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Submitted via regulations.gov

Russell Vought
Director
U.S. Office of Management and Budget (OMB)
725 17th Street NW
Washington D.C. 20503

RE: OMB-2026-0034; Regulation for Federal Financial Assistance

Dear Director Vought,

On behalf of the Government Finance Officers Association (GFOA), we are writing to provide comment on the U.S. Office of Management and Budget (OMB) and Federal agencies' proposed rule "Regulation for Federal Financial Assistance" (OMB-2026-0034) that would make significant changes to the federal uniform guidance for federal financial assistance found at 2 CFR 200. GFOA's mission is to advance excellence in public finance, representing public finance officials throughout the United States. GFOA's more than 35,000 members are made up of state and local government finance officers who are deeply involved in planning, financing, and implementing thousands of governmental operations in their jurisdictions.

Our members are recipients, pass-through entities and subrecipients of trillions of dollars' worth of federal funds each fiscal year. Government finance officers manage these grant awards on behalf of their entity and work tirelessly to ensure that federal funds are directed, obligated and expended in line with the federal uniform guidance and have been doing so ever since it was promulgated. In fact, government finance officers have been complying with federal awards guidance since the days of OMB Circular A-133, long before the uniform guidance was established. As such, we feel we are uniquely positioned to provide comments outlining the wide range of impacts these proposed changes will have on the administration of federal funds.

We appreciate this Administration's commitment to streamlining the federal grant process and expanding access of federal funds to entities that have historically not been recipients of federal awards[1]. Proposed changes to simplify Notice of Funding Opportunities (NOFOs) by utilizing

[1] The White House, *Improving Oversight of Federal Grantmaking*, Presidential Actions, August 7, 2025, https://www.whitehouse.gov/presidential-actions/2025/08/improving-oversight-of-federal-grantmaking/

plain language and facilitating a centralized federal grant repository is something government finance officers have long been supportive of and have in the past urged the federal government to do. We do, however, have reservations that some of the proposed changes that were intended to ensure proper management and expenditures of federal funds could simultaneously increase the administrative and cost burdens of pursuing a federal grant, especially for entities that do not traditionally access federal awards that this administration aims to support.

We are primarily concerned that the planned implementation date of October 1, 2026, will be nearly impossible to meet for most recipients of federal awards. We understand that combatting waste, fraud and abuse of taxpayer dollars is an urgent matter; however, as evident throughout our comments, we believe there are several areas of the proposed rule that need to be expanded upon or reconsidered for state and local governments to effectively implement a final rule. We understand that changing the uniform guidance to uniform regulation will make these rules binding and enforceable by law. As such, we urge OMB to consider delaying the final implementation or effective date for the transition from guidance to regulation.

The following outlines the comments to OMB's proposed rule and outstanding questions from GFOA's over 35,000 members who are government finance officers. A significant portion of our membership also acts as the administrators of federal funds to varying degrees. These comments were developed generally in consultation with our membership and rely on comprehensive perspectives of their subject matter expertise, questions about specific applications and descriptions of current processes.

Current Processes

State and local government finance officers are responsible for administering taxpayer funds, whether generated at the federal, state and local level. Government finance officers also want to ensure that public funds are administered in a prudent and transparent manner and to minimize and mitigate waste, fraud and abuse. Our longstanding interest is ensuring we are following the law and that the cost of compliance does not outweigh the benefit of partnering with the federal government to implement national initiatives and priorities.

A combination of state and local laws and regulations, and the federal uniform guidance found at 2 CFR 200 currently dictate how funds are used and managed by public, non-federal entities like state and local governments. Many state and local governments also utilize Generally Accepted Accounting Principles (GAAP) promulgated by the Government Accounting Standards Board (GASB) to account for federal funds. Upon receiving federal funds, state and local governments enter into contractual agreements with the federal government to expend and manage the funds as specified by the enabling legislation. Recipients and subrecipients of federal awards understand that all expenditures of federal funds are subject to an audit by way of the Single Audit, a federal agency, an inspector general, or the U.S. Government Accountability Office (GAO). State and local governments know there are consequences for not adhering to the terms and conditions of the grant agreement. In our best practice on grants administration[2], GFOA recommends that governments establish processes to promote awareness throughout the government that grants normally come with significant requirements. These recommended internal processes help ensure that these rules are acknowledged and adhered to organization-wide.

