

## Steps To Writing a Compliance Supplement for a Federal Program

(These instructions were taken from the Preparation Guide for the NC State Compliance Supplements 2025)

The following guidance is for both new issues (programs that do not currently have State Compliance Supplements) and updating existing compliance supplements.

The staff member or members responsible for writing or updating the compliance supplement should be [very](#) familiar with the program and its administration at both the State and local level.

**IMPORTANT:** A staff member responsible for the compliance supplement of a federal program passed through the State Agency should determine if the granting federal agency issued a federal supplement for the program. This would be located in Part 4 of the OMB Compliance Supplement. The OMB supplement will be used by OSA for testing the program at the State level and by the local auditor at the local level. In addition, the local auditor will use the supplement prepared by the staff member. If a federal requirement is not passed or applicable to the local level, this should be clearly stated in the State supplement. A well written State supplement may provide guidance to the local auditors on testing requirements found in the OMB supplement that are applicable to the local government.

An Agency may provide enough guidance in the State supplement, by incorporating the applicable requirements found in the OMB supplement, that an auditor will primarily use the State supplement. An auditor will have to make this determination if the State supplement is sufficient.

### **1. Determine the amount of federal funding that was passed to subrecipients and the number of subrecipients that received the federal funding.**

Whether to issue a new supplement or update an existing supplement will depend on:

- the amount that a subrecipient received for a particular program.
- the number of subrecipients that received the funding for a particular program.

If a subrecipient expends federal funding it received for a particular program of at least [\\$1,000,000](#), then the program most likely will be a Type A program and will be required to be audited as major.<sup>1</sup> The auditor will need a long form supplement. A Type B programs that expend at least [\\$250,000](#) may be subject to tested as a major if the program is considered High Risk.<sup>2</sup>

If there is a short-term program that may meet the requirements of a major program, and only a very few subrecipients received the funding, it may not be necessary to prepare a compliance supplement. Proper guidance should be provided in a memo, contract, or grant agreement that can be used by the auditors. The responsibility of creating an audit program and determining the type of requirement requirements of a particular program would fall on the auditor who will not be as familiar with the program as the granting agency.

To determine the amount of federal funding passed to subrecipients for a particular program, the Agencies may want to review the year end or confirmation reports that it sends to the subrecipient or auditor.

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<sup>1</sup> The Type A/B threshold increased to \$1,000,000 from \$750,000 as a result of the revisions to the Uniform Guidance, effective for fiscal years beginning on or after October 1, 2024. The Type A/B threshold will increase from \$1,000,000 if a subrecipient expends more than [\\$34 million](#) of federal funds, but less than or equal to \$100 million, then the threshold becomes 3% of total federal expenditures. If federal expenditure exceeds \$100 million, but less than \$1 billion, the threshold is \$3 million.

<sup>2</sup> Auditors may select a Type B program, if the program is 25% of the Type A/B threshold and is considered high risk, based on criteria found in Uniform Guidance §200.519 ([\\$250,000 = 25% of \\$1,000,000](#)).

Another resource that may be useful in determining [federal](#) awards passed to subrecipients is the Statewide Single Audit Report issued by the Office of State Auditor. In the report, there is a Schedule of Expenditures of Federal Awards that lists the federal programs that incurred expenditures by State Agencies. Included on this Schedule is a listing of federal programs, and the amounts passed to subrecipients. Though the [OSA](#) Statewide Single Audit is released in early April and only available for the fiscal years prior, this may be useful in identifying programs that pass funding to subrecipients, and amount of funds passed.

## **2. Determine the potential risk of the federal program**

The agency [may want to](#) perform a risk assessment for a particular program, [if a program is less than a Type A/B threshold and is potentially high risk](#). The greater risk of a program having instances of noncompliance, the agency should strongly consider creating or updating the compliance supplement.

Criteria for federal program risk can be found in the Uniform Guidance §200.519. Factors to consider:

- Current and prior audit experience: Potential weaknesses in internal control over federal programs would indicate a higher risk. Prior audit findings would indicate higher risk. Federal programs not recently audited as major may be of a higher risk than federal programs recently audited as major without findings.
- Oversight exercised by the granting agency: The federal agency may consider the program to be high risk. An example is Medicaid.
- Inherit risk of the federal program: The complexity of the program, the extent to which the program contracts for good and services should be considered. If funds are disbursed through third party contracts or involves high payroll cost may be considered high risk. The life cycle of the program at both the granting level and at the subrecipient level should be considered. Programs with large amount of expenditures are riskier than ones with lesser amounts.

## **3. Determine what federal compliance requirements are applicable to the program**

If a federal supplement exists, [and OMB has issued a federal supplement](#), the matrix in Section A, Part 2 will identify the Type of Compliance requirements that are [subject to testing](#) to that program. [The federal supplement will also identify the Types](#). The current OMB Uniform Guidance federal supplement is for [May 2025](#) and should be used as the State agency guidelines. State agencies are responsible for determining if there are any updates/changes to the federal program, since the [OMB 2026](#) Compliance Supplement, for which a supplement is being written may not have been issued.

