

Proposed OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards

Potential Implications for Research Institutions

ANALYSIS OF OMB PROPOSED UNIFORM GUIDANCE AND INSTITUTIONAL IMPLICATIONS

On January 31, 2013, the federal government released a proposal for the OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards. This proposed guidance is intended to streamline the language from eight existing OMB circulars into one document outlining the structure, scope, and terms of the cost principles and administrative requirements governing federal grants and cooperative agreements for all grant recipient institution types. This consolidation is aimed at eliminating duplicative or almost duplicative language in order to clarify where policy is substantively different across types of entities, and where it is not.

The most significant changes to the circulars involve the Single Audit and cost principles related to direct and indirect costs.

These potential reforms are open for public comment through May 2. To provide a comment on the proposed uniform guidance, access the federal website and submit your comment under docket OMB-2013-0001.

Huron Education evaluated the guidance against the reforms originally proposed in the federal registrar and summarized the most significant items with implications for grantee institutions in this chart. Huron anticipates further revisions and refinements to the guidance, but that the core elements and impacts of the proposed common circular will remain and be finalized into Title 2 of the Code of Federal Regulations later this year.

Original Advanced Notice of Proposed Guidance	Proposed OMB Uniform Guidance for Federal Financial Assistance Elements	Institutional Impact and Implications
Reforms to Audit Requirements: Merging and consistent alignment of OMB Circular A-133 and Circular A-50.		
<p>Concentrate audit resolution and oversight on higher dollar, higher risk awards:</p> <ul style="list-style-type: none"> 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 Single Audit with a more specific focus on major internal controls. 	<ul style="list-style-type: none"> Increased threshold for a single audit from \$500,000 to \$750,000 in federal spending. Enhances Federal agency use and oversight of single audit, including addition of an accountable official, use of single audit metrics, cooperative audit resolution and guidance to agencies on the nature of quality control reviews to obtain or to conduct. Direction that the audit supplement scope needs to focus on improper payments and program outcomes rather than compliance minutia. Clarification of criteria for a low-risk auditee, including the removal of certain provisions allowing an institution to be low-risk with agency approval. 	<p>Reduces the pool of audited entities and focuses audit attention the highest risk areas of program oversight.</p>
<p>Streamline the universal compliance requirements in the Circular A-133 Compliance Supplement.</p>	<p>Compliance Supplement elements are directly integrated into the common circular resulting in a reduction in the number of supplement compliance requirements from 14 to 6.</p>	<p>A-133 Compliance Supplement should still be reviewed, but the remaining elements represent a focused set of requirements to target waste, fraud and abuse.</p> <p>The 6 remaining areas include:</p> <ul style="list-style-type: none"> Activities Allowed or Unallowed and Allowable Costs/Cost Principles (now combined) Cash Management Eligibility Reporting Subrecipient Monitoring Special Tests and Provisions

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<p>Strengthen the guidance on audit follow-up for federal awarding agencies.</p> <ul style="list-style-type: none"> Potentially implement mediation process to resolve audit disputes. 	<ul style="list-style-type: none"> Auditees cannot determine that an audit finding does not warrant further action. Auditees must initiate corrective actions immediately upon audit report acceptance. 	<p>Auditees must review and respond to and address all audit findings on a timely basis (immediately).</p>
<p>Reduce burden on pass-through entities and subrecipients by ensuring across-agency coordination and reducing duplicative audit follow-up.</p>	<ul style="list-style-type: none"> Federal agencies are permitted to conduct other audits in addition to the single-audit, but these should be coordinated with and build on the single audit. Federal awarding agencies and pass-through entities can rely on cognizant agency oversight and/or management decisions. Subrecipients are not required to submit to pass-through entities for program-specific audits. 	<p>Multiple agency audits and addition agency audits should be better coordinated and in line with each other. Subrecipients will have fewer reporting requirements in program-specific audits</p>
<p>Reforms to Cost Principles: Merges and changes to OMB cost principle Circulars A-21, A-87 and A-122 and 45 CFR Part 75.</p>		
<p>Consolidation: Consolidate the cost principles into a single document with limited variations by type of activity.</p>	<ul style="list-style-type: none"> Language from the A-87, A-21, and A-122 cost principles are consolidated, merged and clarified into a single document, with limited variations by type of entity. 	<p>A single common cost principles circular creates common accounting standards for all grant recipients, regardless of institutional type.</p>
<p>F&A Rate: For Facilities and Administrative cost, use a flat rate instead of a negotiated rate.</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Pass-through entities must grant subrecipients F&A cost amounts that either: <ul style="list-style-type: none"> honor the F&A rates negotiated at the Federal level, or provide the minimum flat rate or 10% Modified Total Direct Cost (MTDC) Exceptions to the negotiated rate are allowable only under specific circumstances. Minimum flat F&A rate of 10% MTDC is allowed for entities without the capacity for a full negotiation and/or entities that have never had a negotiated F&A rate. All types of entities have the option of extending negotiated rates for up to four years subject to approval of the institutions cognizant agency. 	<p>F&A rates can be extended up to four years reducing the frequency of rate calculations and negotiations between an institution and its cognizant agency.</p> <p>Institutions willing to accept a flat indirect rate of 10% do not need to conduct a rate calculation.</p>
<p>Effort Reporting: Consider alternatives to effort reporting requirements.</p> <ul style="list-style-type: none"> Continue existing pilots related to effort reporting. Develop new pilots. 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. 	<ul style="list-style-type: none"> An institution may establish the internal controls necessary to validate compensation (salary and wage) costs as long as these internal controls follow the guidance provided (in line with previous standards for time and effort reporting). All institution types must certify effort at least annually, depending on the individual and activities, but the specific period can be determined based on institution practice/periods, i.e. in line with the institutions academic and/or fiscal calendar. Effort must be certified either by the individual employee or by an individual responsible for verification that the work was performed. 	<p>The general principles of time and effort still apply, but all institution types have the ability to implement independent practices for certifying time and effort as long as they follow the federal guidelines. The complex language and example methods have been eliminated, clarifying the federal requirements for institutions.</p>

