Federal Funding Awarded – Keep It Compliant

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Receiving a federal award is an exciting milestone that can unlock new programs, expanded services and meaningful community impact, but it also brings complex compliance, reporting and audit requirements. Without proper preparation, organizations may face documentation gaps, questioned costs, audit findings and even risks to future funding. This is why grant compliance should begin as soon as the award is accepted, not at year-end.

Understanding Your Responsibilities

When an organization receives federal financial assistance, whether directly from a federal agency or through a pass-through entity, it agrees to comply with the terms and conditions of the award. Uniform Guidance, which comes from the Code of Federal Regulations, also known as 2 CFR Part 200, largely governs this, establishing rules for administering federal awards, including allowable costs, procurement, internal controls, subrecipient monitoring, reporting and audit requirements. Recent updates to the Uniform Guidance, effective for many awards beginning October 1, 2024, introduced several important changes that grantees should understand.

Among the most notable updates are:

- The Single Audit threshold increased from $750,000 to $1,000,000 in federal expenditures.
- The de minimis indirect cost rate increased from 10% to 15%.
- Equipment and supply thresholds increased to $10,000.
- Greater emphasis was placed on internal controls, cybersecurity considerations, transparency and reducing administrative burden.

Even organizations below the Single Audit threshold must still comply with the applicable federal award requirements. In other words, not needing a Single Audit does not mean an organization is free from compliance responsibilities.

Start with the Award Agreement

After receiving a federal award, recipients or subrecipients should promptly review the grant agreement and Uniform Guidance regulations. In addition, the recipient or subrecipient can also identify the Assistance Listing Number and review the Compliance Supplement for requirements specific to their program. These materials should be shared with the finance staff, but also with program managers, procurement personnel, compliance staff and anyone else involved in administering the award.

Key questions that you should be asking include:

- What costs are allowable under the award?
- What reporting deadlines apply?
- Are there procurement requirements?
- Are there matching or cost-sharing obligations?
- Are there restrictions on how funds may be used?
- Will funds be passed through to subrecipients?
- What documentation must be maintained?

Federal regulations are detailed and can be complex. Organizations should also review applicable federal guidance, agency-specific requirements and their own internal policies to ensure alignment.

Strengthen Internal Controls Early

Effective internal controls are central to federal grant compliance. Internal controls help ensure that funds are used only for allowable purposes, costs are properly approved and documented, reports are accurate and compliance requirements are met.

A strong control environment should address the approval of grant expenditures, segregation of duties, procurement and purchasing procedures, time and effort reporting, subrecipient monitoring, financial reporting, record retention, review of grant reimbursement requests and monitoring of compliance deadlines.

Auditors will often request written policies and procedures and may test whether controls are not only designed properly, but operating effectively. Having policies on paper is important, but organizations must also demonstrate that those policies are being followed.

Prepare Your Schedule of Expenditures of Federal Awards (SEFA) Before Year-End

For organizations subject to a Single Audit, management is responsible for preparing the Schedule of Expenditures of Federal Awards, commonly known as the SEFA. The SEFA lists federal expenditures by federal agency, grant program, assistance listing number, grant number, amount expended and amounts provided to subrecipients, if applicable. It is a key document in the Single Audit process and is used by the auditor to determine which federal programs will be tested. Common SEFA challenges include incomplete grant listings, incorrect assistance listing numbers, failure to identify pass-through awards, missing subrecipient amounts and confusion between award amounts, revenue recognized and expenditures incurred. Maintaining a grant-tracking schedule throughout the year can help avoid last-minute issues and improve audit readiness.

Compliance Is an Ongoing Process

Federal award compliance is most effective when finance, program, procurement and leadership teams work together. Too often, grant compliance is viewed as solely a finance function. In reality, many compliance requirements depend on actions taken by program and operational staff long before the audit begins. Organizations that are most successful treat grant compliance as a continuous process. They review requirements early, update policies, train staff, maintain documentation, monitor spending, and communicate regularly across departments.

We Can Help

Federal funding can create significant opportunities, but it also brings significant responsibility. In more recent months, there has been increased scrutiny over grant administration and compliance, especially for those managing multiple funding sources with various grant requirements. Our team can assist with audit and advisory services designed to help organizations assess readiness, identify compliance gaps, strengthen internal controls, improve documentation and prepare for Single Audit requirements. By investing in compliance early, organizations can reduce audit risk, improve reporting, protect funding and stay focused on carrying out the mission their federal awards were intended to support.

Contact Us

If you need assistance setting up appropriate controls in connection with your federal award, please contact your client service partner or:

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