

93.575 CHILD CARE DEVELOPMENT BLOCK GRANT (CCDBG)

State Project/Program: CHILD CARE QUALITY AND AVAILABILITY

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Authorization: Primarily Section 418 [42 U.S.C.618] of the Social Security Act; Child Care and Development Block Grant Act of 1990 as amended [42 U.S.C. 9857, at seq.] and Child Care and Development Block Grant (CCDBG) Act, codified at 42 U.S.C.

State Authorization: NC Session Law 2023-134 and Session Law 2025-89

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Address Confirmation Letters To:

SFY 2026 audit confirmation reports for payments made to Counties, Local Management Entities (LMEs), Managed Care Organizations (MCOs), Boards of Education, Councils of Government, District Health Departments and DHSR Grant Subrecipients will be available by mid-October at the following web address:
<https://www.ncdhhs.gov/about/administrative-offices/office-controller/audit-confirmation-reports> At this site, click on the link entitled “Audit Confirmation Reports (State Fiscal Year 2025-2026). Additionally, audit confirmation reports for Nongovernmental entities receiving financial assistance from DHHS are found at the same website except select “Non-Governmental Audit Confirmation Reports (State Fiscal Years Oct’ 2023-2026).”

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.

CHILD CARE QUALITY AND AVAILABILITY

This compliance supplement must be used in conjunction with the OMB 2026 Compliance Supplement which will 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.

Division of Child Development and Early Education Contracts:

CONTRACT TYPES BY FUNDING SOURCE		
CONTRACT TYPES	FUNDING SOURCE	CFDA NUMBER
Resource and Referral Contracts	Child Care and Development Fund (CCDF)	93.575

I. PROGRAM OBJECTIVES

The mission of the NC Department of Health and Human Services is, in collaboration with our partners, to provide essential services to improve the health, safety and well-being of all North Carolinians. To that end, we implement quality standards, increase access for families, and collaborate to promote enhanced service delivery of care and education across the State. DCDEE has numerous contracts, the purpose of which generally is two-fold: (1) providing services to young children and their families which will further the goal of making the families healthy, independent and self-sufficient, and/or (2) enhance the quality of child care services provided to young children and their families.

II. PROGRAM PROCEDURES FOR CONTRACT TYPES

The contracts presented in the chart above are affected through a written contract between DCDEE and each entity with which DCDEE is contracting (the contractor). Because the funding sources for a given type of contractor vary from contractor to contractor and even across a fiscal year, it is not always possible to specify a fund type for a specific type of contract. The written contract between the two parties, however, is prepared by DCDEE so as to reflect all the requirements of all the possible funding sources for the contract. For this reason, therefore, DCDEE recommends that the contract document be the main source of guidance regarding the compliance audit. Descriptions of some specific examples of the major contract types are provided below:

A. Contract Type: Child Care Resource and Referral

Contract Description

High quality, coordinated, statewide Child Care Resource and Referral (CCR&R) Services are essential to improving the quality and availability of early care and education for North Carolina’s youngest citizens. CCR&R agencies help families find and evaluate childcare, and they provide vital linkages to support programs, including those that can help families pay for childcare. CCR&R agencies train childcare providers and provide on-site technical assistance to help providers implement new

practices in their classrooms and improve the quality of care they provide. CCR&R agencies connect childcare providers to resources in their communities, and through data collection and reporting and public outreach, CCR&R's help to build community support for the early care and education system. Through these five CCR&R Core Services of Consumer Education; Technical Assistance; Professional Development; Data Collection; and Public Awareness, North Carolina's CCR&R system assures consistency of quality and equity of access for parents, childcare providers, and the general public in all 100 counties.

Eligibility Requirements

Eligible applicants include public agencies and private 501(c)(3) nonprofit corporations that now provide or intend to provide the following services.

Required Services: The agency will ensure that the key elements of CCR&R Core Services are provided statewide in a consistent manner. The CCR&R Core Services include:

- consumer education and counseling to parents and the community, resulting in higher quality childcare options for families.
- professional development and training for childcare providers are offered through seminars, workshops, conferences and credit bearing courses.
- effective technical assistance to childcare programs or individual teachers and providers to help them implement quality improvement or start-up plans.
- data collection, evaluation and analysis of various childcare program information; and
- public awareness activities around the supply and demand of childcare.

Such services may be supported by fiscal resources other than the Child Care Development Fund (CCDF).

Please note that DCDEE has imposed other requirements in addition to the federal requirements for the CCR&R contracts issued to the lead CCR&R agencies. These requirements are generally listed in the Scope of Work of the contract.

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 “N.”

A	B	C	E	F	G	H	I	J	L	M	N
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	N	Y	N	Y	Y	N	N	Y	N	Y

A. Activities Allowed or Unallowed

Activities for which payment may be made are those described in the contract (usually in an attached work plan or in the contractor’s proposal which is attached and becomes part of the contract).

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 which requires expenditures to adhere to cost principles outlined in 2 CFR Part 200. These are factors affecting allowability of costs. To be allowed under Federal awards, costs must meet the following general criteria:

1. Costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be allocable to Federal awards under the provisions noted in 2 CFR, Part 225.
2. Costs must be authorized or not prohibited under State or local laws or regulations.

