

# The Revised Uniform Administrative Requirements

COST PRINCIPLES, & AUDIT  
REQUIREMENTS FOR FEDERAL  
AWARDS (UNIFORM GUIDANCE)

FEBRUARY 29, 2024



# Learning Objectives



Identify and discuss the key considerations related to the transition and implementation of new guidance



Discuss the key changes to the Uniform Guidance and their implications on your organization



Describe the impact related to revised Uniform Guidance on organizations and their audit engagements

# With You Today



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# Changes in Oversight of Federal Grants

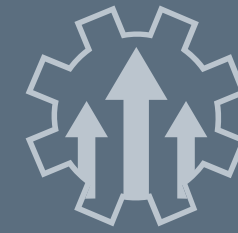


# Streamlining Federal Grants

## A PATH TO GREATER EFFICIENCY AND ACCESSIBILITY

In the vast landscape of federal financial assistance, the U.S. government plays a pivotal role in fueling initiatives that span from groundbreaking medical research to the construction of bridges and broadband networks that knit the nation closer. Last year, the federal government issued over \$1.2 trillion in financial assistance, underscoring its commitment to fostering growth and supporting vulnerable communities through various programs.

However, the path to accessing and utilizing these funds has been fraught with bureaucratic hurdles, often detracting from the very objectives these funds aim to achieve.

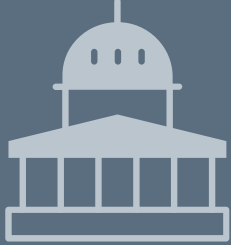


In September 2023, the United States Office of Management and Budget (OMB) issued a request for comment on proposed updates to revise sections of OMB Guidance for Grants and Agreements, which includes 2 Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

OMB invited interested persons and organizations to submit comments on or **before December 4, 2023**, and they are now reviewing and redeliberating on those comments. The [proposal](#) is almost 500 pages long and is intended to reduce agency and recipient burden and has been marketed as including plain language revisions.

# The Burden of Red Tape

While the conditions attached to federal funding are designed to ensure proper use, they frequently result in an administrative quagmire that does little more than waste resources and complicate the application process. Recognizing the need for reform, OMB has proposed a comprehensive overhaul of the Uniform Grants Guidance. This initiative, backed by the Biden Administration, aims to eliminate unnecessary obstacles, thereby allowing recipients to devote more time and resources to their core missions.



The current guidance, although an improvement and has been a great step in the right direction it is still a patchwork of documents issued over the past several decades, that has led to a confusing framework that often results in conflicting requirements from different federal agencies. This not only increases the administrative burden but also limits the potential impact of the funds. A recent study cited by the Biden Administration “highlighted that principal researchers spend 42% of their time on administrative tasks which underscores the urgency of reform.”

## Proposed Changes: Some Call a Beacon of Hope

OMB's proposed changes are multifaceted, targeting the reduction of compliance costs, the removal of barriers to entry, and ensuring that assistance reaches the intended communities. By simplifying compliance requirements, clarifying ambiguous terms, and reducing the need for additional approvals, OMB aims to make the funding process more straightforward and efficient.



One of the most significant aspects of the proposed changes is the emphasis on making federal funding more accessible to smaller organizations and projects that have historically been sidelined due to high administrative costs and complex application processes. The revision of Notices of Funding Opportunities (NOFOs) to include plain language and an executive summary section is a testament to OMB's commitment to inclusivity and transparency.

## Proposed Changes: Some Call a Beacon of Hope

Moreover, the proposed changes acknowledge the challenges faced by communities most in need of assistance, proposing measures such as not requiring the exclusive use of the English language in notices, applications, and reporting. This approach is poised to democratize access to federal funds, ensuring that they serve their intended purpose across diverse communities.





# What Does it Mean for Industry?

OMB's proposed rule would affect recipients and subrecipients of federal financial assistance.

The proposed changes affect everything from:

- ▶ Basic definitions of terms such as “federal financial assistance”
- ▶ Standards for mandatory disclosures
- ▶ The threshold for the disposition of equipment and supplies
- ▶ Audit requirements
- ▶ Prior approval requirements
- ▶ The treatment of indirect costs, and more



# The History and Background of the Single Audit Act



# The Single Audit and its Purpose



# What Is the Single Audit Act?

The Single Audit Act (the Act) is a United States federal law that was enacted in 1984. The Act standardizes the way audits are conducted for states, local governments, and nonprofit organizations that receive federal funds.

The main goal of the Single Audit Act is to ensure that these funds are being used properly and that the recipients are in compliance with the various rules and regulations that apply to federal assistance.