If a federal compliance supplement does not exist, the State agency must determine by other means the requirements that apply to the program. Sources may include, but are not limited to:

- Grant/Award agreement between the federal agency and the State and/or State agency,
- State Plan, if one is required by the federal awarding agency,
- Memorandums/notifications from federal agencies have been issued for the federal program,
- Section A, part 7 of the State Compliance Supplement.
- Summary information from Assistance Listing (formerly Catalog of Federal Domestic Assistance),
- Federal regulations.

**Important:** “Pick 6” Initiative: Beginning with the 2019 Compliance Supplement, OMB changed the compliance matrix in Part 2 of the OMB Compliance Supplement and mandated federal agencies limit applicable compliance requirements to no more than six (6) requirements. If both A. activities allowed or unallowed and B. allowability of costs or cost principles (B) are applicable

to the program then an agency may consider these as a single requirement, and not, two. Then the program can have seven (7) requirements. The purpose was to reduce the audit burden on auditors and auditees of the various programs. Programs that have a type of compliance requirement that is normally applicable, may not require testing if Part 2 has an “N” for that compliance requirement.

#### **4. Determine which requirements are applicable to the program at the local level.**

This will be based on how much or what portions of the program’s administration have been passed on to the subrecipient.

- Is the program in its entirety passed on to the subrecipient for administration at the local level?
- Has the State agency passed only minimal portions of the program to be administered by the subrecipient? i.e., “Eligibility” and “Reporting.”
- Has the State agency eliminated any requirements based on certain measures the agency has taken or policies and procedures they have initiated?

Sources for this information may include but are not limited to:

- Contract or grant agreement between the State agency and the subrecipient.
- Memorandums or notifications issued by the subgranting agency to the subrecipient detailing requirements and other “Do’s and Don’ts”.
- General Statutes of North Carolina
- North Carolina Administrative Code

Additionally, agency staff should determine if the State agency subgranting the award has imposed requirements in addition to the federal requirements or have made the federal requirements more stringent.

Any requirements imposed by the State agency on a federal requirement should include verbiage that states where the sources of the requirements came from.

If a program found in the federal compliance supplement (Section A) notes that one of the 12 compliance requirements applies to that specific program, then the State agency staff member writing the State requirements should also note that that specific requirements are applicable at the State level. However, if no testing can be performed by the auditor since this compliance requirement is handled at the state level, it should be noted. For example, if the State is required to have a twenty five percent (25%) match to a federal program and it is passed to a local, the agency staff should note that “G. Matching” applies to this program. Within the supplement, under “G. Matching, Level of Effort, or Earmarking” the statement “not applicable at local level”, or similar wording, should be noted and a “Y” noted on the matrix for the program. Refer to the table prepared by the Office of State Auditor on page 22.

OMB encourages that when one is determining program compliance requirements, do so without being cognizant of whether or not the requirements are relative to one of the 12 federal requirements, i.e. “Cash Management” or “Activities Allowed or Unallowed” or “Eligibility.”

State agencies are encouraged to follow OMB’s guidance and limit the number of types in order for auditors to focus on the types that are most important, such as the “pick six” discussed in the previous section. If your agency believes that a type is significant at the local level, then this type of compliance requirement should be added.

A person responsible for writing a compliance supplement may find that keeping a list of 12 federal requirements in view may help “trigger” the requirements that are applicable to the program.

If the author of the supplement is having difficulty in determining which of the 12 compliance requirements a particular compliance test should be included should include it under “Special Test and Provisions.”

## **5. Determine what program requirements are being “monitored” by the State agency.**

- A. For those requirements that are being monitored by the State agency, determine if there is any information that the agency would have the local auditor verify and report on, i.e., “Reporting” requirements.

At the time the local auditor is performing an audit on a subrecipient, the State agency is already aware of whether or not the subrecipient is submitting their reports timely. What the agency may not have is documentation or proof that the information being reported to the agency is accurate or valid. The agency may choose to have the auditor verify on a sample basis that the information the subrecipient has reported does in fact have supporting documentation, that the money was spent as reported to the agency, that the appropriate personnel is authorizing the expenditures, etc.

- B. For those requirements that are not being monitored by the State agency: Determine what areas of noncompliance are a “high risk” of occurring and are significant to the improper administration of the program.

Determine what the State agency deems necessary for the local auditor to investigate and report on.

## **6. Determine what the objective of the program is.**

The objective may be from the perspective of the State (the program in its entirety is administered at the local level) or it may be on a more local level (i.e. federal grant money is used to fund a State objective/program at a local level). [This section does not include compliance requirements.](#)

This is described in item I. on the compliance supplement (refer to Appendix VI, page VI-6, for sample).

