



Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Client Advisory Notice

On December 26, 2013, the Office of Management and Budget made significant modifications to Federal government's guidance on Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (final guidance). These modifications are part of the Federal undertaking to effectively and efficiently focus efforts to ensure resources are spent on performance and compliance with Federal awards requirements. The final guidance is expected to reduce administrative burden for non-Federal entities receiving Federal awards while reducing the risk of waste, fraud and abuse.

Non-Federal entities will need to implement the new administrative requirements and cost principles for all new Federal awards made after December 26, 2014 and to additional funding for existing awards (referred to as "funding increments") made after that date.

As part of developing the procedures for the implementation of the final guidance, please note the use of the following terms:

- "Should" means best practice or recommended approach.
- "Must" means required procedure or policy.

Below is a summary of how the final guidance will impact your organization:

- Entities will need to analyze their internal control system to ensure that they comply with guidance in the COSO framework and "Standards for Internal Control in the Federal Government" (200.303).
- Entities with pass-through grants will need to review their grant agreements to ensure that the required information is included (200.330).
- Entities might save time by not performing indirect cost study and instead use a minimum rate of 10% of total direct cost (200.414).
- Entities might benefit from choosing between time-and-effort reporting or performance-based reporting to substantiate personnel related costs after first receiving an approval from the appropriate agency overseeing the grant (200.430).
- Non-Federal entities will need to comply with the procurement requirements discussed in subpart 200.320.
- Annual threshold for Federal grant expenditures was increased from \$500,000 to \$750,000 which will result in less cost associated with audits for some entities.

Steps to get ready:

- Read the final guidance and evaluate certain sections that apply to your organization. A copy is available on www.loveridgehuntcpa.com.
- Analyze your internal control system by comparing it to the COSO framework and the Green Book. Copies are available on www.loveridgehuntcpa.com.
- Call your auditor and set up a meeting to go over questions that you might have.

Brief notes about the final guidance are listed below. For more information about the individual subparts please refer to the full text of the Uniform Guidance at CFR 2 Part 200.

- ◆ Subpart A - Acronyms and Definitions: defines key terms and acronyms used in the final guidance.
 - Section 200.23 of subpart A defines the term "contractor", which replaces the term "vendor". Contractor is different than subrecipients. More information regarding the differences and compliance requirements can be found in section 200.330 in Subpart D.
 - New terms are introduced, such as Personally Identifiable Information (PII) and Protected Personally Identifiable Information, and are defined in sections 200.79 and 200.82 in Subpart A. It is important to understand these terms and how these terms impact the audited financial statements and additional information because they will be publicly available.

- ◆ Subpart B - General Provisions: discusses the purpose of the final guidance, its applicability and effective date.
 - Section 200.112 of Subpart B requires that a non-Federal entity must disclose in writing any potential conflict of interest to the Federal awarding agency or pass-through entity in accordance with applicable Federal awarding agency policy.

- ◆ Subpart C - Pre-Federal Award Requirements and Contents of Federal Awards: discusses administrative requirements related primarily to Federal agencies.

- ◆ Subpart D - Post Federal Award Requirements: discusses administrative requirements related primarily to recipients of Federal awards.
 - Subparts C & D do not apply to recipients or subrecipients of Federal awards with the following types of agreements: loans, loan guarantees, interest subsidies and insurance.
 - Subparts C & D do not apply to recipients or subrecipients of Federal awards with cost-reimbursement contracts awarded under the Federal Acquisition Regulations and cost-reimbursement subcontracts under these contracts.
 - The sections that set forth regulation related to Subrecipient Monitoring and Management under subpart D apply to all Federal awards.
 - Section 200.303 of Subpart D covers the requirement of establishing and maintaining an effective internal control system to ensure compliance with Federal awards. Creating an effective internal control system should be in compliance with Government Accountability Office internal control requirements (Green Book) and Committee of Sponsoring Organizations of the Treadway Commission (COSO).
 - Section 200.317 through 200.326 of Subpart D discusses the five procurement methods from which non-Federal entities must choose for their procurement method.
 - Section 200.330 through 200.332 of Subpart D discusses the different requirements for a subrecipient versus a contractor. In addition, these sections include specific information to be included in the subawards and impose specific requirements on the monitoring of the subrecipients.