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Utility Cost Adjustment: Eliminate the 1.3% UCA	UCA for select institutions of higher education is replaced by the potential for all institutions of higher education to use one of two charging alternatives (unambiguous allocation to the function or based on calculated “effective square footage”).	Utility costs may be apportioned separate from other OM costs using either sub-building metering or “effective square footage” using the relative utilization index (currently 2 to 1)
Direct Charges: Clarify when institutions can charge directly allocable administrative support as a direct cost.	All work that is directly allocable to one award may be charged to that award, regardless of the type of task, including administrative and clerical support.	Institutions may charge administrative and clerical salaries – as well as other items of cost – directly to a federal award when it is appropriate, allocable and meets the conditions outlined in the federal guidance. The burden for justifying direct costs as allocable to an award remains with the institution.
Computing Devices: Include the cost of certain computing devices as allowable direct cost supplies.	An institution may classify and treat computing devices consistent with “supplies” as opposed to equipment, if the acquisition cost is less than \$5,000 (or less than the institution’s capitalization threshold if the threshold is greater than \$5,000).	Computing devices not considered a depreciable asset by an institution’s capitalization policy may be charged and treated as supplies. The special burden of obtaining permission for such purchases is reduced. However, institutions must follow the same practices for determining and documenting allocability (direct versus indirect use) when charging computing devices to sponsored awards.
Unused Supplies: 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..	\$5,000 is the threshold for an allowable maximum residual inventory of unused supplies, assuming purchase was properly allocable.	The award closeout process for addressing remaining inventory, appropriate disposal and re-expensing of unused inventory is simplified.
Reasonable Cost Studies: Eliminate requirements for institutions to conduct studies of cost reasonableness for large research facilities.	Requirements to conduct studies of cost reasonableness for large research facilities are eliminated.	Reduction in the administrative burden associated with these studies.
Use of Reimbursed Depreciation: Eliminate the restriction that certain institutions have on the use of indirect cost recoveries associated with depreciation or use allowance.	Restrictions on the use of indirect costs recovered for depreciation or use allowances are eliminated.	Reduction in administrative burden associated with monitoring and accounting for depreciation or use allowances.
Lease-Purchase Analysis: Eliminates the need to perform a lease purchase analysis to justify interest costs associated with facility construction that benefits federal programs.	Requirements for institutions to conduct a lease-purchase analysis to justify interest costs and to notify the cognizant federal agency in order to relocate federally sponsored activities from a facility financed by debt are eliminated.	Reduction in administrative burden associated with undergoing the lease-purchase analysis.
Budgeting for Contingency Funds: 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.	An institution may budget for contingency funds on large projects to the extent they are necessary to improve the precision of budget estimates. Major project scope changes, unforeseen risks, or extraordinary events may not be included. The charges associated with the use of contingency funds must be compliant with the federal guidance cost principles.	Institutions may budget for contingency amounts in grantee proposed budgets and, if awarded, these amounts will be incorporated into the awarded amounts. Institutions must estimate these amounts using broadly-accepted cost estimating methodologies and specify this practice in the budget documentation of the proposal.
Disclosure Statements: 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.	The Cost Accounting Standards Board’s (CASB) Cost Accounting Standards and CASB’s Disclosure Statement requirements have been eliminated for institutions of higher education. (The elimination of CASB requirements applies only to grants and cooperative agreements.)	Higher Education institutions are no longer required to file a disclosure statement, lessening the burden for an institution to draft and file a DS-2.

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Reforms to Administrative Requirements: Changes to OMB Circulars A-102, A-110 and A-89		
Create a consolidated, uniform set of administrative requirements.	Standards and requirements for all federal grants and cooperative agreements irrespective of entity type are uniformly combined under a single circular.	Uniform administrative requirements are provided for all recipients of federal awards.
Require consideration of each proposal's merit and each applicant's financial risk in advance of a funding/award determination.	<ul style="list-style-type: none"> • Proposal reviews include a review for merit and financial risk. • Merit-based selection criteria is distinguished from eligibility criteria for applicants for federal awards. • Criteria to be evaluated in making an award determination shall be described in the funding opportunity announcement. 	Transparency in the award-making process will better inform institutions and investigators of the process, enabling the increased quality of proposals and resultant awarded projects.
Require agencies to provide 90-day notice of funding opportunities.	<ul style="list-style-type: none"> • Available federal financial assistance must be made public via the Catalog of Federal Financial Assistance (CFFA) (previously the Catalog of Federal Domestic Assistance - CFDA). • Agencies must leave notices open for at least 30 days. 	Applicants have additional time and information (depending on current practices) in preparing applications via the updated Catalog of Federal Financial Assistance.
Provide a standard format for announcements of funding opportunities.	<ul style="list-style-type: none"> • Information provided in funding announcements is standardized. • Agencies cannot add additional application requirements beyond OMB approved data elements. 	Guidelines standardize recipient requirements within funding opportunities. The federal government will evaluate options for further standardization of funding opportunities in the future.

Request for Comments

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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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