

Understanding the Changes in OMB's Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards



By Leslie Wilks, CPA, CFE

As recipients and auditors of federal grant awards, we have grown accustomed to wading through a plethora of circulars and other guidance from the Office of Management and Budget (OMB) to find information relative to the administration and audits of federal award programs. In its attempt to clarify what many consider to be conflicting provisions, and redundant and often unnecessary language, OMB published new guidance titled *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Federal Register Vol. 78, No. 248). The final guidance was issued in December 2013, with OMB stating in its first-page summary: “This clarification will make compliance less burdensome for recipients and reduce the number of audit findings that result more from unclear guidance than actual noncompliance.”

Background and Timeline

Since its inception in 2011, the Council on Financial Assistance Reform (COFAR) has been busy working to overhaul the audit requirements, cost principles and administrative requirements prescribed by OMB. A few of the objectives identified by COFAR as they went through this process included:

- Ease administrative burden by streamlining guidance for federal awards.
- Strengthen oversight over federal funds to reduce risk of waste, fraud and abuse.
- Focus grant policies on areas that emphasize the achievement of better grant outcomes at a lower cost.

The following timeline illustrates the series of events that led to OMB's December 2013 issuance of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.

November 2009 – The first of two directives was issued by the president of the United States with an executive order on *Reducing Improper Payments*. With this order, the president emphasized: “When the federal government makes payments to individuals and businesses as program beneficiaries, grantees or contractors, or on behalf of program beneficiaries, it must make every effort to confirm that the right recipient is receiving the right payment for the right reason at the right time.”

January 2011 – The second of two directives was issued by the president of the United States with an executive order on *Improving Regulation and Regulatory Review*. The objective of this directive was to reduce administrative burden related to the administration of federal awards. According to the order, each federal agency must “tailor its regulations to impose the least burden on society, consistent with regulatory objectives, taking into account, among other things and to the extent practicable, the costs of cumulative regulations.” To that end, it is important that federal agencies identify those “rules that may be outmoded, ineffective, insufficient or excessively burdensome,” and “modify, streamline, expand or repeal them in accordance with what has been learned.”

October 2011 – COFAR was formed to research and develop efficient and effective polices related to federal awards. COFAR is comprised of

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Figure 1. COFAR Priorities: Strong Controls Yield Better Outcomes



Source: COFAR's Office of Executive Councils, Chief Financial Officers Council at <https://cfo.gov/cofar/>

senior officials from eight federal granting agencies and the controller of OMB. Figure 1 illustrates COFAR's focus areas in its approach to developing the new policies.

COFAR held a series of roundtable discussions that were webcast and are available for viewing at <https://cfo.gov/cofar/>.

February 2012 – OMB published advanced notice of proposed guidance, *Reform of Federal Policies Relating to Grants and Cooperative Agreements; cost principles and administrative requirements (including Single Audit Act)*. Over 300 public comments were received and taken into consideration in drafting the proposed guidance.

February 2013 – OMB published the proposed guidance, *Reform of Federal Policies Relating to Grants and Cooperative Agreements; cost principles and administrative requirements (including Single Audit Act)*. Originally scheduled to end May 2, 2013, OMB extended the public comment period until June 2, 2013. The American Institute of CPAs (AICPA) Government Audit Quality Center responded with several comments and observations, including concerns with the effective date of implementation and other audit-related concerns. A copy of the comment letter can be found at: <http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/OMBCircularA133/DownloadableDocuments/AICPAResponseToOMBProposedA-133ChangesandOtherGrantReforms.pdf>.

December 2013 – OMB issued its final guidance, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Overview of Changes - 2 CFR 200

OMB Circulars

One of the most notable changes in the Uniform Guidance is the consolidation of eight regulations into one circular. The following OMB circulars have been superseded by the Uniform Guidance, which contains three broad categories and is often referred to as the “super-circular.”

