# PREPARATION GUIDE
# For North Carolina
# STATE COMPLIANCE SUPPLEMENT
# for the Year 2027

**Prepared by the N. C. Department of State Treasurer**
**State and Local Government Finance Division**

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## Overview

Each year the NC Department of State Treasurer, State and Local Government Finance Division (SLGFD), acting in its role as staff to the Local Government Commission (LGC), issues the North Carolina State Compliance Supplement. The Supplement consists of documents prepared by State Agencies for use by independent auditors of local governments, public authorities, and nonprofit organizations that expend Federal and State financial assistance received from State Agencies. The Compliance Supplement identifies compliance requirements that auditors should consider when testing as part of a Single Audit.

General Statute 159-34 (c) provides: "All State departments and agencies which provide funds to local governments and public authorities shall provide the Local Government Commission with documents that the Commission finds are in the 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 by this section."

G.S. 143C-6.23 and NC Administrative Code (09 NCAC 03M .0401) require each State agency that receives State funds and disburses those funds to non-State entities, such as nonprofit organizations, to provide the LGC with standards of compliance and suggested audit procedures for each grant program the State agency administers.

The State Compliance Supplement is used primarily by auditors of subrecipients that administer programs funded by federal and State financial awards. Auditors select certain programs for testing as part of a Single Audit. The Compliance Supplement provides guidance to auditors in testing the compliance requirements and internal control over compliance. Subrecipients and grantees should also be familiar with the supplement for each program they administer.

State Agencies are responsible for preparing and updating their supplements each year before the audit season that follows June 30. The State Compliance Supplements are generally posted on the SLGFD website in early May.

These documents of standards of compliance are referred to as the North Carolina State Compliance Supplement and are located on the SLGFD website at the link below.

Single Audit Reporting and Compliance Supplement Resources

The State Compliance Supplement is divided into five sections. Appendix I describes the organization in detail. Section A contains the U.S. Office of Management and Budget (OMB) Compliance Supplement, which is prepared by federal agencies. State agencies prepare Sections B through E.

This guidance is intended to help state agencies prepare accurate, current, legally supported, and reliable submissions for inclusion in the Supplement.

### Purpose and Use of the Compliance Supplement

The North Carolina State Compliance Supplement was developed in cooperation with state agencies to help independent auditors identify important program compliance requirements and design audit procedures to test those requirements.

The Supplement identifies existing compliance requirements that the federal government and state agencies expect auditors to consider when conducting audits required by the OMB Uniform Guidance, the State Single Audit Act, or the State Budget Act. For each program, the Supplement describes program objectives and procedures; identifies relevant statutory, regulatory, and award requirements; states audit objectives; and suggests audit procedures for determining compliance.

The Supplement does not identify every compliance requirement that may apply to an audit, nor does it create new compliance requirements. Without the Supplement, auditors would have to research the laws, regulations, and award terms applicable to each program to determine which requirements are important and could have a direct and material effect on the program. The Supplement provides a more efficient and cost-effective approach to that research.

Auditors must consider the Supplement, referenced laws and regulations, and the OMB Uniform Guidance, as codified by federal agencies, when determining the compliance requirements that could have a direct and material effect on a program. Careful drafting is therefore essential so that auditors can clearly identify the compliance requirements to be tested.

The Supplement may provide a safe harbor for identifying compliance requirements to be tested, provided the auditor performs reasonable procedures to determine that the requirements remain current. Under Government Auditing Standards, commonly called the Yellow Book, auditors must also consider other requirements when information comes to their attention indicating possible noncompliance that could have a material indirect effect on a major program.

### DOJ ADA Web Accessibility Requirements

In 2024, the U.S. Department of Justice (DOJ) issued a final rule (the "2024 Rule") requiring state and local governments to ensure that services, programs, and activities provided through their websites and mobile applications are accessible to people with disabilities. The rule was issued under Title II of the Americans with Disabilities Act (ADA), 28 C.F.R. Part 35. The original compliance deadline for public entities with populations of 50,000 or more, including the State of North Carolina, was April 24, 2026. DOJ subsequently extended that compliance deadline by one year. North Carolina must comply by April 26, 2027.

Because the 2027 State Compliance Supplements will be posted on the Department of State Treasurer's website, they must conform to WCAG 2.1 Level AA. To support compliance, the documents should use properly structured headings, include alternative text for embedded images, and use readable, searchable text rather than image-only scans. Tables, numerical lists, hyperlinks, text boxes, headers, footers, and other document elements must also be formatted for accessibility. Additional guidance on submitting the State Compliance Supplements to the Local Government Commission (LGC) will be provided.

For additional information about the 2024 Rule, see the following UNC School of Government blog posts: "Understanding the New ADA Web Accessibility Requirements for State and Local Governments" (January 14, 2026) and "Deadlines to Comply with ADA Web Accessibility Requirements Extended by One Year" (April 20, 2026).

Additional digital accessibility resources for state agencies are available on the North Carolina Department of Information Technology's Digital Accessibility webpage.

