



STATE AND LOCAL GOVERNMENT FINANCE DIVISION  
LOCAL GOVERNMENT COMMISSION

## North Carolina State Compliance Supplement

APRIL 2026

### Introduction

The North Carolina State Compliance Supplement has been developed in cooperation with state agencies to assist local auditors in identifying program compliance requirements and audit procedures for testing those requirements.

North Carolina G.S. 159-34 requires state departments and agencies which provide funds to local governments and public authorities to provide the Local Government Commission (LGC) with documents in a prescribed format describing standards of compliance and suggested audit procedures sufficient to give adequate direction to independent auditors retained by local governments and public authorities to conduct a single audit as required under G. S. 159-34. NC Administrative Code Title 9, subchapter 03M, section .0401 requires State Agencies that provide grants to non-State entities to carry out a State project or program to develop compliance reports that describe standards of compliance and audit procedures to give direction to independent auditors that perform audits in accordance with 09 NCAC 03M .0205. These reports are to be provided to the NC Department of State Treasurer for inclusion in the State Compliance Supplement.

Auditors must use the State Compliance Supplement when performing audits of grantees receiving and expending state and/or federal funds from the State of North Carolina. The 2026 State Compliance Supplement is effective for audits of fiscal years beginning after June 30, 2026, and supersedes the compliance supplements issued prior to that date for the programs contained therein. Auditors should recognize that previously issued compliance supplements may need to be used if the beginning date of the period being audited does not coincide with the effective date of the currently issued State Compliance Supplement.

The audit requirements for local governments and public authorities are contained in G.S. 159-34. The audit requirements for nongovernmental organizations are contained in NC Administrative Code Title 9, subchapter 03M, section .0205 and further explained in Audit Advisory Number 2 issued by the Office of the State Auditor. These requirements are in addition to those of the federal government related to the audit of federal funds contained in Office of Management and Budget (OMB) *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) in December 2013. The Uniform Guidance is part of Title I of the Code of Federal Regulations (CFR), Chapter I & II, Part 200.

There are changes to the threshold amounts to determine if a federal audit performed under the requirements found in the Uniform Guidance (2 CFR 200) and State audits performed under the requirements of G.S. §159-34. These changes are discussed in the respective sections that follow, Federal Financial Assistance and State Financial Assistance.



## How to Use the State Compliance Supplement

In general, the following principles of applicability should govern the use of the State Compliance Supplement made available by the Department of State Treasurer:

### Federal Financial Assistance

If the program to be audited includes only Federal funds received directly from a federal agency, the auditor must consider Section A. The auditor need not consider the other sections. The Federal Compliance Supplement must be used whenever the entity is required to have an audit in accordance with Subpart F of the Uniform Guidance. Nothing that is contained in the State Compliance Supplement supersedes requirements imposed by the federal government through OMB Uniform Guidance or the Federal Compliance Supplement.

Generally, those entities expending **\$1,000,000** or more of federal funds received either directly or indirectly from the federal government are required to have an audit performed in accordance with Subpart F of the OMB's Uniform Guidance (2 CFR Part 200). The auditor should refer to this section for specific audit requirements. **The \$1,000,000 is an increase from \$750,000 for audits with fiscal years beginning on or after October 1, 2024.** This will most likely be for audits with fiscal years ending September 30, 2025, and later.

If the program to be audited includes federal funds received from any agency or department of the State of North Carolina, the auditor must consider Sections A, B, and D, if applicable.

### Notes:

1. For any federal program being audited, if there is a federal supplement in Section A, the matrix in Section B, at a minimum, will "mirror" the matrix in Section A. Included on the matrix are "Type of Compliance Requirements" (Type) that an auditor must consider if the matrix says the Type applies. This is noted by either a Y if applicable, or N, if not.
2. State Agencies may designate requirements noted under a specific Type, applicable to a federal program on the matrix in Section B in addition to the requirements designated on the federal matrix in Section A
3. For federal requirements designated as applicable to a federal program on the Matrix in Section B, the auditor must consider all requirements noted under a specific Type, "Suggested Audit Procedures" stated on the agency prepared supplement in Section B and the federal requirements, and "Suggested Audit Procedures" provided in Section A, Part 3 and Part 4.
4. For federal requirements that are applicable to a federal program, but the State agency requires no testing of the requirement by the local auditor, the agency should note "not applicable at local level" under the applicable requirement on the program supplement in Section B and may state the reason.
5. If a State agency did not provide "Suggested Audit Procedures" for any compliance requirements in Section B, the auditor is expected to consider the "Suggested Audit Procedures" in Section A, Part 3 for the applicable requirement.



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6. If a State agency provided "Suggested Audit Procedures" for compliance requirements in Section B, the auditor is expected to consider the "Suggested Audit Procedures" in Section A, Part 3 for the applicable requirement in addition to the procedures provided by the agency.

