

2026 Governmental Auditing Update

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About Your Instructor



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Melisa is the award-winning Founder & CEO of Galasso Learning Solutions - a premier, full-service provider of high-quality continuing professional education for CPAs. With over 20+ years of experience, Melisa has become a nationally recognized accounting & auditing standards authority, adult learning theory expert, and author trusted by CPA firms, governments, and organizations to deliver engaging, effective learning experiences.



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NASBA Info

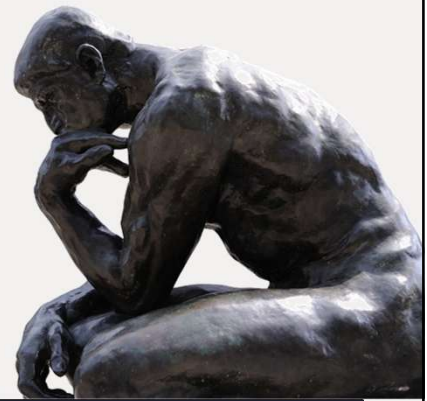
- Recommended Hours of CPE | 2 Hours
- Field of Study | Auditing (Governmental)
- Prerequisites | Prior experience with government auditing standards
- Advanced Preparation | None
- Program Level | Update

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Agenda

Yellow Book Update

Single Audit Update



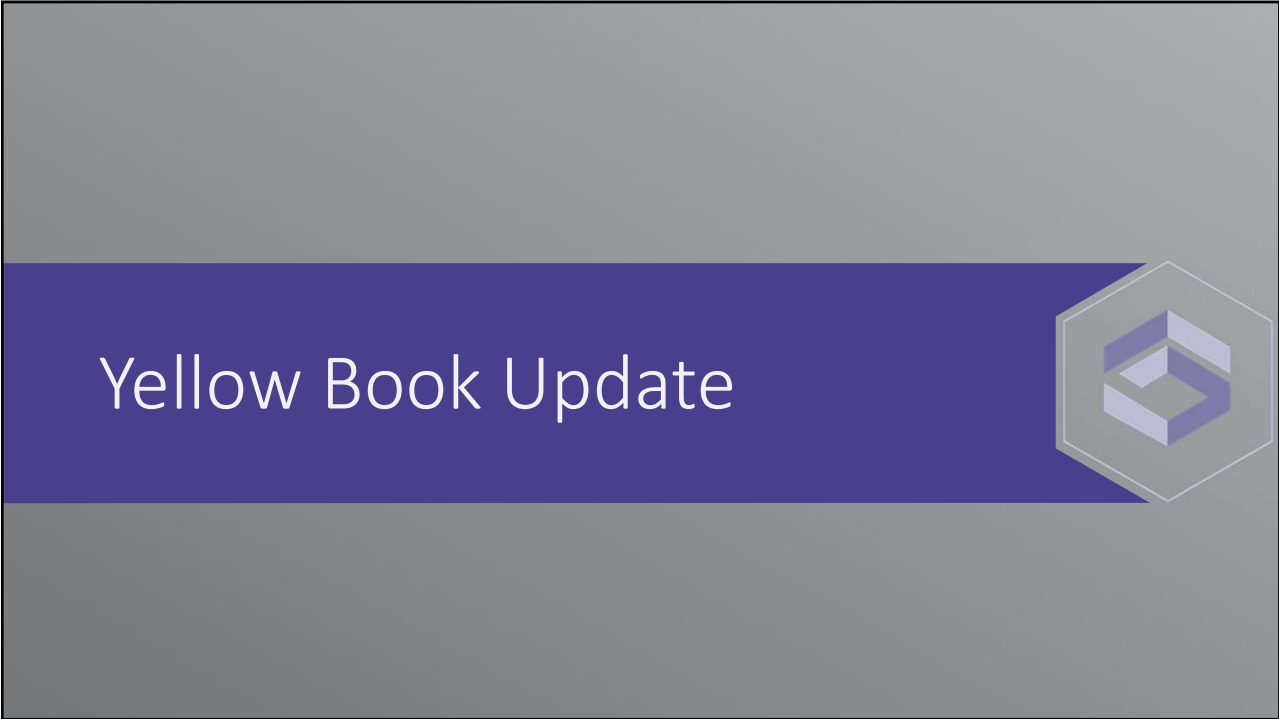
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Learning Objectives

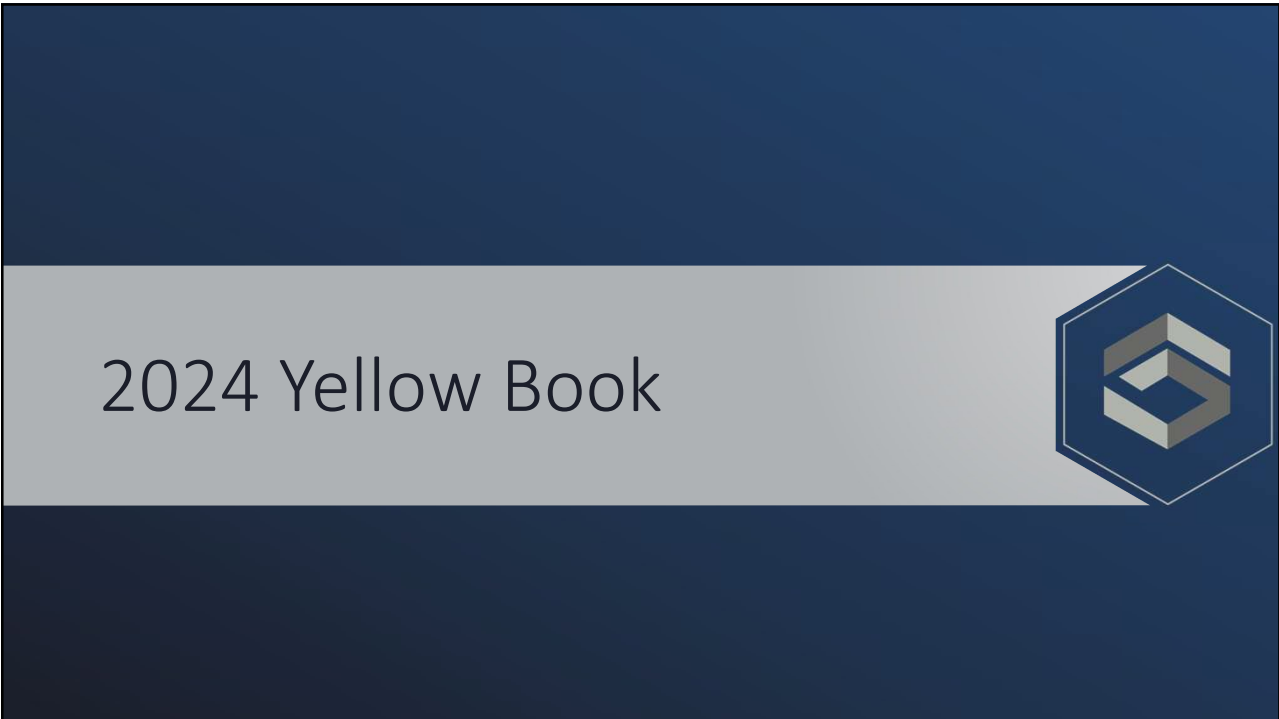
1. Recall quality management requirements under the 2024 Yellow Book
2. Identify changes to the effective date of the 2024 Yellow Book
3. Recognize recent updates to the Green Book affecting internal control considerations
4. Recognize the impact of the 2024 Uniform Guidance changes on Single Audits
5. Identify changes in Appendix B of the AICPA GAS/Single Audit Guide affecting Single Audit engagements
6. Recall key changes introduced through recent OMB memoranda relevant to Single Audits