### Federal and State Single Audit Requirements

A State Compliance Supplement is needed when an auditor performs an audit under the OMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)[1], the State Single Audit Act, or the State Budget Act. These audits are commonly referred to as single audits.
A single audit includes:

- An audit of selected federal or state programs for compliance with applicable laws, regulations, and the terms and conditions of contracts and grant agreements;
- Testing of internal control over those compliance requirements; and
- An audit of the financial statements in accordance with generally accepted auditing standards (GAAS) and Government Auditing Standards (GAGAS).

[1] The Uniform Guidance is part of the Code of Federal Regulations Title 2, Grants and Agreements, Part 200. Audit requirements are found in Subpart F, §200.501(a). These regulations were revised, and these revisions became effective for audits with fiscal years beginning on or after October 1, 2024.

The applicable thresholds are summarized below.

- **Federal awards.** Under the Uniform Guidance, a local government or nonprofit organization that expends $1,000,000 or more in federal awards during a fiscal year must undergo a federal single audit.
- **State awards received by local governments and public authorities.** Under the State Single Audit Act, G.S. 159-34, a local government or public authority that expends $1,000,000 or more in state awards must undergo a state single audit in accordance with the *Audit Manual for Governmental Auditors in North Carolina*.[2]
- **State awards received by other non-state entities.** Entities not subject to G.S. 159-34, including nonprofit organizations, are subject to G.S. 143C-6.23.[3] A single audit or program-specific audit conducted in accordance with GAGAS is required when the entity receives, holds, uses, or expends grants in an amount equal to or greater than the audit threshold stated in 2 CFR 200.501(a), currently $1,000,000.

SLGFD establishes requirements for single audits of state awards received by local governments and public authorities under G.S. 159-34(a). The Office of State Budget and Management (OSBM) oversees audits of state awards received by nongovernmental entities under G.S. 143C-6.23.

## Selection of Major Programs by Independent Auditors

Auditors select federal and state programs for testing as major programs.[4] For federal programs, the auditor first identifies Type A and Type B programs using the applicable threshold, then evaluates program risk. A program's risk classification is affected by whether it was audited as a major program during either of the two preceding audit periods, the auditor's risk assessment, current and prior audit experience, oversight exercised by the awarding agency, and the program's inherent risk. OMB or a federal agency may also identify a program as higher risk; Medicaid is one example referenced in 2 CFR 200.519(c)(2).

For most local governments, public authorities, and nonprofit organizations, the Type A/B threshold is $1,000,000. A federal or state program may qualify as low risk if it was audited as a major program in at least one of the two most recent audit periods and prior audit findings, if any, do not preclude a low-risk determination.

A federal Type A program that is determined to be high risk must be tested as a major program. An auditor may also select a Type B program as major when it is considered high risk. The number of Type B programs selected may depend on the number of low-risk Type A programs and the auditor's professional judgment.

For state awards subject to the State Single Audit Act, the major-program threshold is $1,000,000. An auditor is not required to perform a risk assessment for a state program below the major-program threshold; however, the auditor may select the program based on professional judgment.

Coverage requirements also affect major-program selection. Generally, auditors must test at least 40 percent of the federal awards expended and 40 percent of the state awards expended during

[2] Guidance for the State Single Audit can be found in the document "Discussion of Single Audit in North Carolina" which is part of the Audit Manual for Governmental Auditors in North Carolina published by the State and Local Government Finance Division. This can be found on the NC Dept. of State Treasurer's, Local Fiscal Management, Single Audit website. These requirements were revised effective for audits beginning with fiscal years ending June 30, 2026.

[3] Audit requirements for non-State entities that are not subject to G.S. §159-34, such as not-for-profits, can be found in NC Administrative Code, Title 9, Chapter 3, Subchapter M, section .0205. The Single Audit threshold amount increased to be the same as the threshold for a federal single audit as stated in §200.501(a) effective July 1, 2024.

[4] Major program determination can be found in 2 CFR §200.518 for federal programs and in ""Discussion of Single Audit in North Carolina" for State major programs.

the fiscal year. If the auditee qualifies as a low-risk auditee, the required coverage may be reduced to 20 percent.

State agencies should prepare a supplement for any program that is expected to be selected as a major program. A compliance supplement is not necessary for every program. If an auditor selects a program for which no supplement exists, the auditor must develop an audit program. Preparing a supplement allows the state agency to identify the specific compliance requirements and tests it considers important. It also promotes consistency when different audit firms test the same program at different recipient organizations.

Refer to Appendix II to determine whether a full compliance supplement should be prepared. If a full supplement is not required, a short form should be issued. Agencies should also determine whether the program belongs to a cluster of programs, as discussed in Section 7.

**Financial Assistance or Procurement, Receipt or Payment for Goods and Service?**

Federal, state, and local governments provide funding to organizations for many purposes. Payments to a contractor or vendor for goods or services are not financial assistance or grants. Financial assistance relationships generally involve greater programmatic oversight and regulatory requirements than procurement relationships.

To determine whether a payment represents financial assistance to a subrecipient or payment to a contractor for goods or services, use the Contractor (Vendor) or Subrecipient Questionnaire Form, available under Preparation Resources on the Department of State Treasurer's website.

Professional judgment is essential. Eligibility determinations, programmatic decision-making authority, and responsibility for program compliance should generally receive more weight than other factors.

When an auditee engages a contractor to perform tasks related to compliance with federal or state awards, the arrangement does not relieve the auditee of responsibility for ensuring compliance.

