



JANET COWELL
TREASURER

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

GREGORY C. GASKINS
DEPUTY TREASURER

Memorandum #2017-06

TO: Local Government Finance Officials and Their Independent Auditors
FROM: Sharon Edmundson, Director, Fiscal Management Section
SUBJECT: Changes to the Schedule of Expenditures of Federal and State Awards
DATE: August 8, 2016

Units of government and public authorities in North Carolina with a fiscal year ended June 30, 2016 will be subject to the Uniform Guidance¹. Preparers of the Schedule of Expenditures of Federal and State Awards should be aware that, as a result of implementation of the new Uniform Guidance, there are changes to the schedule which are described in the following paragraphs. Preparers should present their SEFSA accordingly.

The SEFSA must include the total of federal and State awards expended in the schedule. This includes the value of non-cash assistance, the amount of insurance in effect during the year, and loan and loan guarantees outstanding at year end. Prior guidance under OMB Circular A-133 allowed these expenditures to be presented either in the schedule or as a note to the schedule. The total amount of federal expenditures reported will most likely be the amount to be used to determine the threshold for Type A and B programs unless there is a loan that exceeds four times the largest non-loan program (§200.518(b)(3)).

Loan and loan guarantee programs: Loan and loan guarantee programs that have continuing compliance requirements are now required to be presented in the schedule (Uniform Guidance §200.510(b)(5)). The basis for determining the total amount of the loan and loan guarantee that is considered current year expenditures of financial awards has not changed from previous guidance. It is the value of new loans made or received during the year plus the balance of the loan at the beginning of the year and any interest subsidy, cash, or administrative cost allowance received.

¹ Title 2 US Code of Federal Regulations Part 200 *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Subpart F of the Uniform Guidance was effective for federal audits of fiscal years beginning on or after December 26, 2014. Sections of Subpart F that apply to State Awards are effective for fiscal years ending on and after June 30, 2016.

In addition to including the total amount of the loan and loan guarantee expended in the schedule, the balance outstanding at the end of the audit period of the loan and loan guarantee program should be reported as a footnote to the schedule (§200.510(b)(5)). Loans and loan guarantees will be presented on two locations on the SEFSA, in the schedule and as a footnote. For loans and loan guarantees from agencies in North Carolina, our office believes that the amount reported in the schedule and the outstanding balance will most likely be the same unless a project was closed early in the fiscal year and a debt service payment was made before fiscal year end.

The auditors of the units and governments and public authorities and the preparers of the SEFSAs are reminded to not confuse loan and loan guarantees with “prior” loan and loan guarantees as defined by the Uniform Guidance (§200.502(d)). Prior loan and loan guarantees have no continuing compliance requirements other than to make the debt service payments. Prior loan and loan guarantees should not be reported on the SEFSA.

Subrecipient expenditures reporting: Uniform Guidance §200.510(b)(4) requires that the total amount provided to subrecipients for each federal or State program be included on the schedule. In order to distinguish the portion of the reported expenditures of a program passed to subrecipients from that which was not, the AICPA², as well as others, recommend that the SEFSA include a separate column titled “passed-through to subrecipients” or “subrecipient expenditures.” Previous guidance recommended that the amount be presented as a footnote to the schedule. Obviously, if the reporting entity had no subrecipients, this additional column would not be necessary.

Cluster of programs: A total amount expended for each cluster of programs is required to be provided (§200.510(b)(3)). There is no change from the previous guidance that all the programs within a cluster of programs be listed by their federal or State names and include the identifying federal agency and pass-through entity; however, the Uniform Guidance clearly states that a total amount expended for the cluster of program be provided.

Preparers of the SEFSA are reminded that if an OMB cluster of programs, as reported in Part 5 of the Compliance Supplement, is subsidized by the State, such as DHHS’s Subsidized Childcare Cluster, there should be a total for the OMB cluster. In addition, there should be a total for the entire program which includes the federal and State programs used by the State to supplement the federal program. For an example, refer to the presentation of NC Department of Public Instruction’s State Nutrition Program cluster that follows.³ This is a new State cluster of programs for the fiscal year ended

² AICPA’s *Audit Guide: Government Auditing Standards and Single Audits*, April 1, 2016

³ This example is taken from Carolina County Board of Education’s Schedule of Expenditures of Federal and State Awards page 35-E-8 which is part of the *Audit Manual for Governmental Auditors in North Carolina*.

