

New Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

Fiscal Updates Webinar

Belinda Rinker: Good afternoon, at least here on the East Coast, and we want to welcome everybody to the Fiscal Updates webinar from the Office of Head Start. There is some information on your screen about how to submit questions. One question we saw earlier today quite a bit was whether the slides will be available. And for everyone who's registered for this webinar, we will send you the slides tomorrow to the email that you provided when you registered. These slides will also be posted on the Early Childhood Learning and Knowledge Center website, but that will take a little bit of time. So, they will be posted along with the questions and answers.

And at that point, we're going to go ahead and get started with today's material. We have a lot of questions that you all have submitted that we want to cover today. So, these are fiscal updates. We're going to talk about the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. We'll talk about the Department of Health and Human Services' Implementing Regulations that apply to Head Start awardees. And we'll talk about the SF-429 Real Property Status Report. And all these came into effect on Dec. 26, 2014; and we'll explain more as we go forward.

Our panelists today are Ann Linehan, acting director of the Office of Head Start; Terry Ramsey, senior technical advisor at the Department of Health and Human Services; Belinda Rinker, senior policy analyst here at the Office of Head Start, and I'll also be your moderator today; and Jim Belanger, who's a CPA and the director of fiscal operations for Head Start Monitoring Contract at Danya International. So welcome, everybody.

Just to recap, we'll be talking about those requirements that are called the "Uniform Guidance," the uniform administrative requirements, the new cost principles, the audit requirements. All of those are found at 2 CFR 200. The Department of Health and Human Services' Implementing Regulations are at 45 CFR Part 75. And the SF-429 is on the ECLKC website. If you access the information on the SF-429 on the ECLKC website, you'll also find a fillable PDF version of the form, which can make your completion of the report much easier.

So, let's a moment – let's start, please, with Ann Linehan, acting director of the Office of Head Start, to make some opening remarks.

Ann Linehan: Well, again, good afternoon and welcome to those also – good morning to those on the East Coast – I mean, on the West Coast or Alaska. I have to tell you, this is the second webinar that we are doing today. The first one we did earlier this morning, and did so because we had such an overwhelming participation rate for this one that we had to do a second one. I always think the second one's better than the first.

But what I will tell folks is, for those of you who are auditors or the chief fiscal officers, some of this information is going to be more easily absorbable. And those of us – so, for those of us who are on the program side, it's going to seem like a lot. I think the intention here is to get it all out on the table. But clearly, I think this is a significant, important step in supporting our programs in understanding the impact of the Uniform Guidance. But we also are committed to having follow-up conversations as

necessary based on your questions and continued concerns. And I think this all speaks to, no matter what, how important it is for every agency to have sound fiscal management systems with strong internal controls.

And I don't want to take up any more time because there's a lot to cover. So Belinda, I'm going to throw it back to you.

Belinda: Thanks, Ann. I'm just going to give you a little bit of information about the terms that we're going to be using when we talk about these new fiscal regulations. The Office of Management and Budget refers to these new regulations as the "Uniform Guidance," and we're actually going to use that term in our webinar today. You might have heard these regulations referred to as the "Omniscircular" or the "Supercircular," and those are popular terms for these regulations, but we're going to stick with the OMB approach and refer to them as the Uniform Guidance.

You'll also hear us use the term "non-federal entity, or NFE." This is a very broad term that the Uniform Guidance recognizes to refer to what we would otherwise call grantees, sub-recipients, or delegate agencies. So, you'll hear that term "non-federal entity, or NFE." So, those are the terms you're going to hear. And we'd like to start at a high level and hear from Terry Ramsey on the HHS perspective.

Terry Ramsey: Okay. Thank you very much, Belinda. I'm going to kind of walk through how we got the Uniform Guidance to where it is now, binding upon non-federal entities. This first slide and – it looks like the guy's about to pull his hair out, and sometimes I've probably felt that way. Before, we had a number of OMB circulars that were written at different times; they used different terms to mean the same thing; and depending upon which entity it was, you'd have to figure out which one to use. And for a pass-entity passing money down to a sub-recipient, they may have one set of rules for themselves and another set down for the sub-recipient. So basically, what the Uniform Guidance has done is it consolidated eight OMB circulars into a streamlined, one set of uniform guidance that's been published at 2 CFR 200. Go on to the next slide, please.

Okay, now I'm going to take a step back and take a little bit of discussion on how this – how we got to where we were. Dec. 26, 2013, a Federal Register notice was issued. And that was the issuance of the Uniform Guidance. At that point, it was guidance to federal agencies. It told federal agencies they needed to ensure they put into their regulations within one year, because OMB guidance to federal agency is not binding upon the non-federal entities until the non-federal entities adopt it in regulation.

Also, I'd like to point out that with that Dec. 26, 2013 Federal Register notice, it also includes a preamble. And we'll talk about it later. But sometimes you wonder how you got to where you did, what kind of thought process OMB went into in issuing the guidance and making decisions. And it's in order by section number, so you may be able to find the answer to that by going back and reviewing that preamble.

On Dec. 19, 2014 – this past December – all federal agencies in one uniform, one common Federal Register notice, adopted the Uniform Guidance into regulation. At that time, it becomes binding on non-federal entities. And the effective date, which we'll talk about later, is Dec. 26, 2014. When they did that adoption, a couple things that are a little bit tricky but you need to pay attention to in order to understand it. First of all, OMB found that when they reviewed the Uniform Guidance for a year and they looked at it, they said, "Okay, there's some things that are not quite clear. There's some technical corrections that need to be made." So, the Uniform Guidance published Dec. 19 includes a listing of all

those technical corrections. Those technical corrections are now codified 2 CFR 200. So if you go to 2 CFR 200, you'll see a copy that includes all the technical corrections. If you want to see what it was before the [inaudible], you'd have to go back to the Dec. 26, 2013 version.

Okay. Part of this, HHS has adopted in regulation. And one this HHS did a little different from other agencies is HHS adopted the Uniform Guidance and published it in their own regulations. It's now published at 45 CFR Part 75. So, sometimes we'll say Uniform Guidance and sometimes we'll say Part 75. To one extent, they're exactly the same thing; but another extent, they're not always exactly the same thing. Because when HHS published it, they made some amendments in order that they could keep up with and retain certain requirements they had otherwise in law and regulation, and they needed to be retained.

So that publication on Dec. 19 lists the HHS amendments to the Uniform Guidance. HHS added some different terms, redefined some terms. For example, the term non-federal entity in the HHS Part 75 is awardee. So you just need to be attuned to that and don't let it throw you. Also, in some cases, the numbering has changed. I know we were talking about earlier this morning the number for sub-recipient determination and sub-recipient monitoring is not the same in both places. So, you just have to be alert to that. And then, finally, the Uniform Guidance is effective Dec. 26, 2014; that we'll discuss in more detail. Go on to the next slide, please.

Okay. Since I deal mainly with single audit process and audit, I wanted to just highlight a few items for you as part of the Uniform Guidance. First of all, the due date – the audit report due date. Sub-part F of the Uniform Guidance replaces OMB Circular A-133; and OMB Circular A-133 was based upon the Single Audit Act amendments in 1996. There are certain things that could not be changed, and this is one of them. The audit report due date is fixed in law and it retains at nine months after the end of the fiscal year. However, one thing that was changed about this is they removed the provision for agencies to provide extensions. So now there are no extensions. The audit is due within nine months.

Federal agencies – non-federal entities submit their audit reports to the Federal Audit Clearinghouse. And I think this is probably one of the biggest changes, is the Federal Audit Clearinghouse will post the audit reports on their webpage. So once the report's been accepted by the Federal Audit Clearinghouse, sometimes referred to as the FAC, the report will be public on the webpage for anyone to see. One thing that's going to be – there is a provision for Indian Tribes because they have certain business confidential information. I won't go into the details of that. But for most of you entities, that report is going to be publicly available on the website.

And of course, one thing that you'll find out about that is – one part of that is you'll need to make sure that you don't include protected or personally identifiable information in there. There's no reason a single audit report should include that. This will just be another case that we need to make very sure of that. That's all the federal – all the reports will be posted on the Federal Audit Clearinghouse webpage. The sub-recipient is not going to need to – have to send their report to the pass-through entity. The pass-through entity can go out to the Federal Audit Clearinghouse webpage and receive their report and get a copy of their report. And the Federal Audit Clearinghouse is working with some mechanisms so it'll make it easy for the pass-through entity to go out and get those reports. And also, another advantage of that is everybody will be working off the same official copy of the report, the Federal Audit Clearinghouse. The Clearinghouse will be the repository of records for the single audit report.

Another thing that has changed is that the sub-recipient monitoring sections have moved to the administrative requirements. In the Uniform Guidance, that's 2 CFR 200.330-331. But I just found out in the last session it's 200.350-351 in Part 75, the HHS implementation. The sub-recipient monitoring had been in OMB Circular A-133; because when A-133 came along, none of the other circulars were opened that were needed to be included in that to comply with the Single Audit Act. So, it was put in that.

But that's really an administrative requirement, determining whether an entity is a sub-recipient or a contractor, or whether – the monitoring procedures that should be used. And the monitoring procedures have been streamlined some in a more risk-approach to them. And you'll hear us talk throughout this session on how the Uniform Guidance goes more into a risk-based approach. Another thing when I said that is I said sub-recipient versus contractor. Many of you will know the term used to be sub-recipient versus vendor. The Uniform Guidance uses the term contractor instead vendor, but the meaning is the same.