Under the Single Audit Act, eligible entities that expend a certain threshold of federal assistance within their fiscal year are required to undergo a single, comprehensive, organization-wide financial statement and federal awards audit referred to as the single audit.

This single audit includes an audit of the entity's financial statements, internal controls, and its compliance with the requirements of federal programs.

# What Is the Single Audit Act?

The threshold for a single audit has changed over time; the current threshold is expenditures of \$750,000. This means that if an entity \$750,000 or more in expenditures of federal funds in a single fiscal year, it must have a single audit conducted.



The single audit is designed to reduce the burden on organizations by consolidating multiple audits into one process and to ensure that federal funds are managed and used in accordance with the applicable laws and regulations. The results of these audits are made available to the public, providing transparency and accountability for the use of taxpayer dollars. The audits are conducted by independent auditors who follow guidelines established by OMB and the American Institute of Certified Public Accountants (AICPA).

# What Are Federal Grants and Financial Assistance?

Federal grants and financial assistance are funds provided by the federal government for various purposes, such as:

- ▶ Supporting research that leads to critical medical breakthroughs
- ▶ Helping community organizations offer essential services like childcare, food, and support to vulnerable populations
- ▶ Building infrastructure like bridges and broadband to connect communities physically and virtually



# Why Are There Conditions on These Funds?

The government sets conditions on these funds to ensure they are used correctly. However, sometimes these conditions create unnecessary complications and increase costs for those applying for or using the funds, due to excessive bureaucracy.

# The History of the Single Audit Act

The history of the guidance under the Single Audit Act has evolved over time to improve the efficiency and effectiveness of audits of federal awards. Here's a brief overview of the history and development of this guidance:

## Before the Single Audit Act

Prior to the Single Audit Act of 1984, federal grant recipients were subject to multiple audits from different federal agencies, each with its own requirements. This approach was not only burdensome for recipients but also inefficient and costly for the federal government.

## Single Audit Act of 1984

The Single Audit Act of 1984 (the Act) was a significant reform aimed at streamlining the audit process for entities receiving federal funds. The Act required these entities to conduct a single, comprehensive audit that would satisfy the requirements of all federal funding agencies. This was a move towards more efficient use of auditing resources and reducing the administrative burden on recipients of federal funds.

## Single Audit Act Amendments of 1996

The Single Audit Act Amendments of 1996 further refined the audit process, including clarifying the roles of federal agencies and auditees, and enhancing the focus on identifying and addressing material compliance issues with federal programs. These amendments also increased the threshold for requiring a single audit, reducing the burden on smaller entities.





# The History of the Single Audit Act

## OMB Circular A-133

OMB issued Circular A-133 to provide detailed guidance on the implementation of the Single Audit Act. This circular set forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and nonprofit organizations expending federal awards.




## Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

In December 2014, OMB issued the Uniform Guidance (2 CFR Part 200), which superseded OMB Circular A-133 and several other OMB circulars. The Uniform Guidance streamlined the language from previous guidance to reduce administrative burden and the risk of waste, fraud, and abuse. It included updates to audit requirements, cost principles, and administrative requirements for federal awards, aiming to improve transparency and promote efficient use of federal funds.

# The History of the Single Audit Act

The transition to the Uniform Guidance represented a significant consolidation and simplification of federal grant management and audit requirements. It aimed to strengthen oversight, focus audits on areas of greater risk of waste, fraud, and abuse, and promote best practices in financial management of federal awards.



Throughout its history, the guidance under the Single Audit Act has been refined to improve the audit process, enhance accountability, and ensure that federal funds are used efficiently and for their intended purposes. The evolution of this guidance reflects ongoing efforts to balance the need for oversight with the administrative burden on entities receiving federal funds.

## What Is the Purpose of the Single Audit?

The purpose of the Single Audit, also known as the Uniform Guidance audit, is to provide assurance to the federal government that a non-federal entity receiving federal funds is managing them in accordance with federal requirements. The Single Audit aims to:

- ▶ **Assess Compliance:** Determine whether the entity has complied with applicable federal statutes, regulations, and the terms and conditions of federal awards
- ▶ **Evaluate Internal Controls:** Review the entity's internal control over federal programs to identify potential weaknesses that could lead to noncompliance or mismanagement of federal funds
- ▶ **Identify Areas of Risk:** Focus on areas with a higher risk of noncompliance, which helps to ensure that federal funds are used efficiently and effectively
- ▶ **Promote Accountability:** Provide transparency and accountability for the receipt and expenditure of federal funds by recipients