## **7. Program Procedures**

Prepare for the local auditor a summary of how the program is administered. This information should include but is not limited to:

- a) A brief description of how the grant is acquired by the State,
- b) Components of the Grant – federal, State, and/or local dollars. (If applicable, specify if the State and local moneys are a matching requirement or are they simply in addition to the federal grant,
- c) A description of how a subrecipient acquires the grant from a State agency,
- d) A description of the application process,
- e) A list of which forms are to be used in the application process and where obtained,
- f) A description of any attestations that the subrecipient must make on the application,
- g) A description of how the grant is transferred to the subrecipient, i.e., advance or reimbursements,
- h) A description of how the federal requirements and any State agency requirements are communicated to the subrecipient,
- i) A general description of what the grant money can be used for and if there are any major “Don’ts” involved with the grant. (This may be repeated in more detail under requirements A and/or B).
- j) A brief description of any monitoring done by the State agency. (Details of the monitoring should be included with the compliance requirements to which it is applicable.)
- k) If a federal supplement exists, address items that a State may opt to pursue, such as waivers to certain requirements or agreements, rebates, etc.
- l) A description of any policies and procedures manuals that may be needed by the CPA for reference and where they might be obtained,
- m) A definition of any acronyms, which may be necessary to use.

This is described in item II. on the compliance supplement (refer to Appendix VI, page VI-6 for sample). [If there is pertinent information available on an agency website or in an agency publication that will assist the auditor in understanding the program, also include in “Program Procedures” a name and description of and publications and valid URLs for the website.](#)

## **8. Compliance Requirements: For Requirements A – C, E-J, L, M**

Prepare for the local auditor, by requirement category, (A. Activities Allowed or Unallowed) the requirements that are applicable to the federal program that the agency would have the local auditor audit.

OMB has removed D, “Davis Bacon” and K, “Real Property Acquisition and Relocation Assistance” as type of compliance requirements. The letters assigned to these types of compliance requirements have been removed and are held in reserve. The letters assigned to the remaining twelve types of compliance requirements have not changed. Though Davis Bacon has been removed as a separate type of compliance requirement, it has been included in the “Special Tests and Provisions” type of compliance requirements for some programs. One type of compliance requirement has been renamed. H “Period of Availability of Federal Funds has been renamed “Period of Performance.”

For each requirement applicable agency staff should determine:

1. Is the requirement program specific? If so, the details of the requirement or references to the where the requirements are located should be spelled out on the individual program supplement, Section B, Part 4.
2. Is all the information that is necessary for the local auditors to audit this requirement found in Section A, Part 3? If so, the agency staff need not address the requirement on the individual program supplement.
3. Has the subgranting agency imposed additional requirements of their own on the program? If so, the details of the requirements should be written on the individual program supplement and addressed as being State imposed.
4. Has the State imposed more stringent requirements on the federal requirements described in Section A, Part 3? If so, details of the more stringent requirements should be written on the individual program supplement.
5. Is the program exempt from parts of the Uniform Guidance? If so, the State must impose its policies, and the details of these policies should be written on the individuals program supplement.
6. Is the requirement shown as being applicable on the federal matrix in Section A, Part 2, but the agency has not passed the requirements on to the subrecipient or for some other reasons does not want the local auditor to address the requirement? If so, the agency staff should state this under the appropriate requirement and let the local auditor know that there is nothing for him to address on this requirement.

If the requirement is applicable but the agency is monitoring the requirement, then list the requirement and supply that information on the supplement. The agency may want to include some details on the monitoring.

For every requirement listed, agency staff should refer to the “Suggested Audit Procedures” listed in Section A, Part 3. Agency may need to obtain the most current version of OMB Uniform Guidance Compliance Supplement. This may be located at OMB website or State treasurers Single Audit resources website.

After reading through “Suggested Audit Procedures” for the requirements, if the agency staff can determine that the audit of the compliance requirement(s) can be accomplished with the “Suggested Audit Procedures” shown in Section A, Part 3, the agency staff need not write any

additional audit procedures. If the agency staff determines that the audit of the compliance requirement(s) cannot be accomplished, the agency staff should write additional procedures and include them on the supplement under the compliance requirement being addressed.

These are listed following the Objectives and Procedures on the Compliance Supplement and are in alpha sequence (A through N).

#### **9. Determining of “Special Tests and Provisions,” Requirement N.**

Agency staff should determine if there are any program requirements that could not be classified in any of the first 11 federal compliance requirement categories.

For those requirements, agency staff should provide:

- Detail of the compliance requirement,
- The audit objective (what is the local auditor trying to determine by auditing this requirement), and
- “Suggested Auditing Procedures.”

#### **10. Completing the Matrix for Federal Programs.**

A matrix is presented on each supplement, under section III Compliance Requirement, noting the Type of Compliance Requirements that are applicable to the program. State Agencies are no longer be responsible for submitting a separate document showing the Types of Compliance Requirements applicable to a program. The LGC staff will compile a matrix for both Federal and State programs showing all the programs included in the State Compliance Supplement and the applicable Type of Compliance Requirements.

In Section III Compliance Requirements, there is a matrix that lists the 12 Types of Compliance Requirements. Based on steps 1 through 9 above, indicate by a “Y” or “N” for the Type of Compliance Requirements that apply to the program on the matrix provided.

For a cluster of programs, the same requirements must be applicable for all programs in the cluster but will be shown only once on the Matrix.

For those programs for which Cross-Cutting requirements apply, another column has been included on the Matrix. State Agencies with Divisions that have issued a Crosscutting Compliance Supplement, the template The “FederalTemplate-CC programs.docx” should be used.