

The auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current.

The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

Auditors may request documentation of monitoring visits by the State Agencies.

This State compliance supplement must be used in conjunction with the OMB 2026 Compliance Supplement which is scheduled to be issued in May 2026. The OMB supplement will include “Part 3 - Compliance Requirements,” for the types that apply, and “Part 6 - Internal Control.” If a federal Agency issued guidance for a specific program, this will be included in “Part 4 - Agency Program”. The OMB Compliance Supplement is Section A of the State Compliance Supplement.

I. PROGRAM OBJECTIVES

Special Children Adoption Fund (SCAF), also referred to as the Adoption Promotion Program Fund, promotes public-private partnerships and enhances and expands adoption services to find permanent homes for hard-to-place children who are living in (or likely to be placed in) foster homes or institutions. The fund is intended to secure adoptive homes for more children than would otherwise be possible within the limitations of existing financial resources

II. PROGRAM PROCEDURES

This program is supported with funds appropriated by the NC General Assembly as a component of the Temporary Assistance for Needy Families (TANF) Block Grant, Title IV-BII and federal Adoption Incentive funds. All of these funding sources are 100% federal funds. State appropriations are also utilized to support this program.

Participants in this program include county Departments of Social Services (DSS) and any licensed, private adoption agency that has entered into a contract with the State Division of Social Services to provide adoption services to special needs children. These funds are performance-based in that payments can only be made after a Decree of Adoption has been issued. Payments can only be made on behalf of children who have been determined eligible for adoption assistance benefits.

Guidelines for use of Special Children Adoption Fund/Adoption Promotion Program Fund, are found in the Adoption Promotion Program Criteria and Guidelines that can be found at [Adoption Promotion Criteria and Guidelines](#)

The State utilizes the DHHS Office of Procurement, Contracts and Grants (OPCG) policies and procedures to award contracts to subrecipients. These subrecipients are reimbursed through submission of a monthly invoice form to the NC DHHS Controller’s Office. All federal and state requirements are communicated to subrecipients as part of the contracting process.

These funds may be used for direct provision or purchase by contract for adoption services, adoption recruitment, adoption assistance case management, child specific recruitment, assessment, training of adoptive parents, and post adoption case management. Conversely these funds cannot be used to purchase automobiles or to supplant the salaries of county workers.

SPECIAL CHILDREN ADOPTION FUND

The State is required to monitor, evaluate, and report on all programs funded by this grant. Funds awarded to County Social Service Agencies are monitored in accordance with regulations adopted by the NC DSS, which can be found at: [Monitoring | NCDHHS](#)

Funds awarded to licensed private adoption agencies that have entered into a contract with the State Division of Social Services are monitored in accordance with the regulations adopted by the NCDSS which can be found at: [Monitoring | NCDHHS](#)

III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements (Types) for this federal program identified by either the federal or State agency with a “Y” that are subject to the audit. The auditor must determine if the Type noted by “Y” has a direct and material effect on the federal program for the auditee. If the Type is determined to be subject to audit, the auditor must use the OMB 2026 Compliance Supplement, Part 3 and Part 4 (if an OMB supplement is issued) in addition to this State supplement to perform the audit.

If the State determines that the federal requirement does not require testing at the local level or if the State modifies the federal requirements, this is discussed in the supplement under the type of compliance requirement. Auditors are not expected to test requirements that have been noted with an the audit.

State Agency: Please note the Type of Compliance Requirements that apply to the program below must be consistent with Part 2 of the OMB Compliance Supplement. If the Type does not apply, change “Y” on the matrix below to a “N”. If a program is subject to the requirements found in a Crosscutting Supplement, please use the template “FederalTemplate-CC programs.docx.”

CC	A	B	C	E	F	G	H	I	J	L	M	N
Cross cutting	Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	N	Y	N	Y	N	Y	N	Y	Y	Y

Crosscutting Requirements

The compliance requirements in the Division of Social Services “Crosscutting Requirements” in Section D (Supplement #DSS-0) are applicable to this grant.

