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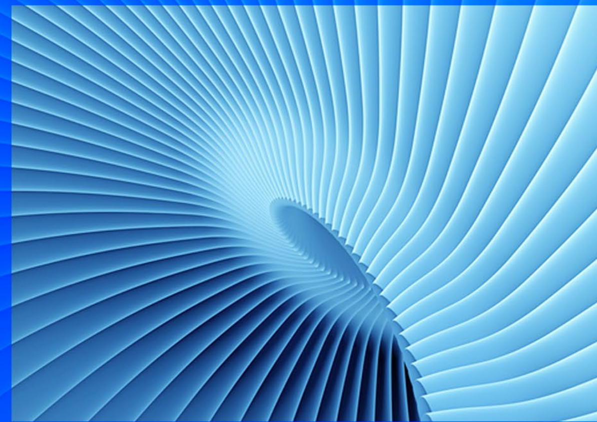
Navigating the proposed overhaul to Uniform Guidance (2 CFR 200)



Key potential impacts to federal grantees and subrecipients, and suggested tactics for adapting

July 2026

The U.S. Office of Management and Budget (OMB) is proposing revisions to the federal Uniform Guidance (2 CFR 200, et seq.) that would substantially change how state and local governments pursue, use, and administer federal funds.[1] With significant impacts on allowable uses and heightened expectations for active fund management accountability, monitoring, and data and financial management, the time for grantees to assess their readiness for this new paradigm is now.

Read our impact analysis and considerations for assessing your readiness for anticipated changes.

A fundamental change from guidance to regulations governing the full grant lifecycle

- OMB's proposed rule goes beyond refining current guidance, creating binding regulations from pre-application through program design and extending to grantee affiliates and subrecipients. Throughout the grant lifecycle, OMB envisions higher expectations for recipient monitoring, broader fund use prohibitions and active scrutiny, and authorities to terminate or suspend awards at any time. Specifically, OMB would assess applications via political appointees and execute discretionary terminations or suspensions if funding uses no longer align with shifting federal priorities, program objectives, or the national interest.
- OMB also seeks to tighten controls across the grant lifecycle with mandatory E-Verify participation, pre-payment screenings via the Treasury's Do Not Pay (DNP) system, and the elimination of reimbursement-based vendor contracts and fixed-amount subawards. The proposed rules also call for more granular cybersecurity and active fund-use monitoring, integrating recipient human resources (HR) and enterprise financial systems with federal tracking.
- Expanded pre-award risk factors would include financial capacity for high-dollar awards, prior performance, history of questionable practices, foreign gift and contract disclosures, and affiliations with organizations violating federal law or undermining national security.
- Pass-through entities in particular would face greater responsibilities, including expanded subrecipient/contractor determinations, heightened time-and-material documentation, and re-evaluating cost-reimbursement models, significantly changing how states manage local, non-profit, and performance-based subrecipients.
- Topically, the proposed rule specifically targets diversity, equity, inclusion, and accessibility (DEIA) and "gender ideology," positioning them as outside the scope of federal awards. It embeds governmentwide conditions tied to civil and religious rights, national interest determinations, and 2025/2026 executive orders to assess application merit and justify award terminations.
- While impacting all grantees, research-intensive recipients—such as hospitals, colleges, and universities—face specific impacts on research eligibility, foreign collaborations, cost allowability, and affiliate relationships. Indirect cost policy, hospital cost principles, and single audit standards are highlighted as areas of special interest.
- Comments had to be submitted by July 13, 2026, via the Federal eRulemaking Portal at regulations.gov. Late comments will be considered to the extent practicable. OMB proposes issuing a final rule effective October 1, 2026, applying a single set of requirements to FY 2027 awards.

Potential impacts on state and local governments

Proposed changes to 2 CFR 200, et seq., are prioritized in the below table by potential programmatic and operational impacts to state and local federal grantees and subrecipients.

