

# **OMB CIRCULAR OVERVIEW**

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## **Handouts:**

1. PowerPoint presentation
2. CAPLAW A-110 quiz
3. Understanding A-112 – Quiz of Allowability

**CAPLAW 2009**  
**National Training Conference**  
**OMB Circular Overview**

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**Where do Regulations Come From?**

Public Laws, passed by Congress and signed by the President become part of United States Code.

Federal Regulations, from Federal departments to implement the laws are found in the Code of Federal Regulations (CFR's)

Administrative Requirements, from the Office of Management and Budget (OMB Circulars) are incorporated (codified) into administrative regulations

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**Where do Regulations Come From?**

- Specific requirements, to the grantee would be incorporated into a grant condition.
- Other guidance from Feds
  - Program instructions
  - Information memorandums
  - Technical assistance guides

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## Circulars

- Non-profit organizations follow:
  - A-110 for administrative requirements-relocated to 2 CFR, part 215
  - A-122 for cost principals-relocated to 2 CFR, part 230
  - A-133 for audit requirements
  - See [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb)

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## Circular A-110

- A-110 Contains a Definition of Terms
  - Disallowed cost
  - Funding period
  - Cost sharing
  - Others
- Part B: Pre-award Requirements
  - Grants and cooperative agreements
  - Contracts for acquisition(These are used interchangeably.)

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## Circular A-110

- Part C: Discusses many issues, including:
  - Standards for financial management
  - Payments
  - Cost sharing or matching
  - Value of donated property

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## A-110 Part C

- Program income
- Budget revision
- Ownership and disposition of real property and equipment
- Procurement procedures-note, there is a separate session on procurement
- Monitoring and reporting program performance
- Termination and program enforcement

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## Circular A-110

- Accountability of funds through use of forms SF-269 and SF272
- Recovery of federally owned assets after the grant is discontinued

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## Circular A-110

- Appendix
  - Provisions of various "Acts"
    - Davis Bacon
    - EEO
    - Copeland Anti-kickback
    - Resource Conservation and Recovery Act
    - Others

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## Circular A-110

- A-110 quiz

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## Circular A-122

- Provides guidance for types of costs and their allowance for grants.
- There are definitions of many types of costs and their allowability.
- CAPLAW has joined forces with a CPA firm to produce an "Annotated Guide to Circular A-122." This guide provides practical applications for types of costs and notes court cases that have ruled on issues. It also provides auditor tips.

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## Circular A-122

- Be reasonable to the award
- Conform to limitations or exclusions
- Be consistent with other activities
- Be treated consistently
- Be acceptable to GAAP
- Only charge the cost once
- Be documented
- Additional definitions

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## Circular A-122

### Direct Costs

“Costs that can be identified specifically with a particular final objective, award, (grant).”

Minor direct costs can be treated as indirect for purposes of practicality:

Examples: overhead supplies  
client subscription

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## Circular A-122

### Indirect Costs

Those costs that qualify for inclusion in an award that cannot be “directly or practically” assigned.

- Common objectives:
  - Cost of operating facilities
  - General and admin expenses
- Definitions of indirect costs and their content will vary by circular
- They will vary by entity
- Circulars do not mandate a type of indirect cost plan-however your entity or monitor may!

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## Circular A-122

Attachment B defines 56 items of costs and allowability.

1. If questions remain, contact your funding source.
2. Review these on your own.
3. It's not possible to quantify costs consistently from one agency to another. Please keep in mind that ultimately each organization must quantify their costs and decide upon a method of allocation.
4. This method must be in writing

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## Circular A-122

4. **Do not panic – this is do-able for everyone. It truly isn't difficult to do.**
5. **The ultimate effect of this will be costs assigned to individual grants.**

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## Circular A-122

- Indirect Costs – “Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objective without efforts disproportionate to the results achieved.”
- Amounts not recoverable under one award may not be shifted to another.

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## Circular A-122

- Costs included in indirect plans are subject to the same conditions as direct costs.
- Must be certifiable and/or auditable.
- Cognizant grantor
- Those who work on multiple awards-must be supported by personal activity reports – budget estimates do not qualify!
- Legal expenses-some qualify, some don't

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**Circular A-122**

- Quiz for A-122

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**Circular A-133**  
**Your Responsibilities**

- Identify all your Federal awards.
- Maintain internal controls:
  - Efficient and effective operations
  - Reliability of financial reporting
  - Comply with applicable laws & regs
- Prepare appropriate financial statements
- Ensure audits are performed and submitted when due.
- Take appropriate action on audit findings.
- Policy on Suspected Misconduct and Dishonesty

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**Circular A-133**

- **Follow procurement standards**
- **Prepare expenditure schedules of federal awards**
- **Submit the audit package to the appropriate site**
- **Make copies available for public inspection**
- **Ensure sub-recipients are in compliance.**

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## Circular A-133

- Your Audit – how many of you read the audit?
- How many opinions do you receive in an A-133 audit?
- What kinds of financial opinions can you receive?