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Background

Government Auditing Standards 2024 Revision

- Issued: February 1, 2024
- Background:
 - Contains major changes from, and supersedes, Government Auditing Standards 2018 Revision Technical Update April 2021
 - Chapter 5, "Quality Management, Engagement Quality Reviews, and Peer Review" in the 2024 revision replaces Chapter 5, "Quality Control and Peer Review," in the 2018 Revision
 - Application guidance is added to Chapter 6, "Standards for Financial Audits"

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Major Changes

- Some of the changes in the 2024 Revision of Government Auditing Standards reflect:
 - An emphasis on the responsibility of an audit organization's leadership for proactively managing quality on its engagements
 - An approach that promotes scalability of the system of quality management for use by audit organizations differing in size and complexity
 - A risk-based process for achieving the objectives of quality management
 - A change in approach from quality control to quality management
 - Flexibility for audit organizations subject to other quality management standards to avoid the burden of designing, implementing, and operating separate systems of quality management
 - Promotion of proactive and effective monitoring activities and increased emphasis on tailoring monitoring activities
 - Provisions for optional engagement quality reviews of GAGAS engagements
 - Application guidance on key audit matters for when they may apply to financial audits of government entities and entities that receive government financial assistance

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Convergence

- Aligns significantly with AICPA & IAASB QM standards
 - Same effective date as AICPA

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Quality Management Overview



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Objective

- The objective of a system of QM is to provide the audit organization with reasonable assurance that the audit organization and its personnel
 - Fulfill their responsibilities in accordance with professional standards and applicable laws and regulations; and
 - Perform and report on engagements in accordance with such standards and requirements

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Components of QM



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Processes

- The risk assessment process includes assessing and responding to risks to achieving the quality objectives
- The monitoring and remediation process includes
 - Providing relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management
 - Taking appropriate actions to respond to and remediate identified deficiencies in the system of quality management
 - Enabling the audit organization to assess compliance with professional standards and with policies and procedures it has established to address quality risks

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Risk Based Approach

- Establishing the desired outcomes relative to the components of the system of quality management
 - Referred to as quality objectives
- Identifying and assessing risks to achieving the quality objectives
 - Referred to as quality risks
- Designing and implementing responses to address quality risks

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Requirements

- An audit organization must design, implement, and operate a system of quality management that provides it with **reasonable assurance** that the audit organization and its personnel
 - Fulfill their responsibilities in accordance with professional standards and applicable laws and regulations and
 - Perform and report on engagements in accordance with such standards and requirements

Nongovernment Audit Orgs

- A nongovernment audit organization subject to the quality management standards of recognized organizations should comply with the respective organization's QM requirements and the requirements of paragraphs 5.55c, 5.55d, & 5.74c
- Recognized Orgs
 - American Institute of Certified Public Accountants
 - International Auditing and Assurance Standards Board
 - Public Company Accounting Oversight Board

Additional Requirements

5.55c

- If an engagement is terminated before it is completed and an audit report is not issued, document the results of the work to the date of termination and why the engagement was terminated

5.55d

- If auditors change the engagement objectives during the engagement, document the revised engagement objectives and the reasons for the changes

Additional Requirements Cont'd

5.74c

- Auditors who are performing work in accordance with GAGAS meet the continuing professional education (CPE) requirements

Government Audit Organizations

- Government audit organizations should comply with the GAGAS quality management requirements in paragraphs 5.05 through 5.138 and, if applicable, engagement quality review requirements in paragraphs 5.139 through 5.154

Non-Govs Not Subject to Recognized Orgs

- Nongovernment audit organizations not subject to the quality management standards of one of the recognized organizations in paragraph 5.07 should comply with the GAGAS quality management requirements in paragraphs 5.05 through 5.138 and, if applicable, engagement quality review requirements in paragraphs 5.139 through 5.154

Yellow Book QM Requirements



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Monitoring and Remediation Process

- The audit organization should establish a process to monitor the design, implementation, and operation of the system of quality management to provide a basis for identifying deficiencies and remediating them on a timely basis

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Monitoring and Remediation Process Cont'd

- Designing and Performing Monitoring and Remediation Activities
 - The audit organization should design and perform monitoring and remediation activities to
 - Provide relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management
 - Take appropriate actions to respond to identified deficiencies so that they are remediated on a timely basis
 - Enable it to assess compliance with professional standards and with policies & procedures it has established to address quality risks

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Monitoring and Remediation Process Cont'd

- The audit organization should establish policies and procedures that address the objectivity of the individuals performing the monitoring and remediation activities and require those individuals to have sufficient competence, authority, and time to perform these activities

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Monitoring and Remediation Process Cont'd

- Evaluating Quality Management Findings and Quality Management Deficiencies
 - The audit organization should evaluate findings concerning the system of quality management to determine whether deficiencies exist, including in the monitoring and remediation process
 - The audit organization should evaluate the severity and pervasiveness of identified deficiencies in the system of quality management by investigating their underlying causes and evaluating their effect, both individually and in the aggregate, on the system of quality management

Monitoring and Remediation Process Cont'd

- Responding to Identified QM Deficiencies
 - The audit organization should design and implement remedial actions that respond to the results of the analysis of underlying causes to address identified deficiencies in the system of quality management
 - The audit organization should evaluate the remedial actions to determine whether they are effective in addressing the identified quality management deficiencies and their related underlying causes
 - If the audit organization's evaluation indicates that the remedial actions are not effective in addressing the quality management deficiencies, the audit organization should modify the remedial actions such that identified deficiencies and their related underlying causes are addressed