The audit threshold with the Uniform Guidance increases from \$500,000 in federal awards expended to \$750,000 in federal awards expended. And that's by the non-federal entity in that – in that year. And this allows the federal government to retain audit coverage for over 99 percent of the federal award expenditures; and about 5,000 entities will have audit burden relief by not having to go through the process of having a single audit, which for some small entities gets to be pretty expensive. And I never want to fail to mention in this is that there's no early implementation of the audit requirements. So, if you think, "Oh, I can early implement the audit requirements. I'm between \$250,000 and \$750,000, so I no longer have to have an audit." No. Until the implementation date – and we'll talk about that later. There's no early implementation of the audit requirements.

With that, I'm going to turn it back over to you, Belinda.

Belinda: Thanks, Terry. I'm just going to take a minute and highlight some of what I think will be the program impacts of the new Uniform Guidance. And really, for grantees, this is an opportunity and a time to really look at your fiscal management systems in terms of both compliance and effectiveness. And this is the focus of the Uniform Guidance. And certainly, every grantee is going to need to make some changes to remain compliant with the regulations; but there are a number of changes that grantee may have the option to make if they increase the efficiency and effectiveness of fiscal operations.

With many opportunities for change, just because you can make a change doesn't always mean it's in the organization's best interest. You'll need to consider your organizational type and your funding mix, as well as your service delivery, to decide whether all of the optional changes that are available to you are ones that really work for your organization and how you would structure and implement those changes.

Because the Uniform Guidance brings into play some new concepts and the timing and application can be a bit complex, this is a good time to make sure that fiscal professionals in your program have access to good quality professional development; that you have the kind of fiscal training and technical assistance that you need to understand the requirements of the Uniform Guidance; and that you rely on your fiscal, auditing, and legal professionals to help you make some of the distinctions and apply the definitions that are included in the new Uniform Guidance.

And even though these new regulations are much more uniform than what we had in the past, there are still some variations depending on your entity type, such as whether you're a commercial organization,

an institute of higher education, a nonprofit organization, state and local government, or Indian Tribe. So, there are some differences within the Uniform Guidance that you need to be aware of, and read them carefully in light of your organizational type.

I would say, in summary, that the current guidance is most similar to 2 CFR 220, which we know are the cost principles that applied to fewer of our existing grantees, and very similar to Part 92. So these are not the regulations that historically have been applicable to most Head Start and Early Head Start programs. So virtually every organization will need to make some changes, and many of our grantees will notice fairly significant changes in their fiscal practices.

Jim, can you tell us a little bit about the monitoring approach to these changes?

Jim Belanger: Well, briefly, Belinda, we're looking at FY15 right now. Most of the FY15 monitoring reviews will be completed by April 30. The instrument that we're using this year is based on the old guidance, and we're making adjustments as needed on a case-by-case basis. So, we've also started the process of developing the new instrument that we'll use beginning Oct. 1, 2016. And in that – in that instance, the reviewer will be keying in on the Notice of Award because the date of the Notice of Award is really going to be the determining factor as to whether a transaction should be evaluated against the old requirements or against the new Uniform Guidance.

So, this is an approach – your auditor, I think, will take a similar approach when they're doing the single audit. They will also need to key in on the award date. And in short, OHSMS will ensure that you're being monitored against the appropriate requirements based on award date and program implementation date, as described in IM 14-07.

Belinda: Thanks, Jim. So, what I'm hearing from you and Terry is that, certainly, oversight of fiscal operations during this transitional period is going to, in many ways, look a little different but continue to be a partnership between the Office of Head Start monitoring activities and the oversight and support that's provided by the Central and the Regional Offices of Head Start, along with the annual audit and those fiscal professionals who are – who are guiding and advising grantees.

Let's take just a minute and talk about the objectives of the Uniform Guidance, and we'll start at a fairly high level. Looking at these objectives really highlights how important it is to take a careful read of the history and the purpose of the Uniform Guidance. We'll give you a list of resources where you can find a lot of information about the decision-making that went into the Uniform Guidance; the kind of concerns that were raised during the comments and how those were resolved; and give you a strong context for the intent that's behind many of the changes that you'll notice.

So these stated purposes, the first one is very similar to what Terry just mentioned, which is Eliminating Duplicative and Conflicting Guidance; and we really did see many different regulations collapse into this single Uniform Guidance. There is a "focus on performance over compliance for accountability," meaning not just that the literal regulations are met but that certain objectives are accomplished on the fiscal and property management side of the house. Encouraging Efficient Use of Information Technology and Shared Services. Providing for Consistent and Transparent Treatment of Costs. Now that we have uniform definitions of terms, we'll see them interpreted for all organizations in the same way, whereas in the past we might have seen definitions that looked a little different depending on organizational type; and that was very confusing.

Then, Using Allowable Costs to Make the Best Use of Federal Resources. Setting Standard Business Processes Using Data Definitions. Encouraging Non-federal Entities to Have Family-friendly Policies, and there are some specific regulations that do that. Strengthening Oversight; and we talked a little bit about how that will look ongoing-ly for the Office of Head Start. And then, Targeting Audit Requirements on Risk of Waste, Fraud, and Abuse. So, there is this concern about making good use of federal funds and property.

There are many resources that are already available that we would recommend. And remember, you'll be getting these slides tomorrow, so you'll be able to use the active links that you see in blue on the slides here. We have a link to the Federal Register publication of the Uniform Guidance, the OMB-level guidance at 2 CFR Part 200. There is a set of frequently asked questions that the Council on Financial Assistance Reform and OMB cooperated to produce, which I think is very helpful. There are other resources, including a series of webinars that are archived on the Council on Financial Assistance Reform, or COFAR, website, which is really a wealth of information. And those archived webinars are a really good resource.

We also provided – we'll provide you with a link to the HHS Implementing Regulations. The first link is all of the agency implementations. So if you have funding outside of HHS, you can find your agency – or your funding source, as well. And then we have a link – the second link is just to the HHS regulations themselves. And there's also some good materials on the AICPA Government Accounting Quality website, and we've provided a link to those as well. So, those are existing general resources that you'll find helpful, I think, to implement and understand these new regulations.

And we've also started to issue guidance from the Office of Head Start in a couple of these areas. The first one, I think we heard a reference to earlier, is IM 14-07, which came out just before the Implementing Regulations to kind of get people started to think about those. We know there are some areas that will need further focus as we move forward. And we also have an IM that came out – it's 15-01 – that explains how Head Start awardees need to implement the requirements of the SF-429 form.

And just before we start in on our questions and answers, I wanted to be sure you know that these questions and answers, the recording of this webinar, as well as the slides, will be placed on the ECLKC website as soon as we can possibly do that. You will get the slides via email if you registered with an email. We can get those out tomorrow. Where the questions we received were fairly similar, we did group some of them into a single question. So you might not hear your exact question in some cases, but the substance of the question might be being addressed.

Questions that identified individual grantees were edited to remove those references. And we just want to let you know and be sure you understand that, you know, these are new Uniform Guidance. We're all trying to understand and interpret them. This is a discussion that we're providing for training purposes, and our responses are really reflecting our understanding of the new regulatory requirements from a number of different perspectives, but they're not formal, regulatory interpretations. So at this point, we're going to go ahead and start with our questions; unless any of our panelists have any comments before we move on?

Okay, great. Well, we have plenty of questions to cover. And I think we'll ask Terry to answer the first one, which is: Are all Head Start and Early Head Start grantees covered by the Uniform Guidance?

Terry: Thank you, Belinda. First, one thing. When Belinda mentioned the COFAR website, I would encourage you also to check that out. It's updated frequently. It does have some prior webinars that OMB has put on. And there's a way you can go on there and sign up your email address, and when they have new things come out, like the frequently asked questions, you'll be first to get those. So, I would encourage you to do that.

Another thing that Belinda mentioned that I think it very important to remember is that – she said that a thorough reading of the guidance is necessary. And when I talk about a thorough reading, the place where I would encourage you to start first is with the definitions. Because if you don't understand the definitions, you don't understand the reading of the text because you don't have the framework. So, I'd encourage you to become familiar with the definitions because many of the wording – much of the wording and text is depending upon the definitions. And that – that leads us right into this question, because this question's: Are all Head Start and Early Head Start entities covered by the Uniform Guidance?

So, we have to go from Head Start and Early Head Start entities to where that fits in the Uniform Guidance. And most of your entities are going to be non-federal entities. And "non-federal entities, or NFE," is term which means "a state, a local government, Indian Tribe, institution of higher education – sometimes referred to as IHD – or nonprofit organization that carries out a federal award as a recipient or sub-recipient." And Part 75, as I believe I said earlier, uses the term "awardee" to mean the same thing. And this non-federal entity definition covers the majority of Head Start and Early Head Start Partnership recipients and sub-recipients.

One other place we have is – Part 75 uses the term "commercial organization," and that means "organization, institution, corporation, legal entity, etc., that's organized or operated for the profit or benefit of its shareholders or other owners." And this includes the term "small and large businesses" and includes – is used interchangeably with the term "for-profit organization." And Part 75 does not cover commercial organizations, except for special provisions in 45 CFR Section 75.215 and Section 75.501. And 215 includes prohibitions against a commercial organization being paid a profit from HHS funds; and it goes on to define a profit as "any excess of allowable direct and indirect costs." Additional requirements for commercial organizations would be included in the terms and conditions of the award.

75.501 provides provisions on the audit. And basically, the threshold for the audit for the non-federal entities and the for-profit organization, or commercial organizations, is at \$500,000 right now. And with the Uniform Guidance, it goes to \$750,000 when that's implemented. And the \$750,000 increase is beginning with fiscal years ending Dec. 31, 2015. So when your fiscal year is 2015, 12-31-2015 or after is when the threshold will increase. And I always like to point out that the implementation of the audit revisions – early implementation is not permitted. So as I said before, if you're in that range, you can't say, "Oh gosh, I can implement early and not have to have an audit." No, you have to wait until Dec. 31, 2015 or afterward.

With that, I'll turn it back...