A. Activities Allowed or Unallowed

Allowable activities include:

- Recruiting and training of prospective adoptive families for individual foster children or for foster care children as a group.
- Pre-placement assessments of prospective adoptive families, including assessments by private adoption agencies in other states.
- Preparing children for adoption (preparation support groups, life books, etc.).
- Legal or court-related services to expedite the adoption process.
- Post placement services for adoptive families provided by an agency between the time that a child is placed in the home of his or her prospective adoptive parents and the time that the child's adoption is finalized in court. In accordance with State rules for allowable costs, the Special Children Adoption Incentive Fund Aka Adoption Promotion Program Fund may be used for post-adoption services for families whose incomes exceed 200% Federal Poverty Level.
- Adoption services staff contracted to expedite the adoption process for foster children and assure a timely response to all families who indicate an interest in adopting a child in foster care; and
- Cost-allocated share of equipment that will directly benefit the adoption program.

Unallowable activities include:

- Services to foster children for whom the permanent plan is not adoption.

All expenditures must be connected with the goal of permanency through adoption for children

B. Allowable Costs/Cost Principles

All grantees that expend State funds (including federal funds passed through the N. C. Department of Health and Human Services) are required to comply with the cost principles described in the N. C. Administrative Code at 09 NCAC 03M .0201.

E. Eligibility

The Special Children Adoption Fund/Adoption Promotion Program Fund is used to enhance the adoption services in a county or private agency and applicable eligibility requirements must be met.

To qualify for payments from Special Children Adoption Fund Program/Adoption Promotion Program Fund baseline requirements for local child welfare agencies must be met. The Federal Baseline Methodology is used to establish county baselines for SFY 2025-2026. The federal baseline is determined by considering the number of adoptions that occurred over the past three years and the number of children in foster care. The rate is established by dividing the number of adoptions completed in one year by the number of children in foster care the preceding year. The lesser of the base rate for the previous year or the average rate for the previous three fiscal years is then multiplied by the number of foster children in foster care the previous fiscal year. This result gives a county its baseline for the current fiscal year. Data for the baseline calculations comes from the Child Placement and Payment System (CPPS) database and NC Child Welfare System. DSS-5094s closed due to adoptions realized within the fiscal year are counted towards the baseline.

YEAR-END DISTRIBUTION: County child welfare agencies will receive a one-time, year-end funding allocation. County agencies will receive a proportional share of the total statewide funding available to all counties based upon the sum of three factors:

- Exceed a predetermined federal baseline or
- Complete adoptions of teens and/or
- Sibling groups of 3 or more who are placed together for adoption under baseline.

There is no baseline for private child placing agencies. Private child placing agencies are only eligible to receive reimbursement from the Special Children Adoption Fund/Adoption Promotion Program Fund to make up the difference between the fees collected from the adoptive family and the reimbursement rate for the placement.

The payment levels for disbursement of the Special Children Adoption Fund/Adoption Promotion Program Fund to private child placing agencies for eligible service areas and corresponding payment amounts for each eligible service are identified below:

Service Area	Children 0-12	Teens and Sibling Groups of 3+
Adoptive Family Readiness	\$4,000	\$7,000
Post-Placement Support (Family)	\$1,250	\$2,000
Post-Placement Support (Child)	\$1,250	\$2,000
Completion of Legal Procedures	\$1,500	\$2,500
Total	\$8,000	\$13,500

G. Matching, Level of Effort, Earmarking

Not applicable at the local level.

I. Procurement and Suspension and Debarment

Per the OMB Uniform Guidance, State’s policies or laws should be used for procurement, these are found in North Carolina General Statutes Chapter 143 Article 8 or at the following internet address:
<http://www.ncleg.net/gascrpts/statutes/Statutes.asp>.

All grantees that expend federal funds (received either directly from a federal agency or passed through the N. C. Department of Health and Human Services) are required to conform with federal agency codifications of the grants management common rule accessible on the Internet at <http://www.whitehouse.gov/omb/>.

