# [***80 FR 67261***](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5H8X-BXS0-006W-81HK-00000-00&context=)

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Rules and Regulations

**Reporter**

80 FR 67261 \*

***Federal Register* > *2015* > *November* > *Monday, November 2, 2015* > *Rules and Regulations* > *DEPARTMENT OF EDUCATION***

**Title:** **Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Direct Grant Programs**

**Action:**  Final ***regulations***.

**Agency**

DEPARTMENT OF EDUCATION

**Identifier:** **RIN 1890-AA19**

**Administrative Code Citation**

**2 CFR Part 3474**

**34 CFR Parts 74, 75, 76, 77, 80, 101, 206, 222, 225, 226, 270, 280, 299, 300, 303, 350, 361, 363, 364, 365, 367, 369, 370, 373, 377, 380, 381, 385, 396, 400, 426, 460, 491, 535, 606, 607, 608, 609, 611, 614, 628, 636, 637, 642, 643, 644, 645, 646, 647, 648, 650, 654, 655, 661, 662, 663, 664, 682, 692, 694, and 1100**

**Synopsis**

**SUMMARY:** The Secretary adopts as final ***regulations*** of the Department the interim final ***regulations*** that were published on December 19, 2014. This action adopts the OMB guidance in title 2 of the CFR as final ***regulations*** of the Department. The Secretary amends the interim final ***regulations*** to correct technical errors contained in the amendments.

**Text**

**SUPPLEMENTARY INFORMATION:** *Purpose of This Regulatory Action:* On December 19, 2014, all of the Federal award-making agencies published a joint Interim Final Rule (IFR) in the **Federal Register**, implementing the Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards (Uniform Guidance). The purpose of this action is to adopt the Uniform Guidance in 2 CFR part 200, except for [*2 CFR 200.102(a)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5F34-Y1P0-008G-Y123-00000-00&context=), CFR 200.207(a). This adoption gives regulatory effect to the OMB guidance and supplements that guidance, as needed, for the Department. The authority to amend chapter XXXIV of title 2 of the Code of Federal ***Regulations*** and subtitle A and chapters I, II, III, IV, V, and VI of title 34 of the Code of Federal ***Regulations*** is [*20 U.S.C. 1221e-3*](https://advance.lexis.com/api/document?collection=statutes-legislation&id=urn:contentItem:4YF7-GK31-NRF4-41GJ-00000-00&context=), [*3474*](https://advance.lexis.com/api/document?collection=statutes-legislation&id=urn:contentItem:4YF7-GNP1-NRF4-4163-00000-00&context=), and 2 CFR part 200, unless otherwise noted.

*Summary of the Major Provisions of This Regulatory Action:* This rule allows the Department to incorporate into ***regulation*** and thus bring into effect the Uniform Guidance as required by OMB and reduces administrative burden and risk of waste, fraud, and abuse for the funds awarded by the Department through grants and cooperative agreements.

*Costs and Benefits:*  The Secretary believes that these ***regulations*** do not impose significant costs on entities that would receive assistance through Department of Education programs. The benefits of the ***regulations*** far outweigh any potential costs incurred by entities. The benefits of the amendments in these ***regulations*** include eliminating duplicative and conflicting guidance contained in eight previously separate sets of OMB guidance documents; streamlining reporting requirements; reducing burden for entities that have never received an indirect cost rate; and setting standard business processes using data definitions to reduce administrative burden on non-Federal entities that conduct business with multiple federal agencies.

On December 19, 2014, the Secretary published an IFR for these amendments in the **Federal Register** [*(79 FR 75871).*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5DW5-3600-006W-82TX-00000-00&context=)

Except for minor editorial and technical revisions, there are no differences between the IFR and these final ***regulations***.

**Technical Changes**

The Secretary makes two amendments to the interim final ***regulations*** to correct errors made in the adoption of the Uniform Guidance. First, in amending § 75.135 to reference the Uniform Guidance, the Department failed to amend paragraph (b) of that section to reference the correct requirement in part 200. Second, in amending 34 CFR part 75, the Department inadvertently removed § 75.263 when we should have just revised the cross references in that section to refer to the appropriate citation in the Uniform Guidance. These two errors are corrected in these final ***regulations***.