Proposed change (CFR reference)	Potential funding use impact	Potential procedural impact	Potential administrative impact	Potential resource impact	Overall change
Uniform Guidance to mandate (200.1)	Converting subtitle A of Title 2 from "guidance" into a directly binding OMB regulation would heighten related provisions for all uses of federal assistance, narrowing the basis for discretion or reasonable interpretation.	Would prompt revisions to policies and procedures to remove ambiguities and institute mandating language (may to shall).	Would reduce grantee leadership prerogatives and prompt increased need to monitor OMB rulemaking itself for binding changes as any future OMB amendments would apply government-wide on OMB's effective date without separate agency rulemakings.	Could prompt need for new publications and system updates.	**Major**
Federal agency review of merit (200.205)	Prior to grant award, senior political appointees would review discretionary awards before issuance, and peer expert review would be only advisory, with a focus on whether a recipient's proposed use is consistent with law, agency priorities, and the national interest (e.g. "advance the President's policy priorities, prohibit the use of funds for discriminatory or otherwise impermissible purposes, and emphasize ensuring compliance with applicable law.") Awards would not be issued solely as a result of issuing a notice of funding opportunity (NOFO).	Would prompt a new or expanded pre-application/ NOFO process among recipients for prioritizing (scoring) proposed uses based on anticipated criterion that would be used by federal appointee reviewers.	With peer review recommendations being advisory only, substantive decision-making authority would be more with political leadership and as such could prompt new oversight and outcome tracking approaches, deviating from conventional expert-review norms.	Could prompt the need for new standards and systems for measuring and reporting on outcomes that meet envisioned merit standards, including demonstration of rigorous and reproducible scholarship and benchmarks for measuring performance of "Gold Standard Science."	**Major**

Potential impacts on state and local governments (continued)

Proposed change (CFR reference)	Potential funding use impact	Potential procedural impact	Potential administrative impact	Potential resource impact	Overall change
Pre-payment verification/ DNP (200.303(g), 200.305)	Could restrict or narrow options for beneficiary eligibility depending on OMB or federal agency risk factors and otherwise block payments to flagged entities, potentially delaying critical program rollouts.	Would prompt grantees to have processes for verifying payee eligibility against Treasury's DNP System or an equivalent before fund disbursal.	Adding pre-screening into existing disbursement workflows could require additional personnel, policies, and oversight, along with administrative processes for confirming that appropriate actions were taken under E-Verify rules. This could be a sizeable operational and compliance change for institutions with decentralized HR functions, foreign researchers, or heavy contractor use given the need to meet workforce eligibility criteria for all federal financial assistance.	Pre-screening would require Application Programming Interface (API) integration between state financial systems (ERP) and DNP databases, or intensive manual screening portals.	**Major**
Mandatory E-Verify (200.3 3(f))	Could impact program scale and continuity to the extent subrecipients or contractors are disqualified if unable or unwilling to participate in E-Verify.	Would require processes for recipients and subrecipients to use DHS E-Verify to confirm employment eligibility among staff/contractors under each award.	Would prompt HR and procurement teams to assess onboarding, contractor credentialing, and subrecipient monitoring to include E-Verify checks.	HR systems would need to integrate with E-Verify and subrecipient reporting portals with compliance toggles.	**Major**
Specific funding use restrictions (200.300, 200.218, 200.219, 200.477)	New restrictions would heavily restrict funding for previously common public health, equity-focused workforce programs, and targeted demographic outreach initiatives.	Would prompt screening, tracking, and enforcement procedures to evaluate activities based on OMB interpretations of what is considered prohibited activities related to DEI/DEIA, gender ideology/transition, disparate-impact liability theories, or elective abortions.	Could prompt new personnel and oversight processes to perform stringent review of program designs, especially in health, human services, and education grants; and the vetting of initiative level subrecipient applications. Applicable to all federal assistance and considered a function of enforcing federal civil rights and the Religious Freedom Restoration Act (RFRA), the application of those laws could create a complex landscape for grant management and program design and implementation.	Could prompt new data intake and management systems tailored to assessing program designs and subrecipient applications specific to OMB guidance and interpretations as to prohibited uses.	**Major**

Potential impacts on state and local governments (continued)