## What Is the Purpose of the Single Audit?

- ▶ **Consolidate Auditing Efforts:** Reduce the burden on non-federal entities by consolidating multiple audits into a single, comprehensive audit that satisfies the requirements of all federal funding agencies
- ▶ **Enhance Oversight:** Help federal agencies and pass-through entities (entities that distribute federal funds to sub-recipients) in overseeing the use of federal awards by providing them with audit findings and reports
- ▶ **Improve Program Outcomes:** Provide information that can be used to improve the management and outcomes of federal programs
- ▶ **Protect Public Interest:** Ensure that federal funds are protected against fraud, waste, and abuse

The Single Audit is a critical tool for both the federal government and the recipients of federal funds. It helps to ensure that the substantial amounts of money distributed through various federal programs are used as intended and that the programs themselves are achieving their objectives.

# The Authoritative Guidance and Elements of the Single Audit



## What Is the Authoritative Guidance Under the Single Audit Act?

Under the Single Audit Act, the audits are conducted in accordance with specific standards designed to ensure the quality and effectiveness of the audit process. These standards include:

### **Generally Accepted Government Auditing Standards (GAGAS)**

Also known as the Yellow Book, these standards are issued by the Government Accountability Office (GAO). GAGAS provides a framework for conducting high-quality audits with competence, integrity, objectivity, and independence. GAGAS covers financial audits, performance audits, and attestation engagements. Auditors performing single audits must follow these standards to ensure that their work meets the necessary levels of quality and rigor.

### **Generally Accepted Auditing Standards (GAAS)**

Issued by the AICPA, GAAS are the standards for auditors to follow in the preparation and issuance of audit reports for non-governmental entities. While GAGAS is more specifically tailored to government audits, GAAS provides a foundation for the auditing profession and is applicable to all audits. Single audits must consider GAAS in conjunction with GAGAS to ensure a comprehensive audit approach.

# What Is the Authoritative Guidance Under the Single Audit Act?

## Uniform Guidance (2 CFR Part 200)

The Uniform Guidance consolidates and supersedes previous OMB circulars, including OMB Circular A-133, and provides a single source of audit requirements for entities receiving federal awards. Part of the Uniform Guidance specifically addresses audit requirements, outlining how audits should be conducted, the basis for determining federal awards expended, and the criteria for federal program selection and testing. The Uniform Guidance aims to improve government accountability by providing a clear and consistent framework for audits of federal awards.

# What Are the Key Elements of the Single Audit Process?

## Key Elements of the Audit Process Under the Single Audit Act:

- ▶ **Audit Scope and Objectivity:** Auditors must ensure that the audit is sufficiently comprehensive to identify compliance issues with federal statutes, regulations, and the terms and conditions of federal awards. Auditors must remain objective and independent in their evaluation.
- ▶ **Internal Control Over Federal Programs:** The auditor must assess the auditee's internal control over federal programs to identify weaknesses that could lead to noncompliance or mismanagement of federal funds.
- ▶ **Compliance Testing:** Auditors perform tests to determine whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards. This includes testing of transactions and management of federal funds.
- ▶ **Audit Reporting:** The auditor must prepare a report that includes the auditor's opinions on the financial statements, the schedule of expenditures of federal awards, findings related to the internal control over financial reporting and federal programs, and instances of noncompliance with laws and regulations.

The combination of these elements ensures that single audits are conducted with a high level of professionalism and rigor, providing assurance that federal funds are managed and used in accordance with the applicable laws, regulations, and grant agreements.



# The Roles of the Regulators, Auditors and Auditee



# Who Regulates the Audits Under the Single Audit Act?

The regulation and oversight of audits under the Single Audit Act are primarily managed by the federal government, with specific roles fulfilled by OMB and federal awarding agencies:

## OMB

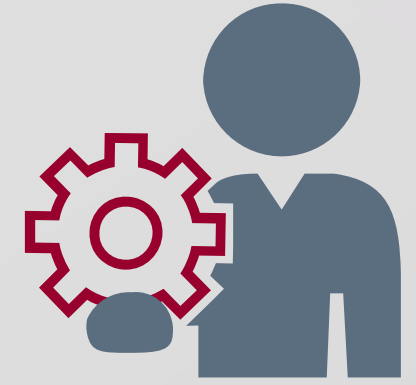
OMB plays a central role in overseeing the implementation of the Single Audit Act. It issues guidance and sets standards for conducting single audits through its Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, commonly referred to as the Uniform Guidance (found in 2 CFR Part 200).