Ann: Terry, I'm going to ask the – the same question I asked at the earlier session. So when you listed those that were non-federal entities, you listed very familiar terms to us: Tribes, local governments, Head Start programs, Early Head Start awardees. And one thing that you didn't mention was delegates. So, I'm assuming that delegates fall under the NFE. And for the commercial organizations, it's really less

than one – probably less than one half of one percent of all our grantees. So, I wonder if delegates are also under this umbrella.

Terry: Right. I'm... See, I'm not a Head Start expert; I'm more of a Uniform Guidance expert. But delegate agencies, as I understand it, are sub-recipients of a recipient. So they are sub-recipients, and sub-recipients are – recipients and sub-recipients are both non-federal entities if they fall under the five categories. So yes, they would be included.

Belinda: Thanks, Terry. Thanks, Ann. And just to recap, so we... It's important to understand that term "non-federal entity," as well as "sub-recipient." So, another area where looking at those definitions is really important. Recognizing that the Uniform Guidance doesn't generally apply to commercial organizations, but a couple of the sections in the Uniform Guidance in Part 75 – and that would be 75.215 and 75.501 – everyone should be familiar with.

And this is kind of similar to the next question, which I'll spend some time on, which is: Does the Uniform Guidance supersede the Head Start Act and Performance Standards? And the answer is no. The new Uniform Guidance does not supersede the Head Start Act or the Performance Standards. The fiscal requirements in the Head Start Act – and there are quite a few of them. I mentioned earlier that on a slow day I went through and highlighted and counted all those fiscal requirements in the Head Start Act, and there's about 40 of them. So if you're new to fiscal in Head Start and you're feeling like you don't need to pay attention to the Head Start Act because that's about program services, you may want to spend some time reading through the Head Start Act. It has a lot of fiscal requirements, as well.

So there are some things in the Act that we want to be sure we continue to highlight. The Act has a 15 percent administrative cost limitation, meaning that administrative costs of an award cannot exceed 15 percent of the total award, both federally-funded direct amounts and those that are provided as match. That requirement did not go away. And as you implement the Uniform Guidance, you need to think about how you're also going to track and report those administrative costs to assure that you're not going to exceed that limit. The 20 percent non-federal match requirement in the Head Start Act also continues.

The fiscal reporting requirements in Section 642 of the Head Start Act to your governing body and to your Policy Council, those monthly reports that include credit card information, those still need to continue to be done. And other limitations, like the Executive Level II limitation on compensation that requires that no Head Start funding be used for any compensation that exceeds Executive Level II, those are all remaining in place and will still need to be part of your fiscal policies and procedures. So, be careful as you make those changes to implement the Uniform Guidance you don't somehow get yourself cross-ways with continuing to comply with the Head Start Act.

As we mentioned earlier, a lot of what we use – our whole sort of fiscal toolbox got emptied and consolidated by the new Uniform Guidance. So instead of having three sets of cost principles at 220, 225, and 230, we now have a single set. Instead of having a variety of OMB circulars, like A-21, A-87, A-89, A-102, A-110, and others, 122 and 133, you know, we now have one set. Instead – and a big change with the HHS regulations – specific to HHS is that instead of now having 45 CFR Part 74 and Part 92, we have one set at 45 CFR Part 75. So those are – the Part 75 is what's now replacing former Part 74 and Part 92. So, very clearly, we've seen a lot of consolidation, but we did not find any supersession of the fiscal requirements in the Head Start Act or the Performance Standards.

So that leaves the question of: Did any of what the Office of Head Start has put out for grantees get superseded? And the answer is yes, some of it did. So in Section 105 of Part 75, it talks about the concept that any administrative requirements, program manuals, handbooks, and other non-regulatory materials that are inconsistent with the requirements of Part 75 are superseded. So to the extent that any existing information that's been published as an Information Memorandum, a Program Instruction, or a Policy Clarification is inconsistent with the Uniform Guidance, it has been superseded.

And so, an example of that is an Information Memorandum that we published a few years ago where, between Administration for Children and Families and the Office of Head Start, we raised the level for prior approval of equipment purchases during the term of the award to \$25,000. The current regulation, the Uniform Guidance, took us back to that \$5,000 equipment level. So until the Office of Head Start and the Administration for Children and Families can cooperate in doing something about that level again, it's now back down to \$5,000 because the \$25,000 was inconsistent with the \$5,000 language in Part 75.

So, we are in the process of updating the Early Childhood Learning and Knowledge website, all of our various fiscal references. As you can guess, this is not a small task. But we will be updating the materials on ECLKC and editing or removing any inconsistent IMs, PIs, or PCs that are out there now. And you should keep a careful eye out while we also transition to the Uniform Guidance that you – anything that was issued before the Uniform Guidance, you check and make sure it's still in effect before you rely completely on that information.

Ann: So Belinda, as I listen to you, there's a – that's a lot. You just said a lot. And it sounds like although the Uniform Guidance doesn't supersede the Act or the Standards, there was an obvious – at least in one place, there was a conflict where it was – they didn't match in terms of the \$5,000 versus the \$25,000. And even though you implied that there would be some working out to get it back up to the \$25,000, until such time grantees must now readjust and adhere to the \$5,000 limit. Is that correct?

Belinda: Yes, that's correct. And you know, even to give you another example, the new Uniform Guidance has language that requires that grantees account for – or actually record and document volunteer time in the same way that they do the time of their actual employees. And so now, for example, if we were looking at adequate documentation for volunteer activities, we would be expecting that to look very much like what's already being done in that organization for employees. And since that's a new requirement, you're not going to find that information right now on the ECLKC website, and what's out there may give examples that don't quite meet that standard.

Okay, I'm going to ask Jim to take on the next question, which is: Do all grantees have to make changes in their fiscal policies and procedures in order to be compliant with the Uniform Guidance?

Jim: And the answer here is yes, grantees will need to make changes to their fiscal policies in order to comply with the Uniform Guidance. What you'll hear repeatedly throughout this presentation is the idea of a process to look at the Uniform Guidance itself, compare it to the old guidance, look at frequently asked questions; basically, to synthesize these sources and use this information in the revision of your policies and procedures.

I have an example on the next slide having to do with employee health and welfare. So, this is one of the selected items of costs in the back of the Cost Principles. And the old guidance is presented on the right; and that old guidance starts out with a list of examples: employee information publications, infirmaries, recreational activities, counseling services, and it ends with a catch-all, "and any other expenses." And it

says that these costs must be consistent with the organization's established practice or custom. Compare that to the new guidance on the left. The laundry list is gone. We just start out with, "Costs incurred in accordance with the non-federal entity's documented policies." So, here's a higher level of control. The old guidance was based on established practice or custom, so you – as a grantee, you would just have to show that it was consistent with other things you did.

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In this case, you would, under the new Uniform Guidance, need to show that it's consistent with documented policies. I also, in the old guidance, highlighted the phrase "employee morale." That phrase is no longer in the Uniform Guidance. It was a deliberate removal, or omission, by the Office of Management and Budget. And we talked in the earlier session that if you wanted to know the origin of that or the reasoning behind it, you would go to the preamble for the preliminary rule, and there was a detailed discussion of why OMB decided to remove that as one of the classes of costs.

Belinda: So Jim, so there was this list which gave everybody some guidance, and now that list is gone. Does that mean that OMB meant to make those activities unallowable?

Jim: My interpretation is that they felt like they didn't need to provide all of those examples. Although I think as a grantee and as a reader the examples were helpful, it does not mean that they meant or they intended to say that these were unallowable. They just eliminated them as examples to – for a more concise presentation.

Belinda: And is this something we're going to see throughout this Uniform Guidance, where there's kind of a general principle leaving the details of how to implement that principle more up to the grantee?

Jim: I would stay tuned for the discussion of personnel costs, because Terry has some excellent points on how the revised – how the Uniform Guidance is really based on principles. Instead of telling individual grantees what is best for their organization, grantees can read the principles and decide what is the best way to achieve those goals for their organization.

Ann: Belinda, one thing that we did mention during the first webinar, but hearing it now the second time, I think because these will be changes that grantees will be – awardees will be determining they have to make in order to commit to compliance, which could shift some of the ways in which they do business within their organizations. And I think remembering the important role of the board of directors in approving these changes and understanding the changes, because sometimes we feel like it's kind of a technical exercise, but these really have implications for how an organization functions, which really rests with the board sort of understanding and approving these changes.

Belinda: Absolutely. That's a great point, Ann. Thank you.

So, we'll go ahead then and move to the next question, which, Terry, we'll ask you to take a crack at, which is: When did the new Uniform Guidance take effect? Can you be subject to the Uniform Guidance and the prior fiscal regulations at the same time? Is there a transition date that grantees need to choose, or do they need to do something official to implement the new guidance? How's that all going to work?

Terry: Thank you, Belinda. The HHS adoption... Just one point I want to make out as we're talking about this implementation of the Uniform Guidance. It was issued as an interim – it was adopted as an

"interim final rule." Meaning, when it was adopted, it was applicable. It was regulation. However, OMB, HHS, and other agencies will consider comments; and comments can be received – have to be received by Feb. 17, 2015. If you go to the Dec. 19 Federal Register notice, it'll give you the place to submit the comments. So, I would encourage anybody who has any comments on the Uniform Guidance that that's the time to do it. Let's go on to the next slide.

Grant effective dates. This is – this has been something there's been a lot of questions on. Federal agencies implemented by – implemented by promulgating regulations effective Dec. 26, 2014. Non-federal entities will need to implement the new administrative requirements and cost principles sections – that's subparts D and E – for all new federal awards made after Dec. 26, 2014, and for funding increments after that date – after Dec. 26, 2014 – where federal agencies change award terms and conditions.

