Rhode Island Department of Administration

Accounts and Control

Grant Management Office

Cost Benefit Analysis for New Rules and Regulations for Grant-Making involving Federal Funds

200-RICR-20-00-02

November 15, 2022

Introduction

The Department of Administration's Grants Management Office (GMO) proposes to adopt regulations establishing a regulatory framework for grant-making by state agencies. This analysis estimates the societal benefits and costs that result from the adoption of the proposed regulation.

Pursuant to the Administrative Procedures Act (APA), R.I. Gen. Laws § 42-35-2.9, the Department has conducted a regulatory analysis for the proposed regulation. The Department used the best available information at the time of publication to estimate the benefits and costs of the proposed regulatory provisions. This analysis does not attempt to generate benefit and cost estimates solely attributable to the passage of the Act. The following analysis examines the costs and benefits of the discretionary decisions made by the Department.

Regulatory Development

Pursuant to the authority conferred by Rhode Island (RI) General Laws § 35.1.1 and 35-6, the Regulation titled RULES AND REGULATIONS FOR GRANT-MAKING INVOLVING FEDERAL FUNDS (200-RICR-20-00-02) seeks to establish a regulatory framework for grant-making by state agencies involving federal funds that is consistent with federal *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, also known as the *Uniform Grant Guidance* (UGG) 2 CFR 200. To date, in the absence of grant-making regulations and systems, RI has relied on procurement regulations and process for grant-making. However, Rhode Island purchasing regulations (220-RICR-30-00-1.8) explicitly identify grants as not procurements. Federal UGG (2 CFR 200.331) clearly differentiates between contractors (providing a good or service for the benefit of the awarding agency) and sub-recipients (carrying out a public purpose on behalf of the awarding agency).

The proposed Regulation is guided by principles of fairness, equity, and competition in grant-making. It is intended to reduce the risk of non-compliance with federal award requirements, to ultimately streamline administrative and business processes, and to enable grant managers to focus on improving grant outcomes.   This Regulation supports the implementation of an enterprise-wide grants management system (GMS).

Analysis

This analysis outlines the costs and benefits to Rhode Island and various stakeholders impacted by the new Regulation. The analysis will consider costs and benefits over five years, starting in State Fiscal Year (SFY) 2023 (year 1), when the majority of the changes are expected to be implemented, until SFY 2027 (year 5).

Baseline

Delegated Authority: Grant-making activities by state agencies have defaulted to the procurement process due to the lack of an alternative. Due largely to the misalignment between procurement and grantmaking, the Division of Purchases has routinely had to delegate authority to agencies for grant/subaward programs. The use of delegated authority, while necessary for many agencies to undertake grant-making activities in compliance with applicable federal requirements, limits the use of centralized internal controls.

Centralized Data: In the absence of a grant management system, program and fiscal staff within each agency have generally relied on Excel spreadsheets and similar tools to track and manage federal awards and any associated subawards. Outside of the data available via the annual state budget process (not at the federal award (FAIN) level), any centralized data on federal awards must be manually compiled. As a result, centralized data is outdated by the time it is available. Centralized data is also limited. For example, there is no consistent data collection tool and therefore limited data for analyses of outcomes or equity in grant-making by state agencies.

Audit Findings: The state's single audit findings reflect these limitations. Federal agencies are increasingly focused on auditing the following areas:

- Subrecipient monitoring by pass-through entities (state agencies);
- Consistent, timely reporting, including both program specific reporting, and general federal reporting (e.g. FFATA);
- Accounting by individual federal award, rather than by federal program, as evidenced by the prohibiting "first in, first out" (FIFO) accounting for ongoing programs;
- Evidence-based programs and the use of program evaluation and monitoring tools; and
- Equity, including an emphasis on reducing and eliminating health disparities.

The state's recent single audit reports already include findings related to the top three bullets above. Each year, multiple agencies generally receive findings related to subrecipient monitoring and federal reporting. During the four most recent audit years with available data, there have been 32 to 41 "Findings related to the administration of federal programs" each year for primary government (state agencies only, excluding component units). In the absence of a GMS, the number of single audit findings are expected to increase over time, as the federal government continues a shift in audit priorities towards outcome data.