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- ◆ Subpart E - Cost Principles
 - Subpart E does not apply to recipients or subrecipients of Federal awards with the following types of agreements: grant and cooperative agreements providing food commodities.
 - Subpart E does not apply to recipients or subrecipients of Federal awards with the following types of agreements: fixed amount awards, loans, loan guarantees, interest subsidies and insurance.
 - Subpart E does not apply to hospitals receiving Federal awards.

- ◆ Subpart F - Audit Requirements
 - Audit requirements are effective for fiscal years beginning on or after December 26, 2014. Early implementation is not permitted.
 - The revised single audit threshold increased from \$500,000 to \$750,000.
 - Expansion to the Schedule of Expenditures of Federal awards (see subpart 200.510(b)).
 - Expansion of the audit findings follow up on prior year's audit finding.
 - The threshold for reporting questioned costs increased from \$10,000 to \$25,000.
 - The threshold for determination of type A programs increased from \$300,000 to \$750,000.
 - A material weakness in internal control for a major program classifies a program to be other than low risk (used to include significant deficiencies in internal control).

More detailed information to bring to your attention:

Subpart D—Post Federal Award Requirements Standards for Financial and Program Management

Section 200.302 of Subpart D - Financial Management

- Non-Federal entities' financial management system must provide the following:
 1. Retention requirements for records (section 200.333)
 2. Requests for transfer of records (section 200.334)
 3. Methods for collection, transmission and storage of information (section 200.335)
 4. Access to records (section 200.336)
 5. Restrictions on public access to records (section 200.337)

Section 200.303 of Subpart D - Internal Control

- Non-Federal entity must:
 1. Establish and maintain effective internal control over the Federal award to ensure compliance with Federal statutes, regulations and terms and conditions of the Federal award.
 2. Non-Federal entity should create internal controls that are in compliance with Government Accountability Office internal control requirement (Green Book) and Committee of Sponsoring Organizations of the Treadway Commission (COSO).
 3. Evaluate and monitor the non-Federal entity's compliance with the statute, regulations and terms and conditions of Federal awards.
 4. Take prompt action when instances of noncompliance are identified.
 5. Take reasonable measures to safeguard protected personally identifiable information and other information that might be sensitive in nature consistent with applicable Federal, state and local laws regarding privacy and obligations of confidentiality.

Section 200.305 of Subpart D - Payment

- Payment methods of Non-Federal entities must minimize the time elapsing between the transfer of funds from the US Treasury or the pass-through entity and the disbursement by the non-Federal entity.
- Non-Federal entity must maintain advanced Federal funds in an interest bearing account (see section 200.305 part 8 for exceptions).
- Non-Federal entity must remit interest earned on Federal advance payments annually to the Department of Health and Human Services, Payment Management System, Rockville, MD 20852. Interest amounts up to \$500 per year may be retained by the non-Federal entity for administrative expense.

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Section 200.307 of Subpart D - Program Income

- Non-Federal entity may deduct costs incidental to the generation of program income from gross income to determine program income provided that these costs have not been charged to the Federal award.
- Proceeds from sale of real property or equipment are not considered a program income.
- Program income must be deducted from total allowable costs and used for current costs unless the Federal awarding agency authorizes otherwise.
- Program income may be used to meet the cost sharing or matching requirement of the Federal award as long as approved by the Federal awarding agency.

Section 200.308 of Subpart D - Revision of Budget and Program Plans

- Non-Federal entity must request approval from Federal awarding agencies for changes in the budget or program plans including key personnel specified in the application of the Federal award. For more information refer to part C of this section.

Procurement Standards

Section 200.318 of Subpart D - General Procurement Standards

- Non-Federal entity must document procurement procedures consistent with State, Local and Federal law and regulations.
- Non-Federal entity must ensure that contractors are performing in accordance with the term of their contracts.
- Non-Federal entity must have policies with respect to conflict of interest governing employees engagement in the selection, award and administration of contracts.
- If a time and material type of contract is used, a non-Federal entity must set a ceiling price that the contractors shall not exceed except at its own risk.