*Public Comment:* In response to our invitation in the IFR, one party submitted comments directed at the Department's proposed adoption of the interim final ***regulations*** in 2 CFR part 200. Generally, we do not address technical and other minor changes raised by the comments.

*Analysis of Comments and Changes:* An analysis of the comments follows.

*Comment:* The commenter requested clarification on whether or not the Department would grant local educational agencies (LEAs) a one-year grace period for implementing the procurement standards in [*2 CFR 200.317*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5F2R-48R0-008G-Y3MJ-00000-00&context=) through [*200.326*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5F2R-48R0-008G-Y3MW-00000-00&context=). The commenter also sought clarity on the specific date that the procurement standards would go into effect for LEAs after the grace period.

*Discussion:* The Uniform Guidance ***regulations***, as adopted by the Department, [*79 FR 75872*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5DW5-3600-006W-82TX-00000-00&context=) (December 19, 2014) authorize all non-Federal entities (including LEAs) to delay implementation of the procurement requirements in [*2 CFR 200.318*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5GM7-79Y0-008G-Y1DT-00000-00&context=) through [*200.326*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5F2R-48R0-008G-Y3MW-00000-00&context=) for one fiscal year after the ***regulations*** would otherwise apply to a grant. A recent technical amendment to the Uniform Guidance expanded that grace period to two years. See [*80 FR 54407*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5GWN-3J70-006W-80WJ-00000-00&context=) (September 10, 2015). As such, each LEA will have the option of delaying implementation of the procurement standards until the end of its second fiscal year that begins after the effective date of the Uniform Guidance (December 26, 2014). For LEAs with a fiscal year that ends on June 30, 2015 that decide to defer implementation for the full two years, the LEA's new procurement standards would not have to be effective until July 1, 2017.

*Changes:* None.

*Comment:* The commenter requested clarification of the phrase "tangible **[\*67262]** personal benefit" in [*2 CFR 200.318(c)(1)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5GM7-79Y0-008G-Y1DT-00000-00&context=).

*Discussion:* The phrase "tangible personal benefit" is new language added to the general conflict of interest section of the general procurement standards that existed previously under the Education Department General Administrative ***Regulations*** (EDGAR) [*34 CFR 80.36(b)(3)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5G9C-N1B0-008H-03TP-00000-00&context=) and OMB Circular A-102. The language was expanded from just "financial or other interest in" to also include "or a tangible personal benefit from" a firm considered for a contract from a grantee. This new language stresses the importance of ensuring that employees who select, award, and administer contracts supported by a Federal award are free from any real or apparent conflict of interest, including financial interests and other non-financial benefits that result in a personal benefit for the employee (such as improved employment opportunities, business referrals, political influence, etc.).

*Changes:* None.

*Comment:* The commenter expressed concern regarding the conflict of interest rules in [*2 CFR 200.319(a)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5F34-Y1P0-008G-Y12V-00000-00&context=), specifically with regard to vendors with specialized expertise that may collaborate with grant applicants, because these vendors would be excluded from ***competing*** for a contract (if the applicant is awarded a grant) due to their organizational conflict of interest. The commenter requested that the Department issue guidance allowing vendors to provide minimal input to applicants, such as LEAs, for the purpose of informing a Request for Proposal (RFP) and to not prohibit these vendors from ***competing*** for the RFP because of a conflict of interest.

*Discussion:* The Department understands that an LEA may need to inform itself about the capacity and capability of potential contractors in order to prepare an RFP. In the course of doing so, an LEA may contact a number of vendors to collect information necessary for developing the RFP, as long as the LEA poses its request for information broadly so that any potential vendor has an opportunity to provide input. Soliciting input from one or two vendors would create, in most cases, an unfair ***competitive*** advantage constituting an organizational conflict of interest.

*Changes:* None.

*Comment:* The commenter raised concerns with regard to the prohibition of using "brand name" instead of "an equal" product in order to avoid restrictive ***competition*** under [*2 CFR 200.319(a)(6)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5F34-Y1P0-008G-Y12V-00000-00&context=). Specifically, the commenter noted that in some cases, a school may have already invested in a particular technology infrastructure or selected a particular instructional framework and it would be impractical or impossible to switch to another product or instructional approach. The commenter requested that the Department issue guidance to clarify when specifying a "brand name" might be appropriate and not considered a restriction on ***competition*** under [*2 CFR 200.319(a)(6)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5F34-Y1P0-008G-Y12V-00000-00&context=).

