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February 13, 2015

COUNTY FISCAL LETTER (CFL) NO. 14/15-47

TO: COUNTY FISCAL OFFICERS
COUNTY WELFARE DIRECTORS
CHIEF PROBATION OFFICERS
COUNTY AUDITOR CONTROLLERS

SUBJECT: NEW FEDERAL GUIDANCE TO STREAMLINE OFFICE OF
MANAGEMENT AND BUDGET (OMB) CIRCULARS INTO TITLE 2
CODE OF FEDERAL REGULATIONS (CFR)

REFERENCES: [TITLE 2 CFR PART 200](#), UNIFORM ADMINISTRATIVE
REQUIREMENTS, COST PRINCIPLES AND AUDIT REQUIREMENTS
FOR FEDERAL AWARDS; [FEDERAL REGISTER, VOL. 78, NO. 248](#),
[FEDERAL REGISTER: JOINT INTERIM FINAL RULE](#)

The purpose of this letter is for the California Department of Social Services (CDSS) to provide guidance to counties regarding recent changes to Title 2, CFR Part 200 – Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. These changes supersede and streamline requirements from several OMB Circulars. The circulars addressed in this letter are A-21, A-50, A-87, A-102, A-110, A-122 and A-133, and all apply to County Welfare Departments directly and/or indirectly.

Background

Federal grant reform and the uniform guidance in Title 2, CFR Part 200 were developed in response to [Executive Order 13520](#) (issued November 20, 2009), [Executive Order 13563](#) (issued January 18, 2011), [Executive Order 13579](#) (issued July 11, 2011) and [Presidential Memorandum “Administrative Flexibility, Lower Costs, and Better Results for State, Local, and Tribal Governments”](#) (issued February 28, 2011). These presidential directives mandated the OMB to reduce administrative burden and provide additional oversight and accountability for federal grants. In October 2011, the OMB created the interagency Council on Financial Assistance Reform (COFAR), which brought eight federal guidance circulars together and streamlined them into a grant management policy guide ([Federal Register, Vol. 78, No. 248](#)). The purpose of the guide is to eliminate duplicative and conflicting guidance, focus on performance over accountability, provide for consistent treatment of costs, place limits on allowable costs and target audit requirements in an effort to avoid waste and fraud. The guide was published on December 26, 2013, and was effective immediately. All non-federal agencies were required to comply with the stipulations of this new guide by December 26, 2014. However, for Subpart F (A-133 Audit Requirements), it is expected that the first audit utilizing the new audit requirements will occur in Federal Fiscal Year 2016 and/or State Fiscal

Year 2015-16. Audits for earlier fiscal years will continue to be conducted and reviewed under OMB Circular A-133 guidelines.

Changes and Updates

A substantial amount of changes was taken from costs principles already established in OMB Circulars; however, these changes affect all circulars, including A-87, A-110 and A-133. The attached tables display some of the major changes that CDSS has identified as important. They are provided as clarification to counties in order to help them maintain compliance for the receipt of federal awards. Both prior language and changes effective December 26, 2014, are displayed for the purpose of comparison and contrast.

NOTE: The changes displayed in the attachment do not encompass all changes within the CFR. For a complete understanding of all changes, CDSS urges all counties to review [Title 2 CFR, Part 200](#), [Federal Register Vol. 78, No. 248](#), [Federal Register: Joint Interim Final Rule, COFAR FAQs](#), [Supplemental Nutrition Assistance Program](#) and the [OMB Uniform Guidance Crosswalk](#).

If you have questions regarding this letter, please contact fiscal.systems@dss.ca.gov.

Sincerely,

Original Document Signed By:

LILIA A. YOUNG, Chief
Fiscal Forecasting and Policy Branch

Attachment

Title 2, Code of Federal Regulations Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

The following table is a guide showing the sections where the language of the new uniform guidelines issued by the Office of Management and Budget (OMB) are generally located along with references to where the previous language existed in old circulars.

