

## **Steps To Writing a Compliance Supplement for a State 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.

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

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

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

If only a very few subrecipients received the funding, it may not be necessary to prepare a compliance supplement if this is a short-term program. Guidance should be provided in a memo, contract, or grant agreement that will provide guidance that can be used by the auditors, if the program is selected to be audited as major. 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.

The threshold for a major State program is currently \$500,000. However, local auditors are auditing program as major that have expenditures that are less than this amount in order to meet the forty percent percentage (40%) of coverage rule. This is especially the case for Counties. Therefore, it is recommended that if a subrecipient expends State funding it received for a particular State program of at least \$200,000, then the State Agency should strongly consider preparing a long form State compliance supplement.

### **2. Determine what State compliance requirements are applicable to the program.**

Sources may include, but are not limited to:

- Contract or Grant Agreement between the agency subrecipient,
- Subgranting agency policies and procedures,
- Memorandums/notifications from subgranting agency,
- North Carolina General Statutes,
- North Carolina Administrative Code.

When determining program compliance requirements, do so without being cognizant of whether or not the requirements is relative to one of the 13 State requirements, i.e. "Cash Management" or "Activities Allowed or Unallowed" or "Eligibility." A person responsible for writing a compliance supplement may find that keeping a list of 13 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 13 compliance requirements a particular compliance test should be included should include as "Special Test and Provisions."

State agencies are encouraged, but not required, to limit the number of types in order for auditors to focus on the types that are most important, such as the six. If both "1" activities allowed or unallowed and "2" allowability of costs or cost principles 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 of the "pick six" is 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.

### **3. 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 “high risk” of occurrence 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 to the agency.

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

The objective may be from the perspective of the State. [This section does not include compliance requirements.](#) Sources may include:

- Contract or Grant Agreement between the agency subrecipient,
- North Carolina General Statutes,
- North Carolina Administrative Code.

This is described in item I. on the compliance supplement (refer to Appendix VII for sample).

### **5. Program Procedures**

Prepare for the local auditor a summary 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 – State and/or local dollars. (If applicable, specify if the local moneys are a matching requirement,
- 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 forms 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 program 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 requirement Types 1) Activities Allowed or Unallowed and/or 2) Allowable Costs/Costs Principles.
- 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) A description of any policies and procedures manuals that may be needed by the CPA for reference and where they might be obtained,
- l) A definition of any acronyms, which may be necessary to use.

This is described in item II. on the compliance supplement (refer to Appendix VII for sample).

## 6. Compliance Requirements: For Requirements 1 – 13

Prepare for the local auditor, by requirement Types, (1. Activities Allowed or Unallowed) the requirements that are applicable to the federal program that the agency would have the local auditor audit.

For each requirement applicable agency staff should determine:

1. Provide the details of the requirement or references as to where the requirement is located.
2. Remember – there are no Statutes that apply to all of the requirements universally except “4” Conflict of Interest.
3. Provide an audit objective for each requirement (what is the local auditor trying to determine by auditing this requirement?)
4. Provide “Suggested Audit Procedures” for each requirement to be audited. There are no “General” Suggested Audit Procedures in Section C of the State Supplement. Therefore, the state agency has to write all Suggested Audit Procedures for each requirement listed on the supplement.

State Agencies may direct auditors to the generic requirements found in the Compliance Requirements for State Awards.

If a program requirement is being monitored by the subgranting agency, then list the requirement and supply that information on the supplement. The agency may want to include some details on the monitoring.

These are listed following the Objectives and Procedures on the Compliance Supplement and are in alpha sequence (1 through 13).

## 7. Determining of “Special Tests and Provisions,” Requirement 14.

Agency staff should determine if there are any program requirements that could not be classified in any of the first 12 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.”

## 8. Completing the Matrix for State Programs in Section C.

A matrix is presented on each supplement, under section III Compliance Requirements, noting the Type of Compliance Requirements that are applicable to the program. State Agencies are no longer 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.

On the matrix in Section III, based on steps 1 through 7 above, indicate by a “Y” or “N” for the Type of Compliance Requirements that apply to the program.

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 “StateTemplate-CC programs.docx” should be used.