## Federal Awarding Agencies

These are the individual departments or agencies of the federal government that distribute federal funds to non-federal entities. Examples include the Department of Health and Human Services (HHS), the Department of Education, and the Department of Transportation, among others. Federal awarding agencies are responsible for ensuring that recipients of their funds comply with the Single Audit Act and OMB's guidance. They review audit findings related to their programs, follow up on corrective actions, and may impose sanctions or require additional actions if compliance issues are identified.



# The Role of the Auditee and Auditor Under the Single Audit Act



While not regulators, it's important to note the roles of the entities being audited (auditees) and the independent auditors who conduct the audits.

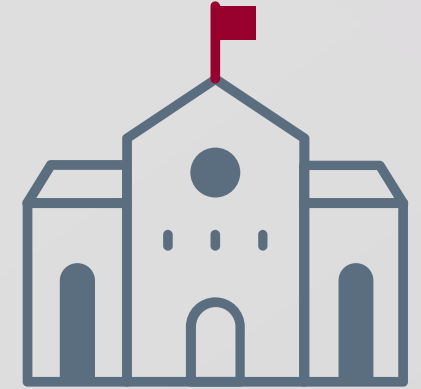
- ▶ Auditees are responsible for ensuring that they comply with federal regulations and the requirements of the Single Audit Act
- ▶ Auditors, who must be knowledgeable about OMB's guidelines and the specific requirements of federal programs being audited, carry out the audits in accordance with the standards set by OMB and the AICPA

Through this framework, the Single Audit Act aims to promote accountability and efficient use of federal funds across a wide range of entities and programs.

# Types of Entities Required to Be Audited Under the Single Audit Act



# What Types of Entities Are Required to be Audited Under the Single Audit Act?



Entities required to have audits performed under the Single Audit Act include a broad range of organizations that receive and expend federal assistance. These entities can be categorized as follows:

- ▶ **State Governments:** State governments that receive federal funds must comply with the Single Audit Act if they expend federal awards above the specified threshold in a fiscal year.
- ▶ **Local Governments:** This category includes counties, municipalities, towns, and other types of local government entities. Like state governments, they are subject to the Single Audit Act requirements if their federal expenditures meet or exceed the threshold.
- ▶ **Nonprofit Organizations:** Nonprofit entities that receive federal funding directly or indirectly (for example, through a state or local government) are also required to comply with the Single Audit Act, provided their federal expenditures reach the set threshold.

# What Types of Entities Are Required to be Audited Under the Single Audit Act?

- ▶ **Indian Tribes and Tribal Organizations:** Federally recognized Indian tribes and tribal organizations that expend federal funds above the threshold are subject to single audit requirements.
- ▶ **Institutions of Higher Education:** Universities, colleges, and other post-secondary educational institutions that receive and expend federal funds beyond the threshold must undergo a single audit.
- ▶ **Healthcare Organizations:** Hospitals, health clinics, and other providers that receive federal funding, are also subject to single audit requirements if they meet the specified expenditure threshold. This includes healthcare entities that may receive federal funds directly from federal agencies or indirectly through state and local governments. The types of federal assistance can vary widely, from research grants from the National Institutes of Health (NIH) to Medicare and Medicaid reimbursements, funding from the Health Resources and Services Administration (HRSA) for various health programs, and more.

It is important to note that the Single Audit Act applies to entities that receive federal assistance in various forms, including grants, loans, and other types of financial support. The aim is to ensure accountability and proper use of federal funds across a wide range of programs and activities.

There are situations where a for-profit entity may be required to have an audit performed under the Single Audit requirements.

# Single Audit Compliance Supplement



# What Is the Single Audit Compliance Supplement?

The Single Audit Compliance Supplement is a key document published annually by OMB that assists auditors in performing single audits of entities that expend federal funds. It is designed to help auditors understand federal program objectives, procedures, and compliance requirements, as well as to provide guidance on auditing these programs.

The Compliance Supplement is an essential tool for auditors to ensure that their audits are conducted in accordance with the Single Audit Act and the Uniform Guidance (2 CFR Part 200).

The Compliance Supplement is also an essential tool for auditees to ensure their processes and internal controls are implemented as expected in the Uniform Guidance and understand the audit expectations.

The Compliance Supplement is updated annually to reflect changes in federal programs and auditing practices. It is a critical resource for auditors to ensure that their work is consistent, thorough, and aligned with current federal requirements. By providing a standardized approach to auditing federal programs, the Compliance Supplement helps to promote accountability and effective management of federal funds across a wide range of entities and programs.