All grantees that expend State funds (including federal funds passed through the N. C. Department of Health and Human Services) are required to comply with the procurement standards described in the North Carolina General Statutes and the North Carolina Administrative Code, which are identified in the State of North Carolina Agency Purchasing Manual:
http://www.pandc.nc.gov/documents/Procurement_Manual_5_8_2013_interactive.pdf

Suspension and Debarment

This requirement has not been passed to the subrecipients; therefore, additional testing is not required.

L. Reporting

This program is required to annually report financial data for TANF on the OMB form ACF-196. Title IV-B II and Adoption Incentive fund are reported on SF-425. This requirement has not been passed to the subrecipients; therefore, additional testing is not required.

M. Subrecipient Monitoring

The NC Division of Social Services is responsible for conducting onsite visits to private child placing agencies receiving reimbursement from Special Children Adoption Fund/Adoption Promotion Program Fund annually.

The State is required to monitor, evaluate and report on all programs funded by this grant in accordance with regulation adopted by the NC DSS, which can be found at <https://www.ncdhhs.gov/divisions/social-services/county-staff-information/monitoring>.

N. Special Tests and Provisions

Special Tests and Provisions one through five apply to a state's TANF program, not to a Tribal TANF program.

1. Child Support Non-Cooperation

Compliance Requirements If the state agency responsible for administering the state plan approved under Title IV-D of the Act determines that an individual is not cooperating with the state in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, and reports that information to the state agency responsible for TANF, the state TANF agency must

(1) deduct an amount equal to not less than 25 percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance. HHS may penalize a state for up to 5 percent of the SFAG for failure to substantially comply with this required state child support program (42 USC 608(a)(2) and 609(a)(8); 45 CFR sections 264.30 and 264.31).

Audit Objectives Determine whether, after notification by the state Title IV-D agency, the TANF agency has taken necessary action to reduce or deny TANF assistance.

Suggested Audit Procedures

- a. Review the state's TANF policies and operating procedures concerning this requirement.
- b. Test a sample of cases referred by the Title IV-D agency to the TANF agency to ascertain if benefits were reduced or denied as required.

2. Income Eligibility and Verification System

Compliance Requirements Each state shall participate in the Income Eligibility and Verification System (IEVS) required by Section 1137 of the Act as amended. Under

the state plan the state is required to coordinate data exchanges with other federally assisted benefit programs, request and use income and benefit information when making eligibility determinations and adhere to standardized formats and procedures in exchanging information with other programs and agencies. Specifically, the state is required to request and obtain information as follows (42 USC 1320b-7; 45 CFR section 205.55):

- a. Wage information from the state Wage Information Collection Agency should be obtained for all applicants at the first opportunity following receipt of the application, and for all recipients on a quarterly basis.
- b. Unemployment Compensation (UC) information should be obtained for all applicants at the first opportunity, and in each of the first three months in which the individual receives aid. This information should also be obtained in each of the first three months following any recipient-reported loss of employment. If an individual is found to be receiving UC, the information should be requested until benefits are exhausted.
- c. All available information from the Social Security Administration (SSA) for all applicants at the first opportunity (see *Federal Tax Return Information* below).
- d. Information from the US Citizenship and Immigration Services and any other information from other agencies in the state or in other states that might provide income or other useful information.
- e. Unearned income from the Internal Revenue Service (IRS) (see *Federal Tax Return Information* below).

Federal Tax Return Information – Information from the IRS and some information from SSA is federal tax return information and subject to use and disclosure restrictions by 26 USC 6103. Individual data received from the SSA's Beneficiary Earnings Exchange Record, consisting of wages, self-employment, and certain other income information is considered federal tax return information. However, benefits payments such as Supplemental Security Income are SSA data and not federal tax return information.

Under 26 USC 6103, disclosure of federal tax return information from IEVS is restricted to officers and employees of the receiving agency. Outside (non-agency) personnel (including auditors) are not authorized to access this information either directly or by disclosure from receiving agency personnel.

The state is required to review and compare the information obtained from each data exchange against information contained in the case record to determine whether it affects the individual's eligibility or level of assistance, benefits or services under the TANF program, with the following exceptions:

- a. The state is permitted to exclude categories of information items from follow-up if it has received approval from ACF after having demonstrated that follow-up is not cost effective.

