



May 31, 2013

Daniel Werfel
Controller, Office of Federal Financial Management
Office of Management and Budget
725 17th St. NW
Washington, DC 20025

Re: Docket OMB-2013-0001

Dear Mr. Werfel:

I am writing on behalf of the National Association of College and University Business Officers (NACUBO) to submit the following comments on the Notice of Proposed Guidance on the “Reform of Federal Policies Relating to Grants and Cooperative Agreements; Cost Principles and Administrative Requirements (including Single Audit Act)” published in the *Federal Register* on February 1, 2013.

NACUBO represents chief financial officers and business office staff at more than 2,100 public and independent colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates over 2,000 higher education professionals annually on accounting and reporting issues and practices including government regulatory compliance. NACUBO’s mission is to advance the economic viability, business practices, and support for higher education institutions in fulfillment of their missions.

Overall, NACUBO is pleased with the objectives of this project and agrees with a number of areas of the guidance that OMB has proposed. We appreciate OMB abandoning the flat indirect cost rate proposal that was suggested in last year’s Advance Notice of Proposed Guidance. Furthermore, NACUBO agrees with OMB’s decision to offer entities an extension of their current negotiated indirect cost rates for a period of up to four years, as described in .616(e). In that same spirit, we believe the language in .506(b) that allows for electronic records substitution will be beneficial to our member institutions. Finally, we are thankful to OMB for extending the comment period on the proposed guidance by 30 days.

NACUBO endorses the comments submitted by the Council on Governmental Relations (COGR). Further, we urge OMB to carefully consider comments submitted by the American Institute of Certified Public Accountants (AICPA) relating to proposed changes to A-133, as the AICPA is the only organization with the expertise to assess the impact on auditor time, effort, and ultimately, reliance on audit results. In our letter, we would like to expand upon several issues discussed in the comment letters provided by COGR and the AICPA. Grants reform, while critically important to those involved in managing grants at our member

institutions, also affects business officers involved with procurement, payroll, property accounting, information technology, and financial reporting. Rather than duplicate points made with respect to research administration, we wish to highlight concerns specific to the business officer community.

Accountability, Transparency, and OMB Responsibilities (.108)

We agree with COGR that accountability and transparency are key to successful grants reform. At the same time, we are concerned that individual agencies and grant officers may interpret guidance differently, thus magnifying the opportunities for inconsistency and increasing the administrative burden of compliance. NACUBO believes that award recipients should have a mechanism to appeal, directly to OMB, decisions or actions by agencies that 1) are not in compliance with the final guidance; 2) have been interpreted by an agency in a manner that requires OMB engagement; or 3) require special consideration due to other circumstances. We encourage OMB to consider establishing a procedure for addressing these issues, such as that proposed by COGR.

Additionally, we would like to reiterate AICPA's recommendation that OMB ensure that dedicated and adequate resources are assigned to the single audit process as well as the other OMB responsibilities described in .108.

Review Date (.110)

We recognize the time and consideration that OMB has put into the proposed guidance. Given, however, the sweeping changes that OMB is proposing, there may be unforeseen issues that arise once the guidance becomes effective. As such, NACUBO requests that a process be designed for reviewing the guidance before the suggested 5-year anniversary.

Effective Date (.111)

OMB needs to clearly identify the effective date of its combined, revised guidance. We support AICPA's recommendation that OMB schedule the effective date for at least one year after the issuance of the final guidance. Furthermore, the effective date should align with the release of the Compliance Supplement.

Audit Threshold and Subrecipient Monitoring (.501)

While the increase in the audit threshold to \$750,000 will likely have very little direct impact on institutions of higher education, it could have a potentially significant impact in the form of increased subrecipient monitoring. Colleges and universities that pass federal funds through to other entities rely heavily on the results of those subrecipients' single audits. For subrecipients that would no longer be required to have a single audit, new, and potentially administratively burdensome, monitoring processes would have to be developed to address the compliance requirement.

In situations where a subaward is made to an entity already covered under the Single Audit Act, we believe that further monitoring is duplicative and unnecessary. We respectfully request that OMB consider removing the requirement for subrecipient monitoring of institutions covered by the Single Audit Act.