Proposed change (CFR reference)	Potential funding use impact	Potential procedural impact	Potential administrative impact	Potential resource impact	Overall change
Prohibition of using federal awards to promote or support theories of disparate-impact liability (200.218)	Recipients and subrecipients would be barred from using any federal awards to promote or support disparate-impact liability, including disparate-impact studies, disparate-impact litigation, or award activity driven by assumed disparate-impact risk, unless expressly required by law or for internal statistical or demographic analysis provided federal award funds are not used for the analysis and the results are not applied to activities under the award.	Would prompt the need for new procedures to help ensure that program purposes, subaward terms, and related spending clearly demonstrates compliance with the avoidance of what OMB defines as advance theories of disparate-impact liability and otherwise meets acceptable allowances.	Would prompt a review and potential new oversight standards, particularly among hospital, university, and other large institutional grantees where the use of demographic or outcomes data has been prevalent as part of public benefitting programs and federal fund aided hiring, admissions, and research.	Could prompt new or revised systems and resources for pre-screening and merit determination with API integration between state systems and federal application portals and reporting systems.	**Major**
Discretionary termination and suspension (200.340)	Increases the risk profile of multi-year federal initiatives using discretionary federal grants, as funding could be pulled dynamically based on changing federal priorities.	Would prompt risk evaluation and contingency processes based on potential for federal agencies (and pass-throughs) terminating or suspending awards.	Would increase the need to update subaward contracts to include at-will termination clauses and develop rapid-response protocols for federal stop-work orders. Notice and a process for recipients to submit termination cost information would be preserved but formal hearing and appeal rights would extend only to remedies for noncompliance, rather than discretionary termination or suspension; compelling different processes for managing impact and recourse.	Could prompt need for resources to backstop terminated or suspended federal funding to maintain program continuity.	**Major**
Elimination of fixed-amount awards/ subawards (200.201, 200.333)	Restricts the use of simplified funding models often used for smaller subrecipients or performance-based initiatives.	Would prompt procedures for transitioning away from milestone-based fixed funding to cost-reimbursement or standard grant structures.	In lieu of simplified fixed-amount subawards, subrecipients would submit detailed cost documentation, increasing financial monitoring overhead.	Could prompt need for expanded ledger and receipt tracking capabilities in grant management portals.	**Major**

Potential impacts on state and local governments (continued)

Proposed change (CFR reference)	Potential funding use impact	Potential procedural impact	Potential administrative impact	Potential resource impact	Overall change
Federal agency review of risk posed by applicants (200.206)	Factors for evaluating applicant risk would expand to include financial capacity to manage high-dollar awards; prior performance relative to funding goals; applicant history of questionable practices; applicant compliance with foreign gift and contract disclosure rules; and applicant affiliations with organizations engaged in activities that violate federal law or undermine public safety or national security.	Would prompt an expansion of pre-use risk assessments to incorporate and score relative risk from the additional factors.	Could prompt the need, particularly among competitive awards and subgrants, to create and administer risk screening to narrow application pools based on the new factors and otherwise integrate into funding use merit scoring ahead of pursuing funds from federal agencies.	Could prompt new or revised systems and resources for pre-screening and merit determination with API integration between state systems and federal application portals and reporting systems.	**Major**
Lobbying and advocacy bans (200.450)	Completely restricts federally funded civic engagement, voter outreach, and public policy advocacy programs.	Would prompt tracking and enforcement mechanisms to enforce bans on funding voter registration drives, issue advocacy, and influencing state executive branch policymaking.	Would prompt authorities and procedures by which grant managers can scrutinize public outreach and communications campaigns by subrecipients.	Could prompt new data management systems to assess subrecipient activity specific to OMB interpretations of prohibited uses.	**Major**
Cost-reimbursement restrictions (200.320)	Restricts flexibility in vendor contracting for unpredictable projects (like disaster recovery services).	Would prompt need for policies and procedures for establishing basis for cost-reimbursement contracts and notifying federal agencies of the rationale. New agency specific approval processes are possible.	Could be prompted to shift to fixed-price contracts for vendors (not for subawards under new rules), potentially complicating complex service procurements. New standards for when cost-reimbursement contracts would be used might need to be established.	Could prompt need for new or modified payment systems and performance tracking relative to payment.	**Moderate**

Potential impacts on state and local governments (continued)