Monitoring and Remediation Process Cont'd

- Quality Management Findings About a Particular Engagement
 - The audit organization should respond to circumstances when QM findings indicate that there is an engagement for which
 - Required procedures were omitted during the performance of the engagement or
 - The report issued may not comply with professional standards or applicable laws or regulations

Monitoring and Remediation Process Cont'd

- Ongoing Communication Related to Monitoring and Remediation
 - The audit organization should communicate to appropriate personnel, including the senior-level official assigned responsibility and accountability for the system of quality management, and relevant engagement partner(s) or director(s) the following:
 - A description of the monitoring activities performed
 - The identified deficiencies, along with information about their severity and pervasiveness
 - The remedial actions to address identified deficiencies

Monitoring and Remediation Process Cont'd

- The audit organization should communicate the matters found to engagement teams and others within the system of quality management to enable the audit organization and appropriate personnel to take prompt remedial action related to deficiencies in accordance with their responsibilities

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Monitoring and Remediation Process Cont'd

- Evaluating and Concluding on the System of Quality Management
 - The senior-level official assigned responsibility and accountability for the audit organization's system of quality management should evaluate the system of quality management
 - The evaluation should be undertaken as of a point in time and performed at least annually

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Monitoring and Remediation Process Cont'd

- Based on this evaluation, the senior-level official should conclude and document one of the following:
 - The system of quality management provides the audit organization with **reasonable assurance** that the objective of the system of quality management is being achieved
 - **Except for** matters related to identified deficiencies that have a severe but not pervasive effect on its design, implementation, and operation, the system of quality management provides the audit organization with reasonable assurance that the objective of the system of quality management is being achieved
 - The system of quality management **does not provide** the audit organization with reasonable assurance that the objective of the system of quality management is being achieved

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Monitoring and Remediation Process Cont'd

- When evaluating and concluding on the system of quality management, the senior-level official assigned responsibility and accountability for the system of quality management should consider
 - Audit organization's quality management risk assessment process, including its quality objectives, quality risks, and responses and the extent to which the audit organization's responses address the quality risks
 - Results of the monitoring and remediation process

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Documentation

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Documentation

- The audit organization should document its system of quality management in a manner sufficient to
 - Support personnel's consistent understanding of the system of quality management, including an understanding of their roles and responsibilities with respect to the system of quality management and performing engagements
 - Support the consistent implementation and operation of the responses to address quality risks
 - Provide evidence of the design, implementation, and operation of the responses to address quality risks to support the evaluation of the system of quality management by the senior-level official assigned responsibility and accountability for it

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Documentation Cont'd

- The audit organization should include the following in its documentation of its system of quality management:
 - Identification of the
 - Senior-level official assigned responsibility and accountability for the system of quality management
 - Individual or individuals assigned operational responsibility for the system of quality management
 - The audit organization's quality management risk assessment, including its quality objectives, quality risks, and a description of the responses and how the audit organization's responses address the quality risks

Documentation Cont'd

- Monitoring and remediation process
 - Evidence of the monitoring activities performed
 - The evaluation of findings, and identified deficiencies and their related underlying causes
 - Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions
 - Communications about monitoring & remediation
 - The conclusion and the basis for the conclusion reached

Documentation Cont'd

- The audit organization should establish a period of time for document retention for the system of quality management that is sufficient to enable the audit organization and its peer reviewer to monitor the design, implementation, and operation of the system of quality management or for a longer period if required by law or regulation

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EQR



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Engagement Quality Review (EQR)

- An audit organization using engagement quality reviews should establish policies and procedures that set forth the eligibility criteria to be appointed as an engagement quality reviewer or an assistant to an engagement quality reviewer

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EQR Cont'd

- The policies and procedures should require that any engagement quality reviewer and any assistants to an engagement quality reviewer not be members of the engagement team, and
 - Have the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; and
 - Comply with applicable legal and ethical requirements, including those addressing threats to the objectivity of the engagement quality reviewer

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EQR Cont'd

- An audit organization using engagement quality reviews should establish policies and procedures that address circumstances in which the engagement quality reviewer's eligibility to perform the quality review is impaired and the appropriate actions to be taken by the audit organization
- The audit organization should include in such policies and procedures notification to appropriate individuals within the audit organization if the engagement quality reviewer becomes aware of circumstances that impair the engagement quality reviewer's eligibility

Performance of the EQR

- An audit organization using engagement quality reviews should establish policies and procedures regarding the performance of the engagement quality review that address the following:
 - a) The engagement quality reviewer's responsibilities to perform procedures at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the engagement team's significant judgments and the conclusions reached thereon
 - b) The responsibilities of the engagement partner or director in relation to the engagement quality review, including that
 - The engagement partner or director is precluded from releasing the audit report until after having received notification from the engagement quality reviewer that the engagement quality review is complete and
 - Documentation is provided to the engagement quality reviewer to permit completion of the engagement quality review

Performance of the EQR Cont'd

- c) Circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgment give rise to a threat to the engagement quality reviewer's objectivity and appropriate actions to take in these circumstances

Performance of the EQR Cont'd

- In performing an engagement quality review, the engagement quality reviewer should do the following:
 - a) Read and obtain an understanding about information communicated to the engagement quality reviewer by the
 - Engagement team regarding the nature and circumstances of the engagement and the entity and
 - Audit organization related to its monitoring and remediation process, in particular, identified deficiencies that may relate to, or affect, the areas involving significant judgments made by the engagement team

Performance of the EQR Cont'd

- b) Discuss with the engagement partner or director and, if applicable, other members of the engagement team, significant matters and significant judgments made in planning, performing, and reporting on the engagement
- c) Review selected engagement documentation relating to the engagement team's significant judgments and evaluate the following:
 - Basis for making those significant judgments, including the engagement team's exercise of professional skepticism (as applicable to the type of engagement)
 - Whether the engagement documentation supports the conclusions reached
 - Whether the conclusions reached are appropriate

Performance of the EQR Cont'd

- d) Evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations
- e) Evaluate the basis for
 - The engagement partner/director's determination that the engagement partner/director's involvement has been sufficient and appropriate throughout the engagement such that the engagement partner/director has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement and
 - The engagement partner/director's determination that independence and ethical requirements have been fulfilled

Performance of the EQR Cont'd

f) Review

- For audits of financial statements, the financial statement and the auditor's report thereon, including, if applicable, the description of the key audit matters;
- For reviews of financial statements or financial information, the financial statements or financial information and the audit report thereon; or
- For other engagements, the audit report, and when applicable, the subject matter information