CHILD CARE QUALITY AND AVAILABILITY

3. Costs must conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
4. Costs must be consistent with policies, regulations and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
5. Costs must be accorded with consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
6. With exception as otherwise provided in 2 CFR Part 225, be determined in accordance with generally accepted accounting principles.
7. Costs must not be included as a cost or used to meet cost sharing or match requirements of any other Federal award in either the current or a prior period except as specially provided by Federal law or regulation.
8. Costs must be adequately documented and charged to the general ledger. In addition, the (budget line-item category) costs must be correctly charged to the Financial Status Report (FSR) as to the proper account, amount and period.
9. Costs must be net of all applicable credits that result from transactions that reduce or offset costs. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates and adjustments for overpayments or erroneous charges.
10. Reasonable costs. A cost is considered to be reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time a decision is made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. Consideration must be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization, the performance of the award, or the provision of services.
11. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. In order for a cost to be allocable to a Federal grant or award, the cost must be treated consistently with other costs incurred for the same purpose under like circumstances. The cost must benefit both the award and other activities of the organization and be distributed to the cost objective in a reasonable proportion to the benefits received although a direct relationship to a particular cost objective cannot be shown. It should be noted that any cost allocable to a particular award or cost objective cannot be shifted to other Federal awards either to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the award.

Audit Objectives – Determine whether:

1. charges made to Federal grant awards were for allowable costs, and

2. methods of allocating costs to Federal grant awards produce an equitable distribution.

Suggested Audit Procedures

Test a sample of transactions to determine compliance as stated in the contract's scope of work with the following criteria:

1. The allowability of costs incurred.
2. Represented charges for actual costs, not budgeted or projected amounts.
3. Calculated in conformity with generally accepted accounting principles.
4. Supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, or personal records. Correctly charged to the general ledgers and reconciled to the FSR's as to account, amount, and period. Documentation requirements for salaries/wages and time and effort distribution are described in applicable Uniform Guidance cost principles circulars. Documentation may be in electronic form.
5. Reviewed financial documents to ensure that cost is not used to meet cost sharing matching.
6. Determined that the costs charged are in accordance with the organization's approved indirect cost plan. Review the contract to determine if indirect costs are an allowable charge to the program.

E. Eligibility

Eligibility requirements and determinations are unique and based on the specific contract. Most contracts will not have a client eligibility component.

Suggested Audit Procedures – Review contracts to determine if there is a client eligibility component.

G. Matching, Level of Effort, Earmarking

Compliance Requirement – Matching funds may be required in certain contracts if documented within the contract.

If the contract requires a match, the cash and in-kind expenditures must be documented satisfactorily, and the cash/in-kind expenditures made for the same types of activities funded by the contract.

The federal CCDF does have matching, level of effort, and earmarking requirements. Meeting the requirements, however, is managed at the State level by the DCDEE and is not applicable at the local level.

H. Period of Performance

Compliance Requirement – Activities for which the contract pays must occur within the contract period. Every contract has a specified period, e.g., the State fiscal year

(July 1 - June 30). Activities paid for by the contract must occur within the contract period.

L. Reporting

Compliance Requirement – Most contractors use a form of the Financial Status Report (FSR) to submit monthly expenditures to DCDEE. Contractors will continue to be required to submit an FSR each month. Contractors are required to submit monthly and final FSRs as specified by due date in the contract. The FSR must reflect actual cash expenditure. The objects of expenditure, or object classes, on the FSR closely parallel with the budget which was submitted along with the original contract. The final FSR is due within 60 days after the end of the contract. Copies of the FSRs should be found with the Contractor.

Program reports are required in addition to FRSs as stated in the contract document. Variances are specified in the contract document and must be explored at the contractor level.

N. Special Tests and Provisions

1. **Compliance Requirement** – The contractor’s detailed financial documents must support the expenses claimed against the contract.

Suggested Audit Procedure – Compare the contractor’s detailed financial documents with the expenses claimed against the contract.

2. **Compliance Requirement** – Most contracts require that subcontracts be approved in advance by DCDEE if the subcontracts were not part of the original contracts.

Suggested Audit Procedure – If there are subcontracts in place which should have received DCDEE approval in advance, perform testing to ensure that the approval was obtained. Perform tests to ensure that the subcontract falls within the time period of the principal contract.

3. **Compliance Requirement** – Private non-profit organizations which are eligible are required to apply for sales tax refunds. If DCDEE participated in costs related to those sales taxes, these costs must be refunded to DCDEE.

Suggested Audit Procedure – If appropriate, perform testing to ensure that applications for sales tax refunds have been submitted by the contractor. Verify that refunds have been made to DCDEE for sales tax costs in which DCDEE participated.

4. **Compliance Requirement** – At the end of a contract, unexpended funds must be returned to DCDEE. This includes funds which were previously reported as expended and subsequently were refunded to the contractor for some reason.

Suggested Audit Procedure – Verify that all unexpended funds were returned to DCDEE promptly.

5. **Compliance Requirement** – Some contracts serve individual clients who are reported to DCDEE.

Suggested Audit Procedure – Verify that a sample of the reported clients was actually served. Ensure that the service occurred during the contract period.

6. **Conflict of Interest, Certification Regarding No Overdue Tax Debts, and other Certifications**

Compliance Requirement

All non-State entities (except those entities subject to the audit and other reporting requirements of the Local Government Commission) that receive, use or expend State funds (including federal funds passed through the N. C. Department of Health and Human Services) are subject to the financial reporting requirements of G.S. 143C-6-23 for fiscal years beginning on or after July 1, 2007. These requirements include the submission of a Notarized Conflict of Interest Policy (see G. S. 143C-6-23(b)); a written statement (if applicable) that the entity does not have any overdue tax debts as defined by G. S. 105-243.1 at the federal, State or local level (see G. S.143C-6.23(c)).

Audit Objective – Determine whether the grantee has adopted and has on file a conflict-of-interest policy and a written statement stating that the grantee does not have any overdue tax debts before receiving and disbursing State funds.

Suggested Audit Procedures:

- Ascertain that the grantee has a conflict-of-interest policy and a written statement stating no overdue tax debts in accordance with G. S. 143C-6-23(c).
- Check the conflict-of-interest policy and verify through board minutes that the policy was adopted before the grantee received and disbursed State funds.