# What Are the Key Components of the Single Audit Compliance Supplement?

## Key Components of the Single Audit Compliance Supplement include:

- ▶ **Introduction and Applicability:** It provides an overview of the Compliance Supplement, including its purpose and how it should be used by auditors and auditees.
- ▶ **Background:** This section offers context on the Single Audit, its objectives, and the legal and regulatory framework governing the audit process.
- ▶ **Audit Requirements:** It outlines the specific audit requirements and methodologies that auditors should follow when conducting single audits, including how to select federal programs for testing and how to assess compliance with federal requirements.

## What Are the Key Components of the Single Audit Compliance Supplement?

- ▶ **Federal Program Objectives and Procedures:** The Compliance Supplement provides detailed information about program objectives, procedures, compliance requirements, and suggested audit procedures. This information helps auditors to focus their efforts on the most significant areas of risk and compliance and auditees design their systems to oversee the use of federal funds.
- ▶ **Compliance Requirements:** The document identifies 12 types of compliance requirements that are common to many federal programs, such as eligibility, allowable costs/cost principles, and reporting. It provides guidance on how to audit these requirements for auditors and an understanding of the compliance expectations for auditees.
- ▶ **Internal Control:** Guidance on assessing the auditee's internal control over compliance for major programs is also included, emphasizing the importance of understanding and evaluating controls that are relevant to the audit. This information assists auditees in establishing their system of internal control over compliance.
- ▶ **Appendices:** These contain additional useful information, such as a list of changes from the previous year's Compliance Supplement, a glossary of terms, contacts for the federal agencies, and an index of federal programs by agency.

# Who Uses the Single Audit Compliance Supplement?

While the Single Audit Compliance Supplement is primarily designed for auditors conducting single audits under the Single Audit Act and the Uniform Guidance, its utility extends beyond just the auditing community. The document is also valuable for several other groups:

- ▶ **Auditees (Recipients of Federal Funds):** Entities that receive federal funds, such as state and local governments, non-profit organizations, and institutions of higher education, can use the Compliance Supplement to better understand the federal requirements they must adhere to. It helps them prepare for audits by identifying the compliance areas and internal controls that auditors will review. This knowledge can assist in ensuring that their management of federal awards is in line with federal expectations, potentially reducing findings of noncompliance.
- ▶ **Federal Grant Managers and Program Officials:** These individuals can use the Compliance Supplement as a reference to understand the audit process and the specific requirements auditors will be testing against. This understanding can improve the design, implementation, and monitoring of federal programs to ensure they meet their objectives while complying with statutory and regulatory requirements.

# Who Uses the Single Audit Compliance Supplement?

- ▶ **Policy Makers and Regulators:** They may refer to the Compliance Supplement to gain insights into the compliance requirements across different federal programs and how these are audited. This can inform decisions on policy adjustments, regulatory reforms, and the development of new guidance to enhance program effectiveness and accountability.
- ▶ **Researchers and Academics:** Individuals studying public administration, government accounting, or related fields might find the Compliance Supplement a valuable resource for understanding the intricacies of federal program compliance and audit requirements. It provides a comprehensive overview of federal oversight mechanisms and can serve as a case study or data source for academic research.

While the Single Audit Compliance Supplement is a tool primarily for auditors, its detailed information on federal program requirements, compliance areas, and suggested audit procedures makes it a valuable resource for a broader audience.

Understanding these aspects can help various stakeholders ensure compliance, prepare for audits, and enhance the management and oversight of federal funds.

# The Proposed Changes to the Uniform Guidance and What to Expect



# Objectives of OMB in Developing the Proposed Changes to 2 CFR 200

OMB is proposing changes to make it easier and less costly to comply with the requirements for receiving federal grants and financial assistance. These changes aim to:

- ▶ Cut down on unnecessary paperwork and compliance costs
- ▶ Make it easier for smaller organizations and projects to get funding
- ▶ Ensure that the funds reach the communities that need them most, by making the application process more accessible and removing language barriers



As a whole, OMB's revisions intend to advance the following objectives:

- ▶ Incorporating statutory requirements and administration priorities
- ▶ Reducing agency and recipient burden
- ▶ Clarifying sections that recipients or agencies have interpreted in different ways
- ▶ Rewriting applicable sections in plain language, improving flow, and addressing consistent use of terms

These changes seek to make the rules more flexible and make compliance with the rules easier.

