UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

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Agenda

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Robert S. Klein  
Consulting Associate  
Attain Higher Education  
rklein@attain.com  
Phone – 510.847.0525
A process to streamline Federal regulations related to administration of awards in order to make them more efficient, transparent and effective has been ongoing for about two years.

OMB published a set of proposed changes on February 1, 2013, in order to consolidate eight Federal Circulars into one document.

A final regulation, based on the proposed changes and input from interested parties was published in the Federal Register on December 26, 2013.

This represents the biggest changes to such regulations in decades, and will have a major effect on grantees.
The new regulations are presented in three categories:


A. Reforms to Audit Requirements (combining A-133 and A-50).

Note: Hospitals are not included under Section B. - Reforms to Cost Principles. Cost principles for Hospitals are still under Department of Health and Human Services Guidance.
The Circulars being Combined in one Circular are:

1. Circular A-21 – Cost Principles for Educational Institutions
2. Circular A-122 – Cost Principles for Non-Profit Organizations
3. Circular A-87 – Cost Principles for State, Local and Indian Tribal Governments
4. Circular A-110 – Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations
5. Circular A-102 – Awards and Cooperative Agreements with State and Local Governments
6. Circular A-133 – Audits of States, Local Governments, and Non-Profit Organizations
7. Circular A-89 – Federal Domestic Assistance Program Information
8. Circular A-50 – Sections Related to Single Audits
• The official title of the new regulation is “Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards.

• The new regulation is sometimes referred to as the “Supercircular”

• The new regulation may also be referred to a “OMB Circular A-81” (eight circulars in one).
A thorough review of this new regulation would take at least one full day.

Today’s presentation briefly cover the key changes under Section A. – Reforms to Administrative Requirements and Section C. – Reforms to Audit Requirements.

The main focus on today’s presentation will be on Section B. – Reforms to Cost Principles. The principle changes will be discussed along with their implications for institutions of higher education.
• The new regulation is effective on December 26, 2013, for Federal agencies.

• This new regulation is effective on December 26, 2014, for non-Federal agencies (grantees).

• There is some uncertainty about how the effective date for non-Federal entities will be implemented. For instance, an F&A proposal is based on an entire “base year”. There are questions about when the new regulation would apply for certain base years.
The new regulations were very recently released, on December 26, 2013. Consequently there are a number of items that will need to be clarified by OMB, as the language in the Federal Register was not always completely clear.

The “stakeholders” in the new regulations, including Federal agencies, non-Federal entities (grantees), consulting firms, etc. will be following through with OMB to obtain the needed clarifications.

In my presentation I will indicate areas that I believe will need further clarification.
The reforms to Administrative Requirements accomplish the following general objectives:

- Creates a consolidated, uniform set of administrative requirements. Separate requirements for universities, nonprofits and local entities are separately listed where unique requirements occur by entity.
- Requires pre-award consideration of each proposal’s merit and each applicant’s financial risk.
- Requires agencies to provide a 60 day notice of funding opportunity.
- Provides a standard format for announcements of funding opportunities.
- Requires that information collections are subject to Paperwork Reduction Act approval.
The reforms to the audit requirements accomplish the following general objectives:

- Concentrates audit resolution and oversight resources on higher dollar, higher risk awards.

- A non-Federal entity that expends $750,000 or more during their fiscal year in Federal awards must have a single audit performed.

- Establishes a threshold for questioned costs of $25,000.

- Strengthens the guidance on audit follow-up for Federal awarding agencies.
The reforms to the Cost Principles consolidate the cost principles into one document, with limited variation by type of entity. This will eliminate duplicative language and will facilitate ease of use where entities have involvement with more than one type of entity (university, nonprofit and state and local).

The major reforms are detailed in the following slides.
Part 200.414 – Indirect Costs

• New grantees are allowed to use an indirect cost rate of 10.0 percent of MTDC (Modified Total Direct Costs) indefinitely.

• Allows extensions of negotiated indirect cost rates up to four years with cognizant agency approval.
Part 200.419 – Cost Accounting Standards and Disclosure Statement

• An Institution of Higher Education that receives aggregate Federal awards totaling $50 million or more subject to the cost principles in its most recently completed fiscal year must comply with the Cost Accounting Board Cost Accounting Standards (CAS 9905.501, 9905.502, 9905.505 and 9905.506).

• An Institution of Higher Education that receives aggregate Federal awards totaling $50 million or more subject to the cost principles during its most recent fiscal year must disclose their cost accounting practices by filing a Disclosure Statement (DS-2) to their cognizant agency. The format in Appendix III to Part 200 should be followed.
Part 200.419 - Cost Accounting Standards and Disclosure Statement continued:

• The Institution of Higher Education is responsible for maintaining an accurate DS-2.

• Any planned amendments to the DS-2 should be submitted to the cognizant agency six months in advance of the planned implementation date of the changes. The changes may only be implemented if the institution has not been notified by the cognizant agency within the six months period that a longer period than the six months will be needed for review of the proposed change or that there are concerns about the proposed changes.

