



The New Uniform Grant Guidance: Allowability of Costs

Be Ready So You Don't Put Funds at Risk!

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AGH

Administration

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Our Speaker

Shelly L. Hammond, CPA, CGFM



- Leads AGH's public sector practice
- 20 years' experience, specializing in providing auditing and consulting services to a variety of governmental and nonprofit entities
- Member of the:
 - American Institute of Certified Public Accountants
 - Kansas Society of Certified Public Accountants
 - Government Finance Officers Association
- Serves on the GFOA Certificate of Achievement Review Committee
- Member of the national Executive Committee of the Government Audit Quality Center

Polling Question

Learning Objectives

- Identify key dates / timing of implementation
- Identify the major changes pertaining to allowable costs
- Compare / contrast new and existing guidance in key areas
- Develop an understanding of key internal control requirements
- Outline how your organization can prepare over the next six months

*Uniform Guidance on Administrative
Requirements, Cost Principles, and Audit
Requirements*

*(Uniform Grant Guidance)
(Supercircular)*

Uniform Grant Guidance

- Final guidance issued in the Federal Register on December 26, 2013
- Can be found at:
 - 2 CFR Part 200
 - COFAR website at cofar@omb.eop.gov
 - COFAR = Council on Financial Assistance and Reform
 - Website above also has FAQs, videos, crosswalk guidance, etc.

Uniform Grant Guidance

Goals:

- Reduce administrative burden
- Strengthen oversight
- Targeting audit requirements on waste, fraud and abuse

Key Dates / Implementation

Effective date for agencies:

- Applies to federal agencies immediately
- Federal agencies have 6 months to submit implementing regulations to the OMB.
- Non-federal entities required to follow once implementing regulations are in effect, which will be no later than December 26, 2014.

Key Dates / Implementation

Effective date for agencies:

- Administrative requirements and **cost principles** apply to new awards AND to additional funding (funding increments) to existing awards after December 26, 2014.
- Existing awards will continue to be governed by terms and conditions of the Federal Award, except for audit requirements.



Cost Principles

2 CFR Part 200

Subpart A – Acronyms & Definitions

Subpart B – General Provisions

Subpart C – Pre-Federal Award Requirements

Subpart D – Post-Federal Award Requirements

Subpart E – Cost Principles

Subpart F – Audit Requirements

**Appendices III-VIII: Cost Principles, Reforms to
Cost Principles (Circulars A-21, A-87, A-122)**

Prior guidance

- A-87 – State and Local Governments
- A-122 – Nonprofits
- A-21 – Higher Education

Note: HHS guidance for Hospitals from 45 CFR Part 74 was NOT incorporated into the new guidance – the OMB is conducting further review of the cost principles for hospitals, and will make a future determination about the extent to which they should be added to this guidance.

200.407 Prior written approval

- Non-Federal entity may seek prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs.
- Sometimes prior approval is required – this section lists those instances when that is the case (only place where these are all listed).
 - Examples: Equipment, entertainment, selling / marketing costs, travel costs

200.413 Direct costs

(c) Salaries of administrative and clerical staff should normally be treated as indirect costs unless all of the following are met:

- Admin / 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.
- The costs are not also recovered as indirect costs.

200.414 Indirect (F&A) Costs

- Federal acceptance of approved IDC rates
- New de minimis rate
- One-time extension of up to 4 years

Indirect Costs: Approved Rates

Federal awarding agencies must accept approved negotiated indirect cost rates under 200.414(c)(1) unless a different rate is required by Federal statute or regulation, or when approved by a Federal agency head or delegate based on documented justification as described in paragraph (c)(3).

Indirect costs: de minimis rate

A 10% de minimis IDC rate is now available. Any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-Federal entities described in Appx. VII, may elect to charge a rate of 10% of modified total direct costs.

- Must be used on all federal awards until the entity negotiates an approved rate with its cognizant agency
- May be used indefinitely

Indirect costs: extensions

May apply for a one-time extension of current indirect cost rate of up to 4 years without further negotiation, subject to approval of the negotiating Federal agency.

- If approved, the entity is “locked in” to that rate until the extension period ends – no re-negotiations
- Only applies if entity has had no major changes to its indirect costs and prior approval received

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200.415 Required certifications

- Designed to further mitigate risks of fraud, waste and abuse
- Signed by an official who can legally bind the organization
 - Annual or other financial reports
 - Reimbursement requests
 - *“By signing this report, I certify....complete, and accurate, and the expenditures...are for the purposes....of the Federal award, etc.”*
- Penalties under the False Claims Act

200.419 Cost Accounting Standards and Disclosure Statement

- Applies to institutions of higher education
- Current: If receive >\$25 million in federal funding in a fiscal year, must prepare and submit a Disclosure Statement (DS-2) describing the institution's cost accounting practices.
- New:
 - a) Threshold increased to \$50 million
 - b) Submit changes 6 months in advance of implementing a change – and if receive no indication of an extension or of concerns from the Federal agency, may proceed with implementation.