GFOA Best Practice: Internal Control Environment

GFOA Best Practice: Internal Control and Management Involvement

GFOA Best Practice: Internal Control for Grants

If the federal government believes that the existing single audit or reporting structure is not producing the information it needs, recipients would benefit from greater clarity about what information is missing and how requirements could be refined to improve transparency without disrupting systems that are already functioning. Any substantial changes to these rules will require governments to revise long-standing policies and procedures, retrain staff, and absorb new administrative costs.

Proposed Changes

Administrative Changes

Transition from guidance to regulations: One of the most significant items in the proposal is the transition from guidance to regulation. It would be helpful for OMB to explain the problem that making these rules binding and enforceable by law is intended to solve. If there are recurring compliance failures, gaps in reporting, or difficulties in tracking federal spending, those concerns should be described clearly so that recipients can respond constructively.

Government finance officers report that their grant compliance teams are often required to monitor multiple reporting portals across many federal agencies and federal awards programs, each with their own design and features. Our members have also reported that each portal comes with its own usability and accessibility flaws. If the core issue is data usability or transparency, the better solution may be targeted improvements to reporting systems and definitions rather than a wholesale move toward stricter legal enforcement. A collaborative approach that identifies specific shortcomings and addresses them directly would be more effective than imposing broad new requirements. If the proposed rule is tasking each federal agency with developing information systems to accept payment justifications for award recipients and subrecipients that are not states, a wholesale review and collaborative effort to streamline reporting systems across the federal

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[2] GFOA Best Practices identify specific policies and procedures that contribute to improved government management. They aim to promote and facilitate positive change or recognize excellence rather than merely to codify current accepted practice. GFOA Best Practices are reviewed and approved by the appointed executive board twice annually.

agencies would also be an appropriate step to ensure that federal agencies can adequately track federal funds. Perhaps the new senior appointee can be charged with overseeing the streamlining of federal awards tracking systems at each agency.

We also understand that transitioning uniform guidance to regulation means federal agencies will be bound to the new rules and have less flexibility in interpreting and implementing uniform guidance. Currently, federal agencies do retain some discretion in interpreting uniform guidance and tailoring it to be compatible with specific grant programs and intended outcomes. We fear that federal agencies not retaining this flexibility could lead to monitoring and reporting practices that are incongruent with the size of the grant, grant activities and program outcomes.

- For example, would binding the recipients of Department of Justice Community Policing Development microgrants to the same prior written approvals as a Mega Grant under the Department of Transportation prevent waste fraud and abuse?
- Would a $250,000 small business recipient of ED/IES Small Business Innovation Research be bound to the same applied principles as a billion-dollar DOE Grid Resilience and Innovation Partnership awarded entity?

<u>October 1 Implementation (§200.110)</u>: For recipients, this is not a merely technical change. Governments already treat the uniform guidance as binding in practice because compliance is essential to receiving and retaining federal funds. As such recipients have developed internal controls, policies, and procedures that are currently in place to ensure compliance. These policies and procedures take time to develop and sometimes even require approval from governing boards that have their own schedules and processes to adhere to. Moving these standards into a more rigid regulatory structure on October 1, 2026, without a meaningful transition window to change the internal controls, and policies and procedures in place, risks creating an abrupt compliance shift for agencies and recipients alike. This will nearly be impossible to do before October 1, 2026, especially for smaller entities.

A delayed effective date would help recipients adjust internal policies, award documentation, and training practices in an orderly way. It remains unclear how the planned October 1, 2026 effective date will impact grant recipients, subrecipients, contractors and pass-through entities currently administering multi-year grants and have been executing these federal funds under existing assumptions and structures. With the proposed October 1, 2026 effective date, GFOA has several questions:

- Will recipients of these grants be subject to the terms of the grant agreement they signed and be exempt from these new regulations?
- Will the final rule only apply to the grants that start a new covered period after the implementation date?
- If not, will these recipients be expected to enter into a new agreement with the federal government for the remainder of the grant?

- What does this mean for pass-through enforcement?
- What does this mean for funds that expire on December 31, 2026 of this year?
- Does this mean that desk reviews will be conducted to the new final rule or the guidance and regulation that was in place during the time of obligation and expenditure?