SUBPART	SUBPART TITLE	OLD CIRCULAR
A	Acronyms and Definitions	All
B	General Provisions	All
C	Pre-Federal Award Requirements and Contents of Federal Awards	A-89 and A-110
D	Post-Federal Award Requirements	A-102 and A-110
E	Cost Principles	A-21, A-87, and A-122
F	Audit Requirements	A-133

The following tables are guides showing the titles/sections where the language of the new uniform guidelines issued by the OMB is specifically located along with a side-by-side comparison of the previous language compared to the new.

Subpart D – Post-Federal Award Requirements

Title/Section	Previous Circular	Effective December 26, 2014
Standards for Financial and Program Management: Payment - Section 200.305	A recipient of a federal award may retain an interest-bearing account for holding federal cash balances. Up to \$250 of interest earned in a year can be used for administrative expenses.	This section extends to non-federal entities, previously covered by OMB A-102, the existing flexibility in OMB A-110. This allows them to pay interest earned on federal funds annually to the federal Department of Health and Human Services, rather than promptly to each federal awarding agency. In addition, this section also increases from \$250 to \$500 per year the amount of earned interest that is allowed to be used for administrative expenses.

Title 2, Code of Federal Regulations Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

Title/Section	Previous Circular	Effective December 26, 2014
<p>Standards for Financial and Program Management: Cost Sharing or Matching - Section 200.306</p>	<p>All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria:</p> <ul style="list-style-type: none"> (1) They are verifiable from the recipient's records. (2) They are not included as contributions for any other federally-assisted project or program. (3) They are necessary and reasonable for proper and efficient accomplishment of project or program objectives. (4) They are allowable under the applicable cost principles. (5) They are not paid by the Federal government under another award, except where authorized by federal statute to be used for cost sharing or matching. (6) They are provided for in the approved budget when required by the federal awarding agency. (7) They conform to other provisions of this circular, as applicable. 	<p>The revised language clarifies policies on voluntary committed cost sharing (for example, resources offered by a sponsoring organization, such as a university) to ensure that such cost sharing is only solicited for research proposals when required by regulation and transparent in the notice of funding opportunity. It is not expected under federal research proposals and cannot be used as a factor during merit review of proposals. Only mandatory cost sharing is included in the organized research base for computing indirect cost rate or allocation of indirect costs.</p>
<p>Property Standards: Equipment - Section 200.313</p>	<p>The order of priority for equipment usage by a non-federal entity:</p> <ul style="list-style-type: none"> (1) Activities sponsored by the federal awarding agency which funded the original project. (2) Activities sponsored by other federal awarding agencies. 	<p>The order of priority for equipment usage by a non-federal entity:</p> <ul style="list-style-type: none"> (1) Activities under a federal award from the federal awarding agency which funded the original program or project. (2) Activities under federal awards from other federal awarding agencies. This includes consolidated equipment for "information technology systems," which are now included in the definition of equipment.

Title 2, Code of Federal Regulations Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

Title/Section	Previous Circular	Effective December 26, 2014
<p>Procurement Standards - Sections 200.317-200.326</p>	<p>The standards contained in this section do not relieve the recipient of the contractual responsibilities arising under its contract(s). The recipient is the responsible authority, without recourse to the federal awarding agency, regarding the settlement and satisfaction of all contractual and administrative issues arising out of procurements into which the recipient has entered, in support of an award or another agreement.</p>	<p>This section establishes the following standards for non-federal entities:</p> <ul style="list-style-type: none"> (1) They must have and follow written procurement procedures that reflect the procurement standards. (2) Non-federal entities are no longer required to maintain a contract administration system. A non-federal entity must maintain written standards of conduct covering organizational conflicts of interest. (3) Procedures must avoid acquisition of unnecessary or duplicative items and use excess and surplus property in lieu of purchasing new equipment.
<p>Procurement Standards: Methods of Procurement to Be Followed - Section 200.320</p>	<p>States establish their own policies and procedures. Circulars set forth standards for use by recipients in establishing procedures for the procurement of supplies and other expendable property, equipment, real property and other services with federal funds. These standards are furnished to ensure that such materials and services are obtained in an effective manner and in compliance with the provisions of applicable federal statutes and executive orders.</p>	<p>Non-federal entities should use one of these five methods of procurement:</p> <ul style="list-style-type: none"> (1) Micro-purchases (under \$3,000). (2) Small purchase procedures. (3) Sealed bids. (4) Competitive proposals. (5) Noncompetitive proposals (only if they meet certain conditions).