**Types of Compliance Requirements**

OMB organizes federal program compliance requirements into 12 types,[5] each identified by a letter, such as A. Activities Allowed or Unallowed and L. Reporting. Not every type applies to every program. For example, some programs do not generate program income (Type J) or provide funding to subrecipients that must be monitored (Type M). Davis-Bacon requirements are no longer presented as a separate type; when applicable, they may be included under Special Tests and Provisions.

State awards generally use corresponding compliance requirements, identified by numbers, and add 4. Conflict of Interest, resulting in 13 numbered types. For example, 1. Activities Allowed or Unallowed and 12. Reporting. Agency personnel preparing a supplement should understand each type that may apply to the federal or state program.

Descriptions of the federal and state compliance requirement types are available in Types of Compliance Requirements under Preparation Aids on the State Compliance Supplement Preparation Resources website.

For federal programs, OMB may identify generally applicable compliance requirements in Part 3 of the OMB Compliance Supplement. If the federal awarding agency has issued a program-specific supplement, the applicable requirements appear in Part 4. When a state agency prepares a state supplement for a federally funded program, it should not duplicate the federal testing

[5] In 2017 OMB reduced the fourteen (14) types to twelve (12). Removed are D, “Davis Bacon” and K, “Real Property Acquisition and Relocation Assistance.” The letters assigned to these types of compliance requirements (D & K) have been removed and are held in reserve. The letters assigned to the remaining twelve types of compliance requirements have not changed.

requirements already included in Parts 3 and 4. The auditor is responsible for performing applicable audit procedures identified in Parts 3 and 4 and in Section B of the State Compliance Supplement, where the state agency identifies state-specific requirements.

Each program supplement includes a matrix under Section III, Compliance Requirements, showing the types that apply to the program.

Crosscutting Requirements

State agencies may identify requirements that apply to more than one federal pass-through program or state-funded grant program. Rather than repeat the same requirements in each program supplement, agencies may include them as crosscutting requirements in Section D of the State Compliance Supplement. When a crosscutting matrix applies to a program, the program's Section III matrix should identify and cross-reference it.

Internal Control Over Compliance

In addition to reporting on compliance, the auditor reports on internal control over compliance for each major program. Part 6 of the OMB Compliance Supplement provides internal-control guidance for the 12 federal compliance requirement types. Auditors must also test internal control over compliance for state awards. They may use Part 6, the U.S. Government Accountability Office's "Standards for Internal Control in the Federal Government" (Green Book), COSO's Internal Control Integrated Framework or another appropriate framework developed by the auditor.

**Cluster of Programs**

Closely related programs that share common compliance requirements may be treated as a cluster of programs. OMB recognizes three types of clusters: research and development, student financial assistance, and other clusters. State agencies generally need to focus only on other clusters.

Part 5 of the OMB Compliance Supplement identifies federal program clusters. State agencies may not separate programs that federal agencies have clustered. A state agency may add a federal or state program to an existing cluster; however, agencies are encouraged to do so only when necessary and should consult SLGFD before making that change.

When preparing or updating a State Compliance Supplement for a federal program, the state agency should address only those programs in the cluster that are passed through to subrecipients. The Assistance Listing Number (ALN) and federal program name for each pass-through program should be included in the supplement.

Refer to the 2026, "State Clusters in Section B" at the State Compliance Supplement website, that list of other clusters defined by federal and state agencies on the Compliance Supplement Preparation Resources website. As of July 2026, the 2026 OMB Compliance Supplement had not been issued.

**NC Department of Health and Human Services Programs with split eligibility and paid by State:**

The Office of the State Auditor (OSA) has determined that payments for programs in which eligibility is determined locally but the state pays the beneficiary or provider directly are not financial assistance to the local government or public authority. Counties and public authorities therefore should not report those payments on the Schedule of Expenditures of Federal and State Awards (SEFSA).

If the county or public authority determines eligibility and makes the benefit payment, the expenditures should be reported on the SEFSA, including the benefit payments, even when the state reimburses the county or public authority. Appendix XII contains the OSA memorandum and a list of the affected programs.

**State Fiscal Recovery Funds and Funds Designated as "Revenue Loss."**

The number of federal single audits increased in recent years, primarily because Congress enacted several laws providing COVID-19 relief. Most COVID-19 funding for those programs has now been expended. The American Rescue Plan Act (ARPA), the last of the five major federal COVID-19 relief acts, continues to provide funding for existing and new federal programs, including the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF), Assistance Listing 21.027.

COVID-19 funding designated by the state as revenue loss or revenue replacement may increase the number of state single audits when passed to subrecipients. Although OMB has determined that revenue-loss funds do not create a federal subaward, the funds are treated as state funds when passed to a subrecipient.

The 2023 Appropriations Act, S.L. 2023-134, appropriated significant State Fiscal Recovery Funds to state agencies for programs and projects administered by subrecipients. Because the act may not clearly indicate whether particular amounts represent revenue-loss funds or CSLFRF 21.027 funds, agencies receiving these appropriations may need to analyze the funding source to determine whether the amounts are federal CSLFRF pass-through assistance or state revenue-loss funds.

