



FEDERAL FUNDING UPDATES

Uniform Grants Guidance

Sweeping and Welcomed Changes in 2024

BY EMILY S. BROCK AND TODD BUIKEMA

Over the last five years, more than \$4 trillion in federal funding has been awarded to state and local governments. The American Rescue Plan Act (ARPA) alone brought \$350 billion to more than 23 thousand state and local government recipients. In due course, finance officers at each of those governments that accepted the federal funds designed systems to ensure accountability, helping articulate to the funder the way the federal funds have been spent. The systems in place help to

account for the reporting requirements of the granting administration as well as to a general reporting of the use of those funds—answering to an administrative document maintained by the Executive Office of the President's Office of Management and Budget (OMB) called the Uniform Grants Guidance (UGG).

As an expanded audience of federal grants recipients were learning about becoming subject to the UGG and understanding how it was enforced, the federal government was also reviewing its application and enforcement of UGG for federal grants recipients.

In a rare but not unprecedented action, the OMB issued a request for comments on UGG—essentially an open assessment of UGG by federal grants recipients. OMB received more than 3,000 comment letters, one submitted by GFOA with our partners, the National League of Cities, National Association of Counties, and the National Institute of Government Purchasing.

In our joint association approach, we requested several changes, including specific ways the OMB could reduce the administrative burden of state and local grants administration while keeping the quality of the information flow between

recipient and granting agency high. These comments include the following recommendations:

- Promote simplified concepts, accessibility of key timing and thresholds, and scale compliance based on entity size.
- Streamline common identifiers for tracking purposes.
- Use “plain language” instruction for the layman whenever possible.
- Lengthen timelines to accommodate local government due process.
- Streamline applications processes.

We asked for clarity and simplification where possible to increase the eligible candidate pool for federal grants and to ensure compliance with the UGG.

An updated version of the guidance was released in April 2024. The released changes to UGG are wide in scope, ranging from pre-award to implementation and assessment criteria, and they also make necessary and significant changes to evaluation criteria. Many of these major changes are outlined in this article. We strongly recommend discussing these changes with your auditors and granting agencies to see if and how your internal systems of controls may conform to the new changes before they go into effect.

Streamlining the grants application and awards process

As requested, the OMB concentrated on a key tenant of our comments by making pre-award information understandable and compliance to award criteria achievable. Specifically, the revision requires agencies to make grant announcements as clear and concise as possible by limiting the length and complexity of the grant announcement to include only necessary information and, more specifically, urging granting agencies to use plain language that is accessible to eligible applicants, with a special focus on reaching underserved communities.

The UGG 2024 Revision also contains an updated notice of funding opportunity (NOFO) template that modifies the content and format of the information that agencies must include in their

grant announcements. This new NOFO template requires an executive summary (see Appendix I, part H) that is “written in plain language and summarizes the goals and objectives of the program, the target audience, and eligible recipients,” a clear program description that provides information on the expected outcomes of the grant, information on submission requirements and deadlines, an explanation on the grant application review process, and details on the grant reporting requirements.¹

Modified total direct costs

In determining the modified total direct costs (MTDC) for a federal award, recipients and subrecipients must include the direct salaries, applicable fringe benefits, materials and supplies, and expenditures for subawards. Under the updated UGG, the definition of MTDC has been changed and the amount of the subawards that can be claimed as part of the MTDC is increased from the first \$25,000 to the first \$50,000 for each subaward, regardless of the period of the performance of each subaward.² Amounts of more than \$50,000 for each subaward are not eligible to be included in the MTDC. The updated definition of MTDC does not include provisions for subcontracts.

Indirect cost rates amendment

Depending on the federal award contract, recipients and subrecipients of federal awards can claim an amount for indirect costs as part of their eligible expenditures. Recipients and subrecipients may negotiate a rate with their cognizant agency, a process that involves performing in-depth calculations and providing documentation to the cognizant agency, or recipients and subrecipients can elect to use a de minimis rate, which does not require any documentation. Under the updated UGG, the de minimis rate increased from ten percent to up to 15 percent of MTDC. With the increased amount of subawards that can be included in the MTDC, governments may see a significant increase in the amount of indirect costs that can be claimed using the new de minimis rate, as demonstrated in Exhibit 1 below.

Federal agencies, while not required to do so, can amend existing federal awards so governments can take advantage of the increased de minimis rate that will go into effect on October 1, 2024. Governments should be in contact with their federal awarding agencies to determine if the 15 percent rate will be allowed for grants entered into before October 1, 2024.

