

The Supercircular: The Changes Coming to the Federal Grants Rules

Presented by

Sefton Boyars
CPA, CGFM

Supercircular – a chronology

- ◆ 2/28/12: OMB advance notice of proposed guidance
- ◆ 2/1/13: OMB notice of proposed guidance
- ◆ 12/26/13: OMB issuance of uniform guidance (2 CFR 200)
- ◆ 12/26/14: Supercircular implementation
 - Admin rules and cost principles for grant years starting after 12/25/14
 - Single Audits for fiscal years starting after 12/25/14

Contents of the Supercircular

- ◆ All contained in 2 CFR 200
 - Subpart A—Acronyms and Definitions
 - Subpart B—General Provisions
 - Subpart C—Pre-award Requirements and Contents of Federal Awards
 - Subpart D—Post-award Requirements
 - Subpart E—Cost Principles
 - Subpart F—Audit Requirements

Federal Grants Reform — Admin. Rules

- ◆ One set of admin rules (§200.100 - §200.345)
 - No difference between state and locals v. nonprofits and IHEs
 - But there are some lesser requirements for states
 - ◆ But fewer than currently

Changes in pre-award requirements

- ◆ Agencies or pass-through entities can use fixed-amount awards
 - Must meet certain requirements
 - Cannot use if matching is required
- ◆ Greater requirements on agencies to publicize funding opportunities
- ◆ Federal agency must consider risks posed by applicants

Considering risks posed by grantees

- ◆ For competitive grants, feds must have a framework for evaluating risks before applicants receive awards
- ◆ Can consider:
 - Financial stability
 - Quality of management systems
 - History of performance
 - Audit findings

Changes in post-award requirements

- ◆ Feds have greater responsibilities for ensuring that grantees provide performance measurement data
- ◆ States must comply with financial management requirements for all grantees
- ◆ For research grants, voluntary committed matching is not expected, and can't be used as factor in making awards

Valuing cost sharing from third parties

- ◆ For contributions of real property, value is lesser of:
 - Book value of the donor
 - FMV at time of donation
- ◆ For salaries contributed by third party, fringe benefits are included in the value for both state and local governments and for nonprofits

Procurements

- ◆ Currently, for entities other than states, a cost or price analysis has to be performed for all procurements
- ◆ New rules require cost or price analysis for only those procurements that are above the small acquisition threshold (currently set at \$150,000)

Subgrantee monitoring emphasized

- ◆ Guidance on differentiating subrecipients from vendors cited in both admin rules and Single Audit rules
- ◆ Monitoring requirements are also cited in both areas
- ◆ Substance of the relationship is more important than the form of the agreement

Factors indicative of a subrecipient

- ◆ Determines eligibility (e.g., of beneficiaries)
- ◆ Performance measured against grant objectives
- ◆ Responsible for programmatic decision-making
- ◆ Required adherence to federal grant rules
- ◆ Uses the funds to support its program as distinct from providing goods or services for a program of the “pass-through” entity

Factors indicative of a vendor/contractor

- ◆ Provides goods and services in normal course of business
- ◆ Provides similar goods/services to other customers
- ◆ Operates in a competitive environment
- ◆ Goods/services are ancillary to the federal program
- ◆ Not subject to federal assistance program rules

Indirect cost rate requirements for pass-through entities

- ◆ Accept federally negotiated rate, when applicable
- ◆ Negotiate an indirect cost rate using federal cost principles
- ◆ Allow a minimal rate of 10% of modified total direct costs for entities that are unable to develop an indirect cost rate
 - Entity cannot have had a negotiated rate in the past
 - Not for some state/local/Indian tribes

Changes in the cost principles

- ◆ One set of cost principles (§200.400 - §200.475)
 - But many variations for the different types of entities
- ◆ No significant differences in general cost principles

Indirect costs

- ◆ Little change
 - One set of cost principles now, but separate appendices for each type of entity
 - ◆ IHEs
 - ◆ Nonprofit
 - ◆ State and Local
- ◆ Entities can request an extension of the rate for up to four years
 - Entity can't request renegotiation of indirect cost rates until extension is complete

Changes in specific items of cost

- ◆ Costs to recover overpayments are allowable
 - Bad debt expense unallowable once debt is determined to be uncollectible
- ◆ Advisory councils/committees unallowable unless specifically authorized
- ◆ Use allowances have been eliminated
- ◆ Recreational activities for employees no longer allowable

Compensation for personal services (salaries and wages)

- ◆ Rules are more flexible
- ◆ Charges must be supported by:
 - System of internal controls
 - In official records of entity
 - Reflect total compensated activity
 - Include federal and nonfederal activity
 - Comply with entity's accounting policies
- ◆ Special, more flexible rules for IHEs

Using budget estimates for salary allocations

- ◆ Use for interim accounting purposes, if
 - System produces reasonable estimates
 - Timely recording of significant changes
 - ◆ Short-term fluctuations can be ignored
 - Internal control system compares actuals with budgets

Changes in the Single Audit Requirements

- ◆ Contained in §200.500 - §200.521
- ◆ Effective for fiscal years starting after Christmas 2014
- ◆ More changes than the Administrative Rules or Cost Principles

Thresholds have been changed

- ◆ Threshold for conducting a Single Audit (or program-specific audit) raised to \$750,000
- ◆ Threshold for reporting questioned costs raised to \$25,000
- ◆ Minimum percent of coverage dropped from 50% to 40%
- ◆ Minimum percent of coverage for low-risk auditees dropped from 25% to 20%

Responsibility of Auditees

- ◆ Not significantly changed
- ◆ But, **must** request a copy of the audit firm's peer review report
- ◆ Auditees “*must initiate and proceed with corrective action as rapidly as possible and corrective action should begin no later than upon receipt of the audit report*”

Audit findings

- ◆ Auditors must report on abuse
- ◆ Auditors must now provide “*a statement of cause*”
- ◆ Auditors must provide “*a clear logical link to establish the impact or potential impact*”
 - Previously auditors had to provide enough info to allow agency or pass-through entity to determine cause and effect

Other changes to Single Audit requirements

- ◆ The Supercircular provides a schedule to identify Type A programs
- ◆ Tightens the requirements for a low-risk grantee
- ◆ Precludes federal agencies from extending the audit deadline
- ◆ Requires the auditor to report whether the sample was statistically valid

Probable changes to the Compliance Supplement

- ◆ Proposed guidance contained information on reducing the number of compliance issues to be tested
- ◆ Specific compliance issues not cited in the “supercircular”
- ◆ Will presumably show up in the compliance supplement

Six areas to be tested instead of fourteen

- ◆ Allowable activities and costs
 - Combines the first two issues in current compliance Matrix
- ◆ Cash management
- ◆ Eligibility
- ◆ Reporting
- ◆ Subgrantee monitoring
- ◆ Special tests

Seven areas to be dropped

- ◆ Davis-Bacon
- ◆ Equipment and real property management
- ◆ Matching, level of effort and earmarking
- ◆ Period of availability of federal funds
- ◆ Procurement and suspension and debarment
- ◆ Program income
- ◆ Real property acquisition and relocation assistance

You can obtain the Supercircular

URL is:

<https://www.federalregister.gov/articles/2013/12/26/2013-30465/uniform-administrative-requirements-cost-principles-and-audit-requirements-for-federal-awards>