Performance of the EQR Cont'd

- If an engagement quality reviewer has concerns that the engagement team's significant judgments or conclusions are not appropriate, the engagement quality reviewer should notify the engagement partner or director
 - If such concerns are not resolved to the engagement quality reviewer's satisfaction, the engagement quality reviewer should notify appropriate individuals in the audit organization that the engagement quality review cannot be completed

Completion of the EQR

- When an engagement quality review is performed, the engagement quality reviewer should notify the engagement partner or director when the engagement quality review is complete

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EQR Documentation

- When an engagement quality review is performed, the engagement quality reviewer should document
 - Names of the engagement quality reviewer and individuals who assisted with the quality review
 - That the procedures required by the audit organization's policies on engagement quality reviews were performed
 - That the engagement quality reviewer is not aware of any unresolved matters that would cause the engagement quality reviewer to believe that the significant judgments that the engagement team made and the conclusions it reached were not appropriate
 - The notifications required in accordance with paragraphs 5.147 & 5.152
 - The date of completion of the engagement quality review

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Financial Reporting



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Key Audit Matters – Application Guidance

- Although there is no requirement in GAGAS to communicate key audit matters in the auditor's report, auditors may be required to communicate in the auditor's report key audit matters for audits of government entities and entities that receive government financial assistance if
 - Engaged to do so by management or those charged with governance or
 - Required by law or regulation

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Effective Date



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Effective Date

- Effective for financial audits, attestation engagements, and reviews of financial statements for periods beginning on or after December 15, 2025, and for performance audits beginning on or after December 15, 2025



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Effective Date Cont'd

- A system of quality management that complies with Government Auditing Standards is required to be designed and implemented by December 15, 2025
- An audit organization should complete its evaluation of the system of quality management by December 15, 2026



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Effective Date Cont'd

- Early implementation is permitted



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Quality Management FAQs from the GAO



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GAO's Government Auditing Standards QM FAQs

Frequently Asked Questions: Establishing and Maintaining a System of Quality Management GAO-26-108710

- Issued: December 15, 2025
- Background:
 - Since the 2024 Yellow Book was issued, the GAO has received numerous questions about establishing and maintaining a system of quality management
 - This document provides guidance to auditors and audit organizations by answering those FAQs

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One Small Issue...

- The GAO published and released this document on December 15, 2025, the same date as the deadline to implement a System of Quality Management!
- However, Federal Government Audit Organization may defer the design & implementation of its system of QM until no later than March 16, 2026



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The Guidance Has Three Sections

Section I: Quality Management Risk Assessment Process

Section II: Quality Management Monitoring and Remediation Process

Section III: Engagement Quality Reviews

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Section I: QM Risk Assessment Process

Figure 1: Quality Management Risk Assessment Process



Source: GAO. | GAO-26-108710

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Section I: QM Risk Assessment Process Cont'd

- The 11 questions in this section include:
 - We met the 2018 Yellow Book requirements and have clean peer reviews; do we need a new set of policies and procedures?
 - When does the initial risk assessment need to be performed, December 15, 2025, or 2026?
 - Do you need to establish all the quality objectives?
 - Does the GAO have a template or guide for designing a system of quality management?

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Section II: QM Monitoring and Remediation Process

Figure 2: Relationship Between Risk Assessment and Monitoring and Remediation Processes



Source: GAO. | GAO-26-108710

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Section II: Quality Management Monitoring and Remediation Process Cont'd

- The 7 questions in this section include:
 - What's the relationship between the risk assessment and monitoring and remediation process?
 - Does a small firm need to hire another audit organization to monitor the system of QM?
 - What's the difference between an engagement quality review and an engagement inspection?

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Section III: Engagement Quality Reviews

- The 4 questions in this section include:
 - Is an engagement quality reviewer subject Yellow Book CPE requirements if they don't perform Yellow Book engagements?
 - Yellow Book requires the engagement quality review to be done before report issuance, how can a firm do that and issue a timely report?

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Key Takeaways

GAO has answered the FAQs for establishing and maintaining a QM System

Timing was not ideal, but the GAO's responses didn't introduce any new concepts or substantial changes

Questions address the QM process, monitoring and remediation processes, and engagement quality reviews

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Effective Date

- This guidance was effective as of its release date, December 15, 2025



GAO Transition



Transition

- The eighth Comptroller General, Gene Dodaro, was appointed in 2010. His term ended on December 29, 2025.
 - After more than 50 years of public service with GAO and 15 years as Head
- Orice Williams Brown is serving as Acting Comptroller General until Commission selects new Comptroller General

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Green Book



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2025 Revision

Standards for Internal Control in the Federal Government

- Issued: May 2025
- Background:
 - Previous version of the Green Book was issued in September 2014. The 2025 revision contains changes from and supersedes the 2014 version.
 - Federal Managers' Financial Integrity Act of 1982 requires Comptroller General to issue standards for internal control in the federal government

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Key Changes in the Revision

Improper payments and information security risks

Risk assessment documentation

Documentation for significant changes to the internal control system

2 new appendixes providing additional control activity information

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Updates

- Emphasis on:
 - Prioritizing preventive control activities
 - Management's responsibilities for internal control at all levels of the organizations structure
- Clarify the intent of the standards
- Continue harmonizing with Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control – Integrated Framework

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Improper Payments and Info Security

- Adds a requirement to consider risks related to improper payments and information security when identifying, analyzing, and responding to risks (paragraphs 8.01 through 8.05 and 8.11 through 8.20)

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New Documentation Requirements

- Management documents the results of the risk assessment, including the identification, analysis, and response to risks, that are completed on both a periodic and ongoing basis
 - This includes documentation of the consideration of risks related to fraud, improper payments, information security, and significant internal and external changes that could impact the internal control system (paragraph 7.15)
- Management documents a process for responding to significant changes and related risks so that the internal control system can be quickly adapted as needed to respond to changes once they occur (paragraph 9.08)

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Fraud Considerations

- The types of fraud have been broadened to clarify
 - That fraud can be both financial and nonfinancial; and
 - What other types of illegal acts are considered as fraud (paragraph 8.06)
- Emphasizes that fraud involves obtaining something of value through willful misrepresentation (paragraph 8.06)

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Preventative Controls

- Emphasizes that management prioritizes preventive controls by considering them first, as they generally offer the most cost-efficient use of resources and are generally effective at mitigating fraud and improper payments (paragraphs 10.09 through 10.11)

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Effective Date

- Effective beginning with fiscal year 2026 and the Federal Managers' Financial Integrity Act of 1982 reports covering that year
- Early implementation is permitted



