

*OMB Super Circular -  
Grants Management Reform*



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**Source of Initiative**

- Presidential Memo - Feb 2011: Federal program requirements over the past several decades have sometimes been onerous, and they have not always contributed to better outcomes. With input from our State, local, and tribal partners, we can, consistent with law, reduce unnecessary regulatory and administrative burdens and redirect resources to services that are essential to achieving better outcomes at lower cost.



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## OMB Grants Management Reform

February 1, 2013

June 2, 2013

- ▶ OMB issued for comment proposed guidance titled, "*Proposed OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards*"
- ▶ 120 day comment period ended

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## Why "Super Circular"???

1. Greater simplicity
2. Greater consistency
3. Lower costs



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## OMB Grants Management Reform Objectives

- ▶ Reform grant policies to increase the efficiency and effectiveness of federal programs
- ▶ Eliminate unnecessary and duplicative requirements
- ▶ Focus grant policies on areas that emphasize the achievement of better outcomes at a lower cost



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### Which Circulars are Impacted?

The proposed guidance would consolidate eight current OMB Circulars. Those having a direct impact on County Boards of Education are:

- Circular A-102 – Administrative Regulations
- Circular A-87 – Cost Principles
- Circular A-133 – Audit Requirements



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### Streamlines Related Circulars

- ▶ A-21, *Cost Principles for Educational Institutions*
- ▶ A-87, *Cost Principles for State, Local and Indian Tribal Governments*
- ▶ A-89, *Federal Domestic Assistance Program Information*
- ▶ A-102, *Awards and Cooperative Agreements with State and Local Governments*



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### Streamlines Related Circulars

- ▶ A-110, *Uniform Administrative Requirements for the Awards and Other Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations*
- ▶ A-122, *Cost Principles for Non-Profit Organizations*
- ▶ A-133, *Audits of States, Local Governments and Non-Profit Organizations*
- ▶ A-50 – Super Circular supersedes Audit Follow Up sections, related to single audits



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## Super Circular Contents

- ▶ Subchapter A – General Provisions
- ▶ Subchapter B – Pre-award Requirements
- ▶ Subchapter C – Federal Award Notice
- ▶ Subchapter D – Inclusion of Terms and Conditions
- ▶ Subchapter E – Post Federal Award Requirements
- ▶ Subchapter F – Cost Principles
- ▶ Subchapter G – Audit Requirements
- ▶ Subchapter H – Appendices



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## Who Is Covered?

- ▶ All non-federal entities expending federal awards
- ▶ The previous eight circulars will be consolidated into one circular, with elimination of differences by entity type



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## When Is It Effective?

- Now – Analysis of public comment
- 12/31/13 – Final regulation (2 CFR)?
- 12/31/14 – EDGAR revisions?

(Effective date of 7/1/14 is doubtful)



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## Changes In Policy

- ▶ Many of the changes were due to consolidating the same requirements contained in different circulars for different types of entities, without any impact on current policy. There are significant changes to clarify existing requirements.
- ▶ The majority of the policy changes that directly impact County Boards of Education are related to OMB Circular A-133 which governs the way audits are conducted.



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## Single Audit Threshold

- ▶ Raises the threshold that would trigger an A-133 audit from \$500,000 to \$750,000
  - Impact: Will reduce the number of single audits.



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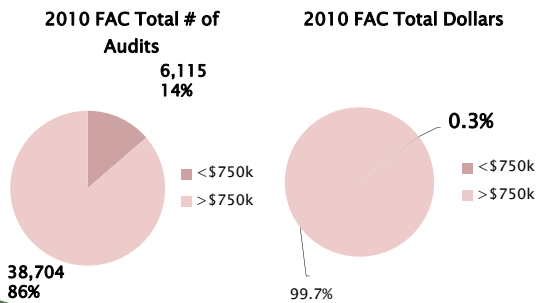
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## Impact of Threshold



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## Major Program Determinations

- ▶ Determination of which programs to include in a single audit
- ▶ Increase in threshold for audit coverage of expenditures:
  - Low Risk Entity: Reduced from 25% to 20%
  - High Risk Entity: Reduced from 50% to 40%
- Impact: These changes may impact which and how many programs the auditor will select for audit.



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## Type A Programs

- ▶ Minimum Type A threshold increased from \$300,000 to \$500,000
- ▶ The criteria for prior-year findings that make a Type A program high risk in the current year has been narrowed to only findings that:
  - Caused the program to not receive an unmodified compliance opinion
  - Were material weaknesses in internal control over compliance
  - Represented known or likely questioned costs exceeding 5% of the program's expenditures



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## Compliance Requirements

- ▶ The number of compliance areas required to be audited has been reduced from fourteen to seven.
  - Impact: Amount of hours spent on the audit should be reduced; thereby, reducing the cost of the audit.



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## Compliance Requirements Removed

- Davis Bacon (D)
- Equipment and Real Property Management (F)
- Level of Effort & Earmarking (G)
- Procurement and Suspension & Debarment (I)
- Program Income (J)
- Real Property Acquisition and Relocation Assistance (K)



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## Key Requirements Retained

- ▶ Activities Allowed or Unallowed (A)
- ▶ Allowable Costs/Cost Principles (B,H,G)
  - This would encompass some testing of period of availability and matching
- ▶ Eligibility (E)
- ▶ Cash Management (C)
- ▶ Reporting (L)
- ▶ Subrecipient Monitoring (M)
- ▶ Special Tests & Provisions (N)



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## Question Costs

- ▶ The threshold for known questioned costs increased from \$10,000 to \$25,000
  - Impact: Will reduce the number of published findings, which may reduce the likelihood of being classified as high risk for future single audits.