#### State Financial Assistance

If the program to be audited includes only state funds received from any agency or department of the State of North Carolina, the auditor must consider Section C and Section D, if applicable. The auditor may consider guidance found in the "Compliance Requirements for State Awards" for a particular type of compliance requirement.

Local governments and public authorities that expend [\\$1,000,000](#) or more of federal funds received either directly or indirectly from a State agency are required to have an audit performed in accordance with guidance found in the document "Single Audits in North Carolina" found on the NC Department of State Treasurer, State and Local Government Finance Division's website. The State Single Audit has adopted selected sections of the Uniform Guidance and has established specific requirements. The threshold for a State Single Audit [changed from \\$500,000 to \\$1,000,000 effective](#) for fiscal years ending June 30, 2026.

The single audit threshold for non-State entities subject to 09 NCAC 03M .0205 is the same as the federal single audit threshold found in Uniform Guidance, 2 CFR 200.501(a).

#### Crosscutting Supplement

If a federal or state program has a portion of the program requirements included in the crosscutting supplement for the Agency/Division, the individual supplement will refer the auditor to the crosscutting compliance supplement. There will be instances where an individual requirement on the crosscutting supplement will not be applicable to a program covered by the crosscutting supplement. In those instances, the individual program requirement will state that the auditor need not perform any audit procedures for that requirement. This statement on the individual supplement will take precedence over the requirements on the crosscutting supplement. Currently there are four Crosscutting Supplements, NC Dept of Public Instruction, NC Department of Transportation, and NC Department of Health and Human Service's Mental Health and Social Service Divisions.

If a program met the criteria for writing a Short-Form Supplement, contact information and a brief description of the program can be found in Section E.



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## Organization

The State Compliance Supplement is organized into five sections as described below:

### Section A - Office of Management and Budget Uniform Guidance Compliance Supplement

This Section is Appendix B of the U.S. Office of Management and Budget (OMB) Uniform Guidance Compliance Supplement and should be issued in May/June 2026, hereafter referred to as the Federal Compliance Supplement and is electronically linked to the document at the federal Office of Management and Budget (OMB). The compliance requirements and the relevant information in this Section have been identified and provided by federal agencies and OMB. Organizations receiving federal funds should refer to OMB Circular Uniform Guidance for federal audit requirements. To obtain Section A, please refer to the How to Obtain this Document section that follows.

### Section B - State Compliance Requirements - Federal Programs

This Section provides the following for federal programs subgranted by a state agency:

For federal programs for which federal agencies have identified compliance requirements (programs shown in Section A), this section identifies additional requirements imposed by state agencies and/or provides more specific details on federal requirements as they apply to federal programs subgranted by state agencies.

For federal programs for which federal agencies have not identified program compliance requirements (programs not included in Section A), state agencies have identified federal requirements and their own requirements and provided details as to how these requirements relate to the federal programs subgranted by state agencies.

### Section C - State Compliance Requirements - State Programs

This Section relates to state-funded grant programs. State agencies have identified requirements that should aid the auditor in identifying compliance requirements that could have a direct and material effect on state programs.

Also included in this section is the “Compliance Requirements for State Awards” which the auditor may consider guidance found for a particular type of compliance requirement.

### Section D - Crosscutting Compliance Requirements

State agencies have identified requirements that apply to more than one subgranted federal and/or state-funded program. Rather than repeating the requirements in each supplement for each program to which the requirements apply, state agencies have identified in Section D the requirements applicable to more than one program.

### Section E – Short-Form Supplements

State agencies are required to write compliance supplements for every program under which grants or subgrants are made. However, detailed program requirements are not published for relatively small programs. This Section provides Short-Form Supplements for such programs. A



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Short-Form supplement is prepared whenever the amount provided to any one local government or public authority is less than **\$250,000** or the amount provided to any one nonprofit organization is less than \$25,000.

### **Safe Harbor**

The auditor may consider Section A of this Compliance Supplement a "safe harbor" for the identification of compliance requirements to be tested, provided the auditor complies with the requirements stated in section §200.514 (d) of OMB Circular Uniform Guidance. Among other things, this section requires the auditor to (1) perform reasonable procedures to ensure that the requirements in the Compliance Supplement are current and to determine whether there are any additional provisions of contract and grant agreements that should be covered by an audit under the 1996 Amendments, and (2) to update or augment the requirements contained in the Compliance Supplement as appropriate.

Regarding Sections B, C, and D, 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.

### **How to Obtain the State Compliance Supplement**

Copies of the State Compliance Supplement, sections A through E, may be obtained from the Department of State Treasurer website or by contacting 919-814-4299.

As of the date of this document revision, the U.S. Office of Management and Budget (OMB) has not released the federal **2026** Compliance Supplements, which make up Section A of the State Compliance Supplement. In previous years, the release of the OMB Compliance Supplement has been in May/June. When they are released, we will post them to the Department of State Treasurer website along with any other addenda to the State Compliance Supplement. Updates to the website will be announced via the [LGC Staff Blog](#).