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The Green Book



<https://www.gao.gov/assets/gao-25-107721.pdf>



Single Audit Update



2024 Uniform Guidance Update



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Background

2024 Uniform Guidance

- Issued: April 2024
- Background:
 - 2 CFR 200.109 requires updating every 5 years
 - Proposal issued October 2023

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Purpose

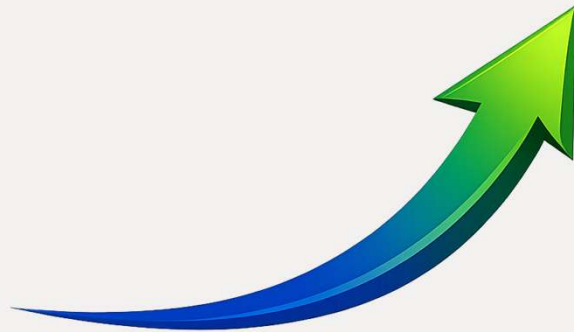
- OMB is revising its guidance in 2 CFR for the purpose of:
 - Incorporating statutory requirements and administration priorities
 - Reducing agency and recipient burden
 - Clarifying sections that recipients or agencies have interpreted in different ways
 - Rewriting applicable sections in plain language, improving flow, and addressing inconsistent use of terms within the guidance

Audit Changes

- The threshold for audit has been increased from \$750,000 to \$1 million
- The Type A threshold has been increased to \$1 million and the amount of awards expended for which it applies has been increased from \$25 million to \$34 million

Indirect Cost Rate

- Raises the de minimis indirect cost rate from 10% to 15%



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FAQ

Can an entity with a NICRA switch to the de minimis rate going forward?

Answer: Yes, once the NICRA expires. The 2024 UG 200.414(f) states that “Recipients and subrecipients that do not have a current Federal negotiated indirect cost rate (including provisional rate) may elect to charge a de minimis rate...”



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FAQ

Can I apply the 15% to existing Awards?

Answer: Federal agencies may allow a recipient to apply the 15% de minimis rate to an existing award if the agency determines that there are sufficient funds to support the 15% de minimis rate.

In these instances, the recipient must charge the 15% de minimis rate **only to costs incurred after the effective date of the amendment** to implement the 15% de minimis rate. Recipients **may not retroactively** apply the de minimis rate to costs incurred prior to the effective date of the amendment.



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Questioned Costs

- The questioned costs definition has been revised and examples have been provided to help provide further clarification
 - Including moving definitions of likely and known questioned costs from Subpart F to Subpart A
- Requires that when there are known questioned costs but the dollar amount is undetermined or not reported, a description of why the dollar amount was undetermined or otherwise could not be reported

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Equipment vs. Supplies

- Raises equipment and supply thresholds from \$5,000 to \$10,000



NOFO

- Revises the template text for a Notice of Funding Opportunity (NOFO)

Internal Controls

- Added cybersecurity considerations to internal controls regarding safeguarding information

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Procurement

- Adds “veteran-owned business” to the types of businesses that recipients and subrecipients are encouraged to consider for procurement contracts under a Federal award
- Clarifies that micro-purchase is referring to an individual procurement transaction
- Removes prohibition of the use of statutorily or administratively imposed state, local, or tribal geographical preference

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Procurement Cont'd

- Expressly **does not prohibit** using Project Labor Agreements (PLAs) or similar forms of pre-hire collective bargaining agreements; or requiring construction contractors to use hiring preferences or goals for people residing in high-poverty areas, disadvantaged communities or requiring a contractor to use hiring preferences or goals for individuals with barriers to employment

Procurement Cont'd

- Allows Indian Tribes to have similar exception to procurement rules as States

Subrecipient Monitoring

- Includes a requirement for PTEs to confirm that potential subrecipients are not suspended, debarred, or otherwise excluded from receiving Federal funds

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Fixed Amount Awards

- Doubled the thresholds for fixed amount awards to \$500,000



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Pensions

- Clarified that recipients and subrecipients may not charge unfunded pension and post-retirement health benefits to an award

Prior Approvals

- Removed some prior approval requirements
 - § 200.201 Use of grant agreements
 - § 200.311 Real Property
 - § 200.313 Equipment
 - § 200.413 Direct costs, paragraph (c)
 - § 200.438 Entertainment costs
 - § 200.454 Memberships, subscriptions, and professional activity costs, paragraph (c)
 - § 200.456 Participant support costs
 - § 200.467 Selling and marketing costs
 - § 200.470 Taxes (including Value Added Tax)

Terminology

- Throughout subparts A – E of the regulation the use of the term non-federal entity has been replaced with recipient and/or subrecipient
 - Subpart F, Audit Requirements, retains the use of the non-federal entity term to maintain alignment with the statutory provisions of the Single Audit Act

Terminology Cont'd

- Added the term **“for-profit organizations”** to definitions
 - Generally, means an organization or entity organized for the purpose of earning a profit
 - The term includes but is not limited to:
 - An “S corporation” incorporated under subchapter S of the Internal Revenue Code
 - A corporation incorporated under another authority
 - A partnership
 - A limited liability company or partnership
 - A sole proprietorship

Terminology Cont'd

- Updated the definition of period of performance (again)
 - The time interval between the start and end date of a Federal award, which may include one or more budget periods

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Terminology Cont'd

- Adds FASB and GASB to acronyms
- Removes some acronyms
- Added continuation funding, prior approval, and participants to definitions
- More frequent use of the term Federal Financial Assistance

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Not Changed

- OMB received several comments suggesting that OMB define the term beneficiary
 - OMB did not propose to define the term, the meaning of which can vary widely between Federal agencies as well as within agencies between assistance programs
 - OMB defers to Federal agencies to determine who is or is not a beneficiary under their respective programs consistent with law

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Effective Date

- Effective October 1, 2024



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2024 Compliance Supplement Clarification

- The revisions to 2 CFR Part 200, Subpart F are effective for auditee fiscal years beginning on or after October 1, 2024
 - UG update was silent as to the effective date for fiscal years

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OMB Memos



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Memos

- OMB Memorandum M-24-11, Reducing Burden in the Administration of Federal Financial Assistance issued April 4, 2024
- Council on Federal Financial Assistance (COFFA) issued supplemental information on Federal Agency Implementation of the 2024 Revisions on August 15, 2024

Clarifications – New Awards

- New Federal awards issued on or after October 1, 2024 that apply OMB's guidance in 2 CFR, but do not specifically reference which version of the guidance they apply, may be assumed to apply the 2024 Revisions