June 30, 2016, which is made up of the OMB's Child Nutrition Cluster and two other federal programs that have similar compliance requirements at the State level.

Federal Grants:				
<u>U. S. Department of Agriculture</u>				
School Nutrition Program (Note 3)				
<u>Child Nutrition Cluster:</u>				
Non-Cash Assistance (Commodities)				
Passed-through the N.C. Department of Agriculture:				
National School Lunch Program	10.555	PRC 035	\$	221,217
Non-Cash Assistance				221,217
Cash Assistance				
Passed-through the N.C. Department of Public Instruction:				
School Breakfast Program	10.553	PRC 035		598,000
National School Lunch Program	10.555	PRC 035		1,376,945
Special Milk Program for Children	10.556	PRC 035		24,233
Summer Food Service Program for Children	10.559	PRC 050		166,060
Total Cash Assistance				2,165,238
Total Child Nutrition Cluster:				2,386,455
Child Nutrition Discretionary Grants Limited Availability	10.579	PRC 053		356,418
Fresh Fruit and Vegetable Program	10.582	PRC 035		107,612
Total School Nutrition Program (Note 3)				2,850,485
Total U. S. Department of Agriculture				2,850,485

Note 3: Cluster of Programs

The following are clustered by the NC Department of Public Instruction and are treated separately for state audit requirement purposes: School Nutrition Program

Please note that there is a total for the federal Child Nutrition Cluster program that meets the Uniform Guidance requirement that the federal cluster of programs have a total. There is also a total for DPI's School Nutrition Program. Since this School Nutrition Program cluster is unique to North Carolina, a footnote to the schedule should note this.

10% de minimis cost rate: The Uniform Guidance requires a note to the SEFSA indicating whether or not the non-federal entity elected to use the 10% de minimis cost rate as discussed in the Uniform Guidance (§200.414). We have received inquiries concerning the election of the 10% de minimis cost rate from State agencies and auditors. Though §200.414 is not clear, OMB's Frequently Asked Questions on the Uniform Guidance, updated September 15, 2015, state that the 10% de minimis cost rate is available to governmental organizations. Most recent guidance from the AICPA presents this disclosure as a separate note to the SEFSA; however previous guidance reflected this as part of the significant accounting policies note. We have included this in our SEFSA samples as a negative disclosure stating that the City, County, and Board of Education

has elected not to use the 10% de minimis cost rate. We are not aware of any units of government or public authorities that have elected to use a 10% de minimis cost rate.

Other reporting requirements, non-SEFSA related: A Uniform Guidance reporting requirement, not related to SEFSA, is that the auditee is responsible for preparing a corrective action plan that is in a document separate from the schedule of findings and questioned costs. We would like to see a corrective action plan on a separate page that includes the required content and not as part of the finding. The required content is the name of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date.

The Uniform Guidance has added additional elements that must be included in the reporting of a finding, if applicable (§200.516(b)(7)(8)):

- 1) An indication of whether the audit finding was a repeat finding from the immediate prior year. The current year finding should include any applicable prior year audit finding numbers. This is required in addition to the summary schedule of prior audit findings.
- 2) In order for the federal award agency and pass-through entity to determine whether the audit finding represents an isolated instance or a systematic problem, information to provide the proper perspective for judging the prevalence and consequences of the audit finding should be reported. Where appropriate, the instances identified must be related to the universe and the number of cases examined. If the instance identified can be quantified in terms of a dollar value, this information should be included as well. The auditor also should state if the sampling was a statistically valid sample.

If you have questions about these changes, please contact Jim Burke at (919) 814-4301 or via email at james.burke@nctreasurer.com or Manasa Cooper at (919) 814-4296 or via email at manasa.cooper@nctreasurer.com.