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To ensure the subaward is used in compliance with the award and to ensure performance goals are met, awards to subrecipients will be subject to the following monitoring provisions under the new guidance:

- Analysis of financial and program reports must be submitted by subrecipients. Additional procedures may be necessary to ensure 1) proper accountability and compliance with program requirements and 2) that performance goals have been met.
- Following up and ensuring timely action on deficiencies discovered.
- Issuing a management decision for audit findings.

Direct and Indirect Costs

- Federal agencies must accept a non-federal entity's negotiated indirect cost rate unless it is disallowed by a statute or regulation or when a deviation from the negotiated rate is approved by the federal awarding-agency head.
- Non-federal entities will have an option to extend the rate for up to four years.
- Non-federal entities that have not received negotiated rates are permitted to elect an automatic indirect cost rate of 10 percent, which may be used indefinitely.

Internal Controls

The Council of Financial Assistance Reform (COFAR) clarified the definitions of "should" and "must" as they relate

to internal controls. The word "should" indicates a best practice or recommendation, while "must" indicates a requirement.

The non-federal entity must establish and maintain effective internal controls over federal awards. While there are no prescriptive requirements for achieving this, the guidance offers several best practices as documented in the following, "Standards for Internal Control in the Federal Government" (also referred to as the Green Book), the "Internal Control Framework" issued by the COSO, and Appendix XI of the Compliance Supplement. Management will need to exercise judgment in determining the most appropriate and cost-effective internal controls to provide reasonable assurance for compliance with the federal program requirements.

Conflict of Interest

The new guidance also requires all federal awarding agencies to establish conflict of interest policies for federal awards. The non-federal entity must disclose in writing any potential conflict of interest to the federal awarding agency or pass-through entity. Failure to report conflicts of interest can result in penalties up to and including suspension and/or debarment.

Changes to Cost Principles

Compensation of Personal Services

Changes in the new guidance are geared toward reducing the administrative burden of documenting time and effort. Although less prescriptive in terms of documentation, compensation needs to be based on

records that accurately reflect work performed. Time reporting should be supported by a system of internal controls and must be based on actual amounts. With the awarding agency approval, performance based reporting such as milestone reporting, can be used in place of time and detail reports.

Depreciation

Under the new guidance, the use allowance is no longer allowed. Depreciation must be made over the life of the asset and none can be taken on assets that are fully depreciated. Computing devices such as laptops, tablets and smart phones will be considered supplies and expensed if their acquisition cost is the lesser of \$5,000 or the entity's capitalization policy.

Proposal Costs

Proposal costs will now be allowable as an indirect cost. These include costs associated with preparing proposals for both federal and non-federal awards, whether successful or not, and allocated to all activities of the entity.

In keeping with the theme of reducing the administrative burden to non-federal entities, the Single Audit threshold is being raised from \$500,000 to \$750,000. This will eliminate the audit burden for approximately 5,000 non-federal entities but still maintain audit coverage of over 99 percent of all federal awards.

For fully understanding how your organization may be impacted, the full Super Circular can be found on the OMB's website. Of course, you can always call us, too! We're happy to help.

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