State agencies are strongly encouraged to identify revenue-loss funds passed to subrecipients as state awards. Describing such funding only as State Fiscal Recovery Funds may create confusion when determining the applicable compliance requirements.

**Federal Programs Identified as "Higher Risk."**

The following programs were expected to be identified as "higher risk" for audits subject to the 2026 OMB Compliance Supplement because OMB or federal agency had designate them as higher risk. These programs are included because they are passed through State Agencies. The list may change when the 2027 OMB Compliance Supplement is issued.

| Agency | Assistance Listing (CFDA) Number | Title |
|---|---|---|
| HHS* | 93.778/93.777/93.775 | Medicaid Cluster |
| HHS | 93.489/93.575/93.596 | Child Care and Development Fund (CCDF) Cluster |
| HHS | 93.558 | Temporary Assistance for Needy Families |

*Note:*
** This program has been identified as a program of higher risk by HHS and OMB.

**Uniform Guidance Revisions**

OMB issued final revisions to the Uniform Guidance in the *Federal Register*, Vol. 89, No. 78 (April 22, 2024). The revisions generally apply to awards issued on or after October 1, 2024. For audit reporting, the revisions apply to fiscal years ending on or after September 30, 2025. For most North Carolina local governments, the first affected fiscal year ends June 30, 2026. OMB Memorandum M-24-11, issued April 4, 2024, provides further guidance on the effective date and implementation.

State agencies should monitor guidance from federal awarding agencies concerning implementation of the revised requirements for federal pass-through awards. Key changes include:

- **Audit requirements (2 CFR 200.501).** The federal single-audit threshold increased from $750,000 to $1,000,000.

- **Major-program determination (2 CFR 200.518).** The Type A program threshold increased from $750,000 to $1,000,000 for auditees with total federal award expenditures of $34 million or less; the previous expenditure level was $25 million.
- **Audit findings (2 CFR 200.516).** When known questioned costs exist but the amount is undetermined or cannot be reported, the auditor must explain why the amount could not be determined or reported.
- **Equipment (2 CFR 200.1).** The capitalization threshold increased from $5,000 to $10,000.
- **Modified total direct costs (2 CFR 200.1).** The amount of each subaward included in modified total direct costs increased from $25,000 to $50,000.
- **Questioned costs (2 CFR 200.1).** The definition was updated to clarify and provide examples of questioned costs. The definitions of known and likely questioned costs were moved from 2 CFR 200.516 to 2 CFR 200.1.
- **Terminology.** The term *non-federal entity* was generally replaced by *recipient* or *subrecipient*. Subpart F, Audit Requirements, retains *non-federal entity* to align with the Single Audit Act.
- **Internal controls (2 CFR 200.303).** Recipients and subrecipients must document internal control. They must also take reasonable cybersecurity and other measures to safeguard protected personally identifiable information and other sensitive information.
- **Supplies (2 CFR 200.314).** The threshold associated with remitting compensation for unused supplies increased from $5,000 to $10,000.
- **Fixed-amount subawards (2 CFR 200.333).** The threshold increased from the previous simplified acquisition threshold to $500,000.
- **Indirect costs (2 CFR 200.414).** The de minimis indirect cost rate increased from 10 percent to 15 percent. Pass-through entities must accept federally negotiated indirect cost rates for subrecipients. A recipient or subrecipient may notify OMB of a dispute with a federal agency concerning application of a federally negotiated rate; OMB will not serve as a formal arbitrator.
- **Required certifications (2 CFR 200.415).** Subrecipients must certify to the pass-through entity when applying for funds, requesting payment, and submitting reports. This requirement applies at all subrecipient tiers.

### Preparing and Drafting a Supplement

Preparing a program supplement is an iterative process between the state agency and SLGFD. The initial submission may not be the final submission, and the agency will have opportunities to provide additional input. Ongoing communication is essential to preserve the accuracy and integrity of the Supplement. Following the procedures below will improve the initial draft, reduce later revisions, and promote consistency across the Supplement.

<u>Obtain the Correct Template</u>

The state agency employee responsible for preparing the supplement should obtain the template that corresponds to the program type: federal, state, crosscutting, or short form. The Office of the State Auditor developed the templates used for this purpose.

The 2027 templates and sample instructions are available on the [Compliance Supplement Preparation Resources]() webpage or by contacting [james.burke@nctreasurer.com](). Appendix VI lists the available forms.

Follow the Applicable Drafting Instructions

Read and follow the applicable instructions provided after this section:

- *Steps to Writing a Compliance Supplement for a Federal Program*, page 15; or
- *Steps to Writing a Compliance Supplement for a State Program*, page 20.

OSA originally developed these instructions; the LGC has updated them to reflect current requirements.

Evaluate Crosscutting Requirements and Program Clusters

Determine whether the program should use a crosscutting supplement and whether it is, or should be, included in a cluster of programs. A crosscutting supplement should be prepared using the procedures applicable to either a federal or state program supplement. When grants administered by multiple divisions are involved, all affected divisions should participate in preparing the crosscutting supplement. The matrices in Sections B and D should be cross-referenced.

Complete the Certification Form

Complete the applicable **2027 Compliance Supplement Certification Form**. Copies are included in Appendix VI for federal programs, Appendix VII for state programs, and Appendix VIII for short forms. The forms are also available from the State Treasurer's website or through the contact listed above.