# What are the Key Objectives OMB is Trying to Accomplish?

The key objectives OMB is trying to accomplish with the proposed changes include the following:

- ▶ Simplifying compliance requirements
- ▶ Clarifying confusing terms
- ▶ Increasing the threshold for certain reporting requirements to reduce the administrative burden
- ▶ Encouraging the use of plain language in grant announcements to make them easier to understand



## OMB Proposed Changes to 2 CFR 200

**OMB is proposing the changes to the following Parts within 2 CFR Parts:**

- ▶ 1, About Title 2 of the Code of Federal Regulations and Subtitle A
- ▶ 25, Universal Identifier and System for Award Management
- ▶ 170, Reporting Subaward and Executive Compensation Information
- ▶ 175, Award Term for Trafficking in Persons
- ▶ 180, OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (Non-procurement)
- ▶ 182, Governmentwide Requirements for Drug-Free Workplace (Financial Assistance)
- ▶ 183, Never Contract with the Enemy
- ▶ 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards



# Plain Language Revisions

Many of OMB's proposed changes alter the guidance language used to increase clarity and consistency. For example, in Part 200 Subpart A, OMB proposes to alter the definition of the term "Federal financial assistance" to include assistance received or administered by "recipients or subrecipients" rather than "non-Federal entities."

Another example, OMB proposes to replace the general term "OMB designated government-wide systems" with more specific terms to reduce ambiguity for those unfamiliar with the Uniform Guidance. In this proposed revision, OMB specifically mentions the appropriate system, such as [SAM.gov](https://sam.gov), [USASpending.gov](https://usaspending.gov), the Contractor Performance Assessment Reporting System (CPARS), or [Grants.gov](https://grants.gov).



# Proposed Mandatory Disclosures of All Violations of Federal Criminal Law Involving Fraud, Bribery, or Gratuity Violations



Under current guidance, recipients and subrecipients (i.e., “non-federal entities”) or Federal award applicants must disclose all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award. (2 CFR § 200.113)

OMB proposes to incorporate the Federal Acquisition Regulation (FAR) “credible evidence” standard to the mandatory disclosure requirement for grants and cooperative agreements. Under the proposed guidance, recipients or subrecipients would be required to disclose any credible evidence of a violation of federal criminal law potentially affecting the Federal award, or a violation of the civil False Claims Act.

The disclosure would need to be in writing to the federal awarding agency and pass-through entity (if applicable) as well as that agency’s Office of Inspector General.

# Proposed Changes to Thresholds

Under current guidance, a non-federal entity that expends \$750,000 or more in Federal awards during the entity's fiscal year must have a Single Audit (or program-specific audit) conducted for that year. (2 CFR § 200.501) OMB proposes to raise the single audit threshold from \$750,000 to \$1,000,000.

OMB also proposes to remove the Simplified Acquisition Threshold (SAT) limit for fixed amount subawards. Under the current rule, pass-through entities are limited to providing subawards based on fixed amounts up to the SAT with prior written approval from the agency. (2 CFR § 200.333) While a recipient's use of fixed amount subawards would remain subject to the prior written approval of the agency, the proposed revision would provide agencies and recipients with more flexibility in making programmatic and budgetary decisions.



# Proposed Changes to Thresholds

The proposed guidance raises the threshold amount for the disposition of equipment and supplies. Current guidance provides that post award, equipment with a current fair market value of \$5,000 or less may be retained by the non-Federal entity. (2 CFR § 200.313) The proposed guidance would increase this threshold to \$10,000. Current guidance also provides that the non-Federal entity must retain or sell residual supplies exceeding \$5,000 in aggregate value that are not needed for another Federal award. (2 CFR § 200.314) The proposed guidance would increase this threshold to \$10,000.

OMB also intends to make an upwards adjustment on the exclusion threshold of subawards for modified total direct cost base calculations used in allocating recipients' indirect costs. Currently, modified total direct costs only include up to the first \$25,000 of each subaward, specifically excluding the portion of each subaward in excess of \$25,000. The proposed guidance would increase the threshold for exclusion from \$25,000 to \$50,000.



# Proposed Changes to Audit Requirements



OMB has proposed several changes to audit requirements. Auditees are required to prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the auditee's financial statements. (2 CFR § 200.510) Current guidance dictates what the schedule must include. OMB proposes to add a requirement that, for audits covering multiple recipients, the schedule must identify the recipients of the federal awards.