Section 200.320 of Subpart D - Methods of Procurement to be Followed

- Micro-purchases: no procurement necessary for acquisition of supplies or services that in aggregate do not exceed \$3,000, or \$2,000 in the case of acquisition for construction subject to Davis-Bacon Act.
- Small purchase method: non-Federal entity must apply small purchase procedures for the acquisition of services, supplies and other property that do not cost more than the Simplified Acquisition Threshold (\$150,000, which can be adjusted for inflation). Small purchase procedures include price or rate quotation from an adequate number of qualified sources.
- For larger purchases: the non-Federal entity must follow the procurement procedures through a sealed bids process (see part (c) of this section for more information).
- Procurement by competitive proposals: it may be used when conditions are not appropriate for the use of sealed bids.
- Procurement by noncompetitive proposals: it may be used only when one or more of the circumstances as set forth in part (f) of this section apply.

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Section 200.321 of Subpart D - Contracting with Small and Minority Businesses, Women's Business Enterprises, and Labor Surplus Area Firms

- Non-Federal entity must take all necessary affirmative steps to ensure that minority businesses, women's business and labor surplus area firms are used when possible.

Section 200.323 of Subpart D - Contract Cost and Price

- Under section 200.323, for every procurement action in excess of Simplified Acquisition Threshold contract cost and price, non-Federal entity must perform a cost or price analysis and negotiate profit as part of the procurement process.
- Under section 200.323, the cost plus a percentage of cost and percentage of construction cost methods of contracting must not be used.

Section 200.326 of Subpart D - Contract Provisions

- Non-Federal entity must contain the applicable provisions described in Appendix II to part 200.

Subrecipient Monitoring and Management

Section 200.330 of Subpart D - Subrecipient and Contractor Determination

- Contractor provides goods or service to the non-Federal entity's own use.

Section 200.331 of Subpart D - Requirements for pass-through entities.

- Pass-through entity must include in the subaward:
 1. Federal Award Identification (see a list of criteria that is necessary to include in the subaward at part (a)(1) of this section)
 2. Requirement that the Federal award is used in accordance with Federal statutes, regulations and terms and conditions of the Federal award.
 3. Requirement that the pass-through entity imposes on the subrecipient in order for the pass-through entity meet its own Federal award requirements.
 4. Information about how to charge for indirect cost.
 5. A requirement that the pass-through entity and its auditors to have access to the subrecipient's records and financial statements.
 6. Terms and conditions concerning close out of the subaward.
- Pass-through entity must evaluate the subrecipient's risk of non-compliance.
- Pass-through entity must monitor the subrecipient.

Record Retention and Access

Section 200.333 of Subpart D - Retention Requirements for Records

- Non-Federal entity must retain records for 3 years from the date of final submission of the Federal expenditure report.

Subpart E—Cost Principles

Section 200.401 of Subpart E - Application

- Some nonprofit organizations can be considered to be similar to for-profit entities for the purpose of the application of Cost Principles. To determine whether a nonprofit is exempt from this section, you will need to review Appendix VIII to part 200, Nonprofit Organizations Exempt from Subpart E - Cost Principles.
- Other exemptions are listed in part (a) of this section.

Section 200.414 of Subpart E - Indirect Facilities & Administration (F&A) Costs

- Major nonprofit organizations must classify indirect (F&A) costs into two categories:
 1. Facilities is defined as depreciation on fixed assets, interest on debt related to fixed assets and maintenance expenses.
 2. Administration is defined as general administration and general expenses.
- Non-Federal entity that has a Federally negotiated indirect cost rate may apply for a one time extension of current negotiated indirect cost rates for a period of up to 4 years.

Section 200.436 of Subpart E - Depreciation

- Non-Federal entity may be compensated for the use of its buildings, capital improvements, equipments and software projects capitalized in accordance with GAAP. The compensation must be made by computing depreciation.