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**MEMORANDUM FOR EXECUTIVE APPROPRIATIONS COMMITTEE**

**FROM:** Gary Syphus, Steven Allred, and Sean Faherty  
**DATE:** May 9, 2017  
**SUBJECT:** Federal Funds Procedures Update

House Bill 194, “Federal Grants Management Amendments” passed in the 2017 General Session makes changes to the federal funds review process and approval requirements. This bill makes the following changes:

1. Starting January 1, 2018 for agencies that receive more than \$200 million annually in federal funds, or July 1, 2018 for agencies that receive \$200 million or less annually in federal funds, agencies’ “Federal Funds Request Summary” must also include a document detailing federal maintenance of effort requirements.
2. Beginning July 1, 2017, Medicaid Intergovernmental Transfers (IGT) created before July 1, 2017 are subject to the primary approval process.
3. Medicaid IGTs created under 26-18-21 are subject to the same review provisions as federal funds requests under 63J-5, with the exception that an IGT that will result in the state receiving \$1 million or more per year from the federal government must be treated as a high impact federal grant.
4. On or before October 15<sup>th</sup> of each year (beginning in 2017) the Department of Health is to prepare a report for the Executive Appropriations Committee that includes (1) the amount of each IGT; (2) the department’s analysis of the risk of a federal disallowance for the state; and (3) and other relevant information [26-18-21(2)(a)].
5. All previously exempt grants [WIC, TANF, Social Security Act money, Federal Highway Administration money, etc. – (UCA 63J-5-103)] are subject to the federal funds review process on January 1, 2018 for agencies that receive more than \$200 million annually in federal funds, or until July 1, 2018 for agencies that receive \$200 million or less annually in federal funds.

**Attachments:**

- A. Overview of the Federal Funds Approval Process (with changes made in H.B. 194 highlighted in yellow).
- B. Summary of Enterprise Grants Management System (EGMS) Procurement (helpful for step #1 above).

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## Overview of Federal Funds Approval Process (Updated for H.B. 194, 2017 G.S.)

All federal funds, except those exempted by statute, must go through the approval process, regardless of whether they are new federal grants, reauthorizations of existing grants, or continuations of multi-year grants.

Executive branch, judicial branch, and public education agencies must submit a “Federal Funds Request Summary” to the Governor, the Judicial Council, or the State Board of Education (SBOE), including a letter or other documentation awarding the grant. If the letter or other documentation awarding the grant isn’t available at the time of first submission, it must be submitted before the agency may expend the granted federal funds.

Starting January 1, 2018 for agencies that receive more than \$200 million annually in federal funds, or July 1, 2018 for agencies that receive \$200 million or less annually in federal funds, agencies’ “Federal Funds Request Summary” must also include a document detailing federal maintenance of effort requirements.

### Primary Approval Process (63J-5-201)

The primary approval process is for all grants (except those exempted by statute), regardless of amount or terms, to be reviewed and accepted/rejected during a legislative session. The process goes as follows:

1. The requesting state agency submits a request to the Governor’s Office.
2. The Governor’s Office submits the Federal Fund Request Summary to LFA.
3. LFA may include the federal funds in the base budget bill as directed by EAC.
4. LFA submits the summary to the appropriations subcommittees.
5. Subcommittees recommend acceptance or non-acceptance of each grant.
6. EAC reviews subcommittee recommendations and directs LFA to include/exclude the funds in an appropriations act.
7. Legislature passes an appropriations act with federal funds, which constitutes legislative approval of the associated grants.

Beginning July 1, 2017, Medicaid Intergovernmental Transfers (IGT) created before July 1, 2017 are subject to the primary approval process.

### Secondary Approval Process (63J-5-202 through 205)

For grants that become available outside of the timeframe of the annual general session, statute provides a secondary approval process. The required review and approval process depends on the grant level:

1. Low-Impact Federal Grants. These grants can be approved by the Governor, Judicial Council, or SBOE. Such approval must be reported to EAC, LFA, and LRGC. To qualify as a low-impact federal grant, the grant must meet all of the following requirements:
  - Result in the state receiving \$1 million or less in federal funding per year;
  - Require no additional permanent full/part-time employees; and
  - Require no new state money to match or participate.
2. Medium-Impact Federal Grants. These grants must be approved by the Governor, Judicial Council, or SBOE, then submitted to the Executive Appropriations Committee for its review and recommendations. Medium-impact grants meet any one of the following conditions:
  - Result in the state receiving more than \$1 million but less than \$10 million in federal funding per year;
  - Require one but less than 11 new permanent full/part-time employees; or
  - Require the state to expend \$1 to \$1 million in new state money in a fiscal year to match or participate.