Transition to ERP: The state is beginning to implement a new enterprise human capital and financial system. The ERP is expected to improve internal controls, including controls related to finance and payroll, and support federal award (FAIN) level data. With a GMS in use prior to ERP implementation, agencies will be able to maintain documentation of the full grant lifecycle in GMS for open federal awards and subawards when the ERP system goes live.

Transfers

One of the principal challenges of this analysis is differentiating actual costs and benefits from transfers among groups in Rhode Island. In economic terms, transfers occur when entity/group "A" pays another entity/group "B" within the same economic system. Though the resources paid constitute real costs to "A", "B" receives the resources as a benefit, yielding a net of zero.

Within the current analysis, a key example of a transfer are federal dollars paid to the state agencies being awarded to sub-recipients (e.g., nonprofits, municipalities). The analysis makes every effort to differentiate transfers from costs and benefits to avoid conflating the separate effects.

<u>**Key Stakeholders**</u>

There are three primary stakeholder groups affected by the proposal and alternatives: Grant Applicants and Subrecipients; State Agency Staff; and Application Reviewers.

1. Grant Applicants and Subrecipients

    Applicants and Subrecipients will be a primary user group of the GMS. This group is predominately comprised of local non-profit organizations, and units of local government. In rare cases, for-profit entities including sole proprietors may be grant applicants and subrecipients.

2. State Agency Staff

    State agency staff will be the second primary GMS user group. This group is predominately comprised of staff working on federal grant programs, including both program and fiscal staff. Leadership, support staff, Grant Management Office staff, and other state policy makers and data analysts may also use the GMS and/or data extracted from the GMS.

3. Application Reviewers (Panel/Committee Members)

    Application reviewers will use the GMS in a limited capacity. In many programs, grant applications are reviewed by a panel or committee of reviewers. Reviewers are selected by the state agency to evaluate application materials for completeness, eligibility, and/or competitiveness. Reviewers may be state employees or other qualified individuals.

Cost and Benefit Analysis

The Department analyzed costs to the stakeholder groups. Costs include the direct costs to the state of implementing and maintaining the GMS (see fiscal note), and the time and effort required of each group to adopt and use the GMS, relative to existing costs of applying for and managing grant funds. The Department also analyzed benefits to the stakeholder groups. Benefits include savings resulting from reduction in a) administrative burden; b) unspent and expired federal funds; c) the risk of violations and non-compliance with applicable laws; and d) the costs to resolve violations/non-compliance. The monetary savings associated with reductions in unspent and expired federal funds is difficult to reliably quantify, in part because there has been no centralized state database. Similarly, the monetary savings associated with reductions in violations/non-compliance is difficult to reliably quantify, in part because the only centralized data on violations/non-compliance is in the state's annual Single Audit Report. Therefore, such costs are not monetized in this analysis.

1. Grant Applicants and Subrecipients

    Use of the new GMS system will result in both costs and benefits for the Applicant/Subrecipient user group. There are no fees for applicants or subrecipients to use the system, but staff and/or consultant time is required to create a user account (estimated time 0.25 hrs), attend a 1-hour training session, and learn to navigate the system (estimated time 2-5 hrs). In addition, a single representative of each organization, typically the CFO, must complete an annual organization registration, which includes a self-risk assessment of the organization (estimated time 0.5-2 hrs).

Estimated cost range: 3.75-8.25 hrs for 1st person, 3.25-6.25 hrs for each additional person. Assuming a rate of $50/hr, an organization with three users would incur an additional $512-$1,037.

The amount of time required to apply for grants is unchanged. However, organizations may realize minor savings in the form of postage and/or delivery costs avoided, since paper applications will not be required. Such savings is estimated to range from $10-$75 per program.

Additional cost savings is anticipated during award implementation, in the form of reduced staff/consultant time and effort. The ability to submit and track reports, payment requests, amendments, and closeout in a single portal, instead of via email, Excel, or paper, should result in reduced administrative burden for subrecipients. In addition, applicants/subrecipients will only be required to submit a self-risk assessment and FFATA executive compensation information 1x year via the GMS Annual Organization Registration, instead of with each application. An estimated reduction in administrative burden of 1% of a grant award (or approx. 5-10% reduction of administrative costs) corresponds to a benefit of $10,000 per $1 million in grant funds received.