Proposed change (CFR reference)	Potential funding use impact	Potential procedural impact	Potential administrative impact	Potential resource impact	Overall change
SAM.gov subaward reporting (200.329(g), 200.332(g))	N/A	Would require processes for assuring affirmative confirmation in performance reports that all subawards are reported to SAM.gov.	Adds a mandatory validation step to existing performance reporting cycles.	Could warrant updates to compliance dashboards.	**Moderate**
Cost principles approvals (200.432, 200.442, 200.454, 200.461)	Restricts capacity for capacity building, networking, and publishing program results without explicit permission.	Would require processes for prior written approval for conferences, fundraising, memberships, and publications.	Would increase back-and-forth communication with federal awarding agencies for routine administrative activities.	Could warrant new or enhanced systems for submitting requests to federal agencies.	**Moderate**
Internal controls for confidential business information (200.303)	Confidential business information (CBI) would be a type of information that a recipient or subrecipient must take reasonable cybersecurity and other measures to safeguard.	Could prompt the development of new or revised procedures to define CBI and identify, institute, and document appropriate cyber and other measures commensurate with CBI types.	Could prompt the need for administrative decision-making rules and guidance for when and what type of cyber and other measures are appropriate for CBI types.	Could warrant new or enhanced cybersecurity and other safeguarding systems.	**Moderate**
Strengthen accountability for time-and-materials type contracts and streamline other procurement requirements (200.318)	Material costs under time-and-materials contracts would need to be supported by documentation and market rate priced. Project labor or pre-hire collective bargaining agreements would be permitted if advancing federal interests, practicability, and cost effectiveness. Recipients and subrecipient employment practices would need to recognize merit and ability to fulfill contract requirements.	Would prompt the creation or revision of cost controls to maintain new standards for transparency in contract pricing and compliance.	Could warrant the need for new or heightened standards to be administered, including relative to documenting material costs, justifying labor or collective bargaining agreements, and otherwise demonstrating compliance with merit-based employee and vendor selection.	Could warrant new or enhanced systems for making and documenting determinations.	**Moderate**

Potential impacts on state and local governments (continued)

Proposed change (CFR reference)	Potential funding use impact	Potential procedural impact	Potential administrative impact	Potential resource impact	Overall change
Subrecipient and contractor determinations and pass-through duties (200.331, 200.332)	Pass-through entities would need to review and classify all related entities either a subaward or a contract, including for all downstream entities such as affiliates, subsidiaries, and related organizations. Pass-through entities would also need to ensure that subrecipients do not take actions that could significantly damage the reputation of the pass-through entity or the federal government and then consult with federal agencies to determine if termination is warranted.	Would prompt the potential expansion of subrecipient/ contractor determination processes, in addition to creating new processes for evaluation and oversight.	Could warrant the need for new or heightened standards to be administered for determining status and objective criteria for what constitutes actions giving rise to reputational damage.	Could warrant new or enhanced systems for making and documenting determinations.	**Moderate**
Buy America for non-infrastructure (200.322)	Restricts procurement of cheaper foreign goods in standard operational grants.	Would prompt processes for maximizing domestic preferences for goods/materials in non-infrastructure awards.	Supply chain and procurement teams would be compelled to track material origins on a broader set of grants.	Could warrant supply chain tracking software enhancements.	**Moderate**
Foreign collaborations and UAS (200.220, 200.216)	Restricts international joint ventures and specific technology procurements.	Would prompt processes to monitor against covered foreign collaborations and Federal Acquisition Security Council (FASC)-prohibited drones.	Could compel procurement and partnership vetting updates.	Could warrant new or enhanced systems for monitoring vendors and subrecipients.	**Moderate**
General admin updates (200.111, 200.112, 200.204, 200.336)	N/A	Could prompt new or revised processes and templates for English language mandates, 500-word NOFO limits, domestic storage encouragement, and conflict of interest disclosures (2-year lookback).	Would prompt oversight to assure template and policy manual updates.	Could prompt need for new publications and system updates.	**Minor**

