

New OMB Requirements Effective in December 2014: Reforms to the Cost Principles (Subpart E)

In the previous two issues of *LvHJ Insights*, we notified you of upcoming implementation of Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance) and shared key changes to be aware of in Subpart D. We are going to investigate **Subpart E** at this time, which includes reforms to the **Cost Principles** previously found in Circulars A-21, A-87, and A-122, as changes are effective as of **December 26, 2014**.

Highlights of key changes in Subpart E are the following:

- **Direct and Indirect (F & A) Costs:** The Uniform Grant Guidance requires a federal agency to accept a non-federal entity's negotiated indirect cost rate unless a statute or regulation allows for an exception or if the federal agency head approves an exception based on justification that has been publicly documented. A non-federal entity will have an option to extend its negotiated rate for up to four years and can only use this one-time extension if there have been no major changes to its indirect costs and it receives approval from the cognizant agency responsible for its indirect cost rate. If an extension is approved, the non-federal entity may not request a review of the rate until the extension period is up. After the extension period ends, the entity will need to re-apply for a negotiated rate.

For a non-federal entity that has never received a negotiated indirect cost rate, the Uniform Grant Guidance allows it to charge a de minimis rate of 10% of modified total direct costs which may be used indefinitely. If elected, this methodology must be used consistently for all federal awards until such time as

a non-federal entity chooses to negotiate for a rate, which the non-federal entity may apply to do at any time. The Uniform Grant Guidance also requires that a pass-through entity honor the negotiated indirect cost rate, negotiate a rate in accordance with federal guidelines, or provide a minimum flat rate.

- **Compensation – Personal Services (Time and Effort Reporting):** The Uniform Grant Guidance related to compensation is more principles based than the current requirements. Further, the Uniform Grant Guidance is less prescriptive on documentation and places more emphasis on internal controls over personnel-related costs.

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

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- Reasonably reflect the total activity for which the employee is compensated by the non-federal entity, not exceeding 100% of compensated activities; and
- Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one award or activity

Support for payroll costs cannot be based on budget estimates made before the services are performed but the estimates may be used for interim accounting purposes in certain circumstances. The Uniform Grant Guidance allows entities to replace detailed time-and-effort reports with performance-based reporting (based on milestones). The appropriate agency will have to approve the use of such an approach.



If you have any questions or concerns regarding the new OMB requirements and implementation, please contact: **Charlotte Tay**, Partner at ctay@lvhj.com or 415-905-5440.

[Click here to read more about Charlotte Tay.](#)

LvHJ Insights is an e-newsletter of Lindquist, von Husen & Joyce LLP designed to share firm and industry updates, useful resources and perspectives on current issues that are important to its clients and business leaders. We welcome your feedback. Call us at 415-957-9999 or email us at info@lvhj.com.