

# OMB Proposed Ideas for Grant Reforms Potential Implications for Research Institutions

## ANALYSIS OF OMB PROPOSED GRANT REFORM IMPLICATIONS

The focus on federal accountability and transparency has increased momentum for potential reforms that may have significant impact on grant recipients. The President’s Executive Order in 2009 and a memorandum in 2011 have directed the Office of Management and Budget (OMB) to evaluate potential reforms to federal grant policies in an effort to increase efficiency, strengthen oversight, and align administrative requirements.

The president has directed the Office of Management and Budget to:

- Partner with state and local government to combat fraud, waste and abuse.
- Provide administrative flexibility that is results-oriented, reduces administrative burdens, and shifts the focus from monitoring compliance to monitoring results.

The OMB and federal government have primarily focused on these directives to serve as the starting point for participatory policy development and changes to the OMB Circulars. On February 28, 2012, OMB published a notice in the Federal Register regarding reform of federal policies related to cost principles and administrative requirements for grants and cooperative agreements. The most significant sections are the Single Audit and cost principles related to Facilities & Administrative Cost Rates and Time and Effort Reporting. These potential reforms are open for public comment through March 29. OMB will publish a subsequent Federal Register notice later this year when the specific proposed changes are determined. Huron Education evaluated the proposed reforms and summarized in the following table the most significant items with possible implications for grantee institutions. Huron anticipates there will be continued discussions about policy changes which could translate into OMB Circular revisions by the end of the year.

### Summary of Impactful OMB Proposed Rules

Considerations / Proposed Rule	Implications
<b>Reforms to Audit Requirements:</b>	Potential changes to audit guidance contained in OMB Circular A-133 and Circular A-50.
Concentrate audit resolution and oversight on higher dollar, higher risk awards.	Intended to reduce the administrative burden for audited entities and auditing agencies, and tighten scrutiny on the highest risk areas of program oversight. Entities that expend less than \$1 million in federal awards would not be required to conduct a Single Audit. Entities that expend between \$1 million and \$3 million in federal awards would be required to undergo a more focused version of the Single Audit.
Streamline the universal compliance requirements in the Circular A-133 Compliance Supplement.	Current Single Audit requirements could change for many institutions, including either reduced scope of audit review or, in some cases, tightened scrutiny on certain compliance requirements.
Strengthen the guidance on audit follow-up for federal awarding agencies.	Calls for audit resolution to be more collaborative for both the agencies and the recipient, including a potential mediation process.
Reduce burden on pass-through entities and subrecipients by ensuring across-agency coordination and reducing duplicative audit follow-up.	Intended to reduce the effort for both pass-through entities and subrecipients during multiple agency audits.
<b>Reforms to Cost Principles:</b>	Potential changes to OMB cost principle Circulars A-21, A-87 and A-122 and 45 CFR Part 75.
<b>Consolidation:</b> Consolidate the cost principles into a single document with limited variations by type of activity.	Creation of a single cost principle document for grantee institutions with recognition given to the uniqueness of the different entities.
<b>F&amp;A Rate:</b> For Facilities and Administrative cost, use a flat rate instead of a negotiated rate.	A mandatory flat rate would be established and would be discounted from the already negotiated rate. Institutions would have the option of accepting a flat rate or negotiating a rate. Potentially would reduce burden associated with calculating and negotiating indirect cost rates, but the rate would likely be lower than an institution’s current F&A rate.