In situations where one department of a state, local government, or tribal

EXHIBIT 1 | Increased indirect costs resulting from updated UGG de minimis rate

	CURRENT UG		UPDATED UG	
Salaries	\$	55,215	\$	55,215
Benefits		9,955		9,955
Supplies		14,257		14,257
Subaward 1 (\$55,000)		25,000		50,000
Subaward 2 (\$45,000)		25,000		45,000
Total MTDC	\$	129,427	\$	174,427
De minimis		10%		15%
Indirect cost	\$	12,943	\$	26,164

government provides services to another department within that same entity (for example, interagency services), the provided services may include both direct and indirect costs for a federal award. Under the updated UGG, governments can now charge 15 percent of direct salaries and wages as indirect costs. (The previous rate was ten percent.)³

Treatment of unfunded pension and post-retirement health obligations

Recipients or subrecipients that make payments for unfunded pension or post-retirement health plans should directly charge the federal award, in accordance with the UGG's cost allocation principles, if the payments are allowed by the federal award.⁴

Increased capitalization threshold

The updated definitions of equipment and supply in the uniform grants that go into effect on October 1, 2024, reveal an increase in the capitalization threshold for federally acquired equipment and supplies from the lesser of the government's capitalization threshold or \$5,000 to the lesser of the government's capitalization threshold or \$10,000.⁵

There is no requirement for governments to increase their capitalization threshold for equipment and supplies to be in line with the updated UGG; however, governments with capitalization thresholds of less than \$10,000 per asset may want to consider reviewing their capitalization policy to be in line with the increased amount in the UGG on or after October 1, 2024. A change in capitalization thresholds is treated on a prospective basis, meaning that capitalization thresholds would be applied at the time of purchase. Any assets less than the new increased policy threshold that have been capitalized under the old threshold will continue to be reported as a capital asset until disposal. If your government's capitalization threshold for equipment and supplies is less than \$10,000, the government will need to

FISCAL YEAR	FISCAL YEAR END \$1 MILLION SINGLE AUDIT THRESHOLD FIRST APPLIES
October 1 to September 30	September 30, 2025
January 1 to December 31	December 31, 2025
April 1 to March 31	March 31, 2026
July 1 to June 30	June 30, 2026

continue capitalizing individual items following the current capitalization policy unless an increase is made. Governments should also consider any state or other grantor requirements for capitalization when considering changing thresholds, as those entities may require the use of lower thresholds.⁶

When will the UGG changes go into effect?

The changes to the UGG become effective October 1, 2024.

In the 2024 OMB Compliance Supplement, the OMB clarified that the increase in the single audit threshold from \$750,000 in federal expenditures in a fiscal year to \$1 million goes into effect for fiscal years beginning on or after October 1, 2024. The phrase "on or after" means that the first increased threshold takes effect for governments with fiscal years ending September 30, 2025. After the September 30, 2025, fiscal year ends, governments with the following fiscal year ends will be able to apply the increased threshold for the first time: December 31, 2025, March 31, 2026, and June 30, 2026. Governments with fiscal years ending in the months of June, July, and August will fall under the \$750,000 single audit threshold for the fiscal year 2024, and 2025 single audits before the \$1 million threshold applies in fiscal year 2026.

Assume, for example, that a city with a December 31 fiscal year-end enters into a federal award on June 1, 2024, that

is for the period July 1, 2024, through June 30, 2025. For the city's single audit for the fiscal year ending December 31, 2024, the federal award would fall under the pre-October 1, 2024, UGG, and the new UGG that goes into effect October 31, 2024.

GFOA is your partner as we approach the UGG transition

Since GFOA's work with our partners to secure these requested changes, we intend to stay in touch with the White House to ensure the flow of information. A successful transition could mean smooth grants processes from pre-award to closeout for a much broader intended audience—and we look forward to those outcomes that strengthen that intergovernmental partnership as it develops.

Emily S. Brock is director of GFOA's Federal Liaison Center. Todd Buikema is the assistant director for publications in GFOA's Technical Services Center. He is also the coeditor of GFOA's Governmental Accounting, Auditing, and Financial Reporting (GAAFR) and GAAFR Plus supplements.

¹ See Office of Management and Budget's revision description released in April 2024 (Uniform Guidance _Reference Guides FINAL 4-2024.pdf).
² Uniform Guidance 2 CFR 200.1.
³ Uniform Guidance 2 CFR 200.417.
⁴ Uniform Guidance 2 CFR 200.431.g.6.v and 200.431.h.5.
⁵ Uniform Guidance 2 CFR 200.1.
⁶ For further assistance on capitalization thresholds, see GFOA's best practice, *Capitalization Thresholds for Capital Assets*, at gfoa.org.