We respectfully urge OMB to consider delaying the effective date for all entities and only apply these proposed changes to awards made after the effective date. It should be clear that current federal awards being administered under existing agreements will not be required to change compliance regimes mid-award period and that there will not be penalties for non-compliance for these entities.

Our goal is to ensure that state and local government recipients of federal awards are reasonably able to come into compliance by the final effective date. As we have seen in past, quick transitions without clear definitions at the federal level can lead to inconsistent interpretations and practices downstream. We recognize that is the antithesis of what this proposed rule intends to do and would urge OMB to consider delaying the final effective date to ensure changes to grants administration are adopted efficiently and consistently by recipients and subrecipients.

Expanded termination and suspension authority (§200.339-200.341): The proposal to expand suspension and termination authority additionally raises concerns for government finance officers as it adds a significant additional layer of risk to a recipient, subrecipient or contractor under a federal award.

Unlike the federal government, state and local governments authorize balanced budgets. Smaller governments balance modest receipts with a commensurate level of public service delivered to the public. For all recipients, benefits of receiving federal funds must be balanced against the cost of compliance and the risk of termination or suspension. For a small town that relies on Federal Transit Agency (FTA) grants to operate its small bus system, a discretionary termination could bring the potential of residents losing a reliable mode of transportation as the town government looks to fill the funding gap by raising fares or cutting service. This ultimately impacts the town's residents and their ability to participate in the local economy.

This risk extends to state and local government's ability to finance projects as well. Moody's Ratings has indicated that discretionary termination and suspension of federal awards could be a credit negative to issuers of tax-exempt municipal bonds that have accepted federal awards[3]. Not only does this provision add additional risk to seeking federal funds, but it could make financing long term essential projects through capital markets more expensive for state and local governments and our taxpayers.

Further, we are concerned that OMB plans to not provide recipients with administrative hearing rights or the opportunity to appeal the discretionary suspension or termination decisions of the

[3] The Bond Buyer, "Moody's Warns Proposed Political Review of Grants a Credit Negative," June 15, 2026, https://www.bondbuyer.com/news/moodys-warns-proposed-political-review-of-grants-a-credit-negative

federal government. The proposed rule states that administrative hearing rights are reserved solely for cases of termination for noncompliance. If OMB interprets that discretionary suspensions and terminations are not subject to administrative hearing rights, then it should work to ensure that the same factors used to come to that decision are applied to recipients universally. Additionally, the grounds for termination need to be defined clearly and understood the same way by both the federal government and the universe of grant recipients to avoid seeking timely and expensive interpretations by federal courts. We understand that the administration has defined unlawful discrimination through guidance through the U.S. Department of Justice (DOJ)[4] and through an Executive Order[5].

- Does OMB plan to provide updated guidance on unlawful discrimination on a yearly basis as new practices emerge or as the administration makes judgements on new activities not clearly listed in the guidance?
- If there are specific federal court rulings related to the interpretation of this guidance would that be grounds for revised guidance?

Unlawful discrimination is not the only item listed in the proposed rule as grounds for discretionary termination but is the only item that has specific federal guidance around it at this point. As effective compliance requires substantial documentation to protect the transparency of transactions in fund accounting, we respectfully request that the political appointee make clear the bounds of "domestic-first framework" as it relates to the awarding agency's pre-award criteria, maintenance of continuing disclosures and in termination. While agencies currently do provide information on what topic areas and initiatives they are prioritizing for the federal fiscal year, if the federal government plans to wield the authority to terminate grants it deems no longer in the national interest, we recommend providing much more guidance than what is currently offered so these concepts are applied uniformly across the federal government.

- Will agencies promulgate different guidance for each grant?
- Will recipients receive assurance that guidance will not change within the covered period of the grant?