**State Compliance Supplements submission and website posting Schedule**

The production schedule for this year's Supplement is as follows:

| | |
|---|---|
| Supplements to be Written and Reviewed by Agency | August through February |
| Final Supplements Packages to LGC | by March 2, 2026 |
| Review for Format by LGC | April 10, 2026 |
| All Corrections received by LGC | April 24, 2026 |
| Posted on the LGC website by the LGC | May 4, 2026 |

Submit each compliance supplement in the format prescribed by the LGC. Email the following items to the LGC:

The agency-prepared compliance supplement; and

The signed agency certification. Electronic signatures are acceptable. A certification may also be mailed to the address in Section 12.3.

Items may be submitted in batches or as one complete package.

**File-Naming Conventions**

**Existing supplements:** Use the same filename as the prior year.

**New federal program supplements:** Use the program's ALN (formerly CFDA number), followed by -X. The LGC will assign the final filename.

**New state program and crosscutting supplements:** Use the applicable department abbreviation, followed by -X. The LGC will assign the final filename.

**New short forms:** Use the filename Short Form-X.

## Program Abbreviations

| Abbreviation | Agency |
|---|---|
| AGRI | Department of Agriculture and Consumer Services |
| COM | Department of Commerce |
| DOA | Department of Administration |
| DCNR | Department of Natural and Cultural Resources |
| DEQ | Department of Environmental Quality |
| DHHS | Department of Health and Human Services (all divisions) |
| DPI | Department of Public Instruction |
| DPS | Department of Public Safety |
| DOJ | Department of Justice |
| DOT | Department of Transportation |
| DST | Department of State Treasurer |
| GOV | Office of the Governor / Office of State Budget and Management |
| NCHFA | North Carolina Housing Finance Agency |
| NCTTF | North Carolina Tobacco Trust Fund Commission |
| SBOE | State Board of Elections |

## Submission Address and Contact

| Contact Method | Information |
|---|---|
| Email completed packages | slgfdsupplements@nctreasurer.com |
| Mailing address | North Carolina Department of State Treasurer, State and Local Government Finance Division, 3200 Atlantic Avenue, Longleaf Building, Raleigh, NC 27604 |
| Questions | Jim Burke, (919) 814-4301, james.burke@nctreasurer.com |

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## Should a State Compliance Supplement Be Issued or Updated for a Federal Program Passed Through the State or for a State-Funded Program?

Whether a State Compliance Supplement should be issued for a federal program passed through the State depends largely on the likelihood that the program will be selected as a major program by the auditor of an organization that expended the federal or State financial assistance. The primary considerations are the amount of funding passed through to subrecipients and the program's potential risk.[6]

Other considerations include the number of subrecipients receiving the funding, the complexity of the program, and the program's duration. Auditors may need additional guidance for programs with complex compliance requirements. A State agency should also consider whether the amount received by individual subrecipients is likely to require the program to be tested as a major program.

If a program is short term, possibly lasting only one or two years, the State agency may determine that another method of communicating compliance requirements—such as a contract, grant agreement, or memorandum—is more efficient. The risk of this approach is that an auditor may not test a compliance requirement that the State agency considers important.

The same criteria should be used to determine whether a State Compliance Supplement should be issued or updated for a State-funded program. Auditors are not required to assess the potential risk of a State program in the same manner as a federal program; however, they should use professional judgment when selecting major State programs and consider the program's audit history.

### State Agency Responsibility

The State agency determines whether a State Compliance Supplement is needed for a federal program passed through the agency or for a State-funded program.

The decision to issue a new supplement or update an existing supplement should consider:

- The amount each subrecipient received for the program.
- The number of subrecipients that received program funding.

If a subrecipient expends at least $1,000,000 in federal awards for a particular program, the program will most likely be a Type A program and may be required to be audited as a major program. The auditor will need a long-form supplement. A Type B program with expenditures of at least $250,000 may also be tested as a major program if it is potentially considered high risk by an auditor (see "Assess the Potential Risk of the Federal Program" below).[7]

The current threshold for a major State program is $1,000,000. However, local auditors may test programs with expenditures below this amount as major programs to satisfy the 40 percent coverage requirement. This is particularly common for counties. Therefore, if a subrecipient

[6] Auditors' consideration of a high-risk program is based on criteria found in Uniform Guidance §200.519. Auditors may select a Type B program if the program is 25% of the Type A/B threshold (ex. $250,000 = 25% of $1,000,000) and considered high risk.

[7] 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.

expends at least $500,000 in funding received for a particular State program, the State agency should strongly consider preparing a long-form State Compliance Supplement.

For a short-term program that may qualify as a major program but has only a few subrecipients, preparing a compliance supplement may not be necessary. The State agency should instead provide sufficient guidance in a memorandum, contract, or grant agreement that auditors can use. Without a supplement, the auditor is responsible for developing the audit program and identifying the applicable compliance requirements, even though the granting agency is more familiar with the program.

To determine the amount of federal funding passed through to subrecipients for a particular program, the State agency may review the year-end or confirmation reports it sends to subrecipients or auditors.