*Discussion:* The new procurement requirements in the Uniform Guidance do not require an LEA to abandon a technology or instructional approach just because a similar technology or instructional approach would cost less. The Department also understands that in some limited situations, specifying a "brand name" may not restrict ***competition*** under [*2 CFR 200.319(a)(6)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5F34-Y1P0-008G-Y12V-00000-00&context=). If an LEA has already invested in a particular infrastructure or instructional framework, specifying a "brand name" compatible with the infrastructure or framework may be appropriate. However, the procurement ***regulations*** are designed to ensure ***competition*** so the selected proposal is most advantageous to the program, with price and other factors considered. Thus, the LEA needs to ***compete*** to find the lowest cost supplier of the technology or instructional approach (other factors) desired by the LEA. The Department will consider developing additional guidance on this issue.

*Changes:* None.

*Comment:* The commenter noted two instances in which it believes that procurement by noncompetitive proposals (sole sourcing) should be allowed under [*2 CFR 200.320(f)(1)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5H0W-0PY0-008G-Y451-00000-00&context=) where "the item is available only from a single source." The first situation involves instances where an LEA has an existing technology infrastructure or instructional framework and requires specific hardware or software; the second situation involves instances where schools engage in pilot trials for educational technologies or instructional strategies or materials and want to "scale up" the piloted product.

*Discussion:* Generally, procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source. The use of this procurement method is permitted under very limited circumstances, but one basis for an authorized sole source contract is when the item is available only from a single source ([*2 CFR 200.320(f)(1)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5H0W-0PY0-008G-Y451-00000-00&context=)). If particular software or hardware is required because of an LEA's existing technology infrastructure or instructional framework and the hardware or software is truly only available from one source, noncompetitive procurement may be appropriate. The LEA must maintain records documenting the rationale for why sole sourcing was used ([*2 CFR 200.318(i)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5GM7-79Y0-008G-Y1DT-00000-00&context=)). If the desired software or hardware is available from more than one vendor, the LEA must use a ***competitive*** process, as described in [*2 CFR 200.320(d)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5H0W-0PY0-008G-Y451-00000-00&context=).

LEAs that engage in pilot trials of educational technologies or instructional materials that then wish to "scale up" are not exempted from ***competitive*** procurement. Procurement transactions must be conducted in a manner providing full and open ***competition***, as described in [*2 CFR 200.319*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5F34-Y1P0-008G-Y12V-00000-00&context=). If an LEA wants to experiment with a new educational technology or instructional strategy or material, it may do so without violating conflict of interest requirements by holding an open procurement ***competition***, identifying the specifications for the technology, strategy, or material and stating the initial contract would be for a pilot of that product with an option to "scale up" the product if the pilot proves successful.

*Changes:* None.

*Comment:* The commenter raised concerns regarding the cost and efficiency of ***competitive*** bidding required under [*2 CFR 200.320*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5H0W-0PY0-008G-Y451-00000-00&context=), noting that it would be more cost effective for the LEA to perform a cost analysis rather than use a Request for Proposal (RFP) process. The commenter encouraged the Department to allow for instances when the small purchase procedures could be used for procurements that exceed the Simplified Acquisition Threshold, including when the item is a commercially available product.

*Discussion:* The Department has allowed for limited instances when small purchase procedures may be used for procurements that exceed the simplified acquisition threshold. These limited instances are specified in a section in EDGAR that was established in 2013, [*34 CFR 75.135*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5HC7-R9V0-008H-01VN-00000-00&context=), which authorizes discretionary grant applicants to use the informal small purchase procedures to procure evaluation service providers and providers of any other service that is essential to the grant, provided that the service provider is identified in the grant application. The service provider must be needed to meet a statutory, regulatory, or priority requirement related to the ***competition***. See the final rulemaking document, published at [*78 FR 49352,*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5941-3H30-006W-82T3-00000-00&context=) August 13, 2013, for a fuller discussion of the requirements in § 75.135. These limited exceptions do **[\*67263]** not include allowing the use of small purchase procedures just because an item is a commercial (off the self) product and not one that is custom-built based on unique specifications.

