



H I G H E R E D U C A T I O N

**P.L. 106-107
PROPOSED CHANGES TO CIRCULAR A-21**

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- Changes Proposed Under Auspices of P.L.106-107
- Part of Overall Package of Changes to All Three OMB Circulars on Cost Principles – A-21, A-122, A-87
- Announced in Federal Register August 12, 2002
- Main Objective – Simplify Cost Principles by Making Descriptions of Similar Cost Items Consistent, Where Possible
 - Not Intended to Change Policies, But FR Notice Recognizes Some Unintended Policy Changes May Have Been Made

- Federal Register Notice Refers to OMB Web Site for Specific Changes:
 - [*http://www.whitehouse.gov/omb/grants/grants_docs.html*](http://www.whitehouse.gov/omb/grants/grants_docs.html)
- Comments on Proposal Due By October 11, 2002
 - OMB Also Requests Comments on Rewriting the Cost Principles in “Plain Language”
 - Comments Do Not Need to Be limited to the Specific Changes Proposed; Can Also Recommend Other Changes

- No “Major” Policy Changes, But Some Substantive Changes Have Been Proposed

- No Changes to:
 - 26% Cap on Administrative Costs

 - Indirect Cost Process

 - Effort Reporting

 - CAS or Disclosure Statement Requirements

PROPOSED SUBSTANTIVE CHANGES

■ **Audit Costs**

- New Section in A-21
- Allows Audit Costs for Audits “Performed in Accordance with” A-133
- Specifies Formula for Allocating A-133 Audit Costs to Federal Programs
 - Percentage of Federal Funds Expended to Total Institutional Funds
 - Can Be Exceeded Only if Documentation Demonstrates Higher Costs

■ **Audit Costs (Continued)**

- Allows Other Audit Costs if Specifically Approved by Awarding or Cognizant Agency
- Allows Costs of “Agreed-Upon Procedures Engagements” to Monitor Subrecipients Exempt from A-133, If:
 - The Institution Arranges and Pays for the Work
 - “The Scope of the Work is Limited to the Types of Compliance Requirements Listed in Paragraph 230 (b) (2) of Circular A-133”

■ Equipment and Other Capital Expenditures

- Requires That “Original Complement of Low Cost Equipment” be Capitalized
- Prior Approval of Direct Charges for Special Purpose Equipment Required Only if Cost is \$5,000 or More

■ Idle Facilities and Idle Capacity

- New Section in A-21
- “Idle Facilities” Means Completely Unused Facilities
- “Idle Capacity” Means Unused Capacity of Partially Used Facilities
- Idle Facilities – Unallowable, Except Under Specified Conditions (e.g., Needed to Meet Workload Fluctuations). Allowability Under Exceptional Conditions Generally Limited to One Year.
- Idle Capacity – Allowable as a Normal Cost of Doing Business, If Capacity Is Reasonably Anticipated to be Necessary

■ Interest Expense

- Drops Limitation on Interest Related to Acquisition of Equipment that Allowed Interest Only for Equipment Costing \$10,000 or More "if Agreed to by the Federal Government"
- Eliminates May 8, 1996 Effective Date for Certain Requirements Related to Interest Allowability (e.g., Lease-Purchase Analysis)
 - Uses Original Interest Allowability Date (July 1, 1982) for Application of these Requirements
 - Strict Reading of Wording Would Require Compliance with These Requirements for Interest on Facilities Acquired After July 1, 1982, Rather Than May 8, 1996

■ Interest Expense (Continued)

- Adds Restriction that Interest on Fully Depreciated Assets is Unallowable
- Apparent Wording Glitch in One Paragraph
 - Says That “Interest on Debt Incurred to Finance or Refinance Assets Acquired Before or Reacquired after **May 8, 1996** is not Allowable” (Emphasis Added)
 - Correct Date Should Be July 1, 1982

■ Overtime Premiums

- New Section in A-21
- Requires Prior approval of Overtime Premiums, Except Under Certain Conditions (e.g., Emergencies)

■ **Participant Support Costs**

- New Section In A-21
- Covers Stipends, Travel Allowances, Registration Fees of Participants/Trainees (Not Employees) in Conferences and Training Projects
- Costs Are Allowable with Prior Approval of Awarding Agency