So, the thing we've been discussing is you need to look to the terms and conditions of the award. There's two frequently asked questions there on the slide. One talks to the effective date and grace period on procurement that I'm going to speak to in a few minutes; and one talks to the effective date and incremental funding. And these are both available on the COFAR website, as we discussed earlier. The preamble to the Dec. 26, 2013 Federal Register notice makes provisions for non-federal entities to implement entity-wide system changes to comply with the Uniform Guidance without penalty. And OMB recognized there needed to be a transition period and there needed to be some working together for what's practical during that transition period.

And consistent with that, the Office of Head Start has given grantees, or non-federal entities, the ability to group Head Start awards and choose a single program-level transition date for ease of implementation and administration. And this is described in IM 14-07, which was issued in December 2014. In this case, the non-federal entity would need to specify an adoption date in its fiscal policies and procedures and be sure to share the IM and adoption date with their auditors. And I'm guessing, going back to what you said, that probably would be a good thing for them to have pass by the board of directors for them to approve that. That way, it would be officially adopted in the minutes.

[Inaudible] And this program-level transition date does not include the Uniform Guidance Subpart F and audit requirements. So the audit requirements date is – is not included in this IM because the audit covers multiple awards.

So, let's go on to the next slide and let's take a closer look the effective dates. All 2014 year-ends, there's no impact from the Uniform Guidance for the non-federal entities and their auditors, except both will need to be preparing for what's coming. The awards are all part of that, are not affected by the Uniform Guidance. For quarters ending March 31, June 30, and Sept. 30, 2015 – I just picked those for example – the non-federal entity uses administrative requirements and cost principles for all new awards and funding increments with changed terms and conditions. This is going to be during the transition period. OMB Circular A-133 audit requirements will remain, and the non-federal entity is likely to have awards subject to the old and the new requirements. So, this is what I call the transition period.

The Dec. 31, 2015 year-ends and beyond, the new single audit requirements apply; that's Subpart F of the Uniform Guidance. Audits are still due within nine months after the year ends. So at that point in time, everybody shifts over to the audit requirements all at the same time because the audit covers multiple awards. I'd like to discuss the – the grace period that provided for procurements. I don't have a slide on this. But in the implementation at – HHS at 75.110, Effective date and applicability, it allows

non-federal entities previously subject to OMB Circular A-110 to continue to comply with the procurement standards in previous OMB guidance for a full year after the Dec. 26, 2014 date. For example, the first full year for a non-federal entity with a June 30 year-end would be the year-end in June 30, 2016.

If the entity chooses to remain with the previous procurement standards for the additional fiscal year before adopting the Uniform Guidance standard, they must document – they must document this decision in their internal policies. And again, that would probably be a good one to take to the board because auditors are going to be looking for this and the non-federal entity would need to instruct – show this to the auditors. The Compliance Supplement is there to instruct the auditors to review procurement policies and procedures based upon the documentation. And the procurement grace period, there's additional discussion of that in the frequently asked question 110-6.

Non-federal entities – we had the question: Do non-federal entities need to do anything to specifically adopt it? No, there's no official adoption they need to take. It's adopted in regulation by the federal agencies. It's binding upon them; it'll be included in the terms of the award. So, there's nothing additional they need to do other than to plan for it and to comply with it. There's no other way around it. A thorough reading of the Uniform Guidance is required to understand it. And for Head Start, including – and other HHS programs, you need to look at the requirements in 45 CFR 75, because while basically the same, there are a few differences they need to be aware of.

Ann: Terry, can I ask a question?

Terry: Sure.

Ann: As you talk about what this – the responsibility of the agencies to sort of decide dates, and I think about our Head Start grantees, they have multiple grant awards, multiple project periods covering, certainly, multiple fiscal years. Would it be appropriate or inappropriate for this transition to sit down with the auditors, sort of do a planning session, to say – not to tell us what to do, but what – what works best for our agency? Because this seems a little bit complicated. Would it be appropriate?

[00:49:28.00]

Terry: I think it would be appropriate. In fact, I think it would be very wise. And because the auditors – I've heard discussion from some of the auditors that – that entities, they weren't preparing for it, and they were really worried what they were going to find to come in. But to pick up the phone and talk to the auditor and say, "We want to make sure we're getting this implemented right." As an advisor – not to compromise their independence, but as an advisor, I think that would be very wise for the entity and it would probably save a lot of cost on both sides.

Ann: We'll add that as a Q&A. [Laughter]

Belinda: Yeah, I think that's an important point. That effective date on the procurement is in Section 75.110, so if folks want that reference... We'll also make it again later. The next question, Jim, I think I'm going ahead and turn that over to you. And I mean, we've heard this is all important and we need to look at the history and the background, but are there parts of the regulations that non-federal entities should really focus on as they prepare to be compliant?

[00:50:31.21]

Jim: Well, I'd recommend that non-federal entities take a look at those definitions at the beginning of Part 75. There's a lot of good information in there that helps you to interpret the rest of Part 75. Also, the Cost Principles include a list of 50 or so selected items of cost. There are new items of cost, and there are also little tweaks to some of the existing items that organizations should become familiar with. The procurement section of the Uniform Administrative Requirements has changed significantly. Belinda has a long section towards the end of today's presentation, and she'll talk about, really, procurement as a system and the need to set policies and procedures and to monitor procurements and contracting. And that is something that we will be addressing in the next implementation of the Monitoring Protocol. We will be beefing up our testing of procurement transactions. Can you go to the next slide?

Belinda: Sure.

And here is a list of some of the key items from those selected items of cost. And Terry is going to be talking at length about the compensation for personal services and how to document the allocability of those costs. I think it's an interesting list. We spoke a little bit about employee health and welfare costs earlier, and you see some related costs. As grantees are thinking about documenting those policies for employee health and welfare, they might want to also read: "Entertainment costs," which are generally not allowable; "Goods or services for personal use," which is also generally not allowable.

So instead of just narrowly focusing on that one selected item of cost, I would recommend the grantee to consider all of the selected items and how they interact, because a determination of allowability is not solely based on reading just the one selected item of cost, but sometimes there are other selected items of cost that you want to think about. "Is this entertainment? Is this health and welfare? Is this personal use?" And you make a balanced judgment by considering all of those factors.

The fourth and final thing that I would ask for grantees to consider, and we will be talking about this at length later in the presentation, but new options for indirect costs. That – there are some revolutionary new mechanisms in this Uniform Guidance that could help grantees to be more effective and efficient.

Belinda: Thanks, Jim. So, I mean, I definitely think that we will be hearing more and talking more about most of the areas that you identified, particularly, I think, cost allocation and those indirect costs options, as well as procurement activities by grantees. So the next question actually goes right into that issue of procurement, and I'll talk a little bit about that issue of: Will grantees need to change their procurement policies and procedures? And as I read through the new Uniform Guidance, I concluded that I could not think of a single situation or type of grantee who would not have to make changes.

So, this is an area where we're seeing a big shift from being more prescriptive and a little bit more formulaic to really setting an objective in terms of the quality of the outcome of the process and the oversight of the process. That looks a lot different than what we've seen in the past. And I noticed as I was reading through some of the questions that have come in, some of them are very detailed around things like, you know, "Can we do a vendor list – a pre-approved vendor list? How many times do we have to go out to bid? How often do we have to bid? How many people do we have to contact?" Really kind of asking for that level of detail that we, in some ways, had during the previous guidance. And in reality, those decisions have really been moved to the non-federal entity, or we would think of to the grantee level.

So there are some important principles in those procurement policies and procedures that you will be instructed to implement by the Uniform Guidance, but it's not going to tell you with the degree of

specificity that you might have seen in the past how to go about implementing them. And so, I think procurement is an area where you can't take a piecemeal approach. It's not like the individual items of cost, where you can maybe look at one and – and kind of figure it out. Procurement really needs to be looked at at a very systematic level. So, you're looking from the point of, you know, "How do I decide what I need to purchase in terms of goods and services? How does that relate to my information from my community needs assessment, from my program goals and objectives?"

So there's a whole underlying process to set priorities and create that budget, and then there's a lot of guidance here within some – a fair range of discretion about how you go about that process. So, you may want to just really sit down and look at those objectives and say, "Okay, for the types of costs that are identified and the objective of having – you know, continuing to have competition as part of this process and getting good quality goods and services, what does an effective and efficient procurement system really look like for our organization in our community?" So, you know, if you're a very small community, then the number of bidders you can expect, for example, or the number of vendors you might contact to determine competition may look very different from a more urban area.

But I think the important thing, and we've heard that in many other areas that we've talked about today, is: Do you have a written policy and procedure that articulates how you're going to meet these requirements? So, just to highlight some of those requirements. Now, remember, you have an extra year under 75.110 to put this process into place – your procurement process. But it's discussed in the Uniform Guidance; it starts at Section 317 and goes through Section 326. So, 75.326 through 75.335 is the Part 75 section that applies. So again, this is not like, maybe, personnel compensation where you kind of weave together information. This is a more comprehensive approach. There are special provisions for states that you'll want to take a look at. Those are in 75.326.

Then the structure of the Uniform Guidance is there's some general provisions. And these are going to apply to all grantees, so you want to take a careful look at Section 75.327. And I – there's a list there, and I'm not going to go through all of them, but I am going to highlight some things. One of them is that the non-federal entity must use its own documented procurement procedures and must have written procedures for procurement transactions. So, we've always had that written requirement of having a procedure, but this says you have to actually follow it. So even if your procedure would otherwise be compliant with the Uniform Guidance but you're not following your own procedures, then you're not engaging in allowable procurement activity.

Ann: Can I ask a question there? So, it seems like there's more responsibility, along with more flexibility, within a grantee to do what needs – which meets the needs of their community. I particularly think of remote – I mean, rural communities, maybe some tribal communities, where they don't have an abundance of resources so their procurement procedures may look very different. But is then the – would the auditor be looking at, are those systemic procedures reasonable and comprehensive enough to meet the – are they adequate? Then, how does one judge adequacy?