Administrative Circulars

- A-21 *Cost Principles for Educational Institutions*
- A-87 *Cost Principles for State, Local and Indian Tribal Governments*
- A-110 *Uniform Administration Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*

Cost Principles

- A-122 *Cost Principles for Non-Profit Organizations*
- A-89 *Catalog of Federal Domestic Assistance*
- A-102 *Grants and Cooperative Agreements with State and Local Governments*

Audit Requirements

- A-133 *Audits of States, Local Governments and Non-Profit Organizations*
- A-50 *Audit Followup*

Navigating the Uniform Guidance

It is important to note that the Uniform Grant Guidance has three main parts and six subparts. They are as follows.

Administrative Requirements

- Subpart A, 200.XX – Acronyms and Definitions

- Subpart B, 200.1XX – General
- Subpart C, 200.2XX – Pre-award – Federal
- Subpart D, 200.3XX – Post-award – Recipients

Cost Principles

- Subpart E, 200.4XX – Cost Principles

Audit Requirements

- Subpart F, 200.5XX – Audit

The Electronic Code of Federal Regulations allows the user to search for key words. The searchable Electronic Code of Federal Regulations can be found at: <http://www.ecfr.gov/cgi-bin/text-idx?SID=1a8540547b4f60c40f6c4da7afdf272c&mc=true&node=pt2.1.200&rgn=dv5>.

Acronyms and Definitions

Those of us who have worked for or with governmental entities are well aware that there are numerous acronyms that are used in our daily vocabulary. At times, it may sound as though we are speaking an entirely different language. Title II of 2 CFR 200, Subpart A §200.0 of the Uniform Guidance lists 45 acronyms along with their definitions. So, anyone who may be interested in learning what a FAIN, DUNS or SAM is, this is the place to look.

Subpart A §200.1 lists nearly 100 definitions, making it easy to quickly research certain terms that may require clarification for auditors and auditees alike. For example, if you are unsure of which date is considered the federal award date, you can look up the definition of “federal award date” in this section and see that OMB clearly defines it as the date when the federal award is signed by the authorized official of the federal awarding agency. This eliminates the need to search through the entire document to find OMB's definition of key items.

The lengthy definition for internal control outlines the non-federal entity's responsibilities for establishing and maintaining effective internal control over federal awards. As the Uniform Guidance points out, internal control was previously only discussed in the audit requirements and as a result, was often only considered after the funds had been spent. Moving this guidance into the administrative requirements encourages non-federal entities to better structure their internal controls earlier in the process.

Reporting of Time and Effort

A recurring theme we see in the Uniform Guidance is an emphasis on internal control. In proposing guidance over time and effort, COFAR focused on internal control over federal payroll rather than on requiring specific language on how to document time and effort. COFAR pointed out that requiring specific language would result in audit findings more likely to be based on incorrect documentation rather than uncovering weaknesses in internal control or instances of fraud. The Uniform Guidance does not provide an example of proper time and effort documentation, but focuses more on “overall internal controls that will mitigate the risk that a non-federal entity or their auditor will focus solely on prescribed procedures such as

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reports, certifications or certification time periods, which alone may be ineffective in assuring full accountability.” What this means is that while internal controls over compliance are required, the guidance does not specify how management must report time and effort. However, it does specify that budget estimates may not be used to determine the final amount of payroll charged to federal awards; thus, charges must be based on records that accurately reflect the work performed.

Additionally, the guidance addresses the framework that must be used for establishing internal controls in its definition of the word “internal control” in Subpart D §200.303. It states that “internal controls to be in compliance with the guidance in *Standards for Internal Control in the Federal Government*, issued by the comptroller general of the United States and the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).” As grant recipients, this means being able to implement adequate controls in accordance with this framework. For example, as it relates to time and effort (and each applicable compliance requirement), the grant recipient should have controls in place to address the control environment, risk assessment, control activities, information and communication, and monitoring, in accordance with the COSO internal control framework. The Uniform Guidance mentions that if entities believe they currently have an effective system of controls in place that complies with the standards, there is no need to change it. As auditors, this means being able to properly document these controls over compliance and designing audit procedures accordingly.