The awarding federal agency is responsible for certain audit-related functions for the awards it makes, including submitting annual updates to the Compliance Supplement to OMB. (2 CFR § 200.513) OMB proposes updating the awarding federal agency responsibilities to encourage agencies to engage with external audit stakeholders and the federal agency's Office of Inspector General National Single Audit Coordinator prior to submitting Compliance Supplement drafts to OMB.

In terms of the scope of an audit, OMB proposes to add a requirement that compliance testing include a test of transactions and other auditing procedures necessary to provide auditor with sufficient evidence to support an opinion on compliance.

## Proposed Socioeconomic Policies

OMB proposes to clarify that 2 CFR Part 200 does not prohibit recipients and subrecipients from:

- ▶ Using Project Labor Agreements or similar forms of pre-hire collective bargaining agreements
- ▶ Requiring commitments or goals to hire people residing in high-poverty areas, disadvantaged communities as defined by the Justice40 Initiative addressed in OMB Memorandum M-21-28, or high-unemployment census tracts within a region no smaller than the county where a federally funded construction project is located, provided that a recipient or subrecipient may not prohibit interstate hiring

## Proposed Socioeconomic Policies

- ▶ Requiring commitments or goals to individuals with barriers to employment (as defined in section 3 of the Workforce Innovation and Opportunity Act (29 U.S.C. § 3102(24)), including women and people from underserved communities as defined by Executive Order 13985.
  - Using agreements intended to ensure uninterrupted delivery of services
  - Using agreements intended to ensure community benefits; or
  - Offering employees of a predecessor contractor rights of first refusal under a new contract
- ▶ Federal agencies may consider allowing recipients or subrecipients to use such practices if consistent with the U.S. Constitution, applicable Federal statutes and regulations, the objectives and purposes of the Federal financial assistance program, and other requirements of Part 200.

## Proposed Socioeconomic Policies

OMB also proposes to remove the prohibition on using geographic preference requirements. In the same vein, OMB also proposes to state that 2 C.F.R. Part 200 Subpart D does not prohibit recipients and subrecipients from incorporating a scoring mechanism that rewards bidders committing to specific numbers and types of U.S. jobs, as well as certain compensation and benefits.

Regulations currently provide that the non-federal entity should use minority businesses, women's business enterprises, and labor surplus area firms when possible. (2 CFR § 200.321) OMB proposes to add veteran-owned businesses to the types of businesses recipients and subrecipients are encouraged to consider for procurement contracts.

OMB also seeks to encourage sustainability through its proposed guidance. In accordance with Executive Order 14057, Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability, OMB proposes to add language encouraging Federal award recipients to purchase, acquire, or use products and services that can be reused, refurbished, or recycled; contain recycled content, are biobased, or are energy and water efficient; and are sustainable.



## Proposed Changes to Prior Approval Requirements

- ▶ OMB seeks to clarify and add certain requirements for prior approval when revising budget and program plans.
- ▶ OMB proposes to clarify that recipients do not need prior approval of individual subrecipients under all circumstances, but only when making subawards of programmatic activities not proposed by the recipient in the application for an award.
- ▶ OMB proposes to further clarify that agencies should not require approval of a change in a proposed subrecipient unless the initial inclusion of a subrecipient was a determining factor in the agency's merit review process.
- ▶ OMB proposes to add requirements for prior approval where a recipient or subrecipient requests additional federal funds to complete a project, or transfer funds between construction and nonconstruction work. Under the proposed rules recipients and subrecipients must also seek prior approval for a no-cost extension to the period of performance, but not for one-time extensions authorized by the agency.

## Proposed Changes to Prior Approval Requirements

- ▶ OMB also intends to remove a significant number of prior written approval requirements for various costs. Prior written approval will no longer be required for real property, equipment, direct costs, entertainment costs, exchange rates, memberships, participant support costs, selling and marketing costs, and taxes. OMB clarified that although it proposes to remove the prior approval requirement for participant support costs, the recipient or subrecipient is responsible for treating these costs consistently across federal awards.
- ▶ OMB also clarified that although it proposes to remove the prior approval requirement for selling and marketing costs, such costs are unallowable unless they meet certain requirements.
- ▶ While removal of these prior approval requirements may decrease the administrative burden for recipients in some circumstances, it may also make it more difficult for recipients to assess the reasonableness and allocability of certain cost items in advance of their incurrence.