Belinda: So, we still have that requirement that there needs to be full and open competition, and we do have some guidance within kind of cost categories. And I – and what I would say is there's a great deal of flexibility in some of the lower cost categories. So for example, there's a defined category called "Micro purchases," which are those purchases that are \$3,000 or less, and they have some basic requirements that the micro purchases need to be equitably apportioned or distributed among qualified suppliers. And so, I think the grantee would articulate, you know, "Here's how many qualified suppliers we've identified in our community." In a small, rural community, that may not be very many folks. And, "Here's

how we're going to distribute our business between those various qualified suppliers," and have that in their fiscal policies and procedures.

There's also a great deal of flexibility between that \$3,000 micro purchase and the simplified acquisition threshold of \$150,000. We see very little concrete guidance in the uniform regulations in that range, up to \$150,000. We know we still have to have full and open competition, but we're guided into something that tells us it's relatively simple and informal. So, it doesn't look like a sealed bid process; we know that. And it needs to be – you need to get price or rate quotation. So that tells us, you know, you don't have to do a bid, you can do quotes. It must be obtained from an adequate number of qualified sources. And again, I think if your fiscal policies and procedures define and explain how you've determined what those numbers are, then you've met the intent of the requirement.

And then there are more of what we had historically seen in terms of sealed bid, competition, bonding requirements, insurance requirements, and so forth, for any of the acquisitions that go over the \$150,000. So really, it establishes a real hierarchy of complexity to say you really only need to do these very complex activities if you're over \$150,000 or you're doing construction activities. But for other, kind of, mid-level, explain to us how you're implementing this, how you're getting good quality goods and services at a reasonable price. And that's your prerogative. So again, really looking at more outcome-based.

So again, real emphasis on the procurement procedures that the grantee's actually written for themselves. There's an emphasis on maintaining oversight to ensure that performance is actually in accordance with the terms and specifications of any contracts or purchase orders. We still have the same requirements, very broadly defined, of avoidance of conflict of interest or related-party transactions. There is a requirement that the NFE has to maintain records sufficient to detail the history of the procurement; and that really tells me, from the point of when you implemented that policy and procedure, how you determined you needed something, how you went about procuring it, how you oversee the quality that you've received. That whole process needs to be documented.

And it's very clear here that the type of procuring instrument – you know, whether it's a bid, whether it's an ad, whether it's, you know, an RFQ or an RFP; any of those are acceptable – that that can be determined by the recipient, but it has to be appropriate for the particular procurement and promote the best interest of the program or project. So if you're using a system, I think you need to articulate how that standard is being met.

There are a few things I think that you have to be cautious of. The regulation gives us some examples of things that indicate a lack of competition. For example, they talk about non-competitive contracts to consultants that are in the nature of a retainer-type agreement. So, the same person hired to do the same thing with the same, you know, sometimes relatively high cost year after and year starts to look more like a retainer agreement than a competitive process. So, this is an area that grantees are left with a lot more discretion. I think there's some good guidance.

I would also direct you to take a careful look at Appendix II to Part 75. It has a lot of information about contract provisions for non-federal entity contracts under federal awards. So things that, as a recipient of federal funds, a grantee is required now to include in their contractual agreement. One that I think is sort of interesting, for all contracts in excess of \$10,000 – and that's kind of – I haven't seen that threshold anywhere else in the Guidance – in excess of \$10,000, contracts have to address termination for cause, which would mean some breach of performance requirements under the agreement, as well

as for convenience. Meaning, if you simply wanted to move on to a better opportunity, or for some reason you were no longer serving in that area and you wanted to end the contract, that you have to have ways to exit the agreement both for non-performance and for convenience. So I think that's – that's important.

Ann: So would that be something important that grantees are aware of when executing the child care partnership contracts?

Belinda: Exactly. So, if you simply believe that there's another provider who can do a better job in your community and you want to be able to move on, or you no longer are operating a partnership in that area for some reason, how do you exit that agreement? That's the convenience part. And then of course, all contracts, even now, typically have the cause requirement, but often not the convenience requirement.

So, I think those are most of the highlights. This is an area where I think I would devote some real attention and some real thinking – you know, some involvement of those fiscal and legal professionals that you have access to on the governing body to get their insight and input. Work with the auditors to see, maybe, how they're going to sample that kind of thing; understand that. Your CPAs and your T/TA folks. That's a very complex area, I think, and one where, with a lot of discretion, means the grantee has the burden of really creating that system. Okay? Questions or comments?

Jim: Well, I think from the monitoring perspective, we're interested to know how the grantee developed and articulated their requirements. What is it they need from a potential vendor? And then how did they cast their net? How did they find or identify all of these potential vendors? And in the case of a sole source procurement, we'd want to know how they established the reasonableness of that cost. Because in a competitive procurement, maybe you have half a dozen offers and you can get a sense as to what this should cost. When there's one offer that becomes much less clear.

Belinda: So generally, it seems as though, as I look at these, the concept of sole sourcing is somewhat disfavored in that it goes against the concept of that open and full competition. So, there are only very limited circumstances. I think things like – you know, we certainly had a bit of the sole sourcing immediately after Hurricane Sandy, for example. But that concept of emergency, I think, is quite – quite narrow.

And I think sometimes we see this idea that – because someone's been in business with us for a long time, somehow that level of knowledge justifies continuing a sole source arrangement. And I think it's pretty clear that, you know, there are a lot of professionals out in the community who can typically provide similar services with today's communication and transportation. Many areas have access to professionals that they might not have had historically. And that – a competitive process is really advisable unless it can strongly be argued that it doesn't apply.

Jim: In a perfect world, every potential offerer who has capacity to do this job for you should have the opportunity to offer on it. And – so then, how do you get there?

Ann: So if you did have a sole source provision, you would expect, in the grantee's policies and procedures, that they would sort of describe under which circumstances they would consider a sole source? Would that be – is that correct?

Belinda: Exactly. You'd want to know what those circumstances are. And then in terms of allowability, you'd have to determine that it was reasonable to conclude that only a sole source could provide those goods or services.

All right. So again, we think procurement is an area where we're going to continue to have some conversations with grantees and continue to provide some information. And I think this next area – the question that came up – is an area where we're going to continue to have conversations, as well. And this is around the topic of cost allocation, and particularly indirect costs. So Jim, can you take this one? Are all grantees required to obtain a negotiated indirect cost rate? And how is the cognizant agency for indirect cost rate purposes defined?

Jim: So – so if an agency does not have a negotiated indirect cost rate at this time, they have three options. They can go in to their cognizant agency and negotiate an indirect cost rate. The cognizant agency is that federal agency that provides the most funding to that entity. For many Head Start grantees, the cognizant agency is – is the Department of Health and Human Services. For Tribal grantees, it's the Department of the Interior. So, you know, that's not the same for all entities. So, one option – the first option is to negotiate a rate.

The second option is something new in the Uniform Guidance, and it's called the "de minimis" indirect rate. It's available only to those entities that have never received a negotiated indirect rate. So if an entity at one time had a negotiated rate and abandoned that rate, they are not eligible for this option. The de minimis rate is a set 10 percent, and the base is modified total direct cost. And the definition is there. That comes directly from the Uniform Guidance. Salaries, fringe materials, supplies, services, travel, and the first \$25,000 of each sub-award.

Ann: Regardless of the amount of the sub-award?

Jim: Correct. Yep. The third bullet is a caution for anyone dealing with an indirect rate, whether a negotiated or de minimis rate, that costs must be consistently treated as either direct or indirect. So, you buy something in March, you're treating it as an indirect cost; you buy it again in July, you want to still be treating it as an indirect cost. You don't want to be flipping it between the two categories. And then the de minimis rate, there's only one way out of it. That – you continue to use it until you opt – until the non-federal entity opts to negotiate for a negotiated indirect rate. So this is – this election is good for as long as the non-federal entity wants it; and then once – the only way out of this is through negotiated rate.

Belinda: Okay. Jim, can we go back just a minute to the negotiated indirect cost rate agreement? And the question that came in was, you know: How long can you get a negotiated indirect cost rate for? And they're – I did notice that there were some of the Q&As that Terry mentioned earlier, and one of them was a question about that, saying: If I have a really old indirect cost rate and I want to renegotiate, how does that work? So what this tells the person who submitted this question is that any non-federal entity that has an existing negotiated indirect cost rate now has the ability to apply for a one-time extension for a period of up to four years.

So if you have an existing rate, you know you have the ability to request an extension and keep that rate for at least another four years. And it does say here that you can also choose a period of less than four years. So this is, in some ways, maybe an opportunity for Head Start awardees to align their indirect cost rate negotiations with their project period; so that if you wanted to consider renegotiating when you get

your five-year award, you could, you know, take that and then take a one-year extension, and then if you chose to, renegotiate. So I think this gives some flexibility around the timing of the negotiation of the indirect cost rate. But really what it tells us is, once we get a rate in place, we essentially have that rate period, which would typically be four years, plus another four years of extension.

It says here then at the end of that four-year period, you'd have to renegotiate. So, this does give a little more certainty. I think we've seen some variations from region to region on the timing of the negotiated indirect cost rates and how long they're in effect, but this definitely clarifies that and gives some options. Thanks, Jim. Now – so I probably derailed your train of thought, which was there were three options. The first was negotiation, the second was the de minimis, and the third... [Laughter]

Jim: The third is something that the Head Start grantees are very familiar with. Many have operated successfully without a negotiated indirect cost rate. So they're – they are using direct allocation of central administration costs. They are using allocation bases that accurately measure the benefits provided to each federal award. So, you might see allocation bases like number of transactions, number of full-time equivalents. And that is thought to give a good approximation of the level of activity. The bases must be reasonable and must be supported by current data.

