

# To the Point

Uniform Guidance – final guidance

## OMB makes significant revisions to Uniform Guidance for recipients of federal funds

The revised guidance increases the audit threshold, clarifies the definition of questioned costs and allows the use of funds for evaluation and other activities.

### What you need to know

- ▶ The OMB recently revised its Uniform Guidance for federal financial assistance with the intent of incorporating statutory requirements and administration priorities, reducing administrative burdens, clarifying certain sections and rewriting applicable sections in plain language.
- ▶ The OMB increased the audit threshold to \$1 million from \$750,000, effective for audits of periods ending on or after 30 September 2025. It also raised other thresholds.
- ▶ The revised guidance also clarifies the definition of questioned costs and that fixed awards are presented on the Schedule of Expenditures of Federal Awards.
- ▶ In addition, the revised guidance clarifies that recipients of federal funds, including grants, are allowed to spend a portion of an award on evaluation, data and community engagement-related activities if they are related to the award. It also includes updates to procurement standards for labor-related items.
- ▶ While the OMB said the Uniform Guidance is effective for federal awards issued on or after 1 October 2024, it hasn't provided implementation guidance for the non-award related revisions.

### Overview

The Office of Management and Budget (OMB) recently made **significant revisions** to its guidance for federal financial assistance in Title 2 of the Code of Federal Regulations (CFR), known as the Uniform Guidance, reflecting input from federal agencies, state and local governments, the American Institute of Certified Public Accountants, federal fund recipients

and other stakeholders. The changes are intended to incorporate statutory requirements and administration priorities, reduce administrative burdens, clarify sections that have been interpreted in different ways and rewrite sections in plain language to address inconsistent use of terms. **However**, many transition and implementation issues remain. Appendix A provides a non-inclusive list of questions related to these outstanding issues.

While the revisions affect several parts of the Title 2 guidance, our publication focuses on the changes to Part 200 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards). For any Title 2 CFR 200 references in grant agreements, it may be useful for recipients to refer to those sections in the **redline version**. This may also be helpful to understand any 200.400 series changes to cost principles. Refer to the [CFO.gov page](#) for more information and resources.

Appendix B contains a list of other parts of Title 2 that were updated.

## Key considerations

### Increased thresholds

The threshold for determining whether a single audit or program-specific audit is required for a recipient of federal funds was raised to \$1 million from \$750,000, effective for entities with fiscal years beginning on or after 1 October 2024 and after (i.e., years-ending 30 September 2025). The minimum Type A threshold, which impacts how many major programs, may need to be audited, was also raised to \$1 million from \$750,000.

In addition, the OMB raised the thresholds listed below to simplify the management of federal funds. However, it still has not indicated when these increases are effective.

**De minimis indirect rate:** The maximum rate for indirect costs that federal fund recipients can use without negotiating a different rate with the federal agency rose to 15% from 10%.

**Calculating indirect costs:** The threshold for the amount of subawards to which recipients can apply their indirect rate increased to \$50,000 from \$25,000.

**Equipment threshold:** The per-unit value threshold for equipment that can be capitalized, retained, sold or disposed of with no further responsibility to the federal agency at the end of the grant period increased to \$10,000 from \$5,000.

**Unused supplies threshold:** The value threshold for unused supplies that federal fund recipients must sell at the end of the grant award period also rose to \$10,000 from \$5,000.

### How we see it

The threshold increases are intended to reduce the burden for recipients, and the higher single audit threshold should reduce the audit burden for some recipients. However, due to the transition and implementation issues outlined below, recipients and their auditors may not experience any burden reduction in the transition/implementation periods.

### Clarifying questioned costs

The definition of questioned costs was clarified to refer to an amount of money expended or received from a federal award that, in the auditor's judgment, raises concerns because (1) it may be noncompliant or suspected of being noncompliant with federal statutes, regulations or the terms and conditions of the award, (2) at the time of the audit, it may lack adequate documentation to support its compliance or (3) the cost might appear unreasonable and not reflect what a prudent person would take under the circumstances.

