Federal Issues, (SWCAP/Cost Principles Uniform Guidance)

March 14, 2019

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When the Federal Government adopted the new **Uniform Grant Guidance** (UGG) back in 2015, state, local and postsecondary grant administrators were promised a dramatically simplified, consistent, and transparent set of rules to manage federal grant resources. So how has that worked out for you?

With all these changes and new administrative burdens impacting federal grants, the only certainties here in Washington are less federal personnel to provide guidance, and less funding available at the state, local and postsecondary levels to carry out these grant responsibilities.
Agenda:

How Do You Deal with Level or Declining General and Federal Funding or Overhead Costs?

What is the Impact Of Years of Federal Regulation Knowledge Going Out the door?

Specific SWCAP Issues

Discussion and Questions
# How Do You Deal with Level or Declining General and Federal Funding or Overhead Costs? Trends We See

## Consolidation/Centralization

<table>
<thead>
<tr>
<th>Information Technology</th>
<th>Human Resources</th>
<th>Purchasing</th>
<th>Accounting/Payments/Payroll</th>
</tr>
</thead>
</table>

## Increasing use of Technology

- Increased ERP capabilities
- More interaction though web portals
- Centralized Grants Management Systems
How Do You Deal with Level or Declining General and Federal Funding or Overhead Costs? Trends We See

Increased Use of Billing for Overhead Costs (Section II) In Effort to Reduce General Fund Costs

- Information Technology
- Human Resources
- Purchasing
- Accounting/Payments/Payroll
- Facilities

Be Sure to Follow the Federal Regulations Doing this Incorrectly Could be Costly
How Do You Deal with Level or Declining General and Federal Funding or Overhead Costs? Trends We See

- Move Centralized/Consolidated Services into Section I
- Some States see billing mechanisms as too burdensome and costly

**SWCAP Assessments:**

- There Are Ways to Recover Overhead Costs In the SWCAP from Departments
- Assess Departments based on their SWCAP Allocation by creating a SWCAP rate based on Federal Salaries or MTDC paid by the Departments.
- You can also charge SWCAP cost on other non-general funds

Departments receive the reimbursement for indirect costs including SWAP
On the State Side Simply Copying What was Done Before on SWCAP Could be Costly

- New regulations come may not be followed and the State may be providing new services that are not recovered especially in the IT area.

As State OMB Regulation Experts Retire We are Seeing States Contract Out More Section I and Section II Work Along With Department Cost Allocation and Rate Setting.
What is the Impact Of Years of Federal OMB Regulation Knowledge Going Out the Door?

On the Federal Side What is the Impact of the Retirement of Both State and Local Branch Chiefs in US HHS CAS?

1. This is the Million $ Question
2. We do not know if both positions will be filled or just one
3. E-mailed Darryl Mayes the CAS Deputy Director but no response.

HHS Negotiators Have Great Discretion What They Look at and What They Approve

- Some negotiators closely review Section II costs other not so much
- Some negotiators allow IT costs to be allocated on Section I
- Some negotiators allow Attorney General Costs in Section I
Specific SWCAP Issues

- Pension Costs
- OPEB Costs
- Timely Negotiation of SWCA
Section 200.431 Compensation-fringe benefits

(g) Pension Plan Costs. Pension plan costs which are incurred in accordance with the established policies of the non-Federal entity are allowable, provided that:

I. Such policies meet the test of reasonableness.
II. The methods of cost allocation are not discriminatory.
III. For entities using accrual based accounting, the cost assigned to each fiscal year is determined in accordance with GAAP.
IV. The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 calendar days after each quarter of the year to which such costs are assignable are unallowable. Non-Federal entity may elect to follow the “Cost Accounting Standard for Composition and Measurement of Pension Costs” (48 CFR 9904.412).
(6)(ii) Pension costs calculated using an actuarial cost-based method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency for indirect costs) are allowable in the year funded. The cognizant agency for indirect costs may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursement and the non-Federal entity's contribution to the pension fund. Adjustments may be made by cash refund or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the pension fund.
HHS Agreements Language:

During our review of your central service cost allocation plan, it was disclosed that the State's actuarially determined pension contributions exceeded the Governmental Accounting Standards Board (GASB) Statement No. 68 calculated pension expense. However, 2 CFR 200.431(g)(3) only allows pension plan costs determined in accordance with GAAP (i.e., GASB 68). The Office of Management and Budget (OMB) is aware of the issue and is currently considering revising the regulations. Therefore, we reserve the right to make an adjustment to the billed pension costs to disallow the pension contributions in excess of the GASB 68 calculated pension expense, if OMB does not revise the regulation or issue an exception.
Section 200.430 Compensation of Personal Services and Fringe Benefits (cont.)

State of North Carolina:

- Retirement System is the 10th largest public pension fund in the country
- 9 Retirement Plans
- Provides retirement benefits and savings to more than 900,000 members
  - Teachers
  - State Employees
  - Firefighters
  - Police Officers
  - Other Public Workers
The graph below provides a history of the funded ratio on a market and actuarial basis over the past five years.
Section 200.430  Compensation of Personal Services and Fringe Benefits (cont.)

State of North Carolina

- NC’s CAS Office is *INTERPRETING* CFR 200.431(g)(6)(ii) to mean that allowable pension cost for a given fiscal year are the lesser of the following:
  1. contribution by the non-federal entity
  2. actuarially determined annual required contribution (ARC/ADEC)
  3. GASB 68 expense

<table>
<thead>
<tr>
<th>Fiscal Year Ending</th>
<th>Statutory Rate</th>
<th>ADEC</th>
<th>GASB 68 Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2018</td>
<td>10.78%</td>
<td>10.53%</td>
<td>13.47%</td>
</tr>
<tr>
<td>6/30/2017</td>
<td>9.98%</td>
<td>9.96%</td>
<td>11.84%</td>
</tr>
<tr>
<td>6/30/2016</td>
<td>9.15%</td>
<td>8.69%</td>
<td>2.54%*</td>
</tr>
</tbody>
</table>

*Changes in Assumptions*
Beginning with FY 2015 (Plan Year 2017) and forward – CAS required the ADEC to be reported separately from GASB 68 pension expense for billed services (Federal (A-87) reconciliation worksheets).

Until the interpretation of UG 200.431 (g)(6)(ii) is issued NC will need to provide the following amounts for billed services for CAS:

- Total GASB 68 pension expense
- ADEC amount
- Total actual contribution
North Carolina implemented GASB 75 (OPEB) in FYE 2018 (Plan 2020)

OPEB will also have the same consequences from the UG regulations as GASB 68 (pensions)

### State of North Carolina
Actual Contributions VS GASB 75 OPEB Expense

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>AEDC / Contributions</th>
<th>GASB 75 Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>6.05%</td>
<td>6.05%</td>
</tr>
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SWCAP Issues

Timely SWCAP Negotiation

- Does anyone get timely negotiation?
- Some states are 3 years late
- Seems the Dallas Office is Prompt NY and SF are not
SWCAP Issues

North Carolina’s – SWCAP Negotiation

- As of March 1, 2019
  - FYE 2016 (Plan Year 2018) – Awaiting approval – Review in process
  - FYE 2017 (Plan Year 2019) – Re-submitted on February 2019
  - FYE 2018 (Plan Year 2020) – Submitted February 2019
- Historically, able to submit SWCAP within 2 months of December 31 deadline
  - FYE 2019 Goal – submit by December 31, 2019
- Always “encouraged” to submit subsequent SWCAP after previous SWCAP was approved.
  - Purpose in re-submitting FYE 2017 (Plan Year 2019)
- SWCAP delays – review process/interpretation more complex
DISCUSSION AND QUESTIONS