Ann: Jim, what do you think – or maybe Terry has a better a sense. What was the sort of rationale – and maybe we should go to the preamble and read what the thinking was – in adding the de minimis rate? And... I mean, we still have a significant number of grantees that do the direct allocation. What – is there any advantage or disadvantage, or is it – would you – if I were a grantee that did direct allocation, would I look at the de minimis rate and say, "Wow, that's going to be more advantageous?" Or – is there any advantage?

Terry: One of the – one of the issues in developing the de minimis rate that was discussed is the cost of doing a negotiated rate is expensive. There were some non-federal entities that weren't recovering any indirect costs because it was just too expensive to do a negotiated rate. So, this was to allow them to – provide for the federal government to pay its fair share of the costs, at least at this small level. And also, federal agencies are required to accept this rate, too; and in some cases, they weren't being provided any indirect costs. So, the thought was for the federal agencies – federal government to allow program to pay their fair of the cost – fair share of the costs.

Belinda: And the de minimis rate, if it's adopted, is applicable to all of your federal funding, right?

Terry: Correct. And you can't switch between. Right. You use that – that's what you use.

Ann: So this is another area where a grantee might want to get some fiscal expertise; to sit down and really talk over which might be the better option because the de minimis rate, as you've said, once you're in, you're in. Well, unless you want to go that negotiated rate.

Belinda: And, you know, for those grantees who are direct costing, they could take a look at what their actual indirect cost rate is by looking at their ratio of indirect to direct and see if it's fairly close. Then the de minimis rate kind of nailed that down for them without having to do further calculations and gives them the same rate for all their multiple funding sources. So, it could be advantageous.

Okay. So, cognizant agencies. "Who's my cognizant agency?" was one of the questions, Jim.

Jim: And we talked about that a little bit; that the cognizant agency is the agency – the federal agency providing the most funding to a non-federal entity. It is not necessarily the same as the cognizant agency for audits. And I mentioned that, for many Head Start grantees, HHS is the cognizant agency. And that determines with whom you would negotiate your indirect rate.

Belinda: Great. But for the de minimis rate, there's no requirement to involve a cognizant agency; is that correct?

Jim: Absolutely. That's an election made by the non-federal entity.

Belinda: Great. So...

Terry: Also, one more thing about the de minimis rate. You may not have noticed, but the scheduled expenditures of federal awards is – in the notes is required to indicate whether the entity did do the de minimis rate. And that's going to be picked up on the Federal Audit Clearinghouse data collection form. And that way, OMB and federal agencies can monitor how many entities are actually using that de minimis rate as a way of judging how effective it was, and possibly the cost implications one way or the other.

Belinda: Well, that's helpful, Terry. And that also reminds me of Ann's comment about involving the governing body in these decisions and making sure your fiscal policies and procedures and your records indicate, you know, if you take that step and when you adopted, and for what fiscal year it's effective, and so forth. Great. And you couldn't use that de minimis rate on an existing fiscal year that began before Dec. 26, 2014, is my understanding.

Terry: I would agree with that.

Belinda: Okay. Alright. Well, we talked a lot about that. That's an important area. So now let's take – kind of go to those individual items of cost. And Jim, I'm going to ask you to help me go through this because you did some great slides. But I think individual items of cost is another area where you don't want to just set the lists side by side, because there are – there are differences in numbers of individual items. You know, originally we had numbers – items one through 52. And in Part 200, we had 54 items. And the Part 75 regulations actually added one more item of cost, which is "Independent research and development costs," that are discussed in Part 75 that are actually not in Part 200.

But I think grantees need to know it wasn't just adding a couple things. That really, some things were added, some were taken away, some were edited. So, it's important to really look at the new set of individual items of cost without so much referring to the prior as really looking at what does this tell us about how we define allowability for our expenditures?

And I think we highlighted some of the items of cost that relate to wages and benefits and professional services already. We've talked a little bit about that distinction between employee morale costs and how that fits in with some other kinds of costs. There is one change I'm going to highlight, and then we'll take a look at the slides that Jim put together.

Historically, once a property was fully depreciated, the option was recognized under the prior items of cost to take a use allowance. And that use allowance, you know, properly allocated and calculated, could be charged back against the Head Start award; and that use allowance was two percent of the

acquisition cost of a facility. Now, the current item of cost that talks about depreciation does not recognize use allowance as an allowable cost and indicates that once depreciation is complete, no further charges can be made. But do take a look. There is a little bit of wiggle room, I guess I would call it. It's in 75.436. Subsection D(5) gives sort of a limited option to convert from use allowance to the depreciation method, if that's available to you.

There's another interesting aspect of this, .436. Previously, there was not a requirement that physical inventories of real estate be taken. We had the two-year physical inventory requirement for equipment; and of course, that continues. But in this new item of cost, it says that if you are charging depreciation to an award, you must take a physical inventory of real estate and provide adequate documentation to show the amount of depreciation taken. So, now we have – actually, the first, what I would call, physical inventory requirement for real estate is coming into these regulations as well. And again, I think we have some examples. Jim, you prepared a couple examples. Do you want to go through those for us?

Jim: Sure. So, we have fundraising both under the Uniform Guidance and the old guidance. I've chosen the nonprofit cost principles for the old guidance. It's the one that affects most of our grantees. And so, the initial language is exactly the same. But I've highlighted this sentence in red, "Fundraising costs for the purposes of meeting the federal program objectives are allowable with prior written consent from the federal awarding agency." And so, a few points about this. Under the old guidance, fundraising was unallowable. Under the new guidance – under the Uniform Guidance, fundraising is allowable with prior written approval.

We have another slide down in the series that talks about what is prior written approval. It has a very specific meaning. In this case, we know that the Office of Head Start has not extended that prior written approval, so Head Start grantees should not be charging any fundraising costs to the award.

Ann: And Jim, as I think I said earlier – because there are three words there that I think are very important. I mean, I think – I could be listening to you and say, "Wow, fundraising is allowable," but I think it's allowable to meet the federal program objectives. And that really sort of narrows the ability to use federal funds for fundraising.

Belinda: And I think the "with prior written approval of the federal awarding agency" actually, you know, takes it completely off the list of allowable expenditures right now. So, I think if I were to characterize it, Jim, I would say that under the previous guidance, fundraising was categorically unallowable. Now there is, subject to the discretion of the Office of Head Start to issue or ACF to issue some guidance around very specific type of fundraising relative to meeting federal objectives – there is a possibility that it would be allowable.

[Indistinct] So, it came from sort of categorically unallowable to at least, in part, potentially allowable. And there are some areas... You know, one of the things the Office of Head Start and ACF will be doing is looking at all those areas where the agency has some discretion to determine, you know, whether that should be exercised and how.

Want to take a look – you want to talk about your next example, Jim?

Jim: Absolutely. Sure.

Belinda: Okay. So let's take a look then at proposal costs. And I know this is an area we've gotten a lot of questions on; and we have a little bit of time, so let's – let's try to get through this one in some level of detail.

Jim: And so, proposal costs are defined – and I believe this is a new item of cost in the Uniform Guidance. Proposal costs are the costs of preparing bids, proposals, or applications on potential federal and non-federal awards or projects. So, a lot of the questions came in and asked, "Well, I'm doing my continuing application as part of my five-year cycle." Know this guidance under 75.460 is really about applying for an award that you do not yet have – applying for new money.

And what's being said here is that these proposal costs are allowable if they are "treated as indirect costs and allocated to all activities of the non-federal entity." And the example we talked about in the last session was, if a grantee – a current grantee is going into a competitive DRS application cycle, the cost of developing that proposal would be an allowable cost, could be charged, but only as an indirect cost. So, if the cost of developing that proposal is \$50,000, that \$50,000 is going to be spread to all of the agency's programs – both federal and non-federal programs through either the indirect rate, the de minimis rate, or through a direct – a cost allocation of central administrative costs.

Ann: And I think, Jim, one thing that you made clear here as you're talking about potential federal and non-federal awards, which may have nothing to do with Head Start – they could just be any federal money; correct? The other thing that you mentioned... If I'm applying for my third year refunding application, then of course I'm going to be expending dollars because my staff is preparing that, but that would be a direct cost?

Jim: I agree.

Ann: Not out of the indirect.

Jim: I agree. Yeah.

Terry: One thing I'll just add on items of cost is the 2015 Compliance Supplement that's in process is going to have an updated table of allowable items of cost. It'll have two sections of Part 3. One will have an allowable – items of allowable costs under the circulars, and then one will have an updated one which will show the differences between the different types of entities. So, you might – when that comes out, I might encourage people to take look at that. It might be a helpful – quick reference source.

Ann: So, let me just ask, because I know this is a hot one for our Head Start programs. So because a potential federal award – let's say I'm going for a replacement – I'm going for a Head Start expansion or a new Head Start grant. So the issue of reasonableness doesn't really come in to the cost of spending – you know, paying someone to write – to help write the proposal, because so long as it's contained within the indirect and spread across... Am I going down the right path here?

Jim: Well, I think you would still need to procure your grant writer and try to get multiple offers and compare those and establish reasonable...

Ann: So the whole procurement thing still then kicks in? So, I'm just trying to make the connections.

Belinda: Yeah, exactly. So in – what you wouldn't want is to fall into that category where you're continuing to provide professional service contracts over and over without competition. Where, you know, in that example of writing grants for prospective opportunities, I think there's a fairly robust competitive community. It would be very hard to justify sole sourcing of that sort of contract.

Jim: I agree, and this becomes a matter of documenting your requirements on how you announced it and who you looked at. I think grantees are really going to be challenged, if not by monitoring then by their auditors, to justify kind of sole source, or this person has special knowledge of our agency, or we're familiar with their work. It's more, who can do this work in the universe and how did I reach out to them?