If a federal grant were to be discretionarily terminated, closing out the grant and canceling grant activities would impose additional administrative costs on the recipient or subrecipient. We appreciate OMB's recognition of this fact and the clarification that recipients or subrecipients can be compensated for legitimate expenses made during a grant award in the events of discretionary terminations. We also appreciate that in certain instances, recipients or subrecipients will be

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[4] Office of the Attorney General, U.S. Department of Justice, *Guidance for Recipients of Federal Funding Regarding Unlawful Discrimination*, memorandum to all federal agencies, July 29, 2025, https://www.justice.gov/ag/media/1409486

[5] The White House, *Ending Illegal Discrimination and Restoring Merit-Based Opportunity*, Executive Order, January 21, 2025, https://www.whitehouse.gov/presidential-actions/2025/01/ending-illegal-discrimination-and-restoring-merit-based-opportunity/

allowed to submit information on termination costs to the federal awarding agency so the agency can take that into consideration. The following questions remain:

- We understand that federal agencies will have the discretion to allow recipients to submit this information on a case-by-case basis. However, will OMB be providing agencies with any factors to consider when making this decision to invite this submission?
- Will this be up to the senior appointee to decide to invite this submission?
- Will the factors that would allow submission differ based on agency and grant program?

Clear boundaries around this process will help ensure that it is applied fairly across federal agencies and among grant recipients who have had their awards discretionarily terminated. The determination of costs of both terminating the grant and allowing the grant to continue should not be based on quantitative factors alone and we would appreciate clarification on how the federal government intends to weigh certain costs against the other.

- How does OMB plan to determine the financial costs of unlawful discrimination?
- How does OMB plan to determine the financial costs of reputational harm?
- How does OMB plan to determine the financial cost of an economic or national security risk?
- Will these then be weighted by the degree of the offense that has allegedly occurred by the grant recipient?

We appreciate the proposal to exclude "Federal awards made under programs where legislation establishes an entitlement to the funds on the part of the recipient, such as block grants, those awarded on a statutory formula or disaster recovery grants" from the discretionary suspension and termination provisions in the proposed rule. Without clear guidance and definitions on the factors that OMB considers terms for discretionary suspension and termination, the types of programs that are excluded and the fact that they are excluded itself needs to be more explicit at §200.340 or §200.300 to effectively minimize the risks associated with this proposed provision. We respectfully request specified exclusions, as clear definitions will reduce uncertainty and help recipients understand which rules apply to which programs to minimize risk. For example:

- When OMB mentions an "entitlement to the funds on the part of the recipient" is it referring to social insurance programs like Social Security, Unemployment Insurance and Medicare (Parts A, B, and D)?
- When OMB mentions an "entitlement to the funds on the part of the recipient" is it talking about means tested programs like Medicaid, the Children's Health Insurance Program (CHIP), and veterans and disability benefit programs?
- When OMB mentions an "entitlement to the funds on the part of the recipient" is it referring to programs like the Airport Improvement Program where airports are entitled to a portion of funds each year based on passenger volume?

- When OMB mentions an "entitlement to the funds on the part of the recipient" is it referring to programs like the State Criminal Alien Assistance Program and Bulletproof Vest Partnership Program that recipients are entitled to federal reimbursements for taking certain actions or making certain investments?
- When OMB mentions "formula grants" is it referring to programs distributed according to statutory or regulatory formulas rather than competitive processes, such as: Department of Education Title I, Part A grants; Department of Transportation Grants for Rural Areas; Housing Trust Fund; Edward Byrne Memorial Justice Assistance Grants; and STOP Violence Against Women grants?
- When OMB mentions an exclusion for "block grants" is it referring to broad-purpose allocations such as the: Community Development Block Grant, HOME Investment Partnership; Temporary Assistance for Needy Families, or the Mental Health and Social Services Block Grants?
- When OMB mentions an exclusion for "disaster recovery" grants, is this intended to cover programs such as the Federal Emergency Management Agency (FEMA) public assistance reimbursement program, or programs funded by emergency or supplemental funding appropriated by Congress in response to a Stafford Act covered disaster?

Pre-Award Changes

In this context, "pre-award" includes the application phase and any statement-of-interest or similar screening process used before a full application is invited. Our priority remains to be ensuring non-federal entities like state and local governments can reasonably come into compliance with changes to rules and regulations governing federal financial assistance and that the cost of compliance does not outweigh the benefits of partnering with the federal government before funds are even awarded.

