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► NONPROFIT QUARTERLY

DOING BUSINESS WITH THE GOVERNMENT: ADMINISTRATIVE CHALLENGES FACED BY NONPROFITS

By **Eric Sobota**



Nonprofit organizations face a variety of challenges that begin with fundraising and can include a range of issues, including meeting growing demands for services

to complying with requirements set forth by their backers. For nonprofit recipients of federal funds through grants or contracts, government agencies require highly specific reporting and accountability structures to avoid fraud, waste, and abuse. Adhering to these government requirements can generate significant challenges and increased administrative burdens. What do some of these challenges look like, and what can you do to help mitigate them?

Cost Accounting Standards (CAS)

One of the most significant obstacles nonprofits will face is harmonizing their cost accounting practices when awarded both contracts and grants. Nonprofits covered by [OMB Circular A-122](#), "Cost Principles for Non-Profit Organizations," can also be subject to CAS, depending on their contract awards. The Cost Accounting

Standards provide a more stringent set of requirements related to cost charging practices than OMB A-122 guidance. CAS-covered nonprofit organizations should follow CAS with respect to the measurement, assignment, and allocation of costs. To avoid noncompliance issues, organizations will need to provide assurance that there is consistency in estimating, accumulating, and reporting expenditures incurred, and that costs incurred for the same purpose in like circumstances have been treated consistently as either direct or indirect costs. Many organizations opt for multiple segments to alleviate this burden.

Cost Charging

Cost charging issues faced by nonprofits can include challenges around allowability, lack of documentation, and shifting of costs. These issues can lead to costs being disallowed under federal grants and contracts, and organizations will have to bear the impact. To be allowable under federal grants and contracts, all direct and indirect costs must be adequately supported by source documentation that clearly shows the purpose and circumstance for the cost incurred. It is important to note that verbal approval from a Contracting or Grant Officer is insufficient support for costs under a contract or grant. In addition, nonprofits should have controls in place to avoid costs being shifted to a federal award to "overcome funding deficiencies," as stated in OMB A-122 guidance...

With the recent release of the [Uniform Requirements, Cost Principles, and Audit Requirements for Federal Awards](#) in



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December 2013, more commonly referred to as the Supercircular, nonprofits should make it a priority to review their current practices for compliance. The Supercircular aims to impart clarity to a complex process, and many nonprofits will need to alter the way they do business to get up to speed. However, the promise of the Supercircular is that once organizations implement the new guidance, they will no longer be subject to a confusing array of regulations and will be more prepared to appropriately administer their grants and contracts.

► THE WASHINGTON POST

OBAMA'S WAGE PROMISE ANSWERS CALLS OF GROWING MOVEMENT

By Josh Hicks

Labor and civil rights groups celebrated Tuesday when President Obama said he would require a \$10.10 minimum wage for new federal contracts, but industry groups questioned the move and said the additional costs will be passed right back to the U.S. government.

Good Jobs Nation, a coalition of labor and civil rights groups, which has organized seven demonstrations in the District of

Columbia since May on behalf of contract workers, cheered the decision but said it was a partial victory. In addition to a call for higher pay, protesters have demanded improved working conditions and collective bargaining for employees...

Industry experts said the wage increase is likely to affect only a small subset of companies that do business with the government.

"I think the order is largely symbolic in nature and wouldn't affect that many contractors," said **Eric Sobota, a managing director for BDO**, a firm that provides consulting on federal-contract pricing, compliance and other issues.

Sobota agreed with Chvotkin on industries passing on the expense, noting that the new limit could increase payroll and associated overhead costs for contractors. "That could compound the overall price for the government," he said.

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