Belinda: Thanks, Jim. I think... No, you... I didn't have anything different to say. [Laughter] So, I appreciate that.

Ann: But I do think, Belinda, this is – this is so different than what we feds have been used to. And in fact, I was at a conference in California, and I think there were a couple hundred folk in the audience, and I said, "Well, now we can charge, you know – we can charge federal funds for writing proposals for potential..." "Oh, I don't think so." "And so I said, "Oh, yes, we can." So literally at that moment, I called Belinda, put her on speakerphone, and – Boy! – she gave the audience the correct answer. [Laughter] Phew! Thank you for answering. No pressure, huh? [Laughter]

Belinda: So again, I think that – just to keep in mind, again, that it's anticipated that these kinds of costs, whether they're for successful or unsuccessful proposals, as well as gathering the data that you might need to put out that type of a proposal, are really looked at as those general administrative costs that are beneficial to the entire organization. Rather than trying to tie them specifically to a particular program, but rather to treat them as either an indirect administrative or one of those generally shared administrative costs. Now do keep in mind, though, these are administrative costs. And so, to the extent that they impact your 15 percent administrative cost limitation, they're going to need to be part of what you're tracking along the way.

Okay. I think we covered most of the questions that we got on that one. Then, let's go to another one that I think, Terry, you can help us out with. How about this one: Is cost allocation a thing of the past? Didn't the new regulations do away with the requirement for personnel activity reports?

Terry: The answer to the first question is no; and the answer to the second question is we'll talk about it. [Laughter] Clearly, cost allocation is not a thing of the past. I know when I was learning cost – whether a cost was allowable, they told me three things. It was like a lion roaring – roar. The cost had to be reasonable, allowable, and allocable. So clearly, costs have to be allocable to be an allowable charge to the federal program. And the complexity of this is growing because entities have access to multiple funding sources, and each funding source needs to share its fair share of the cost. So, shared cost to programs using method – need to be done using methods that are reasonably aligned to program benefits. Let's go on to the next slide.

The change that came out into the personal – I call it sometimes – "time and effort" is what I grew up calling it. Charges for personal services. It's changed from being a prescriptive basis where you had to have certain forms, there – in some of the circulars, who had to sign the form, how often they had to sign forms, a very prescriptive process. So now, it's principles-based. Before you had some examples, and one problem with having examples is before long the examples become the rule when they never

were intended to that. In fact, I think that's one reason some of the examples were removed from the Uniform Guidance is they didn't want the example to be the rule that everybody followed. So, it's more principles-based.

So while no longer there's that requirement that you have to have time and effort reports, there's an increased impetus to make sure that you have internal controls. You have a proper system of internal controls that's going to make sure that personnel costs are properly charged. It requires that charges be based on records that actually reflect the work performed and the – and the... So while an entity may consider continuing with personal activity reports because they have a good system of internal control and it works, or they may decide there's another mechanism that – that works better.

In some of the discussions on this, some of the entities writing in on the Uniform Guidance were concerned that, you know, "We're having to create this form and we've got better ways to do it, and it's very regimented, very prescriptive." And – and I looked at it and said, well, the federal government doesn't tell an entity how to prepare their voucher forms and how often they have to be submitted and who has to sign them off. Why is personal activity any different? It's part of that system of internal control the entity has. And – and they wanted to be out from under that burden.

From a federal agency point of view, sometimes there was a concern that the time and effort reports were perfunctory and somebody was just filling them out, and there wasn't a full system of internal control behind them. We'd get an audit kind of saying, "You didn't fill out the form," but we didn't know what that meant. So basically, it's a principles base, but the requirements have a common set of standards. And I think it'll be helpful if we go on to the next slide, if we walk through what those standards are.

First of all, charges for federal awards for salaries and wages must be supported by a system of internal controls that provides reasonable – reasonable assurance that the charges are accurate, allowable, and properly allocated. It needs to be incorporated into the official records of the entity. The charges must reasonably reflect the total activity from which the employee is compensated by the non-federal entity, not exceeding 100 percent of the concentrated activities. The point being, you don't want to charge 125 percent of what the employee was actually paid. It must encompass both federally-assisted and other activities compensated by the non-federal entity.

So, there has to be a charging of the cost, a spreading of the cost, [inaudible] across all the – all the allocable activities so that each area – each program is bearing its fair share of the cost. It needs to comply with established accounting policies and practices for non-federal entities. So you'd have one set of accounting charging – doing the cost sharing and the cost allocation. And it must support the distribution of the employees' salaries and wages amongst specific activities or cost objective if the employee works on more than one federal award.

So these are standards that need to be put into place. They're not prescriptive forms. So some entities with a good system of internal controls may be able to cut back on some things, and some entities where their system of internal controls was maybe not as strong need to do some talking – may want to talk to their auditor about this and get a good understanding whether the – a full flow of ideas of what works best for the entity.

Another area, if we go on to the next slide, of how charges of cost – charges – personnel costs are charged. Many times, budget estimates are used to charge personnel costs, and then there's a truing up

at the end. And that's allowable, but it has to be a reasonable basis. Meaning, the charges that are done on an interim basis with the later truing up need to be estimated – a reasonable approximation of the activity actually performed.

If significant changes in the cost finding work are identified, they need to be entered into the records in a short, timely manner. Short-term fluctuations between workload need to be considered, as long as the distribution of the salaries and wages is reasonable over the longer term. The non-federal entity's system of internal control needs to include processes to review after-the-fact interim charges made to the federal award based on budget estimates to ensure that the charges were correct so that the amount – final amount charged to the federal award is accurate, allowable, and properly allocated.

So again, this is more of a principles base, but it is specific requirements. So, entities need to take a look into how you're charging personnel costs, because my understanding is personnel costs are one of the largest costs to many Head Start programs. So, this is important. Similar to this, time records for volunteers, which are used for cost sharing or matching, those need to be supported by the same manner and same records as would be – same process as would be used for salaries and wages that are reimbursed from federal awards.

There is provision, but we hope this won't happen, is where a non-federal entity does not meet these standards. Then part of the remediation may be – require the non-federal entity to keep very specific records. But we hope that the principles-based approach will be both a balance between [inaudible] internal control, as well as a relief of burden. But for many entities, it is something you need to plan about. And would encourage non-federal entities to talk to their auditors about this. I think it would probably be a good thing to bring up to the board, since it's such a large cost category, to know what's happening.

Belinda: So Terry, I'm hearing how important it is to make individual entity-level decisions about how programs are going to implement these – the internal controls needed to oversee these personnel costs. So for example, this – our prior regulations told grantees how often at a minimum they needed to make these reconciliations and adjusting entries to true up their estimates with their actual costs. And we don't see that in the new regulations, which means I probably don't have to do that very often if I have only a few funding sources and they tend to align with my fiscal year, so that I could adjust fairly infrequently and still have the ability to move those funds back and forth as needed to be correct.

If I'm a complex entity and I have staff that are working in multiple programs and I have multiple awards that are ending during different times and beginning during different times of my fiscal year, then, you know, I'm going to have to make those adjustments on a lot different schedule to stay compliant than that grantee who has a much simpler funding situation. Is that right?

Terry: Oh, I'd agree. It's not a "one size fits all." It's what's appropriate for the entity and their mix of programs, the complexity, and in order to provide appropriate controls to make sure the costs are properly allocated.

Ann: Now this area, I think, as Jim well knows, has caused a lot of angst for programs. And I do think with this new language – I mean, in the past it did. And I think – it seems to me this is an area that's going to require a lot of very precise TA, because people are going to say, "Okay. We get it. But what does it look like? What does it look like?"

So, it's food for thought for us, also, as to how we can be helpful to grantees in sort of thinking this through. But again, Terry, I keep thinking about, boy, it's really sort of upping the bar for the expectation that organizations are highly functioning and can adapt to these – may already have these or can easily adapt to a sophisticated level of internal controls and procedures around this issue. Because this is – this is a hot one.

Jim: It's the number one audit finding for Department of Education. I would guess it's the number one audit finding for HHS. I think it cuts against very small organizations who lack the capacity to maintain this thing, but also bigger entities like school districts who do kind of a small book of federal business and don't have PARs – personnel activity reports – integrated into their system.

On the monitoring side, what we tend to see are charges based upon budget, and that's where it stops. "I'm charging 62 percent of my director to the Head Start grant." "Oh, how did you come up with the 62 percent?" "Don't know." "How do you adjust to actual activity? How to do you collect actual activity throughout the year and then make an adjustment?" "That doesn't happen." So, I think what Terry's described – and we're very fortunate to have Terry here as one of the key contributors to this section of the new guidance – is a pathway for organizations to do something compliant that is not necessarily a huge burden.

Ann: And I guess – again, being the non-fiscal expert sitting here, when you talking about timely recording of significant changes, when I think about, particularly, our Head Start grantees getting a lot of grants sort of in a – in a short period, there are a lot of changes then with your allocation. And then I think about, are you really easier having a – is this where having an indirect rate is easier than a direct rate? I don't know. Doing the direct sort of allocation seems to me adding almost a burden when your funding sources are getting complicated. And I don't know if that's accurate or not.

Jim: Ann, I think one case that you described is the classic community action agency case where you have Head Start – that's its own thing – and weatherization – that's its own thing – and they're – these employees are 100 percent Head Start and 100 percent weatherization, and then you're trying to figure out how to split those central staff. I – the challenge that we're thinking about this year is what do you do when there's Child Care money involved and Head Start money involved and the program is just not all that – it's not simple anymore? And then, how do you do that cost allocation?

Belinda: And certainly this gives us a lot of options, but it also doesn't tell us how to do it. So, I think that's the challenge. I mean, certainly, you know, it does allow for taking into account, you know, existing payroll management systems and other accounting systems that may have the capacity to produce something along these lines that maybe didn't look like a traditional personnel activity report. So certainly, you know, if agencies are looking at upgrading their payroll recordkeeping system or any of those, they should be thinking about whether they can, with that same system, accomplish some of these objectives.