Clarifications – Amendments (Existing)

- Amendments issued on or after October 1, 2024 to existing awards **made before October 1, 2024** that applied a previous version of OMB's guidance in 2 CFR1 may be assumed to **continue applying the previous version** of the guidance unless the amendment explicitly applies the 2024 Revisions to the award

Clarifications – Existing

- Federal awards issued before October 1, 2024 that applied a previous version of OMB's guidance in 2 CFR and have not been amended may be assumed to continue applying the previous version of the guidance

Clarification – Subawards

- Subawards issued under Federal awards applying the 2024 Revisions (either at the time of issuance or through amendment) must also apply the 2024 Revisions
- Pass-through entities with awards amended by a Federal agency to include the 2024 Revisions must similarly amend existing subawards
- However, if the Federal award to a recipient applies a previous version of the 2 CFR guidance, then the previous version also applies to the subaward—even if the subaward itself is made after October 1, 2024

Timing

- The 2024 Revisions do not automatically go into effect for existing awards issued prior to October 1, 2024
- If recipients or subrecipients have questions on which version of the guidance applies to a specific Federal award or amendment, they should communicate with the Federal agency that made the award (or pass-through entity as appropriate)

Class Exceptions

- Notice of two OMB class exceptions available to Federal agencies for awards applying the prior version of the Uniform Grants Guidance
 - Tracking equipment and unused supplies at the revised threshold of \$10,000 (2 CFR 200.1, 200.313(e), 200.314(a), 200.439(b))
 - Once recipients make systems changes to track equipment and unused supplies at this higher threshold, it becomes increasingly difficult to simultaneously track these items for existing awards at the \$5,000 threshold
 - Procurement standards for Indian Tribes (2 CFR 200.317)
 - Indian Tribes wishing to follow their own procurement standards, as opposed to adhering to the procurement standards in 2 CFR 200.318 through 200.327, are still required to simultaneously adhere to the procurement standards in the prior version of the 2 CFR guidance for existing awards

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GAS Guide Update



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Background

- The AICPA Audit Guide, *Government Auditing Standards and Single Audits* is updated annually
 - Typically for specific technical updates and conforming changes
- In 2025, GAQC Executive Committee decided to take on a project to overhaul the Guide contents to ensure it addresses quality concern areas and also aligns with how practice has evolved

Transition

- The enhanceive changes were included as Appendix B of the 2025 edition of the Guide
- Appendix B will replace all single audit chapters (Part II) in the 2026 edition of the Guide

Chapters Reorganized

Ch #	2024 GAS-SA Guide Chapter Title	Ch #	2025 Appendix B Chapter Title
1 - 4	Government Auditing Standards	5	Overview of Uniform Guidance Audit Requirements
5	Single Audit Act, Uniform Guidance Audit Requirements, Compliance Supplement	6	Compliance Supplement
6	Auditor Planning Considerations Under the Uniform Guidance	7	Preliminary Engagement Activities
7	Schedule of Expenditures of Federal Awards	8	Planning Consideration
8	Determination of Major Programs	9	Schedule of Expenditures of Federal Awards
9	Consideration of Internal Control Over Compliance for Major Programs	10	Determination of Major Programs
10	Compliance Auditing Applicable to Major Programs	11	Performing Entity-Wide Procedures
11	Audit Sampling Considerations of Uniform Guidance Compliance Audits	12	Identification and Assessment of Risks of Material Noncompliance
12	Audit Considerations of Pass-Through Entities and Subrecipients	13	Testing Internal Control Over Compliance For Each Major Program
13	Auditor Reporting Requirements and Other Communication Considerations in a Single Audit	14	Testing Compliance Applicable to Each Major Program
14	Program-Specific Audits	15	Evaluation and Reporting of Findings
		16	Reporting
		17	Completion
		18	Post Audit Considerations
		19	Program-Specific Audits

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Added

- Table of contents with paragraph numbers to the beginning of each chapter
- Five chapters to reduce length of chapters and assist users with locating content
- Documentation boxes with the requirements from auditing standards
- Incorporated extant note boxes and certain footnotes into the body
- Additional examples to assist with the application of content

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Removed

- COVID-19 Considerations boxes
- Auditee information as guide's focus is auditors

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Chapters With More Changes

- Chapter 11 – Entity-Wide Procedures
 - Understanding the Entity and Its Environment
 - Understanding the Components of the Entity's System of Internal Control
 - IT Applications and General IT Controls
 - Discussion Among the Engagement Team
 - Consideration of Fraud
 - Results of Previous Audits, Attestation Engagements, and Monitoring

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Risk Assessment

- Entity Wide
 - Performed collectively for more than one major program that are administered (operate) within same environment (organizational unit)
- Major Program Level
- Direct & Material Compliance Requirement Level

Chapters with More Changes Cont'd

- Chapter 12 – Identification & Assessment of RMNCs
 - Understanding of Major Program
 - Determining Materiality for Each Major Program
 - Identifying Types of Compliance Requirements Subject to Audit
 - Determining DM Compliance Requirements
 - Identifying RMNCs Assessing Inherent Risk and Control Risk

D&M Determination

- Generally considered to contain more than one compliance category:
 - Equipment and real property management
 - Matching, level of effort, earmarking
 - Procurement and suspension and debarment

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D&M Determination Cont'd

- If expenditures for a cost category exceed materiality for the major program, it is an indicator that all compliance requirements subject to audit are considered direct and material

All costs	Activities allowed or unallowed, allowable costs/cost principles, period of performance
Contractual	Procurement and suspension and debarment
Loans/loan guarantees	Eligibility and special tests and provisions
Beneficiary payments	Eligibility
Subrecipient payments	Suspension and debarment and subrecipient monitoring

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Conflict with Audit Guidance

- A risk of material noncompliance exists when
 - There is a reasonable possibility of noncompliance occurring (that is, likelihood), and
 - If it were to occur, there is a reasonable possibility of the noncompliance being material (that is, magnitude)
- However, in a Single Audit, the auditor is required to audit the types of compliance requirements identified as subject to audit that could have a D&M effect on each major program
 - The identification of RMNCs for each D&M compliance requirement does not include a consideration of the likelihood of noncompliance occurring

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Appendix

- **Nonauthoritative** appendix provides examples of identified RMNCs for each type of compliance requirement

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More Granular

- Historically, some auditors may have assessed risk at the overall compliance requirement level (e.g., Activities Allowed/Unallowed), not based on the composition of audit objectives that support overall compliance with the applicable compliance requirement
 - Results in overly broad RAP's and further audit procedures
 - Identified controls or substantive procedures may not be responsive to RMNCs