Voluntary Uncommitted Cost Sharing (.502)

We believe that the contents of OMB Memorandum 01-06, “Clarification of OMB A-21 Treatment of Voluntary Uncommitted Cost Sharing and Tuition Remission Costs,” should be included in the final guidance. Memorandum 01-06 clarifies that “voluntary uncommitted cost sharing should be treated differently from committed effort and should not be included in the organized research base for computing the F&A rate or reflected in any allocation of F&A costs.” This is important to colleges and universities as it allows them the ability to contribute institutional resources, as necessary, without being penalized by increasing the F&A research base. As such, we feel that it is worthy of inclusion in the final guidance. If the final guidance is intended to be comprehensive, the contents of Memorandum 01-06 should be included.

Standards for Financial Program Management (.502)

We believe that the Research Terms and Conditions for higher education institutions should be incorporated in the final guidance. We therefore endorse COGR’s recommendation that the Conditions be added to .502(j)(4).

Procurement Requirements (.504)

NACUBO agrees with COGR’s comments that the four procurement requirements in .504(d) are far too prescriptive and should be removed. We feel strongly that, as a result of the economic downturn and near-constant pressure to streamline and become more efficient, our members have already made significant strides in optimizing procurement processes. We do not believe a prescriptive approach is warranted in today’s environment. Principles of competition are clearly outlined in OMB Circular A-110, Section C43. Those principles, which call for open and free competition in all procurement transactions, should replace the prescriptive language included in section .504(d) of the proposed guidance.

Performance and Financial Monitoring and Reporting (.505)

The “units of accomplishment” mentioned in section .505(d)(2)(B)(i) could be interpreted in any number of ways. Such ambiguity should not be included in the final guidance. Further, NACUBO agrees with COGR that the text in this section directly conflicts with previous efforts by OMB to develop standardized grants reporting forms. While we understand the government’s need to measure results from its support, university research is extremely difficult to characterize and measure in this way. We recommend that any reference to “units of accomplishment” or accomplishments of an award be removed from the final guidance.

Collection of Amounts Due (.510)

NACUBO fully recognizes that the federal government must uphold its responsibility to collect debts that it is properly owed. While the intent of the Treasury Offset Program (TOP) is good, the current process is inefficient for both the government and our member institutions. Because colleges and universities receive funds from many agencies for many purposes, researching an underlying offset is problematic, often requiring multiple inquiries to multiple agencies and hours of staff time. For example, a letter of credit draw for National Institutes of Health research funding might be offset by a Medicare disallowance for a hospital patient. Obtaining sufficient information to resolve the issue is difficult, as the paying agency is often not the one that placed the offset. While not part of the proposed guidance, we respectfully request that TOP be evaluated and/or redesigned to reduce these inherent inefficiencies.

Collection of Unallowable Costs (.613)

NACUBO requests that OMB remove the language in .613 related to increased costs resulting from a change to accounting practices. The need to change accounting practices could result from financial system implementations or enhancements or from changes to United States generally accepted accounting principles (GAAP). Such changes are normal and routine – similar in nature to system modifications necessitated by changes to payroll tax laws.

For example, recently proposed changes by the Financial Accounting Standards Board (FASB) to the accounting for leases may impact the way that interest expense and rent expense are captured in the financial records of independent institutions. In order to accommodate this change, institutions would likely need to recode certain elements in their accounting systems which could result in increased costs. We believe that it would be inappropriate to require the institution to exclude such costs from their allowable cost pool. This is only one example of a possible change in accounting standards that could result in increased costs.

Depreciation (.621)

NACUBO recommends that OMB remove the reference to Governmental Accounting Standards Board (GASB) Statement No. 51 throughout the proposed guidance (C-15; C-18; C-27). Independent institutions do not follow GASB standards, but instead follow FASB standards. While guidance between the two is often complementary, it sometimes is not. As such, we believe references to a particular accounting standard setting body are unnecessarily confusing to the reader. Any references to capitalization of assets (whether tangible or intangible) should be worded in a general way such that changes to accounting standards would not require changes to the OMB guidance. For example, “amounts capitalized in accordance with United States generally accepted accounting principles.”

The definition of “equipment” in .621 C-18(1)(B) might require an entity to use a different capitalization threshold for purposes of determining allowable costs and for financial reporting purposes. This would place an undue administrative burden on the entity as it would be required to keep two sets of records related to its capitalized equipment. We, therefore, request that OMB change the definition of “equipment” to be “amounts capitalized in accordance with United States generally accepted accounting principles.”