The Statewide Single Audit Report issued by the Office of the State Auditor (OSA) may also help identify federal awards passed through to subrecipients. Its Schedule of Expenditures of Federal Awards lists federal programs with expenditures by State agencies and the amounts passed through to subrecipients. Because the report is generally released in early April and covers the preceding fiscal year, it may not provide current-year information. State programs are not included in the OSA Statewide Single Audit Report.

### Assess the Potential Risk of the Federal Program

A State agency may wish to assess the risk of a program that falls below the applicable Type A/B threshold but may nevertheless be high risk. The greater the risk of noncompliance, the more strongly the agency should consider creating or updating the compliance supplement.

Federal program risk criteria are provided in 2 CFR 200.519. Factors to consider include:

- Current and prior audit experience. Weaknesses in internal control over a federal program and prior audit findings may indicate higher risk. A program that has not recently been audited as a major program may present more risk than one recently audited as major without findings.
- Oversight exercised by the awarding agency. The federal awarding agency may identify a program as high risk. Medicaid is one example.
- Inherent risk of the federal program. Consider the program’s complexity; the extent to which it uses contracts for goods and services; the use of third-party contracts; significant payroll costs; the program’s life cycle at both the awarding-agency and subrecipient levels; and the amount of program expenditures. Programs with larger expenditures generally present greater risk.

## Writing a State Compliance Supplement for a Federal Program

The following guidance applies both to new supplements and to updates of existing supplements.

The State agency determines whether a State Compliance Supplement is needed for a federal program passed through the agency. A key consideration is whether a local auditor is likely to select the program for testing as a major program.

The staff members responsible for writing or updating the supplement should be thoroughly familiar with the program and its administration at both the State and local levels.

Important: For a federal program passed through the State agency, the staff member responsible for the State Compliance Supplement should determine whether the federal awarding agency issued a program supplement in Part 4 of the OMB Compliance Supplement. OSA will use the OMB supplement to test the program at the State level, and the local auditor will use it at the local level. The local auditor may also use the supplement prepared by the State agency. If a federal requirement is not passed through or does not apply at the local level, the State supplement should state that clearly. A well-written State supplement can help local auditors understand which OMB requirements apply to the local government.

Local auditors and OSA will also use Part 3 of the OMB Compliance Supplement, which identifies compliance requirements common to programs with similar objectives and provides suggested audit procedures. Part 3 is organized by Type of Compliance Requirement, and not every Type applies to every program. Staff responsible for the State supplement should be familiar with the Part 3 requirements applicable to the federal program.

A State agency may incorporate enough applicable guidance from the OMB Compliance Supplement into the State supplement that an auditor primarily uses the State supplement. The auditor must determine whether the State supplement is sufficient.

### 1. Determine Which Federal Compliance Requirements Apply to the Program

If OMB has issued a program supplement in Part 4, the matrix in Part 2 identifies the federal compliance requirements subject to audit. Part 4 also includes a table that categorizes those requirements under the 12 Types of Compliance Requirements. The State agency should use the most recent OMB Compliance Supplement to identify the current requirements to be tested. As of July 2026, the 2026 OMB Compliance Supplement had not been issued. Because OMB has not always issued the supplement by the anticipated May release date, State agencies remain responsible for identifying updates or changes to their federal programs.

If no OMB program supplement exists, the State agency must use other sources to determine which Types apply. Sources may include:

A. The grant or award agreement between the federal agency and the State or State agency.
B. The State plan, if required by the federal awarding agency.
C. Memoranda or notifications issued by the federal agency for the program.
D. Section A, Part 7 of the State Compliance Supplement, "Guidance for Auditing Programs Not Included in This Compliance Supplement."
E. Program summary information in the System for Award Management (SAM.gov), formerly the Catalog of Federal Domestic Assistance.
F. Applicable federal laws and regulations.

For federal programs, State agencies should focus on program-specific compliance requirements that have been selected for audit and could have a direct and material effect on the program.

Important—"Pick 6" initiative: OMB requires federal agencies to limit the applicable Types of Compliance Requirements to no more than six. If both A, Activities Allowed or Unallowed, and B, Allowable Costs and Cost Principles, apply, they may be treated as one requirement, allowing the program to have seven applicable Types. A program may have fewer than six applicable Types. This initiative reduces the audit burden on auditors and auditees. A Type that ordinarily applies does not require testing when Part 2 identifies it with an "N."

A State agency cannot change a Type identified as applicable by the federal agency on the federal program matrix to "not applicable." If the requirement is not passed through to the local level, the State Compliance Supplement should clearly communicate that fact to local auditors.

### 2. Determine Which Requirements Apply at the Local Level

This determination depends on how much of the program's administration has been delegated to the subrecipient.

G. Has administration of the entire program been passed through to the subrecipient at the local level?
H. Has the State agency delegated only limited portions of the program, such as Eligibility or Reporting, to the subrecipient?
I. Has the State agency eliminated any requirements through measures it has taken or policies and procedures it has implemented?

Sources may include:

J. The contract or grant agreement between the State agency and the subrecipient.
K. Memoranda or notifications issued by the pass-through agency that describe requirements and other restrictions.
L. The North Carolina General Statutes.
M. The North Carolina Administrative Code.