So again, I think there's no easy answer. And even with the indirect cost rate, it will, you know, depend on what system you have in place and how that's been working for you in the past and whether you've struggled with it or it's worked well. So again, lots of decisions to make.

We do have a couple more questions I want to be sure we cover before we log off today. And that's one that was: What is the status of delegate agencies under the Uniform Guidance and Part 75? And, a delegate agency is kind of a Head Start term of art. It appears in the Head Start Performance Standards.

It describes a certain kind of contractual relationship between the grantee and an entity that delivers services on behalf of the grantee. But we don't see that term "delegate agency" in the guidance or in Part 75.

However, we can fit the delegate agency into those definitions. And this is another one of those areas, like many we talked about today, where knowing the definitions and really thinking about their application is important. So, we heard about non-federal entities, and a delegate agency is definitely a non-federal entity; as well as the "recipient of funds," which is the – what we would think of as the immediate grantee is also a non-federal entity. But as between that awardee, or recipient, who actually receives the funds directly from the Office of Head Start and ACF, and then its delegate agency, that relationship is one of a recipient and a sub-recipient.

So if we apply the labels from Part 75 to a delegate agency, that label is going to be "sub-recipient." There's also language in Part 75 that defines a pass-through entity, which would be the recipient's relationship to the delegate agency. So, in essence, funds are being passed through that recipient agency as a sub-award to the delegate agency. What that really means, once you fall within that sub-recipient definition, is that all of the terms and conditions of the award pass through to that sub-recipient delegate agency. And they – so, they are really as much responsible for performance of the terms and conditions of the award, for compliance with Part 75, as the direct recipient.

And there are detailed requirements for how a recipient works with a sub-recipient in Section 75.352. So when a recipient, or grantee in our case, enters into a pass-through agreement, which would include a delegate agency agreement, there are a number of requirements set by Part 75, and those would be in addition to those specific requirements in the Head Start Performance Standards that relate to delegate agencies and delegate agency agreements.

So, that is an important distinction. We're clear on delegate agencies, that they are sub-recipients who are getting sub-awards. But I can anticipate, Ann, that you may raise – you may raise another important issue where we, I think, really need to go into these regulations and take a careful look – particularly for the Early Head Start - Child Care Partnership recipients, to look at that distinction between sub-recipient and contractor.

Now, historically, in our prior regulations, that was sub-recipient and vendor. That term "vendor" has gone away, but it's substantially the same as contractor under the current regulation. And it – the regulation puts the burden on the recipient – in our case, the grantee – to determine what the nature of the relationship is with that partner, whether it's a sub-recipient or whether it's contractor. And the regulation gives some examples of factors that cut in favor of being a sub-recipient and factors that cut in favor of being a contractor. And as I've looked at a lot of these partnership agreements across the country, I will say that it's very hard to categorically characterize them as either sub-recipients or as contractors because the nature of those partnership agreements is very different from entity to entity.

Ann: So it's not – and you're not suggesting it's necessarily difficult in looking at an individual relationship whether or not it's a sub-recipient or contractor, correct? You're saying across – we couldn't say every – every partner is a sub-recipient. That's correct?

Belinda: I believe that's correct. I mean, when I look at it – even some of the agreements individually, I will say, are hard to characterize because they do tend to have elements each, which is, I think – why I'm hoping that grantees are talking with their attorneys. In their start-up funding, they're getting, you

know, money that they need to do – get that kind of professional advice around – have their CPA, have their attorney, have those folks on the board with that expertise help them understand what that relationship truly is. Because it doesn't matter how you label the agreement, you can say it's for contracted services or you can say it's a – you know, a delegate agency, or however you characterize it, it's going to be the substance of the interaction and how that aligns with the regulation that determines whether you have a sub-recipient or you have a contractor. And so to the extent that, sort of, all of the compliance requirements are being moved to that partner, it's...

Ann: To the sub-recipient.

Belinda: Right. To that partner, they're looking like a sub-recipient. To the extent that there are limited purchases of services from an existing entity that's already engaged in the commercial market, that entity is not setting – making decisions like curriculum; not making decisions like enrollment decisions and setting those criteria; the fiscal organization maybe takes place at the recipient level. Those are looking more like contracted services.

Ann: Which would not be...

Belinda: Which would not be a sub-recipient. So, certainly there are some strong oversight and quality requirements around contracted services. There are some of the Head Start Performance Standards that, in order to meet Early Head Start standards, would have to be contracted regardless of whether you were purchasing services or being a sub-recipient. But generally, it is possible, when analyzing an individual agreement, to determine which way it cuts. And that's really where I think a professional who looks at the agreement, looks at the funding, looks at the application at that was written, and can really tie that all together can be very helpful.

Ann: And I think what we don't want to do is make folks who are listening in nervous about this. I mean, I think it's new. You're talking about it could be one way or the other. I think that your advice is really good that people really need to get an expert-level of, probably, legal counsel and fiscal expertise, you know, that can really help them sort through. And maybe they've written their application in such a way, but they've really determined that their contract needs to be written in another way.

So I think we want to – we want to work with grantees through this process. And we need to get, as a federal – I think, a federal workforce also, a good handle on our ability to go out and even, you know, engage with a grantee in these matters. So, I think it's all – I think it's so important to raise it. It's so important, particularly with grantees around the partnerships, you know, certainly have the start-up funds to get the support in this area. But we don't want anyone to be in a panic. We'll take all your questions, but I think this is going to be sort of an evolution of us understanding, raising the questions, and providing the answers to the extent that we can.

Belinda: Absolutely; and I would agree. It's not a time to be fearful, but it's definitely a time to be intentional, to get good advice, and to really understand where you want to go and what's the right way to get there.

We just have a couple more questions, and we have just a bit of time. So Jim, I'm going to ask you to field this one, which is fairly short: Is permission still required for purchase and sale of equipment? If so, what are the dollar amounts? And do we still need to do equipment inventories just like before?

Jim: And so, we do have a few slides on equipment purchase. One is the selected item of cost, which is much the same. That capital expenditures for equipment are unallowable "except with the prior written approval." This is a little bit of a shift. Under the old guidance, it was "except where approved in advance;" so, the approval might be something other than written. And I liked this example because we could then work in the definitions, which kind of flesh out this – this scenario.

Can I go... Oh no, this looks good. So, the definition of equipment is, you know, much the same. It's an item of personal property with a "useful life of more than one year and a per-unit cost of \$5,000 or more." So that piece is about...

Belinda: That definition stayed very similar.

Jim. Very similar. And on the next slide, we see that under the Uniform Guidance, prior approval means "written approval by an authorized HHS official." And the next clause feels very lawyerly: "Evidencing prior consent." So under the old guidance, prior approval did not necessarily have to be in writing. It was generally in writing, but it could be other than a written approval. [Inaudible]

Belinda: So Jim, if I were going to... Yeah, I think it is a lot tighter. And if I were going to maybe take that lawyerly view of what does "evidencing prior consent" mean, that it would have to actually, you know, make some reference to the expenditure of funds as opposed to saying, "Yes, I think a new playground would be a great idea and everyone would love that," you know, which I think at some level is approving, or at least supporting the idea. But if I were to interpret that fairly narrowly as it seems to intend, that would be just an indication of support as opposed to prior written approval.

Jim: So, the request for prior approval must be clear enough so that the recipient – the federal official understands the request.

Belinda: I think so. And the approval would have to indicate the actual approval of the – of the request with an amount and an item identified.

Jim: There were more parts to your question, Belinda. One had to do with, is an inventory required? And an inventory is indeed required. It is a biennial inventory; once every two years. There's also a recordkeeping requirement around equipment, and there's a list of certain elements of that – of that record, things like equipment description and location and unit cost. And so, that's a level of detail that grantees would need to be familiar with; and read that in the Uniform Guidance.

Belinda: And my recollection is the inventory is exactly like Part 92 used to require, but it's a little bit different than Part 74 required. So, Part 74 grantees want to take a look at that. And then we mentioned already that because we have the supersession of the prior guidance, we're now back to that \$5,000 threshold for approval for purchase or sale of equipment.

And I just want to move on to one last point on the form SF-429. Fortunately, we have the Information Memoranda out that will give grantees very detailed information on how to submit that form, SF-429, and when and how it's used. It is an annual reporting requirement. All grantees are required to submit the form SF-429 whether they have real property that's been purchased or improved or constructed with federal funds or not. If they don't have it, they just indicate in the comments section they have no property to report. But basically, ACF wants to hear from every grantee each year what their real property status is.

And as the IM indicates, that form is also used with certain of its attachments, along with the requirements in 45 CFR 1309, if the grantee wants to engage in a facilities activity like that construction, purchase, or major renovation. And it's also used to initiate a request for disposition instructions for real property.

One final little remark about real property. In disposition, the regulations went to the former Part 92 requirements, which say that in – if property is disposed of and proceeds are needed to engage in a facilities activity within the same program, those proceeds can be used for that activity rather than paid back to the U.S. Treasury. Now in Part 74, if you went through that same process, the money went back to the U.S. Treasury. Now, the Part 92 interpretation has prevailed in Part 75. And do if there are older facilities that really could stand to be updated, now there's an opportunity with permission of the Regional Office and ACF to sell those properties and then use the proceeds for another approved facilities activity, which I think is an important change for many grantees.

So, I think that wraps up our presentation for today. Thanks to everyone who's attending on the line. We hope we answered your questions. Remember, this information will be published on ECLKC and we'll send out the slides tomorrow. And we'll continue to address many of these areas as we all begin to understand what these mean for grantees moving forward. Thanks, everyone. Take care.

All: Thank you.