<u>Streamlining Processes (§200.204)</u>: We support efforts to improve and streamline the grant application process. Government finance officers have long urged the federal government to simplify this process through utilizing plain language in NOFOs, greater centralization on Grants.gov, and requiring NOFOs to be posted for a minimum number of days that gives applicants adequate time to prepare and respond. Public entities often struggle to navigate a fragmented federal grants landscape with inconsistent terminology, timelines, and submission expectations and these specific proposed changes address this longstanding issue. Streamlining NOFOs would improve access for many applicants and could be especially helpful for smaller, rural, and Tribal governments that have limited grants management capacity.

We also support OMB's proposal encouraging agencies to design multi-year awards, where consistent with program objectives and legal constraints, because longer budget periods can reduce unnecessary re-competition and create more stability for recipients. For state and local governments, greater continuity in funding can improve planning, staffing, procurement, and implementation, particularly for programs that require sustained delivery over multiple years. On the other hand, in some instances, multi-year grants could limit opportunities to pursue a source of federal funds. We do understand that this administration aims to support potential grant recipients that have traditionally been left out of the federal grant process. To encourage multi-year awards, we recommend OMB balance its intention to streamline processes with providing applicants with fair assessments of federal aid and support to our nation's communities.

Pre-issuance reviews (§200.205- 200.206; §200.305): The proposal strongly encourages statements of interest (SOIs) in instances where federal agencies believe they will receive a large number of applications. We believe that the introduction of pre-issuance merit and risk reviews in the grant process introduces both opportunity and risk for entities looking to pursue federal grants. A pre-screening stage may lower the upfront burden on applicants by allowing them to submit a shorter preliminary concept before investing resources in a full proposal, which could ultimately improve access for communities with limited administrative capacity. However, a pre-screening stage also creates an additional gatekeeping step, that not only adds more time to the application process, but if evaluation criteria are not clearly defined, applicants may have little transparency into why they were or were not invited to submit a full application. We understand that a brief description of the merit review process is included in the NOFO template found at Appendix I; however, we believe that non-federal entities are entitled to information on this process beyond just a brief description. Any evaluation criteria should be comprehensive and specific to the federal agency, specific to the program and published on an award cycle basis.

- Does OMB plan to require federal agencies to create and publish guidance on evaluation criteria?
- Will there be clear and universally applied guidance on *when* a federal agency should consider a SOI phase?
- How many potential applicants would OMB determine meets the threshold for a SOI phase?
- Will OMB recommend a timeframe for the SOI phase to ensure that the process remains streamlined and efficient?

We are also concerned about expanded pre-award risk evaluations, including the new references to questionable practices, memberships, affiliations, and other publicly accessible information. These terms should be universally defined and understood. Without clear standards and limits, these factors introduce subjectivity into award decisions, which functionally undermines merit-based opportunity and could lead to unlawful discrimination.

- Does OMB plan to provide guidance on what constitutes a questionable practice or organization membership or affiliation?
- Will certain practices, memberships or affiliations be identified as criteria?
- Will preference be given to certain practices, memberships or affiliations? If so, will these be identified?

- All else being equal, to what degree does a questionable practice or affiliation have to raise the level of risk for the federal government to deny an entity from proceeding?

While we commend the federal government for also taking steps to mitigate improper payments through verifying recipient eligibility using the Department of Treasury's Do Not Pay system, we are concerned that in combination with the proposed pre-issuance reviews, funds will be further delayed. Not only has the time it takes Congress to finalize annual discretionary appropriations increased, but once these funds are appropriated, it also takes significant time to apply for and receive federal funds. The introduction of these additional pre-issuance screening mechanisms will likely further delay the delivery of federal funds to recipients.

- Will the OMB in its final rule direct agencies to minimize the amount of time it takes to conduct these reviews and/or clear recipients and applications through this system?

These proposed, additional pre-award review requirements may increase the administrative cost of participation before funds are even awarded. They will certainly increase the already lengthy timeline for the federal award process. For some local governments, particularly those pursuing smaller grants, that added burden may alter the cost-benefit analysis of whether seeking federal support remains worthwhile.

Post-Award Changes

In this context, "post-award" means the period in which the funds have been delivered to the recipient and the funds are being administered. Our priority remains to be ensuring state and local governments can reasonably come into compliance with changes to rules and regulations governing federal financial assistance and that the cost of compliance does not outweigh the benefits of partnering with the federal government to implement shared goals and national priorities.