- b. The state is permitted, with ACF approval, to exclude information items from certain data sources without written justification if it followed up previously through another source of information. However, information from these data sources that is not duplicative and provides new leads may not be excluded without written justification.

The state shall verify that the information is accurate and applicable to the case circumstances either through the applicant or recipient, or through a third party, if such determination is appropriate based on agency experience or is required before taking adverse action based on information from a federal computer matching program subject to the Computer Matching and Privacy Protection Act (45 CFR section 205.56).

For applicants, if the information is received during the application process, the state must use the information, to the extent possible, to determine eligibility. For recipients or individuals for whom a decision could not be made prior to authorization of benefits, the state must initiate a notice of case action or an entry in the case record that no case action is necessary within 45 days of its receipt of the information. Under certain circumstances, action may be delayed beyond 45 days for no more than 20 percent of the information items targeted for follow-up (45 CFR section 205.56).

HHS may penalize a state for up to 2 percent of the SFAG for failure to participate in IEVS (42 USC 609(a)(4) and 1320b-7; 45 CFR sections 264.10 and 264.11).

Audit Objectives Determine whether the state has established and implemented the required IEVS system for data matching, and verification and use of such data. (This audit objective does not include federal tax return information, as discussed in the compliance requirements.)

Suggested Audit Procedures

- a. Review state operating manuals and other instructions to gain an understanding of the state's implementation of the IEVS system.
- b. Test a sample of TANF cases subject to IEVS to ascertain if the state:
 - (1) Used the IEVS to determine eligibility in accordance with the state plan.
 - (2) Requested and obtained the data from the state wage information collection agency, the state unemployment agency, SSA (excluding federal tax return information, as discussed in the compliance requirements), the US Citizenship and Immigration Services, and other agencies, as appropriate, and performed the required data matching.
 - (3) The information obtained from the data is properly considered matching in determining eligibility and the amount of TANF benefits.

3. Penalty for Refusal to Work

Compliance Requirements State agency must reduce or terminate the assistance payable to the family if an individual in a family receiving assistance refuses to work, subject to any good cause or other exemptions established by the state. HHS may penalize the state by an amount not less than 1 percent and not more than 5 percent of the SFAG for violation of this provision (42 USC 609(a)(14); 45 CFR sections 261.14, 261.16, and 261.54).

Audit Objectives Determine whether the state agency is reducing or terminating the assistance grant of those individuals who refuse to engage in work and are not subject to good cause or other exceptions established by the state.

Suggested Audit Procedures

- a. Review the state's TANF policies and operating procedures concerning this requirement.
- b. Test a sample of TANF cases where the individual is not working and ascertain if benefits were reduced or denied to individuals who are not exempt under state rules or do not meet state good cause criteria.

4. Lack of Child Care for Single Custodial Parent of Child under Age Six

Compliance Requirements If an individual is a single custodial parent caring for a child under the age of 6, the state may not reduce or terminate assistance for the individual's refusal to engage in required work if the individual demonstrates to the state an inability to obtain needed child care for one or more of the following reasons: (a) unavailability of appropriate child care within a reasonable distance from the individual's home or work site; (b) unavailability or unsuitability of informal child care by a relative or under other arrangements; or (c) unavailability of appropriate and affordable formal child care arrangements. The determination of inability to find childcare is made by the state. HHS may penalize a state for up to 5 percent of the SFAG for violation of this provision (42 USC 607(e)(2) and 609(a)(11); 45 CFR sections 261.15, 261.56, and 261.57).

Audit Objectives Determine whether the state has improperly reduced or terminated assistance to single custodial parents who refused to work because of inability to obtain childcare for a child under the age of 6.

Suggested Audit Procedures

- a. Gain an understanding of the criteria established by the state to determine benefits for a single custodial parent who refused to work because of inability to obtain childcare for a child who is under the age of 6.
- b. Select a sample of single custodial parents caring for a child who is under 6

years of age whose benefits have been reduced or terminated.