Subrecipients will also benefit from system functionality designed to support regulatory compliance and automated recordkeeping. For example, automated notifications will remind subrecipients to submit reports, and complete tasks. Such features will make it easier for subrecipients to consistently document compliance and streamline the transfer of records as positions turnover.

Description	Year 1 (SFY 2023)	Year 2 (SFY 2024)	Year 3 (SFY 2025)	Year 4 (SFY 2026)	Year 5 (SFY 2027)
Est. Annual Total # of Applicants/Subrecipients using GMS	100	300	400	475	500
COST: Training/Initial Set-up for Applicants/Subrecipients	$51,300 - $103,800	$153,900 - $311,400	$205,200 - $415,200	$243,675 - $493,050	$256,500 - $519,000
BENEFIT: Application postage/delivery costs avoided ($10-$75/org)	$1,000 - $7,500	$3,000 - $22,500	$4,000 - $30,000	$4,750 - $35,625	$5,000 - $37,500
Est. Annual Federal Subaward Expenditures in GMS	$14,800,000	$88,800,000	$118,400,000	$140,600,000	$148,000,000
BENEFIT: Reduced Administrative Burden (Est. 1%of Award Amount, or 5-10% reduction in administrative burden)	$148,000	$888,000	$1,184,000	$1,406,000	$1,480,000

Note: Est. # of Applicants/Subrecipients and Annual Federal Subaward Expenditures derived from analysis of RIFANS data, pre-pandemic. Training cost ranges assume 3 persons per organization at $50/hr. and staff/consultant time as listed above.

In the aggregate, the Applicant/Subrecipient stakeholder group is projected to experience net cost savings of approx. $45,200 - $104,200 in year one, increasing to $966,000 - $1,261,000 in year five. However, individual applicants receiving small grants, or no grants, are projected to incur costs in excess of benefits. Such costs do not vary significantly from the costs of applying for grants in the absence of a GMS.

2. State Agencies and State Staff

Use of the new GMS system will result in both costs and benefits for the State Agency Staff user group. GMS implementation and licensing fees are covered in the attached fiscal note. Staff time is required to create a user account, attend training sessions, and learn to navigate the system. The amount of time needed to become familiar with the system varies depending on each user's responsibilities and assigned tasks.

Significant reduction in time and effort for recordkeeping and basic grant administration tasks is anticipated when the system is fully implemented, especially for state agencies managing federal pass-through programs. This is a significant benefit to the state, because it enables agencies to redeploy grant staff to focus on activities that improve program management and outcomes. Such activities include: expanded technical assistance and training for subrecipients, monitoring, program enhancements, etc. To summarize, agency grant staff will be able to shift time and effort from compiling and submitting reports, to improving grant programs based on performance data. Agencies may also be able to dedicate additional staff time to pursuing competitive grant opportunities, potentially resulting in increased grant dollars.

State agencies will also benefit from system functionality designed to support regulatory compliance and automate recordkeeping. The same features that reduce risk for subrecipients also reduce the risk of non-compliance by state agencies. As federal grant recipients, state agencies are subject to monitoring and auditing by federal oversight agencies. In addition, when acting as pass-through entities by granting federal funds to subrecipients, state agencies are responsible for oversight of subrecipients to ensure compliance by all parties receiving federal funds. Under each federal program, subrecipient entities and subrecipient expenditures must be eligible, and all applicable program and cross-cutting requirements must be met.

Fewer instances of non-compliance with regulatory requirements results in the following benefits for state agencies:
   a.   Fewer audit and monitoring findings by federal oversight agencies and state auditors;
   b.   Less time and effort spent on responding to and resolving findings;
   c.   Lower risk ratings by oversight agencies;
   d.   Reductions in questioned costs and amounts subject to de-obligation and/or recapture;

Current data is insufficient to quantify the cost savings associated with these benefits. However, it is reasonable to project at least a 10% reduction (3-4 findings) in audit findings related to the administration of federal programs. The state's FY21 Single Audit included four findings with corrective action plans citing GMS implementation. In a review of the state's FY18-21 Single Audits, each year there were multiple findings related to subrecipient monitoring and federal reporting. Implementation of a GMS alone will not prevent such findings in the future, but when fully utilized, state agencies will be equipped with data extracts, workflows, reminders, and other tools to facilitate timely subrecipient monitoring and federal reporting.