<u>Eligibility verification (§200.304; §200.305)</u>: The proposed rule requires recipients to undertake certain eligibility verifications prior to making federal contracts or making federal payments. The proposed rule would require recipients and subrecipients to confirm the eligibility of all employees and contractors working on federal grant activities using the Department of Homeland Security's E-Verify system. Many state and local governments use E-Verify to confirm eligibility of employees, however extending this requirement to all contractors and subcontractors working on a federal grant would be incredibly time consuming and expensive. Additionally, the requirement that States must verify each payment using the Department of Treasury's Do Not Pay system or another verification process could significantly delay the delivery of funds to beneficiaries. State and local governments understand that federal funds must be spent in line with federal laws and regulations and want to ensure that all payments are made properly, however we are concerned that the time and effort to undertake such verifications could outsize the benefit provided.

- Would OMB consider an award size threshold for these eligibility verification requirements, such as a threshold based on the award size's proportion to the recipient's general fund?
- In the final rule, will OMB make clear who or what entities within the state will have access to the Do Not Pay system?

Written payment justification (§200.305): The proposed rule requires payment justifications by brief written statements be submitted by recipients to federal agencies and by subrecipients to the pass-through entities to receive federal payments from. The proposed rule specifically mentions these written justifications should be brief but mentions that they must include information on all activities of the federal award that corresponds to the payment request including project milestones, project activities, administrative activities and other requirements that must be completed under the award. Given the nature of projects funded by federal grants and federal grant compliance, it is highly likely these written justifications could become lengthy, especially when the requirement is paired with potential penalty of discretionary suspension or termination.

- Does OMB plan to direct federal agencies to place limits around the length and content of these written justifications to streamline and simplify efforts for the federal agency, grant recipients and pass-through entities, and subrecipients and contractors?
- Will accompanying technology tools, such as associated portals, allow for intuitive submissions and streamlined reviews?

Not only does this add another documentation layer to transactions for recipients, subrecipients and contractors, but it also adds another layer of approvals for federal agencies and pass-through entities. When multiplied across hundreds to thousands of awards, subawards, and contracts across the federal grant landscape, the administrative burden could become significant for all entities involved and federal fund delivery could be significantly delayed. Added administrative burdens and delays in the delivery of funds would likely result in the grant recipients taking on additional costs. As detailed previously in this letter, we would encourage the OMB and federal agencies to take a collaborative approach to developing this information system and government finance officers stand ready to contribute to this process.

- Will OMB consider delaying implementation of written payment justifications in order to provide an initial basis for proper compliance and consider advancing technology to meet the volume demand and assist in granting agency review?

Subrecipient monitoring responsibilities (§200.311; §200.332; §200.340): We are concerned that the proposed rule significantly expands the oversight and monitoring responsibilities on grant recipients that act as pass-through entities, make subawards or enter contracts as part of their grant award. Subrecipient monitoring currently exists in practice to ensure all activities and expenditures follow program requirements and federal laws and regulations. Pass-through entities are already responsible for communicating all applicable federal compliance and reporting requirements and are required to evaluate subrecipients' risk of noncompliance based on experience with prior federal awards and results of previous audits through SEFA reporting. This is a responsibility that government finance officers take seriously, and we work to implement entity-wide internal controls based on best practices. As stated previously in this comment letter, any new requirements or responsibilities of grant administrators should be clearly defined to ensure entities remain in compliance. "Reputational harm" is one such example of a necessary definition. The proposal requires pass-through entities to ensure subrecipients do not take action that could cause reputational harm to the pass-through entity, federal agency or federal government. Reputational harm is vague and could be interpreted differently by the beholder. Since reputational harm is cause for grant termination with administrative hearing rights in the proposed rule, it is especially important to have a clear definition so grant recipients and subrecipients can work to mitigate any risk.

- Will OMB be defining what it would constitute as reputational harm?
- Will OMB and federal agencies consider certain actions as more harmful as others?
- To what level does reputational harm need to occur for the federal government to initiate termination?