Indirect Costs

In its roundtable discussions, COFAR addressed the topic of indirect costs, specifically addressing the need for consistent and transparent treatment. Section 200.331 of the Uniform Guidance addresses requirements for pass-through entities, requiring the pass-through entities to provide an indirect cost rate to sub-recipients. The pass-through entities may use the de minimis rate of 10 percent of modified total direct costs. This provision also applies to those non-federal entities that have never had a negotiated indirect cost rate. Under the Uniform Guidance, financial statements will require documentation of usage of the rate to allow for future evaluation of its effectiveness.

While there are some exceptions (other status or regulations), federal agencies will be required to accept negotiated indirect cost rate. The guidance allows entities to use the one-time extension of a current negotiated indirect cost rate without further negotiation for a period of up to four years, subject to review and approval of the cognizant agency.

Change in Thresholds

With the changing thresholds in the Uniform Guidance, we see a bit more consistency in approach. While various amounts were proposed to and discussed by COFAR, the amount proposed for the federal expenditure threshold triggering a single audit will be the same amount of the Type A threshold for programs with expenditures less than or equal to \$25 million. Previously, these two thresholds differed from one another.

Single Audit Threshold

While there was initial discussion of increasing the single audit

threshold to \$1,000,000, ultimately the threshold was increased from federal expenditures of \$500,000 under the former guidance to \$750,000 under the Uniform Guidance in Subpart A §200.518. Early implementation was not permitted. In their recommendation, COFAR explained that while this would decrease the number of entities requiring a single audit by approximately 5,000, it would still maintain 99.7 percent oversight of the federal expenditures that were subject to single audit under the \$500,000 threshold and 87.1 percent coverage of the entities already subject to single audit under the previous threshold. The new threshold can be applied to entities with a year-end of Dec. 31, 2015 or later.

Threshold for Low-Risk Auditee

Another threshold change found in Subpart A §200.518 relates to the percentage of coverage rule. As a low-risk auditee, the 25 percent coverage rule has decreased to 20 percent. Likewise, the 50 percent coverage rule has decreased to 40 percent of total federal awards expended for those entities not identified as a low-risk auditee. When evaluating each of the preceding two audit periods, additional criteria in the determination of a low-risk auditee requires that the auditor did not report a substantial doubt about the auditee’s ability to continue as a going concern.

Figure 2. Threshold

Total Federal Expenditures	Type A/Type B Threshold
\$750,000, but less than or equal to \$25 million	\$750,000
Exceed \$25 million, but less than or equal to \$100 million	Total federal awards expended x .03
Exceed \$100 million, but less than or equal to \$1 billion	\$3 million
Exceed \$1 billion, but less than or equal to \$10 billion	Total federal awards expended x .003
Exceed \$10 billion, but less than or equal to \$20 billion	\$30 million
Exceed \$20 billion	Total federal awards expended x .0015

Threshold for Type A/Type B Programs

During the planning and risk assessment process, auditors are required to perform a major program determination. In making the determination of major programs, the auditor must use an approach that incorporates a set of guidelines as prescribed by OMB, which incorporate a combination of specifically defined criteria along with auditor judgment. One of the first steps in this process is to identify “Type A” programs and “Type B” programs. The identification of the Type A/Type B programs is based on a threshold. Under the Uniform Guidance, these thresholds increased as shown in Figure 2 (see above).

As was the case under the previous guidance, for a Type A program to be considered low risk, it must have been audited as a major program in one of the two most recent audit periods. Type A programs cannot

be considered low risk if they meet one of the following criteria in the most recent audit period:

- Deficiencies in internal control that were identified as material weaknesses in the auditor's report on internal control for major programs.
- A modified opinion on the program in the auditor's report on major programs.
- Known or likely questioned costs exceeding 5 percent of the total federal awards expended for the program (a change from the previous threshold of \$10,000).