Example Allowable Cost

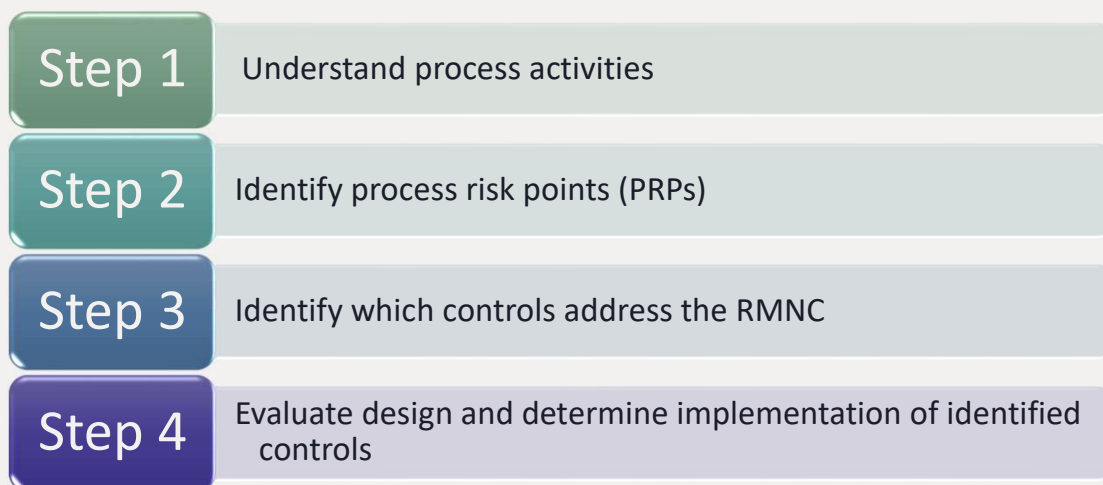
- Identified Risks
 - Direct payroll costs are not for allowable activities, are not reasonable, or are not based on records that accurately reflect the work performed
 - Fringe benefit costs are not charged based on rates that are federally negotiated, fringe benefit costs are not for allowable activities, are not allowable, are not properly assigned to federal awards
 - Direct other than personal services costs are not for allowable activities or are not allowable

Chapters with More Changes Cont'd

- Chapter 13 – Testing Internal Controls
 - Obtaining Understanding of Control Activities
 - Testing Operating Effectiveness of Controls
 - Performing Control Sampling of Manual Controls
 - Evaluating Cumulative Evidence for Operating Effectiveness

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Four Step Processes for ICOC



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Risk Associated with the Control (RAWTC)



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Updated Sample Size Table

Control Sample Sizes When Zero Deviations Expected

Frequency of Manual Control and Population Size	Control Sample Size Based on RAWTC		
	Low	Moderate	High
Annual (1)	1	1	1
Quarterly (4)	2	2	2
Monthly (12)	2	3	4
Semi-Monthly (24)	3	5	7
Weekly (52)	5	7	9
Population Size 53-249	10%	15%	25%
Daily/Recurring (250+)	25	40	60

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Chapters with More Changes Cont'd

- Chapter 14 – Testing Compliance
 - Performing Tests of Compliance in Response to Assessed Risks
 - Understanding Population and Considering Completeness Testing Compliance
 - Evaluating Relevance and Reliability of Information
 - Considering Sufficiency and Appropriateness of Audit Evidence
 - Example Populations and Sampling Unit

Primary Changes

- Enhance guidance on identifying individually important items to test that are quantitatively large
- New example populations, sampling units, and procedures to test completeness of population
- New guidance on testing relevance and reliability for information when used in substantive procedures
- New sample sizes tables for testing compliance based on whether the auditor is able to rely on internal controls
- New guidance on obtaining audit evidence when instances of noncompliance are identified

Individually Important Items

- Items that, standing alone, are significantly different from the remainder of the population

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Zero Deviations & IC are Effective

Number of Units (Items) in the Population	Compliance Sample Sized Based on Inherent Risk		
	Low	Moderate	High
10 or less (a)	35%	45%	55%
11-24	20%	25%	30%
25-49	15%	18%	21%
50-149	12%	15%	18%
150-249	10%	12%	15%
250 +	25 items	30 items	40 items

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Not Effective, Expecting Zero Deviations

Number of Units (Items) in the Population	Compliance Sample Sized Based on Inherent Risk		
	Low	Moderate	High
10 or less (a)	50%	60%	70%
11-24	30%	40%	50%
25-49	25%	30%	35%
50-149	20%	25%	30%
150-249	15%	20%	25%
250 +	30 items	40 items	60 items

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Proposed Changes to DCF



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Proposed Revisions to the SF-SAC Form

General Services Administration [OMB Control No. 3090-0330; Docket No. 2025-001; Sequence No. 19] Submission for OMB Review; Federal Audit Clearinghouse

- Released: January 15, 2026
- Background:
 - In accordance with the Paperwork Reduction Act (PRA), the GSA is proposing a revision to an existing information collection request (ICR) for the Data Collection Form (SF-SAC) and associated FAC webform

Proposed Revisions

- Optional resubmission pathway, with fields for resubmission type, reason, and report ID
- Optional structured fields within each audit finding to capture questioned costs (known and likely), criteria, condition, cause, effect, recommendation, and response
 - Have been included in narrative text. This change allows, but does not require, auditor to enter them in separate fields for improved clarity and data usability.

Proposed Revisions Cont'd

- Optional indicators within the audit finding section to report whether the auditor became aware of known fraud, likely fraud, or significant instances of abuse
- New Yes/No field in the FAC webform to capture whether a summary schedule of prior audit findings is included

Comment Criteria

- Comments are invited on:
 - Whether this collection is necessary
 - The accuracy of the burden estimate
 - Ways to enhance quality, utility, and clarity
 - Ways to minimize burden

Comments and Recommendations Due

- Comments and recommendations for this information collection were due February 17, 2026



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EO for Grants



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Background

Executive Order: Improving Oversight of Federal Grantmaking

- Issued: August 7, 2025
- Background:
 - EO focused on reducing waste

Reviews

- Each agency head shall promptly designate a senior appointee who shall be responsible for creating a process to review new funding opportunity announcements and to review discretionary grants to ensure that they are consistent with agency priorities and the national interest