## Proposed Changes to Indirect Costs

- ▶ OMB proposes to revise several aspects of the guidance pertaining to indirect costs. OMB proposes to clarify that recipients and subrecipients may notify OMB of any disputes regarding an agency's application or acceptance of federally negotiated indirect cost rates. OMB also proposes to clarify that pass-through entities must accept all federally negotiated indirect costs rates for subrecipients.
- ▶ OMB also proposes to increase the *de minimis* rate from 10% to 15% and seeks comments on the advantages and disadvantages of doing so in the way it proposes. According to OMB, this would allow for a more reasonable and realistic recovery of indirect costs, particularly for new or inexperienced organizations that may not have the capacity to undergo a formal rate negotiation, but still deserve to be fully compensated for their overhead costs. OMB specified that while recipients and subrecipients still have discretion to apply a rate lower than 15%, agencies cannot compel them to do so unless required by statute. OMB also proposes to clarify that the *de minimis* rate may not be applied to cost-reimbursement contracts.
- ▶ Finally, OMB also proposes to remove the requirement that all indirect rates be publicly available on a government-wide website.

# Why Are These Changes Important?

- ▶ Reducing the administrative burden means more resources can go directly to the intended projects and services
- ▶ Making the application process simpler and more accessible helps ensure that valuable projects don't get overlooked due to complex bureaucracy
- ▶ Ensuring funds reach the most in-need communities by removing barriers to access



# OMB's Proposed Future Suggested Changes to the UG

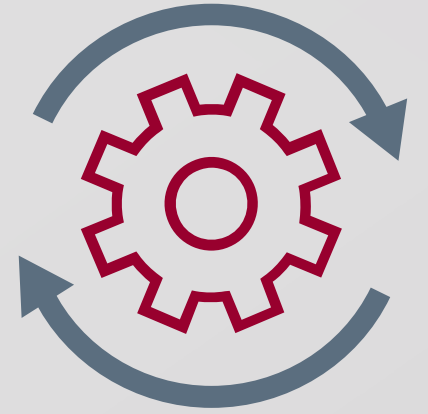
OMB has further suggested areas where they may make additional revisions in future updates, which are as follows:

- ▶ Establishing specific audit requirements for for-profit entities, which are not directly subject to the requirements of Subpart F
- ▶ Incorporating the requirements of National Security Presidential Management 33 (NSPM-33) on research security requirements
- ▶ Providing additional guidance in 2 CFR 200 concerning the relationship of specific aspects of the guidance to loans and loan guarantees
- ▶ Establishing mechanisms to automatically adjust certain thresholds due to inflation or other triggering events (where permitted by law)
- ▶ Removing additional prior approval requirements




# OMB's Proposed Future Suggested Changes to the UG

- ▶ Challenges related to negotiating indirect costs, working with cognizant agencies or any other topics related to indirect costs that could be addressed in future updates
- ▶ Expanding the guidance in Subpart F to include more specific requirements on the scope of an audit (“proper perspective”) so that agencies have additional contextual information to guide them in resolving audit findings



# The Road Ahead

While the proposed changes mark a significant step towards reforming the federal grants process, they represent the beginning of a journey towards greater efficiency and effectiveness. OMB's initiative to incorporate statutory requirements, increase thresholds, and use plain language principles reflects a broader effort to streamline processes and reduce the administrative burden on recipients, while at the same time improving federal financial assistance management, transparency, and oversight through the alignment of statutory requirements and administrative priorities is key for the path forward.



The key will be agency implementation and auditor application of the revised language, which will be the real measuring stick to determine whether awards are truly administered with greater ease and whether the complexities and confusion that currently exist for many federal assistance awardees are sufficiently mitigated.

OMB's proposed revisions to the Uniform Grants Guidance offer a promising path towards a more accessible, efficient, and impactful federal financial assistance framework. By reducing bureaucratic hurdles and fostering a more inclusive environment, these changes have the potential to unlock new opportunities for growth, innovation, and community support across the nation.



## Next Steps

In the ever-changing landscape of federal funding, keeping pace with the evolution of the UG is not just a regulatory requirement but a strategic necessity. It's crucial to comprehend and integrate these revisions into your organizations policies and procedures to ensure effective compliance and program execution.. Organizations receiving federal grants and whether below or above the threshold for a single audit should proactively address these revisions by:

- ▶ Remaining informed about the proposed revisions and their potential impact on the organization
- ▶ Conducting a comprehensive review of the proposed revisions to identify specific changes that may impact grant management, accounting processes, and compliance requirements
- ▶ Updating policies and procedures to align with the proposed changes
- ▶ Enhancing training and awareness for staff and relevant stakeholders to ensure they understand the implications of the proposed revisions
- ▶ Communicating between federal agencies, pass-through entities, auditors, subrecipients, and any other relevant stakeholders to address any questions concerning the proposed revisions



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