**

Administrative Changes to NIH Domestic Awards Transition to Payment Management System Subaccounts - NOT-OD-14-093 - May 16, 2014

- Implementation for domestic, non-competing awards will occur between October 1, 2014 and September 30, 2015.
- Unliquidated Obligations on the Subaccount Transitional FFR: if there are unliquidated obligations at the end of the first "administratively shortened" competitive segment, these may be reported on the subaccount transitional FFR expenditure data report.
- NIH continues to seek some relief from the DHHS by requesting an additional year for grantees to have adequate time for system developments necessary to manage this transition for non-competing awards

Revised Timeline for Administrative Changes to NIH Domestic Awards to Transition to Payment Management System Subaccounts - NOT-OD-14-103 - July 11, 2014

- **http://grants.nih.gov/grants/guide/notice-files/NOT-OD-14-103.html**

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