Suggested courses of action in response

	Action	Description
1	**Submit comments and questions to OMB**	• Provide feedback during the public comment period and, if not possible prior to July 13th, then to the extent allowable. It is an important opportunity to pose questions and highlight the practical realities of how your grants and programs are managed; anticipated administrative and resource costs with proposed changes; and potential impacts to realizing intended federal and grantee goals for the federal funding use based on particular aspects of the envisioned rule changes.
2	**Perform a program portfolio risk assessment to proactively evaluate active portfolios to mitigate risk of disallowance of funds or termination, particularly for grants supporting public health, targeted demographic outreach, and civic engagement.**	• Assess your active and planned pipeline of federal initiatives against proposed federal funding use restrictions (see, 200.218, 200.219, 200.300, 200.447, 200.450). Specifically, the proposed rule "to the extent permitted by law," seeks "to ensure that awards are administered in a manner that does not promote or support theories of disparate-impact liability" and are "not used to fund, promote, encourage, subsidize, or facilitate 'Diversity, equity, and inclusion' (DEI), 'diversity, equity, inclusion, and accessibility' (DEIA) policies, principles, or practices that violate any applicable Federal anti-discrimination laws;" or "Gender ideology as defined in Executive Order 14168." • For active or planned initiatives that could be potentially construed as involving proposed restricted uses, consider options for aligning programs with new federal guidelines and/or identifying alternative non-federal funding sources for envisioned uses.
3	**Perform a compliance systems risk assessment relative to proposed cost and other use controls**	• Identify all active and planned fixed-amount subawards (200.333) and reimbursement-based vendor contracts (200.320). Draft a transition strategy to convert to standard reimbursement or advance models before the rule's effective date. • Similarly, apply proposed additional applicant risk factors (200.206), heightened document controls (200.318, 331, 332), and intended use restrictions or preferences (200.322, 432, 442, 454, 461) to assess sustainability of current subrecipients, program scopes, and other processes and identify where program revisions and procedural changes might be warranted.
4	**Evaluate financial technology and systems**	• Evaluate capabilities and costs associated with integrating central financial/ERP systems with the Treasury's DNP portal such that all payment disbursement workflows have hard-stop validation against DNP system (200.303(g)). • Develop an implementation plan for integrating DHS E-Verify validation into your HR systems for grant-funded personnel inclusive of E-Verify compliance fields for subrecipient reporting portals (200.303(f)).
5	**Assess and redesign procurement and subaward templates**	• Develop a plan for overhauling subaward templates to insert mandatory clauses for E-Verify, viewpoint-neutral event services (200.219), and SAM.gov reporting. • Initiate the incorporation of new federal "discretionary termination" flow-down clauses, ensuring the retained right to terminate subawards immediately if the federal agency pulls funding. • Revise vendor contracting guidelines to default fixed-price models rather than cost-reimbursement (200.320), establishing justification processes for exceptions.
6	**Perform subrecipient training and capacity building**	• Develop a plan for launching training initiatives for local governments and non-profit subrecipients with emphasis on adaptations given the loss of fixed-amount subawards and educating smaller subrecipients on the heightened cost-documentation and ledger tracking they will likely be required to maintain. • Establish processes for centralizing the review and approval of subrecipient uses for which the proposed rule changes would require prior-approval requests (e.g., conferences, publications, venue uses, etc.) to streamline communication and compliance with federal agencies and reduce the risk of cost clawbacks.

How KPMG can help

Navigating these complex regulatory shifts requires a proactive, strategic approach. At KPMG LLP, we are uniquely positioned to help your organization assess, prepare for, and adapt to these new realities:

Impact assessment and comment formulation: We help you analyze the breadth and relevance of the proposed changes against your specific federal grant portfolio—including complex disaster recovery, broadband, and health initiatives—and assist in drafting targeted, data-driven comments to the OMB.

Strategic planning and risk mitigation: We collaborate with state agencies to execute a detailed portfolio risk assessment, identifying vulnerabilities in current subaward structures and program designs to protect active initiatives from discretionary termination.

Subrecipient capacity building: We help redesign your procurement templates, standard subaward agreements, and subrecipient monitoring frameworks, while providing the training and change management necessary to help your local partners navigate heightened compliance demands without disrupting service delivery.

Technological and financial system integration: Our teams guide the rapid assessment and overhaul of your financial, procurement, and HR systems to plan for efficient, compliant integration with required federal portals like the DNP system and E-Verify.

Sources

1. United States, Office of Management and Budget, Regulation for Federal Financial Assistance, 91 Fed. Reg. 32198 (May 29, 2026).

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