Title 2, Code of Federal Regulations Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

Title/Section	Previous Circular	Effective December 26, 2014
Performance and Financial Monitoring and Reporting: Financial Reporting - Section 200.327	The following forms may be used by state agencies for obtaining financial information from recipients if approved by OMB: (1) SF-269 or SF-269A (Financial Status Report). (2) SF-270 (Request for Advance or Reimbursement). (3) SF-272 (Report of Federal Cash Transactions).	The revised language allows only OMB-approved, government-wide data elements for collection of financial information, unless otherwise approved by OMB. This section allows for more frequent reporting where necessary for the effective monitoring of the federal award or when the reporting could significantly affect program outcomes.
Subrecipient Monitoring and Management - Sections 200.330-200.331	Each recipient and subrecipient must conduct regular oversight and monitoring of its Workforce Investment Act activities and those of its subrecipients and contractors. They must determine whether or not there is compliance with provisions of the Act and applicable laws and regulations and provide technical assistance as necessary and appropriate.	<p>The pass-through entity must identify risk of noncompliance on a case-by-case basis. When performing monitoring activities, the pass-through entity must review reports, follow up and issue a management decision. On-site reviews and other oversight activities are not required in all cases and are solely the prerogative of the pass-through entity. These sections provide tools to manage subrecipients with regard to training and technical assistance, performing on-site reviews and audit services.</p> <p>Non-federal entities must focus on the substance (essential characteristics) of their relationship with each subordinate entity to determine which role (subrecipient or contractor) and associated requirements are applicable.</p>
Closeout - Section 200.343	A recipient shall liquidate all obligations incurred under the award within 90 calendar days after the funding period or the date of completion, as specified in the terms and conditions of the award or in agency implementing instructions.	A program operator must liquidate obligations against a grant within 90 days of the close of the grant's period of performance, unless the grant agreement or authorizations from the entity's awarding agency prescribe otherwise.

**Title 2, Code of Federal Regulations Part 200 – Uniform Administrative Requirements,
Cost Principles, and Audit Requirements for Federal Awards**

Subpart E – Cost Principles

Title/Section	Previous Circular	Effective December 26, 2014
Direct and Indirect Costs: Direct Costs - Section 200.413	Costs are direct when they can be specifically allocated to one federal award by meeting certain conditions to demonstrate that they are directly allocable to a federal award.	Technical change only. Language from A-21, A-87, and A-122 was merged to provide consistency of definition in direct charging administrative costs.
Direct and Indirect Costs: Indirect Costs - Section 200.414	Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency. Negotiation of predetermined rates for indirect costs for a period of two to four years should be the norm for experienced non-federal entities. These entities should possess the cost experience and other pertinent knowledge sufficient to allow them to reach an informed judgment as to the probable level of indirect costs during the ensuing accounting periods.	The federal Department of Labor Division of Cost Determination's approved negotiated indirect cost rates must be accepted unless a particular rate is required by federal statute or regulation or when approved by a federal awarding agency. A de minimis rate is available to any non-federal entity that has never received a negotiated indirect cost rate; use of this de minimis rate requires supporting documentation. Up to ten percent of modified total direct costs can be used on all awards.
General Provisions for Selected Items of Cost: Conferences - Section 200.432	Allowable costs associated with conferences are meals, transportation, rental of facilities, speakers' fees and other incidental items.	Now added is the allowance of cost incurred by a conference sponsor or host in identifying, but not providing attendees with, local available child-care resources.
General Provisions for Selected Items of Cost: Depreciation - Section 200.436	The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used.	The concept of use allowance has been removed and this guide recognizes depreciation as the only allowable method for allocating the acquisition cost of equipment and other capital assets over the assets' useful lives. This section clarifies that donated assets may be depreciated or claimed as matching, but not both.