Effort Reporting (.621)

We are concerned that the requirements in the proposed guidance for the documentation of personnel expenses would be burdensome to higher education institutions. NACUBO feels that institutions properly establishing the “four pillars” for ensuring appropriate accounting for salaries charged to federal awards that COGR has identified in its comments do not need to follow overly prescriptive requirements like those outlined in section .621 C-10(9), *Standards for Documentation of Personnel Expenses*.

Those four pillars are:

1. The official records are maintained in the institution's payroll distribution system
2. Institutional controls and processes ensure appropriate payroll charges to federal awards
3. Institutional controls and processes further identify changes in employee activity and update those changes to the payroll distribution system in a timely and reasonable manner
4. A system of after-the-fact confirmation by a responsible person is in place

We believe that demonstrating these four pillars renders additional requirements unnecessary and we endorse an approach to effort reporting such as COGR recommends.

Simplified Method for Determining Allowable Indirect Costs at Small Institutions (App. IV, D.1)

While NACUBO appreciates the simplified process that OMB has provided for small institutions to calculate indirect cost rates, we believe that the \$10 million threshold should be increased to \$25 million. This would alleviate the administrative burden placed on some of our smaller member institutions.

Responsibilities of Federal Agencies (.713)

Many federal agencies have different audit follow-up procedures, increasing the administrative burden on both auditors and auditees. To improve efficiency, NACUBO – concurring with the AICPA – recommends that standard follow-up procedures be required for all federal agencies.

We have some concerns with .713(a)(2) calling for the review of single audits to assist in the improvement of audit quality. While we understand OMB's intent in including this section, we are concerned that those without appropriate expertise will be reviewing the work of experts. As a form of peer review, OMB should consider outsourcing such work to audit firms and specify that the results will be made available to cognizant agencies and OMB.

In section .713(a)(7), OMB calls for the Federal Clearinghouse to make management decisions available electronically to the public along with audit reports. We are concerned, however, that without context, it would be challenging for readers to understand the information.

While Personally Identifiable Information is defined in Appendix I, the term “business confidential information,” which the proposed guidance says should not be included in management decisions, is used in .713(c)(5)(E) and is not defined in the proposed guidance.

Timely Issuance of Compliance Supplement (.715)

NACUBO would like to stress that OMB needs to make its annual revisions to the Compliance Supplement in a timely manner. It is essential for auditees and auditors to have access to updated Compliance Supplements well before annual audits begin. We recommend that OMB release an advance copy of the Compliance Supplement for public analysis, with a 90 day review period.

Compliance Requirements (.715)

While NACUBO appreciates OMB reducing the number of compliance requirements to six, we are concerned with how OMB plans on administrating the addition of eliminated requirements, under Special Tests and Provisions, that are essential to specific programs. It is important to understand these essential compliance requirements ahead of time. Our fear is that most of the eliminated compliance requirements will simply be added back via the Special Tests and Provisions requirement, increasing costs and inefficiencies for the government and award recipients.

Additionally, many of the requirements being eliminated are those that have previously involved a lesser amount of audit effort. Removing them might not significantly reduce audit burden, especially if the institution only receives grants from a small number of programs.

Audit Documentation (.718)

Section .718 requires auditors to "prepare and provide documentation and reports that are sufficiently detailed to enable someone having no previous connection to the audit to understand" the audit results. AICPA's standards for audit documentation state that documentation and reports should be able to be understood by an experienced auditor having no previous connection with the audit. Requiring auditors to prepare documents and reports that a lay person can understand would be difficult and especially burdensome, and would only drive up the cost of audits.

In closing, NACUBO appreciates the opportunity to comment. The stated objectives of this effort – realizing efficiency, promoting program integrity, and improving outcomes while reducing or streamlining paperwork and regulatory burdens – are vitally important. We will follow the progress of the initiative closely and look forward to answering any questions that OMB may have about our response. Please direct any questions to Anne Gross at 202.861.2544 or agross@nacubo.org or Sue Menditto at 202.861.2542 or smenditto@nacubo.org.

Sincerely,



John Walda
President and Chief
Executive Officer