Agency staff should also determine whether the State agency has imposed requirements in addition to the federal requirements or has made a federal requirement more stringent.

Any State-imposed requirement should identify the source of the requirement.

If Part 4 of the OMB Compliance Supplement indicates that a Type applies to a program, the State supplement should also identify that Type as applicable. If the requirement is administered entirely at the State level and the local auditor cannot perform testing, the State supplement should say so. For example, if the State must provide a 25 percent match for a federal program and the award is passed through to a local government, the agency should identify "G. Matching, Level of Effort, and Earmarking" as applicable. Under that requirement, the supplement should state "Not applicable at the local level," or similar language, and the program matrix should show a "Y." Refer to the table prepared by OSA on page 23.

When identifying program compliance requirements, OMB encourages agencies to begin with the underlying requirements rather than first trying to fit each requirement into one of the 12 Types, such as Cash Management, Activities Allowed or Unallowed, or Eligibility.

State agencies should follow OMB guidance and limit the number of applicable Types so auditors can focus on the most important requirements, consistent with the "Pick 6" initiative discussed above. If the agency considers a Type significant at the local level, it should include that Type in the State supplement.

Keeping the list of the 12 federal Types of Compliance Requirements available while drafting may help staff identify the requirements applicable to the program.

If staff cannot determine which of the 12 Types includes a particular compliance test, they should consider presenting it under “Special Tests and Provisions.”

### 3. Determine Which Program Requirements the State Agency Monitors

A. For requirements monitored by the State agency, determine whether the local auditor should verify and report specific information, such as Reporting requirements.

When a local auditor performs the audit, the State agency may already know whether a subrecipient submitted reports on time. The agency may not, however, have evidence that the reported information is accurate and valid. The agency may ask the auditor to test a sample and verify that supporting documentation exists, funds were spent as reported, and expenditures were authorized by appropriate personnel.

a) For requirements the State agency does not monitor, identify areas in which noncompliance is likely and could significantly affect proper administration of the program.

Determine what the State agency needs the local auditor to investigate and report.

### 4. Define the Program Objective

The objective may reflect the State perspective when the program is administered entirely at the local level, or it may reflect a local objective when federal grant funds support a State program at the local level. Do not include compliance requirements in this section.

Describe the objective in Item I of the compliance supplement. Refer to Appendix VI, page VI-6, for a sample.

### 5. Describe Program Procedures

Provide the local auditor with a summary of how the program is administered. Include, as applicable:

A. A brief description of how the State obtains the grant.
B. The federal, State, and local funding components, including whether State or local funds satisfy a matching requirement or are provided in addition to the federal award.
C. A description of how a subrecipient obtains the grant from the State agency.
D. A description of the application process.
E. A list of the forms used in the application process and where they may be obtained.
F. A description of any attestations the subrecipient must make in the application.
G. A description of how funds are transferred to the subrecipient, such as by advance or reimbursement.
H. A description of how federal and State agency requirements are communicated to the subrecipient.
I. A general description of allowable uses of the grant funds and any significant restrictions. More detail may be provided under Requirements A or B.
J. A brief description of monitoring performed by the State agency. Include detailed monitoring information under the applicable compliance requirement.
K. When a federal supplement exists, information about options available to the State, such as waivers, agreements, or rebates.
L. A description of any policy or procedure manuals the auditor may need and where they may be obtained.
M. Definitions of acronyms used in the supplement.

Describe program procedures in Item II of the compliance supplement. Refer to Appendix VI, page VI-6, for a sample. If an agency website or publication contains information that would help the auditor understand the program, include the publication's name and description and a current URL in "Program Procedures."

**6. Develop Compliance Requirements (A–C, E–J, L, and M)**

For each applicable requirement category, such as A. Activities Allowed or Unallowed, describe the program requirements the State agency expects the local auditor to test.

OMB removed D, Davis-Bacon Act, and K, Real Property Acquisition and Relocation Assistance, as separate Types of Compliance Requirements; those letters are reserved. Davis-Bacon requirements may instead appear under Special Tests and Provisions for certain programs. OMB also renamed H from "Period of Availability of Federal Funds" to "Period of Performance." The letters assigned to the remaining 12 Types did not change.

For each applicable requirement, agency staff should determine:

1. Whether the requirement is program specific. If so, describe the requirement in detail or cite its authoritative source in the individual program supplement in Section B, Part 4.
2. Whether Section A, Part 3 contains all information the local auditor needs to test the requirement. If so, the individual program supplement does not need to repeat it.
3. Whether the pass-through agency imposed additional State requirements. If so, describe them in the individual program supplement and identify them as State-imposed requirements.
4. Whether the State made a federal requirement more stringent. If so, describe the more stringent requirement in the individual program supplement.
5. Whether the program is exempt from portions of the Uniform Guidance. If so, describe the State policies that apply in the individual program supplement.
6. Whether the federal matrix identifies a requirement as applicable even though the requirement was not passed through to the subrecipient or the agency does not expect the local auditor to test it. If so, explain under the applicable requirement that there is no local-level procedure for the auditor to perform.

For federal programs, State agencies should focus on program-specific compliance requirements selected for audit that could have a direct and material effect on the program.

If a requirement is applicable and the agency monitors it, list the requirement in the supplement and consider describing the monitoring procedures.