Under the proposed rule, recipients would also be required to report all subawards and contracts in SAM.gov. Failure to do so is specifically identified as potential grounds for termination. While this change underscores the importance of accurate reporting for government finance officers, it also increases the consequences of administrative errors. As grant administrators, government finance officers have raised concerns about the usability of SAM.gov for years. If OMB were to make subrecipient and contractor reporting on SAM.gov mandatory for compliance, then it should also take the opportunity to make the website more accessible and user-friendly. Similar to our recommendations for the proposed payment justification systems, we urge OMB and federal agencies to review and make improvements to SAM.gov and welcome a collaborative process where award recipients can provide input.

- Would OMB consider improvements to SAM.gov prior to making subaward and contractor reporting mandatory?

Additionally, as described earlier in these comments, the proposed rule does not provide adequate time for entities to come into compliance before the regulations go into effect. Government finance officers need confidence that they will retain appropriate opportunities to respond, correct deficiencies, and recover allowable costs incurred before any termination becomes effective, otherwise the risk associated with federal funds could outweigh the benefits of partnering with the federal government. We urge OMB to consider delaying implementation of SAM.gov reporting and make clear remediations available.

- Will there be opportunities for recipients in non-compliance to come into compliance before a termination decision is issued?

Not only do the responsibilities expand, but the instances in which they are applicable expand as the proposed rule requires that related entities be categorized as a subaward or a contract. This means that payments to affiliates, subsidiaries or any other related entity that is a separate legal person, must be categorized as a subaward or contract and are subject to oversight, monitoring and reporting.

- Can OMB clarify whether this applies to departmental transfers within a governmental entity?
- Would apply to a transfer a governmental entity makes to a separate entity partially governed by the state or local government, like a special district?
- Would grant recipients need preapproval for proposed subawards, or would all awards specify the permitted types of subawards?
- Would this change the pass-through entity's authority regarding making subrecipient versus contractor determinations?
- Would classification in SAM.gov as a subrecipient or contractor establish an official relationship between the entities and trigger subrecipient monitoring responsibilities or trigger the formal procurement process?

Governments already maintain internal controls and oversight procedures as a matter of standard practice. What recipients need is not ambiguity about expanding duties, but a common understanding among federal agencies, recipients, and subrecipients about where responsibilities begin and end. If federal agencies may direct termination of a subaward, or terminate the pass-through award itself, then the standards for those decisions must be explicit and administrable.

Cost Principles (§200.400 - 200.476): We are concerned that some of the new cost restrictions included in the proposed rule under "Subpart E – Cost Principles" are framed in broad terms, such as the new restrictions related to advertising and public relations and the general cost of government. While we appreciate that the proposed rule provides categorical exclusions from these restrictions when they are specifically allowed by statute or expressly permitted by the awarding federal agency, unclear cost restrictions add significant risk for grant recipients to fall out of compliance when expending federal funds. For example, under "advertising and public relations," (§200.421) the proposed rule clarifies that the procurement of goods and services for the Federal award, program outreach and other specific purposes necessary to meet the Federal award requirements are allowable costs and that costs that do not benefit the Federal award are not allowable. The terms "necessary" and "benefit" are incredibly broad and could be interpreted differently by the beholder.

- How will OMB and each federal agency ensure that this is applied consistently across programs?
- How will federal grant recipients and subrecipients determine whether a specific product or activity meets one of these exceptions?

- Will each federal agency be providing a list of goods and services that are specifically related to each award?
- Will each federal agency be providing guidance on what constitutes "program outreach"?
- Will each agency provide a specific list of activities that are necessary for the program versus activities that are not necessary?
- Will each agency provide a specific list of activities that benefit the award versus activities that do not?

Of most concern to government finance officers is the new cost restriction related to the general cost of government, including costs related to the "general activities of the executive, legislative or judicial branches of government" and including costs related to the "general activities related to public safety, public information, citizenship, enrollment, or taxation that are not related to a specific Federal award" (§200.444). State and local governments pursue and accept federal funds to implement programs they are authorized by law to carry out and must put up matching funds towards. Without clear definitions of this restriction, we remain concerned that practically any federal grant award carried out by a state and local government could be considered related to the general costs of government.