The Executive Appropriations Committee may:

- Recommend the agency accept the new federal funds;
- Recommend the agency not accept the new federal funds; or
- Recommend to the Governor that the Governor call a special session to review and approve or reject the acceptance of the new federal funds

3. High-Impact Federal Grants. These grants must be approved by the Governor, Judicial Council, or SBOE, then submitted to the full Legislature for approval or rejection in a legislative session. High impact grants have any one of the following characteristics:

- Result in the state receiving more than \$10 million in federal funding per year;
- Require 11 or more new permanent full/part-time employees; or
- Require the state to expend more than \$1 million in new state money in a fiscal year to match or participate.

Medicaid IGTs created under 26-18-21 are subject to the same review provisions as federal funds requests under 63J-5, with the exception that an IGT that will result in the state receiving \$1 million or more per year from the federal government must be treated as a high-impact federal grant.

#### If federal funds awards exceed approved amounts

If an agency receives federal funds that exceed the amount approved through this process, it may expend up to 25% in excess of the amount approved if all of these conditions are met:

- The excess funds will not require the addition of one or more permanent full-time or part-time employees;
- No new state money will be required to match the excess federal funds; and
- Receipt of the excess money will not require the state to comply with new requirements.

#### Exemptions (63J-5-103)

Certain types of federal grants are exempt from Chapter 5, including:

- Medicaid (except for Intergovernmental Transfers)
- Children's Health Insurance Program (except for Intergovernmental Transfers)

The following federal grants are exempt until January 1, 2018 for agencies that receive more than \$200 million annually in federal funds, or until July 1, 2018 for agencies that receive \$200 million or less annually in federal funds:

- Women, Infant, and Children Program
- Temporary Assistance to Needy Families Program except for a one-time TANF request as defined in 63J-5-102
- Social Security Act money
- Substance Abuse Prevention and Treatment Program
- Child Care and Development Block Grant
- SNAP Administration and Training money
- Unemployment Insurance Operations money
- Federal Highway Administration money
- Utah National Guard
- Pass-through federal funds (defined as "federal funds provided to an agency that are distributed to local governments or private entities without being used by the agency" but do not include funds passed through by SBOE to an LEA or other sub-recipient)
- Funds received to assist victims of a declared emergency

## **Enterprise Grants Management System (EGMS) Procurement**

The Federal Funds Commission recommended in 2015 that the state purchase an Enterprise Grants Management System (EGMS) to integrate with FINET, the State's centralized accounting system. The goals of implementing an EGMS included increased efficiency and improved data quality, accuracy, access, utilization and transparency in managing the State's \$3.5 billion of federal financial assistance. This system would also be able to support the Utah State Board of Education (USBE), the Commission on Criminal and Juvenile Justice (CCJJ) and the Utah Office for Victims of Crime (UOVC) all of which need a new system to manage their grants.

The Division of Finance received \$500,000 one-time and \$50,000 ongoing in FY 2017 to procure and implement an EGMS. Over the course of 2016, the Division worked with USBE, the Governor's Office of Management and Budget (GOMB), and the Legislative Fiscal Analyst (LFA) to develop a procurement for an EGMS for release in October.

Ten vendors replied to the RFP and following a 4-stage review process, the GovGrants system, developed by REI was chosen in early March for the contract. GovGrants is a Software as a Service (SaaS) system built on Sales Force software and it was selected by both Ohio and Rhode Island for their own EGMS and are moving forward with implementation.

H.B. 194 was released after the RFP for the system had closed, however, GovGrants has functionality that allows for the upload of electronic documents including information such as federal maintenance of effort requirements and award letters in compliance with H.B. 194.

### **Next Steps:**

The costs for implementation and ongoing user license costs for REI's GovGrants system exceed appropriations given to State Finance for the procurement of an EGMS. Finance has reported that many members of the RFP steering committee indicated that the benefits of this system would be worth dedicating internal agency funds to cover the cost gap. If agencies commit to this funding strategy, State Finance and Purchasing will work to finalize a contract with REI and move forward with system adoption.