*Changes:* None.

*Comment:* The commenter sought clarification from the Department on whether or not price comparison under [*2 CFR 200.323*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5F2R-48R0-008G-Y3MS-00000-00&context=) could be considered a form of price ***competition***, such that a non-federal entity would not be required to negotiated price as a separate element.

*Discussion:* Price comparison is not a form of price ***competition*** that would exempt a non-federal entity from negotiating profit as a separate element of the price.

*Changes:* None.

*Comment:* The commenter sought clarification on the definition of "procurement" for determining whether or not the transaction meets the small purchase or simplified acquisition threshold.

*Discussion:* The word "procurement" is used consistently throughout the Uniform Guidance and the Department does not intend to use that term differently in its implementation of the Uniform Guidance. The simplified acquisition threshold is the "dollar amount below which a non-Federal entity may purchase property or services using small purchase methods" ([*2 CFR 200.88*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5F2R-48R0-008G-Y3JK-00000-00&context=)). If a non-Federal entity seeks to acquire property or services that have an anticipated dollar value exceeding the simplified acquisition threshold, the non-Federal entity must use a ***competitive*** process and cannot use small purchase procedures unless the procurement meets the requirements of [*34 CFR 75.135*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5HC7-R9V0-008H-01VN-00000-00&context=). Procurement actions must not be split into separate procurements to avoid ***competition*** thresholds.

*Changes:* None.

After consideration of all the comments regarding the IFR, the Secretary makes no changes to the ***regulations*** adopting the Uniform Guidance that were published on December 19, 2014 except for the two technical amendments discussed earlier in this preamble.

**Executive Orders 12866 and 13563**

*Regulatory Impact Analysis*

Under Executive Order 12866, the Secretary must determine whether this regulatory action is "significant" and, therefore, subject to the requirements of the Executive order and subject to review by the Office of Management and Budget (OMB). Section 3(f) of Executive Order 12866 defines a "significant regulatory action" as an action likely to result in a rule that may--

(1) Have an annual effect on the economy of $ 100 million or more, or adversely affect a sector of the economy, productivity, ***competition***, jobs, the environment, public health or safety, or State, local, or tribal governments or communities in a material way (also referred to as an "economically significant" rule);

(2) Create serious inconsistency or otherwise interfere with an action taken or planned by another agency;

(3) Materially alter the budgetary impacts of entitlement grants, user fees, or loan programs or the rights and obligations of recipients thereof; or

(4) Raise novel legal or policy issues arising out of legal mandates, the President's priorities, or the principles stated in the Executive order.

This final regulatory action is not a significant regulatory action subject to review by OMB under section 3(f) of Executive Order 12866.

We have also reviewed these ***regulations*** under Executive Order 13563, which supplements and explicitly reaffirms the principles, structures, and definitions governing regulatory review established in Executive Order 12866. To the extent permitted by law, Executive Order 13563 requires that an agency--

(1) Propose or adopt ***regulations*** only on a reasoned determination that their benefits justify their costs (recognizing that some benefits and costs are difficult to quantify);

(2) Tailor its ***regulations*** to impose the least burden on society, consistent with obtaining regulatory objectives and taking into account--among other things and to the extent practicable--the costs of cumulative ***regulations***;

(3) In choosing among alternative regulatory approaches, select those approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity);

(4) To the extent feasible, specify performance objectives, rather than the behavior or manner of compliance a regulated entity must adopt; and

(5) Identify and assess available alternatives to direct ***regulation***, including economic incentives--such as user fees or marketable permits--to encourage the desired behavior, or provide information that enables the public to make choices.

Executive Order 13563 also requires an agency "to use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible." The Office of Information and Regulatory Affairs of OMB has emphasized that these techniques may include "identifying changing future compliance costs that might result from technological innovation or anticipated behavioral changes."

We are issuing these final ***regulations*** only on a reasoned determination that their benefits justify their costs. In choosing among alternative regulatory approaches, we selected those approaches that maximize net benefits. Based on the analysis that follows, the Department believes that these final ***regulations*** are consistent with the principles in Executive Order 13563.