We understand that OMB is trying to prevent state and local governments from utilizing federal funds to fund government operations outside of allowable grant activities, however this is not a common practice that aligns with the realities of fund accounting. Funds that are legally obligated to a specific use or purpose must be used in that way and each transaction is tracked and reconciled to ensure they are expended within the boundaries of its set purpose. Federal awards alone are not enough to comprehensively fund most programs carried out by state and local governments. In almost all cases, non-Federal funds are braided together with federal funds for project delivery. For example, under a Department of Justice (DOJ) Community Oriented Policing Services (COPS) grant, it could be difficult to determine which police officers and which fringe benefits are funded by a federal award, and which are covered by non-federal funds. It could be incredibly difficult to determine which pile of debris from a Stafford Act-covered hurricane is removed by a federal disaster assistance award and which piles of debris are removed by non-federal funds.

While OMB provides an exception for costs related to general government "provided as a direct cost under a program statute or regulation," there could be differing interpretations of what constitutes a direct cost between federal agencies, grant recipients and subrecipients. Either Congress or federal agencies will need to provide explicit guidance on the boundaries of allowable direct costs for each grant program than current practice to assist recipient compliance.

- Will Congress or federal agencies moving forward provide more explicit guidance on the boundaries of allowable direct costs?

Elimination of fixed amount sub-awards (§200.333): The proposed elimination of fixed-amount subawards would shift focus away from outcomes and toward more granular line-item tracking, increasing the administrative and monitoring obligations for both prime recipients and subrecipients. While fixed amount sub-awards are not heavily relied on by state and local governments, government finance officers working in state institutions of higher education would be impacted by this change as they more heavily rely on these types of grants. OMB's proposal will impact state and local governments administering broadband programs. Broadband and digital equity initiatives such as the Broadband Equity, Access, and Deployment (BEAD) program operate through a pass-through structure: states issue fixed-amount subawards to internet service providers based on defined deployment goals and measure success through deliverables. A categorical elimination may unnecessarily burden programs that have successfully used this approach to reduce administrative friction. If OMB believes changes are warranted in this area, a more tailored alternative, such as retaining fixed-amount subawards below a defined threshold or for limited categories of programs, would be more manageable.

- Would OMB consider only eliminating fixed amount sub-awards for awards above a determined threshold?
- Would OMB consider only eliminating fixed amount sub-awards for certain, limited categories of grants?

Audit Procedure Changes

Government finance officers are concerned that the proposed rule would eliminate the annual update requirement for the compliance supplement. Updates to the compliance supplement should continue to occur on a transparent and dependable annual schedule so that auditors and recipients can prepare appropriately. The proposed rule leaves unclear the circumstances for future updates to the compliance supplement.

- If new major federal programs are implemented, would that be reasoning for the release of a new compliance supplement?

Shifts in timing or uncertainty about when key audit guidance will be available can create confusion, compress audit planning timelines, and increase the risk of inconsistent implementation. More generally, any revisions to audit-related provisions should be accompanied by clear transition guidance so that recipients are not left to interpret major compliance changes on short notice.

- If compliance supplements will no longer updated on an annual basis, what will be the effective dates of future compliance supplements?
- Will OMB release a substantively identical compliance supplement on an annual basis with new effective dates?
- Will the most recently updated compliance supplement remain in effect until a new compliance supplement is published, whether it be in one year or 5 years?

Conclusion

Government finance officers share OMB's interest in ensuring that federal financial assistance is administered responsibly, transparently, and in full compliance with applicable law. We commend OMB and the federal agencies for proposing changes intended to streamline and simplify the grants process, improve accessibility, and expand opportunities for entities that have not traditionally pursued or received federal awards. At the same time, because the proposal would move the Uniform Guidance into a more binding regulatory structure and includes an implementation date of October 1, 2026 that will be nearly impossible for many recipients, subrecipients, and pass-through entities to meet, we urge OMB to provide additional time for full implementation and issue clear transition guidance.

GFOA and its members stand ready to work collaboratively with OMB and federal agencies to ensure that any final changes can be implemented consistently, efficiently, and in a manner that supports strong compliance without unnecessarily discouraging state and local governments from partnering with the federal government to deliver critical programs and services and implement shared, national priorities. For any information regarding the content of or questions within this letter, please contact GFOA's Federal Liaison Center Director Emily Brock.

Sincerely,

Christopher P. Morrill

Christopher P. Morrill

Executive Director/CEO