**Title 2, Code of Federal Regulations Part 200 – Uniform Administrative Requirements,
Cost Principles, and Audit Requirements for Federal Awards**

Title/Section	Previous Circular	Effective December 26, 2014
<p>General Provisions for Selected Items of Cost: Entertainment - Section 200.438</p>	<p>Costs of entertainment, including amusement, diversion, social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation and gratuities) are unallowable.</p>	<p>Entertainment costs are unallowable unless those costs have a programmatic purpose and are authorized in the approved budget for the federal award, or those costs have prior written approval from the federal awarding agency.</p>
<p>General Provisions for Selected Items of Cost: Equipment and Capital Expenditures - Section 200.439</p>	<p>Equipment and other capital expenditures are unallowable as indirect costs.</p>	<p>Language from a previous circular was inadvertently omitted and recently added in the federal register as a new paragraph. Also, if non-federal entities are instructed by federal awarding agencies to dispose of or transfer equipment, the cost of such disposal or transfer is allowable.</p>
<p>General Provisions for Selected Items of Cost: Materials and Supplies Including Costs of Computing Devices - Section 200.453</p>	<p>Only materials and supplies actually used for the performance of a sponsored agreement may be charged as direct costs.</p>	<p>Materials and supplies used for the performance of a federal award may be charged as direct costs. In the specific case of computing devices, charging as direct costs is allowable for most devices (up to \$5,000) that are essential and allocable, but not solely dedicated, to the performance of a federal award.</p>
<p>General Provisions for Selected Items of Cost: Travel - Section 200.474</p>	<p>Allowable travel costs include expenses for transportation, lodging, subsistence and related items incurred by employees who are in travel status on official business of the governmental unit.</p>	<p>An allowable cost is added for temporary dependent care costs. Temporary dependent care costs above and beyond regular dependent care that directly results from travel to conferences is allowable provided that:</p> <ul style="list-style-type: none"> (1) The costs are a direct result of the individual's travel for the federal award; (2) The costs are consistent with the non-federal entity's documented travel policy for all entity travel; and (3) The costs are only temporary during the travel period.

Title 2, Code of Federal Regulations Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

Note: The changes displayed in the following audit requirements section will not impact counties for their single audit until Fiscal Year (FY) 2015-16. The Subpart F (Audit Requirements) of the new circular will apply to audits of FYs beginning on or after December 26, 2014; therefore, the first audit utilizing the new requirements to be made in Federal Fiscal Year 2016 and/or FY 2015-16. The audits for earlier FYs will continue to follow rules set forth in OMB Circular A-133.

The Food and Nutrition Services (FNS) has provided some information stating that the state agencies' second quarter allotments will be the first "funding increments" that trigger the new circular's applicability, thereby giving the new rules an effective date of January 1, 2015. The CDSS will be in contact with the FNS and will verify the implementation and the impact on audit requirements. Any changes to these guidelines will be issued in subsequent CFLs.

Subpart F – Audit Requirements

Title/Section	Previous Circular	Effective December 26, 2014
Auditors: Audit Requirements - Section 200.501	Single audit threshold is \$500,000.	This section increases the single audit threshold to \$750,000.
Auditors: Audit Findings - Section 200.516	Threshold for questioned costs is set at \$10,000.	This section increases the threshold for questioned costs to \$25,000.
Auditors: Major Program Determination - Section 200.518	The auditor shall use a risk-based approach to determine which federal programs are major programs. This risk-based approach shall include consideration of the amount of the award, current and prior audit experience, oversight by federal agencies and pass-through entities and the inherent risk of the federal program.	This section focuses audits on areas with internal control deficiencies that have been identified as material weaknesses.