We also have determined that this regulatory action does not unduly interfere with State, local, or tribal governments in the exercise of their governmental functions.

In accordance with both Executive orders, the Department has assessed the potential costs and benefits, both quantitative and qualitative, of this regulatory action. The potential costs associated with this regulatory action are those resulting from statutory requirements and those we have determined as necessary for administering the Department's programs and activities.

*Paperwork Reduction Act of 1995*

These ***regulations*** do not contain any information collection requirements.

*Intergovernmental Review*

These ***regulations*** are subject to the requirements of Executive Order 12372 and the ***regulations*** in 34 CFR part 79. One of the objectives of the Executive order is to foster an intergovernmental partnership and a strengthened federalism. The Executive order relies on processes developed by State and local governments for coordination and review of proposed Federal financial assistance.

This document provides early notification of our specific plans and actions for these ***regulations***.

**Assessment of Educational Impact**

In the IFR we requested comments on whether the proposed ***regulations*** would require transmission of information that any other agency or authority of the United States gathers or makes available.

Based on the response to the IFR and on our review, we have determined that these final ***regulations*** do not require transmission of information that any other agency or authority of the United States gathers or makes available.

*Accessible Format:* Individuals with disabilities can obtain this document in **[\*67264]** an accessible format (*e.g.,* braille, large print, audiotape, or compact disc) on request to the contact person listed under **FOR FURTHER INFORMATION CONTACT**.

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Dated: October 27, 2015.

**Arne Duncan,**

*Secretary of Education.*

***Regulations***

For the reasons discussed in the preamble, and under the authority of [*5 U.S.C. 301*](https://advance.lexis.com/api/document?collection=statutes-legislation&id=urn:contentItem:4YF7-GMK1-NRF4-409K-00000-00&context=) and the authorities listed below, the interim rule amending chapter XXXIV of 2 CFR and subtitle A and chapter I of title 34 of the Code of Federal ***Regulations***, which was published at [*79 FR 75871*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5DW5-3600-006W-82TX-00000-00&context=) on December 19, 2014, is adopted as a final rule with the following changes:

1. **retary, Department of Education**
2. **S**
3. The authority citation for part 75 continues to read as follows:

**Authority:** [*20 U.S.C. 1221e-3*](https://advance.lexis.com/api/document?collection=statutes-legislation&id=urn:contentItem:4YF7-GK31-NRF4-41GJ-00000-00&context=) and [*3474*](https://advance.lexis.com/api/document?collection=statutes-legislation&id=urn:contentItem:4YF7-GNP1-NRF4-4163-00000-00&context=), unless otherwise noted.

1. Section 75.135(b) is amended by removing "[*34 CFR 80.36(d)(1)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5G9C-N1B0-008H-03TP-00000-00&context=)," and adding in its place "[*2 CFR 200.320(b)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5H0W-0PY0-008G-Y451-00000-00&context=),".
2. Section 75.263 is added to read as follows.
3. **er of approval.**

A grantee may, notwithstanding any requirement in 2 CFR part 200, incur pre-award costs as specified in [*2 CFR 200.308(d)(1)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5H0W-0PY0-008G-Y450-00000-00&context=) unless--

1. ED ***regulations*** other than 2 CFR part 200 or a statute prohibit these costs; or
2. The conditions of the award prohibit these costs.

(Authority: [*20 U.S.C. 1221e-3*](https://advance.lexis.com/api/document?collection=statutes-legislation&id=urn:contentItem:4YF7-GK31-NRF4-41GJ-00000-00&context=) and [*3474*](https://advance.lexis.com/api/document?collection=statutes-legislation&id=urn:contentItem:4YF7-GNP1-NRF4-4163-00000-00&context=); [*2 CFR 200.308(d)(1)*](https://advance.lexis.com/api/document?collection=administrative-codes&id=urn:contentItem:5H0W-0PY0-008G-Y450-00000-00&context=))

[FR Doc. 2015-27766 Filed 10-30-15; 8:45 am]

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**Dates**

**EFFECTIVE DATE:** These ***regulations*** are effective December 2, 2015.

**Contacts**

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