Changes were also made in the determination of high-risk Type B programs. The following are some of the more significant changes:

- The number of high-risk Type B programs that are required to be tested as major have been reduced from at least ½ to ¼ of the low-risk Type A programs.
- The auditor is allowed to stop the risk assessment of Type B programs after this number of high-risk Type A programs are identified.
- Classify Type B programs that are 25 percent of the Type A threshold as small Type B programs. The benefit of this is that auditors are not required to perform risk assessment on the small Type B programs.

Reduction in the Number of Compliance Requirements

While there was much discussion regarding the reduction in the number of compliance requirements, OMB's compliance supplement is published as part of a separate process and therefore, no final changes to the compliance supplement were reflected in the initial Uniform Guidance. Reference to the compliance supplement is included as Appendix XI to Part 200 of the Uniform Guidance, referring the reader to the OMB website, www.whitehouse.gov/omb/circulars/, where the compliance supplement is updated annually.

The proposed changes called for a reduction in the overall number of compliance requirements, while realigning and combining some of the existing requirements that have similar objectives. In the 2015 compliance supplement, Part 2, *Matrix of Compliance Requirements*, columns D. Davis-Bacon Act and K. Real Property Acquisition and Relocation Assistance were removed. Likewise, Part 3, *Compliance Requirements*, no longer includes sections D. Davis-Bacon or K. Real Property Acquisition and Relocation Assistance. Sub-award reporting requirements under the *Federal Funding Accountability and Transparency Act* (FFATA) were removed from Section L. Reporting, so this will no longer be a compliance requirement to be tested by auditors. While Davis-Bacon was removed from Part 3 as a compliance requirement, some federal programs opted to retain this requirement and it can be found in the Special Tests and Provisions section included in Part 4 of the compliance supplement, *Agency Program Requirements*. The Real Property Acquisition and Relocation Assistance compliance requirement was removed in its entirety.

Schedule of Expenditures of Federal Awards

The Schedule of Expenditures of Federal Awards (SEFA) is addressed under Subpart F – Audit Requirements in §200.510 Financial Statements. While the majority of the reporting requirements are consistent with the current requirements, the SEFA

schedule must include the total amount provided to sub-recipients from each federal program.

Audit Findings

Section 200.516 addresses the requirements that auditors must follow when reporting audit findings related to federal programs. A standard referencing system will be used for reporting each audit finding. This referencing system is based on the format required for reporting in the Federal Audit Clearinghouse's data collection form. For example, findings identified in fiscal year 2015 would use the format 2015-001, 2015-002 and so on. The Federal Audit Clearinghouse implemented this change at the beginning of 2014. The Uniform Guidance places greater emphasis on repeat findings. Repeat audit findings from the immediate prior year must be identified as such in the summary of findings and questioned costs, with a reference to the prior year finding number.

The threshold for reporting questioned costs changed from \$10,000 to \$25,000 for a type of compliance requirement for a major program. The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program. Questioned costs should be identified by CFDA number and award number.

Other Changes

One notable change in the cost principles is the requirement for the non-federal entity to certify that expenditures charged to the federal program are proper and in accordance with the federal grant requirements. This applies to annual and final fiscal reports and vouchers requesting payment.

Date of Implementation

The Uniform Guidance is effective for federal award recipients for awards issued by federal agencies on or after Dec. 26, 2014.

Audits performed under the Uniform Guidance began for entities with fiscal years beginning on or after Dec. 26, 2014; thus, the earliest year end will be Dec. 31, 2015. Early implementation of the audit requirements is not permitted.

In an effort to assist in facilitating with implementation, COFAR offers guidance on its website at www.cfo.gov/cofar/, including answers to frequently asked questions, published Aug. 29, 2014. ■

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References

Executive Order 13520 of Nov. 20, 2009, *Reducing Improper Payments* (74 Fed. Reg. 62201; Nov. 25, 2009).

Executive Order 13563 of Jan. 18, 2011 on *Improving Regulation and Regulatory Review* (76 FR 3821; Jan. 21, 2011).

Federal Register Volume 78, No. 248, Part III, Office of Management and Budget, 2 CFR Chapter I, Chapter II, part 200, et al. *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards; Final Rule*