- The previous regulations specified three methodologies for supporting time and effort. These examples have been dropped under the new regulation.
- In place of the three specified methodologies, institutions are directed to ensure that appropriate internal controls exist to ensure that charges to Federal awards for salaries and wages be based on records that accurately reflect the work performed.
Part 200 – Appendix III B.6. – Departmental Administration Expenses

• Criteria for charging administrative and clerical salaries directly was modified.

• The previous criteria which specified that direct charging of administrative and clerical salaries only for “Major Projects” that require an extensive amount of administrative or clerical support has been dropped.

• The only remaining criteria is that “special care should be exercised to ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or indirect costs.”
Part 200 Appendix III.B.6. – Departmental Administration Expenses - Continued

- Section 200.413 – Direct Costs provides that salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if all of the following conditions are met:
  - Administrative or clerical services are integral to a project or activity.
  - Individuals involved can be specifically identified with the project or activity.
  - Such costs are explicitly included in the budget or have prior written approval of the Federal awarding agency.
  - The costs are not recovered as indirect costs.
Part 200.436 - Depreciation

- Use Allowance is eliminated as an antiquated concept. Hence, use allowance on fully depreciated items is not allowed.

- Previous requirements for institution to use indirect cost reimbursements from depreciation to acquire or improve research facilities is eliminated.

- Previous requirement for institution to document process for assuring reasonableness of costs of large research facilities is eliminated.

- Depreciation on any asset acquired solely for the performance of a non-Federal award is unallowable. Is depreciation on assets from a non-Federal award allowable upon termination of the non-Federal award, if the asset is used to benefit Federal awards?
• Depreciation on asset costs that are donated by institutions as cost sharing or matching contributions are unallowable, regardless of whether there is a prohibition on depreciation recovery in the law or agreement, and regardless of whether the matching requirement is statutory or administrative.
Part 200.449 – Interest

• The previous requirement for the institution to conduct a lease-purchase analysis before acquiring a major capital item is eliminated. However, the institutions claim for interest costs is limited to the “least costly alternative”.

• For institutional fiscal years beginning after January 1, 2016, interest on the purchase of intangible assets, including patents and computer software is allowable.
Part 200.449 – Interest - continued

- Institutions are no longer required to notify their cognizant agency with regard to substantial relocations of Federal sponsored programs out of debt financed facilities.
Major Changes to Cost Principles

Part 200 Appendix III.4 – Operations and Maintenance Expenses

• OMB Circular A-21 allowed a fixed Utility Cost Adjustment (UCA) of 1.3 percent of MTDC to be added to the F&A rate calculation for Organized Research for 66 institutions specified in Exhibit B of A-21.

• The new regulation eliminates the fixed UCA, but allows all long-form institutions to include up to 1.3 percent of MTDC to be added to the F&A rate for Organized Research to reflect the larger than average amount of utilities consumed by laboratories. Two options are provided to replace the UCA: (1) Institutions could meter space at a detailed level to measure energy utilization by function, or (2) Institutions could use a standard Relative Energy Utilization Index” (REUI) to weight research square footage in the allocation of utility costs.
Part 200 Appendix III.4 – Operations and Maintenance Expenses – Continued

- Effective Square Footage in computed by multiplying the actual square footage by the relative energy utilization index (REUI) posted on the OMB website at the time of rate determination. The REUI index is the ratio of laboratory energy use to the corresponding index for overall average college or university space. The current REUI is 2.0, but the ratio will be measured every one to five years, and may be changed by OMB.

- This entire methodology has raised a lot of questions, such as what laboratory space is being measured? For instance, does the laboratory space include dry labs as well as wet labs? Are instructional labs and research offices included? Are animal facilities included?
• The new regulation allows direct charging non-capitalized computing devices that are essential and allocable, but not solely dedicated to the performance of a Federal awards. This may include laptops, smartphones, etc. Capitalized computer equipment - called “information technology equipment” – is still classified as general purpose equipment and would normally be unallowable as a direct cost.

• The new regulation requires that Federal agencies use negotiated F&A rates for all awards, unless limited by law or regulation, or where a limitation is approved by the agency head based on documented justification. The agency head must notify OMB of any limitations approved by the agency head.

• Retain all documentation related to the audit for the period prescribed by regulation.
Other Changes to Cost Principles

• The new regulations discourage voluntary committed cost sharing. Voluntary committed cost sharing is not expected under Federal research proposals and is not to be used as a factor in the reviews of applications or proposals.

• Faculty compensation rules have been expanded to provide criteria for allowing extra pay for full-time faculty beyond normal full-time base salary.

• Pension rules have been clarified to allow pension costs funded more than six months after the end of a fiscal year to be claimed in the year funded.
Other Changes to Cost Principles

- The new regulation specifies that actual claims for worker’s compensation, unemployment compensation, and similar employee benefits would be allowable if the institution follows a consistent costing policy and the costs are allocated as indirect costs. What about allowing these claims as fringe benefit costs?

- The new regulation has been expanded to include post-retirement health benefits in the employee compensation section.
QUESTIONS AND DISCUSSION
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Attain LLC  
Higher Education  
8000 Towers Crescent Drive, 15th Floor  
Vienna, VA 22182  
703-857-2200  
www.attain.com  

Bob Klein, Consulting Associate