- c. Ascertain if the benefits were improperly reduced or terminated because of inability to obtain childcare.

5. Penalty for Failure to Comply with Work Verification Plan

Compliance Requirements The state agency must maintain adequate documentation, verification, and internal control procedures to ensure the accuracy of the data used in calculating work participation rates. In so doing, it must have in place procedures to:

(a) determine whether its work activities may count for participation rate purposes.

(b) determine how to count and verify reported hours of work; (c) identify who is a work-eligible individual; and (d) control internal data transmission and accuracy. Each state agency must comply with its HHS-approved Work Verification Plan in effect for the period that is audited. HHS may penalize the state by an amount not less than 1 percent and not more than 5 percent of the SFAG for violation of this provision (42 USC 601, 602, 607, and 609); 45 CFR sections 261.60, 261.61, 261.62, 261.63, 261.64, and 261.65).

Audit Objectives Determine whether the state agency is complying with its Work Verification Plan, including adequate documentation, verification, and internal control procedures.

Suggested Audit Procedures

- a. Review the state's Work Verification Plan and operating procedures concerning this requirement.
- b. Test a sample of TANF cases that have been reported to HHS under 45 CFR sections 265.3(b)(1) and 265.3(d)(1) and ascertain if the work participation rate data have been documented, verified, and reported in accordance with the state's Work Verification Plan.

IV. OTHER INFORMATION

1. *Transfers out of TANF*

As described in III.A.1.a (2), "Activities Allowed or Unallowed," states (not tribes) may transfer a limited amount of federal TANF funds into the Social Services Block Grant Title XX (Assistance Listing 93.667) and the Child Care and Development Block Grant (Assistance Listing 93.575). These transfers are reflected in lines 2 and 3 of both the quarterly *TANF Financial Report* ACF-196R, and the quarterly *Territorial Financial Report* ACF-196-TR. The amounts transferred out of TANF are subject to the requirements of the program into which they are transferred and should not be included in the audit universe

and total expenditures of TANF when determining Type A programs. The amount transferred out should not be shown as TANF expenditures on the Schedule of Expenditures of Federal Awards but should be shown as expenditures for the program into which they are transferred.

2. *State MOE Expended by Tribes*

A state may provide a tribe state-donated MOE funds that are expended by the tribe. For the tribe, state-donated MOE funds are not federal awards expended, shall not be considered in determining Type A programs, and shall not be shown as expenditures on the Schedule of Expenditures of Federal Awards. However, state-donated MOE funds expended by a tribe shall be included by the auditor of the state when testing III.G.2.1, "Matching, Level of Effort, Earmarking – Level of Effort – *Maintenance of Effort*."

Tribes may choose to commingle their state-donated MOE funds with federal funds. Because of the commingling, the audit of the tribe will include testing of the state-donated MOE and the auditor of the state should consider relying on this testing in accordance with auditing standards and 2 CFR Part 200, Subpart F. However, the state-donated MOE is not considered federal awards expended by the tribe.

3. *Tribal TANF Recipients under a Pub. L. No. 102-477 Demonstration Project (477)*

Audits of Indian tribal governments with tribal TANF in their approved 477 plan must follow the guidance in the 477 Cluster found in the Department of the Interior's section of Part IV of this Supplement.

4. *Spending Levels of the Territories*

A funding ceiling applies to Guam, the Virgin Islands, American Samoa and Puerto Rico. The programs subject to the funding ceiling are the Adult Assistance programs under Titles I, X, XIV, and XVI of the Act; TANF; Foster Care (Assistance Listing 93.658); Adoption Assistance (Assistance Listing 93.659) and Independent Living (Assistance Listing 93.674) programs under Title IV-E of the Act; and the matching grant under section 1108(b). Total payments to each Territory may not exceed the following: Guam – \$4,686,000; Virgin Islands – \$3,554,000; Puerto Rico – \$107,255,000; and American Samoa – \$1,000,000. However, the TANF Family Assistance Grant cannot exceed the Territory's fixed annual amount (42 USC 1308(a) and (c)).