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## Circular A-133

- Financial opinion types
  - Unqualified
  - Qualified
  - Adverse
  - Disclaimer

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## What's New in Audits

- The Auditing Standards Board (ASB) recently issued 8 Statements on Auditing Standards concerning risk assessment in a financial statement audit.
- They provide guidance for the auditor's assessment of risk of material misstatement (by fraud or error) in financial statements.



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## Risk Assessment Standards

- SAS#104 – defines “reasonable assurance” as a “high level of assurance”
- SAS#105 – expands the scope of what the auditor must understand from internal controls. In fact, the understanding of internal controls has a changed purpose from “planning the audit” to “assessing the risk of material misstatement of the financial statements.” It is also to design the nature, timing, and extent of further audit procedures.

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## Risk Assessment Standards

- SAS#106 – defines audit evidence, categorizes assertions by classes of transactions, identifies risk assessment procedures, and guidance on the uses and limitations of inquiry as an audit procedure.
- SAS#107- considering audit risk, the auditor must determine a materiality level for the financial statements and test for likelihood of errors.

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## Risk Assessment Standards

- SAS#108 – provides guidance on establishing an understanding with the client, preliminary engagement activities, the audit strategy and plan, using professionals possessing information technology skills, supervision of assistants, and others.

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## Risk Assessment Standards

- SAS#109 – provides procedures for the auditor to obtain an understanding of the entity and its environment, including internal controls. It also tells the auditor to determine whether internal controls are adequate and implemented.
- SAS#110 – provides guidance on responses to risk found at various levels, i.e., what was done to satisfy and assure proper statement of the financial statements.

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## Risk Assessment Standards

- SAS#111 – provides guidance relating to the auditor’s judgment about establishing tolerable misstatements for a specific audit procedure. In general, tolerable misstatements in an account should be less than materiality to allow for aggregation in final assessment.

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## Effect on Your Audit

- Risk Assessment Standards will:
  - Take more time, focusing on “identified risks”
  - Require additional time in up-front planning
  - Prior to year-end, auditors will begin “risk assessment procedures” to assess the entity’s susceptibility to financial misstatements.
  - Require the auditor to spend additional time understanding and evaluating internal controls

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## Effect on Your Audit

- The new standards expand the definition of “reasonable assurance” to the “high but not absolute” threshold. This means more documentation and testing.
- Auditors can no longer just obtain an “understanding” of the internal control structure, they must perform and document walk thru procedures.

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## The Expected Outcome

- Obtain a greater understanding of the audited entity, and its environment, including internal control
- Complete a more thorough assessment of how the financial statements could be misstated.
- Tie the assessed risk to audit procedures performed.



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## CAPLAW A-110 Quiz

1. Recipients are to maintain advances of Federal Funds in an interest bearing account unless the best available interest bearing account would not be expected to earn interest in excess of \$ ? per year.
2. Can unrecovered indirect cost be included as a part of the cost sharing or matching requirement?
3. What is the normal response time a federal agency has to answer your request for a budget revision?
4. When you value volunteer services for cost sharing or match, can you include fringe benefits in the cost?

# **Understanding A-122**

## Quiz of Allowability

1. Advertising and public relations – Can Head Start funds be used to announce enrollment dates into the program? Can LIHEAP funds be used to announce availability of funds for utility bills?
2. Are costs for an A-133 audit that did not include a review of internal controls allowable?
3. If a grantee erroneously dismisses an employee and the court orders back pay, is the back pay an allowable charge?
4. Head Start reauthorization legislation prohibits the use of any federal funds (not just Head Start funds) to pay the compensation of any employee of a Head Start grantee (not just Head Start program staff) in excess of executive level II, \$172,000 as of 1/1/08. Does this include benefits?
5. Are wages paid in lieu of insurance allowable?
6. Normally, what is the date by which Pension Costs incurred for participants must be paid to the administrator?
7. Will stimulus funds force you to re-evaluate who is your cognizant grantor?