Considerations / Proposed Rule	Implications
<b>Effort Reporting:</b> Consider alternatives to effort reporting requirements.	Existing pilots related to effort reporting will be continued and new pilots will be developed. The purpose of further discussion is to explore ideas that would maintain integrity/ accountability related to personnel effort, provide the ability for external audit verification, but at the same time achieve these outcomes in a manner that lessens the administrative burden articulated by institutions.
<b>Utility Cost Adjustment:</b> Expand the UCA factor to include more institutions.	Would offer the opportunity for more higher education institutions to apply for the UCA. Division of Cost Allocation (DCA) and Office of Naval Research (ONR) will work in coordination with OMB to develop guidelines and standards for the cost studies. Estimated to cost an additional \$80 million in indirect costs if and when it is fully implemented.
<b>Direct Charges:</b> Clarify when institutions can charge directly allocable administrative support as a direct cost.	Would clarify how allowable administrative support costs may be routinely charged as direct costs. Guidance will add more examples. Consistent costing will be a major consideration.
<b>Computing Devices:</b> Include the cost of certain computing devices as allowable direct cost supplies.	Computing devices not considered a depreciable asset by an institution's capitalization policy may be charged (expensed) as a cost of supplies. Would be separate line item on budget but not subject to inventory. Reduces special burden of obtaining permission for such purchases. Consistency will be an important issue.
<b>Unused Supplies:</b> Clarify that \$5,000 is the threshold for an allowable maximum residual inventory of unused supplies that may be retained for use on another federal award assuming purchase was properly allocable.	Intent is to minimize confusion about appropriate disposal or re-expensing of unused inventory at end of an award.
<b>Reasonable Cost Studies:</b> Eliminate requirements for institutions to conduct studies of cost reasonableness for large research facilities.	Potential to reduce costly paperwork that is currently required.
<b>Use of Reimbursed Depreciation:</b> Eliminates the restriction that certain institutions have on the use of indirect cost recoveries associated with depreciation or use allowance.	Potential to reduce costly paperwork that is currently required.
<b>Lease-Purchase Analysis:</b> Eliminates the need to perform a lease purchase analysis to justify interest costs associated with facility construction that benefits federal programs.	Eliminates the need to conduct a lease purchase analysis to justify the cost of interest and to notify the cognizant federal agency when relocating federal programs associated with a facility funded in whole or in part with federal reimbursement on financial debt.
<b>Budgeting for Contingency Funds:</b> Budgeting for contingency funds for certain federal awards for the construction or upgrade of a large facility, instrument, or IT systems is an acceptable and necessary practice.	Contingency amounts would not be included in grantee proposed budgets or in actual award documents but would be risk-adjusted total cost estimates consistent with GAAP and standard project-management principles.
<b>Disclosure Statements:</b> Request that the Cost Accounting Standards Board (CASB) consider increasing the minimum threshold for institutions to file a disclosure statement from \$25 million to \$50 million in federal awards per year.	Requirement to file a disclosure statement would no longer apply if a higher education institution drops below a new threshold of \$50 million.
<b>Reforms to Administrative Requirements</b>	<b>Potential changes to OMB Circulars A-102, A-110 and A-89</b>
Create a consolidated, uniform set of administrative requirements.	Uniform guidance would be provided under consolidated requirements in OMB Circulars A-102 and A-110, with limited exceptions by type of recipient.
Require pre-award consideration of each proposal's merit and each applicant's financial risk.	A merit-based review would be required for the first time in an OMB Circular. This would be aimed at ensuring transparency in the award making process and increase quality of awarded projects.
Require agencies to provide 90-day notice of funding opportunities.	Could allow applicants additional time and information in preparing applications. Agencies would develop an updated Catalog of Federal Financial Assistance.
Provide a standard format for announcements of funding opportunities.	Would require agencies to disclose all terms and conditions attached to awards and would provide more transparency at the solicitation stage about the scope of recipient responsibilities.

### Request for Comments

To comment on the proposed rules, visit [http://www.regulations.gov/#!documentDetail;D=OMB\\_FRDOC\\_0001-0097](http://www.regulations.gov/#!documentDetail;D=OMB_FRDOC_0001-0097).

The comments are identified by docket OMB\_FRDOC\_0001. All comments are due by March 29, 2012.

### Huron Can Help

Huron's Education practice is dedicated to serving the higher education industry. We have a large team of professionals with extensive knowledge and experience in the business of higher education and academic medical centers. We deliver the most comprehensive services to the industry and partner with institutions to improve business performance across the enterprise.

If you would like additional insight on this ruling and operational changes that may need to be considered, please contact:

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### Sources:

<http://www.gpo.gov/fdsys/pkg/FR-2012-02-28/pdf/2012-4521.pdf>

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