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## Impact on Pass-Through Entities

- ▶ The elimination of the compliance requirements from A-133 and an increase in the Single Audit threshold will place the burden on Pass-Through entities



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## More Pass-Through Responsibility

- ▶ Subrecipient risk assessments
- ▶ Provide federal share of commingled fund disbursements at time of disbursement
- ▶ Adhere to cash management regulations in dealings with subrecipients
- ▶ All subawards shall include a provision for indirect costs – either negotiated or a de minimis rate of 10%



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## Pass-Through Monitoring Risk

- a) Results of previous audits
- b) New subrecipients
- c) New personnel or substantially changed system
- d) Extent of federal monitoring



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### Pass-Through Entities Must Focus On Risk Of Each Applicant

- a) Financial stability
- b) Management system
- c) History of performance
- d) Generally available information
- e) Single audits
- f) Capacity to implement programs



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### Pass-Through Monitoring Shall Include:

- a) Analyzing financial and programmatic reports
- b) Ensure subrecipients take timely and appropriate corrective action
- c) Issue management decision on A-133 finding at subgrantee level



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### Pass-Through Monitoring Tools

- a) On-site reviews
- b) Provide training and technical assistance
- c) Arrange for "Agreed Upon Procedures"



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## Cash Management

- ▶ Recipients shall maintain advances of federal funds in interest bearing accounts unless...
  - a) Recipient receives less than \$120,000 in federal \$ per year
  - b) Interest will not exceed \$500
  - c) Bank requires minimum balance



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## Cost Principles

- ▶ Will consolidate the cost principles into a single document (A-87, A-21, and A-122)



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## Indirect Costs

- ▶ Extend negotiated indirect cost rates for up to four years
- ▶ Allow an indirect cost minimum flat rate of 10 percent for entities that don't yet have the capacity for a full negotiation for no more than four years
- ▶ Require pass-through entities to either honor the indirect cost rate, negotiate a rate in accordance with federal guidelines, or provide the minimum flat rate



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## Inventory Management

- ▶ Computing devices = supplies
- ▶ Equipment definition (no change)
  - a) Acquisition cost of \$5,000
  - b) Useful life greater than one year



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## Time and Effort Reporting

- ▶ Proposal primarily follows concepts in A-21 which is based on the concept that a system for establishing estimates produces a reasonable approximation of the activity



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## Time and Effort Documentation

- ▶ Now titled, "Documentation of Personnel Expenses"
- ▶ The type of documentation completed is still dependent on the number of cost objectives worked on by the employee.
- ▶ Will need to review how the recent U.S. Department of Education guidance matches up with this guidance.



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## Time and Effort Management

- ▶ Eliminate reference to PARs (Personnel Activity Reports)
- ▶ Now “Certified Reports”
- ▶ Reports may be electronic
- ▶ Semi-Annual for single cost objective (no change)



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## Time and Effort Management

- ▶ After the fact, unless mutually satisfactory alternative approved by awarding agency
- ▶ Certification periods cannot exceed 12 months
- ▶ Activities may be expressed as percentages



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## Time and Effort Management

- ▶ Certified Reports on two or more cost objectives certified by employee or individual responsible for verification
- ▶ No additional support other than certification is necessary



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## Other

- ▶ The term vendor would be replaced by the term contractor
- ▶ Amounts provided to subrecipients by a federal program would be **required** on the Schedule of Expenditures of Federal Awards
- ▶ Financial statement findings, not just federal award findings would be required in the Summary Schedule of Prior Audit Findings and the Corrective Action Plan



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## Other

- ▶ Indicate whether finding was a prior finding and the prior year finding number
- ▶ Summary Schedule of Prior Audit Findings to include reason why uncorrected findings recurred
- ▶ The Corrective Action Plan would be a separate document outside and apart from the management's response and planned corrective actions section of the respective finding



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## Other

- ▶ Full circular A-133 reporting packages, including the audited financial statements would be publicly available
  - Processes with respect to preventing Personally Identifiable Information (PII) and other confidential information from being included in the reporting package will need to be developed
    - Entity certification of such in the data collection form



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## AICPA Comments

- ▶ Effective Date and Implementation Rollout of Final Regulations Needs to be Carefully Considered
  - Provide adequate time for auditees and auditors to gain an understanding and implement
  - Time needed for OMB to significantly overhaul the *Compliance Supplement* and make available well in advance of the effective date
  - AICPA recommends the effective date be at least one year after the final rule's issuance and that it coincide with the timing of the *Compliance Supplement*
  - AICPA suggests that if OMB wants to immediately remove the audit burden for entities falling under the new \$750,000 threshold, an immediate effective date could be established for those entities



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## AICPA Comments

- ▶ Reduction in Audit Burden May Not be Realized by Some Auditees
- ▶ Reduction in Compliance Requirements
  - Support the reduction in number
  - Concerned that agencies may negate reduction in burden by requesting requirements to be added back under Special Tests and Provisions



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## AICPA Comments

- ▶ Time and Effort Reporting Revisions Will Cause Audit Challenges
  - Term certification is not defined
  - Requirement that no documentation outside the payroll system is required for salaries and wages of employees who work on a single indirect cost activity is inconsistent with certification requirements that it must be supported by documentation
  - Requirement is not consistent regarding who should sign the certification
  - Unclear whether certification applies to employees who work on more than one federal award or cost objective



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## Where can I find the Proposal?

The proposal's full text (244 pages) can be found at -

[http://www.whitehouse.gov/sites/default/files/omb/financial/grant\\_reform/proposed-omb-uniform-guidance-for-federal-financial-assistance.pdf](http://www.whitehouse.gov/sites/default/files/omb/financial/grant_reform/proposed-omb-uniform-guidance-for-federal-financial-assistance.pdf)



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