Review Process

- Review and approval of agency funding opportunity announcements
- Continuation of existing coordination with OMB
- Review by designated subject-matter experts (SME)
- Review of funding opportunity announcements and related forms to ensure that they include only such requirements as are necessary for an adequate evaluation of the application and are written in plain language with a goal of minimizing the need for legal or technical expertise in drafting an application
- Interagency coordination to determine whether the subject matter of a particular funding opportunity announcement has already been addressed by another agency announcement and, if so, whether one of the announcements should be modified or withdrawn to promote consistency and eliminate redundancy
- For scientific research discretionary grants, review by at least one SME in the field
- Pre-issuance review of discretionary awards to ensure that the awards are consistent with applicable law, agency priorities, and the national interest, which shall involve in-person or virtual discussion of applications by grant review panels or program offices with a senior appointee or that appointee's designee

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Impact

- Agency heads shall designate one or more senior appointees to review discretionary awards on an annual basis for consistency with agency priorities and substantial progress
 - Such review shall include an accountability mechanism for officials responsible for selection and granting of the awards
- Until the process is in place, agencies shall not issue any new funding opportunity announcements without prior approval from the senior appointee, except as required by law

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Evaluation

- Senior appointees and their designees shall, as relevant and to the extent consistent with applicable law, apply the following principles, including in any scoring rubrics used to assess grant proposals:
 - Discretionary awards must, where applicable, demonstrably advance the President's policy priorities
 - Discretionary awards shall not be used to fund, promote, encourage, subsidize, or facilitate:
 - Racial preferences or other forms of racial discrimination by the grant recipient, including activities where race or intentional proxies for race will be used as a selection criterion for employment or program participation;
 - Denial by the grant recipient of the sex binary in humans or the notion that sex is a chosen or mutable characteristic;
 - Illegal immigration; or
 - Any other initiatives that compromise public safety or promote anti-American values
 - All else being equal, preference for discretionary awards should be given to institutions with lower indirect cost rates

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Evaluation Cont'd

- Discretionary grants should be given to a broad range of recipients rather than to a select group of repeat players
 - Research grants should be awarded to a mix of recipients likely to produce immediately demonstrable results and recipients with the potential for potentially longer-term, breakthrough results, in a manner consistent with the funding opportunity announcement
- Applicants should commit to complying with administration policies, procedures, and guidance respecting Gold Standard Science
- Discretionary awards should include clear benchmarks for measuring success and progress towards relevant goals and, as relevant for awards pertaining to scientific research, a commitment to achieving Gold Standard Science
- To the extent institutional affiliation is considered in making discretionary awards, agencies should prioritize an institution's commitment to rigorous, reproducible scholarship over its historical reputation or perceived prestige

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UG Impact

- The Director shall revise the UG and other relevant guidance to streamline application requirements and to further clarify and require all discretionary grants to permit termination for convenience, including when the award no longer advances agency priorities or the national interest, but subject to appropriate exceptions
- Limit the use of discretionary grant funds for costs related to facilities and administration

Implementation & Termination Clauses

- Within 30 days, each agency head shall review the agency's standard grant T&Cs and submit a report to the Director detailing:
 - Whether the agency's standard terms and conditions for discretionary awards permit termination for convenience and include the termination provisions described in 2 CFR 200.340(a)
 - Whether the agency's standard T&Cs for discretionary foreign assistance awards permit termination based on the national interest; and
 - The approximate number of active discretionary awards at the agency, as well as the approximate percentage of funding obligated under those awards that contain termination provisions allowing for termination
- Each agency head shall, to the maximum extent permitted by law and consistent with relevant EOs or other Presidential directives, take steps to revise the T&Cs of existing discretionary grants to permit immediate termination for convenience, or clarify that such termination is permitted, including if the award no longer advances agency priorities or the national interest

Implementation & Termination Cont'd

- Each agency head shall ensure that such terms are included in all future discretionary grants and likewise shall take steps to revise all applicable regulations binding on or incorporated in discretionary grant terms and conditions to require such terms. Agency heads shall take action to incorporate these new terms and conditions into all future amendments to grant awards.
- To the extent practicable and consistent with applicable law, agency heads shall insert in future discretionary grant agreements terms and conditions that:
 - Prohibit recipients from directly drawing down general grant funds for specific projects without the affirmative authorization of the agency; and
 - Require grantees to provide written explanations or support, with specificity, for requests for each drawdown

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OMB Memo



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Background

M-25-30 Ensuring Accountability: How We Oversee, Audit, and Improve

- Issued: June 23, 2025
- Background:
 - Memo to the Heads of Executive Departments and Agencies from the Executive Office of the President and the OMB regarding federal audits and the Administrations commitment to utilizing tools to prevent waste, fraud, and abuse of taxpayer dollars

Federal Audits

- Federal audits should provide transparency and accountability for the use of taxpayer dollars by Federal agencies
- Audit findings should be used to strengthen and improve internal controls

Circular A-136 Revision

- OMB Circular A-136, Financial Reporting Requirements, was updated July 14, 2025

Key Highlights:

- Continue to prepare financial statements and undergo a full financial statement audit
- Change format of the financial statements and associated audits to single-year presentation
- Revisions effective upon issuance unless otherwise specified in the Circular

Expected Results

The single-year model will:

- Focus on current-year activity and balances
- Streamline audit scope and prioritize necessary expenses
- Establish a cleaner, clearer baseline for progress in future years
- Address high-risk programs and control weaknesses in real time

Future Accountability Ideas

Auditing the auditors

- Assessing the value of dollars spent on audits

Focusing on high-impact audits

- Activities that reduce risk, increase accountability, and bring financial integrity

Linking transparency to reform

- Integrating audit results to program oversight and performance management

Addressing improper payments and waste

- Focus on identifying and preventing improper payments

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Other Changes of Note



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FFATA

- As of March 8, 2025, FSRS.gov is retired, and all Federal Funding Accountability and Transparency Act (FFATA) subaward and executive compensation reporting must be completed directly in SAM.gov
- Starting in October 2025, the assistance listings within SAM.gov will be updated pursuant to the GREAT Act and OMB Memorandum M-24-11
 - Changes 'Federal Assistance Number' to 'Federal Assistance ID' as this field will now include alphanumeric characters in the identifier (e.g. 31.123 vs 31.A1A)

Data Standards

- Grants standard data elements (SDEs)
 - <https://grants.gov/data-standards>

Sam.Gov

- SAM.gov is undergoing significant updates in 2025 and 2026
 - Updated entity registration interface
 - The Revolutionary FAR Overhaul (RFO) impacting representations and certifications, and updated Federal Assistance IDs
 - Alphanumerical characters in assistance listings

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3, 2, 1 Method of Applying New Knowledge

3 things I learned

2 actions to apply what I learned

1 way I will share my learning



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What Questions Do You Have?



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