The revised guidance increases the audit threshold, clarifies the definition of questioned costs and allows the use of funds for evaluation and other activities.

The changes are intended to reduce the variability in what auditors determine to be questioned costs when reporting a finding. Historically, most auditors have reported questioned costs when there were findings related to compliance requirements on allowability. However, when reporting findings related to other compliance requirements (e.g., procurement), some auditors reported questioned costs, while others do not.

It is important to note that a questioned cost does not arise solely due to deficiencies in internal control or noncompliance with the reporting compliance requirement, as described in the compliance supplement, unless such noncompliance affects the actual amount expended or received from the federal award. The guidance still notes that questioned costs are not improper payments until they are confirmed as such by the applicable federal agency responsible for the federal award.

### How we see it

The revised guidance is expected to result in many more findings with questioned costs. Recipients should note that, even under the clarified guidance, questioned costs do not always equate to improper payments. Recipients that are asked to refund an agency for questioned costs that actually are not improper payments should contact the agency to clarify the matter or dispute the payment request. For example, costs that are questioned due to a lack of procurement documentation supporting that proper competition occurred but the expenditure was for an allowable cost and activity may not need to be paid back.

### Fixed price awards on the Schedule of Expenditures of Federal Awards (SEFA)

The revisions clarified that fixed amount awards are subject to Subpart F (Audit Requirements) of the Uniform Guidance, and therefore, should be recorded on the SEFA. However, there is still no clear guidance on how and when fixed amount awards should be recorded on the SEFA. We believe in this case recipients could analogize to the guidance in section 200.201 (b), which discusses how a recipient can establish a budget and payment schedule based on milestones or event triggering.

### How we see it

Confusion remains over how recipients should account for fixed price awards, which are also challenging to audit since they usually aren't directly tied to expenditures and don't easily correlate to several compliance requirements tested as part of a Uniform Guidance audit. Also, there is confusion and inconsistency in what agencies expect when overseeing fixed price awards. We recommend that recipients work with their auditors to address questions, particularly those regarding when to record these awards on the SEFA.

### Evaluation-related activities

The revised guidance clarifies that federal award recipients are allowed to use the funds (as direct or indirect costs) for evaluation-related activities, including for the building and the use of evidence for expenditures such as staff, materials, contractors, subawards, data infrastructure and other expenses that support the effective use of evaluation.

Under revised Section 200.455 (c), evaluation costs include costs for evidence reviews, evaluation planning and feasibility assessment, conducting evaluations and sharing evaluation results, and other personnel or materials costs related to the effective building and use of evidence and evaluation for program design, administration or improvement.

The OMB needs to provide more information about when the threshold increases are effective.

### Data-related activities

The revised guidance clarifies that recipients are allowed to use the funds (as direct or indirect costs) for data-related activities to support the effective administration of the award by undertaking a wide range of data gathering and analysis-related activities for expenditures such as staff, materials, contractors, subawards and other expenses that support the effective use of data.

Under revised Section 200.455(c), data costs include the expenditures needed to gather, store, track, manage, analyze, disaggregate, secure, share, publish or otherwise use data to administer or improve the program, such as data systems, personnel, data dashboards, cybersecurity and related items. They may also include direct or indirect costs associated with building integrated data systems that link individual-level data from multiple state and local government agencies for purposes of management, research and evaluation.

### Community engagement-related activities

The revised guidance clarifies that recipients are allowed to use funds from a federal award for community engagement-related activities if they are applicable to the award. Allowable costs include expenditures for staff, materials, contractors, sub-grants and other expenses that facilitate community engagement. Revised Section 200.202 (a) states a program must be designed to engage, when practicable, during the design phase, members of the community that will benefit from or be impacted by it, and federal agencies should develop programs in consultation with communities that would be affected by the program.