■ Patent Costs

- Allows Patent Costs For U.S. Patent Applications if Government Receives Title to the Patent or Royalty-Free License.
 - Current A-21 Language Allows Patent Costs Only Where Government Receives Title
- New Wording Also Explicitly Allows General Counseling Services On Patent and Copyright Matters
- Costs of Filing Foreign Patent Applications are Unallowable
- No Changes on Allowability of Costs of Preparing Disclosures, Reports, etc., Required by Sponsored Agreements

■ Pre-Award Costs

- Drops Current Prior Approval Requirement for Pre-Award Costs, Unless Required by Awarding Agency
- Must Notify Agency of Pre-Award Costs Before Award Is Made
- Costs Must be Necessary to Comply with Proposed Delivery Schedule or Period of Performance

■ Professional Services Costs

- Adds Several New Factors For Determining Allowability of Professional Services Costs:
 - Necessity of Contracting
 - Whether the Work Can Be Done More Economically By Direct Employment
 - Qualifications of the Individual or Concern Providing the Service
 - Adequacy of the Contractual Agreement

■ Publication and Printing Costs

- New Section in A-21
- Direct Charges for Publication and Printing Costs Requires Prior Approval of Awarding Agency
- Pages Charges in Professional Journals Are Allowable if:
 - The Research Papers Report Work Supported by the Government
 - Charges Are Levied Impartially on All Research Papers Published by the Journal, Whether or Not By Federally-Sponsored Authors

■ Recruitment and Relocation Costs

- Extensive New Rules on Relocation Costs for Current and New Employees
- Specific Limitations on Relocation Costs of Current Employees, e.g.:
 - Costs of Finding New Home, Limited to 30 Days
 - Selling/Closing Costs on Former Home, and Continuing Costs of Ownership of Vacant Former Home, Limited to 8% of Sales Price
- Allowable Relocation Costs of New Employees Limited to Transportation Costs and Costs of Finding New Home
- Makes Certain Relocation Cost Unallowable for Current and New Employees (e.g., Fees Associated with Acquiring a New Home)

■ Rental Costs

- New Wording Expands Criteria for Reasonableness of Rental Costs (e.g., Rental Costs of Comparable Property, Market Conditions, Alternatives Available)
- Also Expands Definition of “Less-Than- Arms-Length Leases” (e.g., Organizations Under Common Control Through Common Officers, Directors, etc.)
- Updates Rules on “Material Equity Leases” to Reference Capital Lease Criteria in FASB 13

■ Scholarships and Student Aid

- Incorporates OMB's January 2001 Clarification on Tuition Remission; Tax Status Not Relevant to Allowability of Costs
- Retains Requirement that Charges Must be Reasonable Compensation for Necessary Work
- Drops Requirement for "Bona Fide Employer-Employee Relationship"
- Adds language from January 2001 OMB Memo :
 - Student is Conducting Activities Necessary to Federal Award
 - Tuition Remission and Other Support is Provided Under Established Policies, Consistently Applied
 - Student is Enrolled in an Advanced Degree Program and the Activities are Related to the Degree Program

■ Specialized Service Facilities

- Adds “Motor Pools” to Examples of Specialized Service Facilities
- Drops Concept of “Long-term Breakeven” for Specialized Service Facilities
- Requires Rate Adjustments at Least Bi-Annually
 - Rate Adjustments Must Take Into Account Over/Under-Recoveries of Previous Periods
- Drops Provision Allowing Alternative Costing Arrangements Worked Out With Cognizant agency

■ **Travel Costs**

- Reinstates Requirement For Agency Prior Approval of Foreign Travel (Each Foreign Trip)

- Also Published In Federal Register August 12, 2002
- Revision of Circular A-133 to Raise Threshold for Required Audits from \$300,000 to \$500,000
- Standard Format for Grant Announcements
- Standard Data Elements for Grant Announcement Summaries in Electronic Grants System
- Notice on Pooled Grant Payments (Vs. Grant-by-Grant Payments); OMB Decided Not To Change Current Policy