Better tracking of subrecipient reporting is expected to result in early warning signs, making it easier for agencies to identify high risk grants and subrecipients. State agencies will more frequently be able to provide guidance before violations happen, or when non-compliance can still be remediated.

3. Application Reviewers

   Use of the new GMS system is expected to result in nominal costs and benefits for Application Reviewer user group. Time is required to create a user account and learn to navigate the system. Because the reviewer role is both limited and specialized, the amount of time required to become familiar with the system is less than other stakeholder groups. This group should also realize minor benefits in the form of reduced time and effort due to reduced administrative burden. Reviewers will be able to complete reviews online, with score totals automatically calculated based on the selected answers. Both costs and benefits for this stakeholder group are nominal and offsetting, with an estimated net impact of $0.

Alternatives

The following alternatives were considered:

1. Status Quo Option: In this option, the state would not adopt an enterprise-wide GMS. Instead, the state would continue to rely on the purchasing process to award grants, and internal agency business processes and tools (such as Excel spreadsheets and email) to manage subawards.

   Grant application materials would generally be posted on agency websites, or the Division of Purchases website, with completed applications accepted via email, USPS and/or delivery. Similarly, documents for payment requests, reports and amendments would be transferred between subrecipients and agencies by email, USPS and/or delivery.

   This option was rejected, because it fails to reduce the risk of non-compliance with federal award requirements or improve and modernize the applicant/subrecipient experience.

2. Agency GMS Option: Under this option, agencies with sufficient resources would procure their own grant management and/or application software. Smaller granting agencies often do not have the resources to invest in technology solutions. Supporting different systems, and integrations between multiple grant systems and the state's financial system of record pose an

additional cybersecurity risk and commiserate burden on DoIT. Therefore, such programs would likely not be able to have two-way integration with the state's financial system of record, especially after adoption of a new ERP system. Compared to the Statewide GMS option, this option increases the administrative burden for applicants/subrecipients that apply to multiple state agencies.

Applicants and subrecipients would follow different processes and procedures with different state agencies. Entities applying for and/or receiving funds from multiple agencies would likely interact with different systems, as well as continue to use email to apply for funds and manage subawards.

This option was rejected, because it fails to provide a centralized location for applicants/subrecipients to apply and manage grants, and it is unclear if/how financial integrations would be supported.

3. <u>Statewide GMS Option</u>: This is the selected option, described above.

   Applicants and subrecipients would follow a consistent process with different state agencies and interact with a single online system. Grant application materials would generally be posted on the GMO website, with completed applications accepted via the GMS eCivis Portal. Similarly, documents for payment requests, reports and amendments would be transferred between subrecipients and agencies via the GMS. Both parties would be able to check the status of tasks, requests, etc. by logging into the GMS.

4. <u>Statewide GMS, No Fiscal Integration Option</u>: In this option, there would be no integration between the GMS and RIFANS, the state's financial system of record. Compared to the Statewide GMS option, this option increases the administrative burden for applicants/subrecipients and state agency staff.

   This option is similar to option 3. However, subrecipients would submit payment requests outside of the GMS (via email, mail, etc.), and would be unable to check the status of payment requests in GMS.

   This option was rejected, because it fails to provide a financial integration, limiting the utility of the GMS and increasing administrative burden relative to option 3.

Option 3, the Statewide GMS Option, was selected because, unlike the other options, it provides a single system for applicants and subrecipients to use when applying for grants, managing subawards, and requesting/tracking subaward payments. It enhances internal controls, reducing risk of non-compliance with federal award requirements. When fully implemented, it will enable state agencies to dedicate more time on improving program management and outcomes, and less on recordkeeping and reporting.