### Updates to procurement standards

The updates also include provisions in the procurement standards in 200.318, 200.319 and 200.324 that emphasize the importance of engaging organized labor and using responsible contractors. Examples of permitted labor and employment practices are also provided.

### Plain language

Certain sections of the guidance were rewritten to address the inconsistent use of certain terms. For example, the term “non-federal entity” was changed in subparts A through E to “recipient,” “subrecipient” or both. However, “non-federal entity” is still used in subpart F.

### Transition to new guidance

Each federal agency must individually approve and adopt the revised guidance, which is effective for all federal awards issued on or after 1 October 2024. An agency may elect to apply the revisions to awards before that date. However, the transition will be challenging for several revised provisions that are based on the recipient’s fiscal year rather than the award date (i.e., on or after 1 October 2024).

The OMB plans to overwrite the current guidance with the new guidance on 1 October 2024. Because many federal awards, including multi-year awards, issued before the effective date would continue to follow today’s guidance until their end date, we believe the OMB should continue to make today’s version of the guidance available for several years. Recipients should coordinate with their auditors to prepare for the transition.

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## Appendix A

Among the many remaining questions related to the transition and implementation are the following:

- ▶ Although the revised guidance is effective for awards issued on or after 1 October 2024, how should new funding increments issued under existing awards after the effective date be treated?
- ▶ Will the OMB Compliance Supplement include a Part 3.1 and 3.2, as was done when OMB transitioned from A-133 to the Uniform Guidance for treatment of awards under both sets of guidance?
- ▶ The revised guidance states that agencies can elect to implement the new requirements early. Considering the number of federal agencies, will there be a single website that shows the effective dates for all agencies?
- ▶ If grant recipients are required to make changes to policies, procedures and internal controls for the changes, is there an option to apply the updated policies, procedures and internal controls to all awards on a going-forward basis to avoid needing to track two sets of policies and procedures?
- ▶ The increase in the equipment threshold to \$10,000 from \$5,000 is intended to ease administrative burden. Would federal award recipients still have to track older equipment purchases at the \$5,000 level on an ongoing basis until that equipment is disposed of?
- ▶ Regarding the de minimis indirect cost rate increase to 15% from 10%, since indirect rates are typically calculated based on a recipient's year end (when negotiated), the transition will need clarification. Would the new rate be effective at a point in time or be based on when the grant was awarded?
- ▶ If a recipient has a previously negotiated indirect cost rate below 15% could the recipient stop negotiating a rate going forward and just use the 15%?

The AICPA's Government Audit Quality Center (GAQC) is compiling a list of questions to provide to OMB with the goal of obtaining further clarification. We will continue to monitor developments.

The OMB is expected to provide additional transition guidance, which should address the questions noted above. Readers should monitor developments and discuss any transition-related questions with their auditors.

In addition, the updates to the guidance don't address how and when for-profit entities are subject to audits for federal awards received, including COVID-related funding and Infrastructure Investment and Jobs Act funding. Because many federal agencies do not provide guidance addressing this topic, and guidance from some federal agencies isn't very clear, there will continue to be a lot of uncertainty and confusion regarding the audit requirements for for-profit recipients.

## Appendix B

The document above focuses on changes to 2 CFR Part 200 (Uniform Guidance), but the following other areas of Title 2 were updated as part of the overall changes:

- ▶ Part 1: Updates about Title 2 of the CFR and Subtitle A
- ▶ Part 25: Changes to the Unique Entity Identifier and the System for Award Management
- ▶ Part 170: Modifications to the reporting of subaward and executive compensation information
- ▶ Part 175: Revisions to the award term related to trafficking in persons
- ▶ Part 180: Updates to the OMB guidelines for government-wide debarment and suspension in non-procurement contexts
- ▶ Part 182: Amendments to the government-wide requirements for maintaining a drug-free workplace in the context of financial assistance
- ▶ Part 183: New provisions concerning the prohibition of contracting with entities that are identified as enemies
- ▶ Part 184: Adjustments to the Buy America Preferences for infrastructure projects