200.425 Audit Services

- A reasonably proportionate share of the costs of audits required by, and performed in accordance with the Single Audit Act, are allowable.
- Costs of auditing an entity that is exempt from having an audit under the Single Audit Act due to having less than \$750,000 in federal expenditures are NOT allowed.
- Cost of a financial statement audit for a non-federal entity that does NOT currently have a Federal award may be included in the indirect cost pool for a cost allocation plan or indirect cost proposal.
- Pass-through entities may charge for the cost of agreed-upon procedures engagements to monitor subrecipients (with certain caveats).

200.430 Compensation – Personal Services

- Strengthened focus on internal controls, which allows for flexibility in how non-federal entities meet the standards
- Purpose was to reduce administrative burden of documenting time and effort
- Federal agencies may approve methods for blended funds.

Compensation: Documentation

- Guidance no longer includes specific details on what internal controls should be.
 - For example, not required to use personal activity reports
- Entities have the ability to implement internal control systems and business processes that best fit their needs.
- “Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed.”

Compensation: Documentation

Charges must be based on records that accurately reflect the work performed. The records must:

- a) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated
- b) Reasonably reflect the total activity for which the employee is compensated, not exceeding 100% of compensated activities

Compensation: Documentation

- c) Comply with the established accounting policies and practices of the entity
- d) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on:
 - more than one federal award;
 - a federal award and a non-federal award;
 - an indirect cost activity and a direct cost activity;
 - two or more indirect activities which are allocated using different allocation bases; or
 - an unallowable activity and an allowable direct or indirect activity

Compensation: Documentation

- When interim charges are based on budget estimates, the non-federal entity's system of internal controls must include processes to ensure necessary adjustments are made such that the final amount charged to Federal awards is proper.
- Significant changes in work activities are identified and entered into the records in a timely manner.
- Short-term (such as 1-2 months) fluctuations between workload categories need not be considered as long as the distribution is reasonable over the longer term.

Compensation: Higher education

- Charges for work performed by faculty members during the academic year are allowable at the Institutional Base Salary (IBS) rate.
- In no event will charges to Federal awards exceed the proportionate share of the IBS for that period.
- IBS: Defined as annual compensation, whether that individual's time is spent on research, instruction, administration, or other activities,

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200.431 Compensation – Fringe Benefits

- Leave (sick, vacation, holidays, etc.)
- Retirement costs
- Post-retirement costs
- Family-friendly leave (new)

200.431 Compensation – Fringe Benefits

Allowable if:

- 1) They are provided under established written leave policies.
- 2) The costs are equitably allocated to all related activities.
- 3) The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed.

200.431 Compensation – Fringe Benefits

Cash basis: Cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable as indirect costs in the year of payment.

Accrual basis: May only be used for those types of leave for which a liability as defined by GAAP exists when the leave is earned. Allowable leave costs are the lesser of the amount accrued, or funded.

200.437 Employee Health & Welfare Costs

- Costs incurred in accordance with the non-Federal entity's documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable.
- Employee “morale” costs are generally disallowed.

200.438 Entertainment Costs

- Unallowable unless:
 - Costs have a programmatic purpose and are authorized in the approved budget for the federal award, OR
 - Costs have prior written approval from the federal awarding agency.

200.439 Equipment & Other Capital Expenditures

- Supplies – Updated definition in 200.314 notes that supplies now includes computing devices which fall below the \$5,000 threshold.
- Threshold remains at \$5,000 for equipment.
- See also Property Standards in Subpart D (post-award administrative requirements).

200.461 Publication and Printing Costs

Resolves a long-standing issue with charges necessary to publish research results, which typically occur after expiration of the award, but are otherwise allowable costs of an award

- May charge the Federal award before closeout for costs of publication or sharing of research results if the costs are not incurred during the period of performance of the Federal award

200.474 Travel Costs

- Provides that temporary dependent care costs that result directly from travel to conferences and meet specified standards, are allowable
- An example of new “family-friendly” policies

Other Resources

- COFAR website at cofar@omb.eop.gov.
- COFAR site has a “COFAR Mailing List” link to register to receive future announcements.
- Uniform Guidance Cost Principles Text Comparison (crosswalk)

How to Prepare

- Be aware of effective date, and start considering now how policies / procedures will need to change.
 - Consider how you will manage awards funded prior to December 26, 2014, vs. those after that date.
- Ensure accounting and grant program personnel are provided adequate training and resources regarding allowable costs.
- Be sure personnel know how to access resources.

How to Prepare

- If your organization has an indirect cost rate already, consider whether the extension would be beneficial.
- If your organization does not have an indirect cost rate, consider whether the de minimis option could apply.
- For time and effort reporting, evaluate internal control procedures to ensure ongoing compliance under the new rules.

Polling Question

Are You Ready?

With less than six months remaining prior to the implementation date...

is your organization ready?

Questions?

Thank you!
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Future AGH New Grant Guidance webinars: <http://ow.ly/ymrnT>

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