For each requirement, review the "Suggested Audit Procedures" in Section A, Part 3 of the most recent OMB Compliance Supplement. The current supplement may be available on OMB's website or the State Treasurer's Single Audit Resources webpage.

If the procedures in Section A, Part 3 are sufficient to test a requirement, the State agency does not need to add procedures. If those procedures are insufficient, agency staff should develop additional procedures and include them under the applicable compliance requirement.

In the compliance supplement, the Objectives and Procedures are followed by the applicable requirements in alphabetical order (A through N).

## 7. Determine Special Tests and Provisions (Requirement N)

Determine whether any program requirements cannot be classified under the first 11 federal compliance requirement categories.

For each such requirement, provide:

- A detailed description of the compliance requirement.
- The audit objective — what the local auditor should determine by testing the requirement.
- Suggested audit procedures.

## 8. Complete the Matrix for Federal Programs

Each program supplement includes a matrix in Section III, Compliance Requirements, identifying the Types of Compliance Requirements that apply to the program. State agencies no longer submit a separate document listing applicable Types. LGC staff will compile matrices for federal and State programs included in the State Compliance Supplement.

Based on Steps 1 through 7 above, enter "Y" or "N" in the Section III matrix for each Type of Compliance Requirement.

For a cluster of programs, the same requirements must apply to every program in the cluster and should appear only once in the matrix.

For programs subject to cross-cutting requirements, use the additional matrix column provided. A State agency division that has issued a Cross-Cutting Compliance Supplement should use the "FederalTemplate-CC programs.docx" template.

## Writing a State Compliance Supplement for a State Program

### 1. Determine Which State Compliance Requirements Apply to the Program

Sources may include:

- The contract or grant agreement between the State agency and the subrecipient.
- The pass-through agency's policies and procedures.
- Memoranda or notifications issued by the pass-through agency.
- The North Carolina General Statutes.
- The North Carolina Administrative Code.

When identifying program compliance requirements, begin with the underlying requirements rather than first trying to fit each one into one of the 13 Types of Compliance Requirements that are applicable to State programs, such as Cash Management, Activities Allowed or Unallowed, or Eligibility. Keeping a list of the 13 State Types available while drafting may help staff identify the requirements applicable to the program.

If staff cannot determine which of the 13 Types includes a particular compliance test, they should consider presenting it under "Special Tests and Provisions."

State agencies are encouraged, but not required, to limit the number of applicable Types so auditors can focus on the most important requirements. If both Type 1, Activities Allowed or Unallowed, and Type 2, Allowable Costs and Cost Principles, apply, they may be treated as one requirement, allowing the program to have seven applicable Types. A program may have fewer than six applicable Types. The "Pick 6" approach is intended to reduce the audit burden on auditors and auditees.

### 2. Determine Which Program Requirements the State Agency Monitors

A. For requirements monitored by the State agency, determine whether the local auditor should verify and report specific information, such as Reporting requirements.

   When a local auditor performs the audit, the State agency may already know whether a subrecipient submitted reports on time. The agency may not, however, have evidence that the reported information is accurate and valid. The agency may ask the auditor to test a sample and verify that supporting documentation exists, funds were spent as reported, and expenditures were authorized by appropriate personnel.

B. For requirements the State agency does not monitor, identify areas in which noncompliance is likely and could significantly affect proper administration of the program.

Determine what the State agency needs the local auditor to investigate and report.

### 3. Define the Program Objective

The objective should reflect the State's perspective. Do not include compliance requirements in this section. Sources may include:

- The contract or grant agreement between the State agency and the subrecipient.
- The North Carolina General Statutes.
- The North Carolina Administrative Code.

Describe the objective in Item I of the compliance supplement. Refer to Appendix VII for a sample.

### 4. Describe Program Procedures

Provide the local auditor with a summary of how the program is administered. Include, as applicable:

a) A brief description of how the State obtains the grant.
b) The State and local funding components, including whether local funds satisfy a matching requirement.
c) A description of how a subrecipient obtains the grant from the State agency.
d) A description of the application process.
e) A list of the forms used in the application process and where they may be obtained.
f) A description of any attestations the subrecipient must make in the application.
g) A description of how funds are transferred to the subrecipient, such as by advance or reimbursement.
h) A description of how program requirements are communicated to the subrecipient.
i) A general description of allowable uses of the grant funds and any significant restrictions. More detail may be provided under Type 1, Activities Allowed or Unallowed, or Type 2, Allowable Costs and Cost Principles.
j) A brief description of monitoring performed by the State agency. Include detailed monitoring information under the applicable compliance requirement.
k) A description of any policy or procedure manuals the auditor may need and where they may be obtained.
l) Definitions of acronyms used in the supplement.

Describe program procedures in Item II of the compliance supplement. Refer to Appendix VII for a sample.

### 5. Develop Compliance Requirements (Types 1–13)

For each applicable Type, such as Type 1, Activities Allowed or Unallowed, describe the State program requirements the agency expects the local auditor to test.

For each applicable requirement, agency staff should:

1. Provide the details of the requirement or cite its authoritative source.
2. Remember that no statute applies universally to every requirement except Type 4, Conflict of Interest.
3. Provide an audit objective describing what the local auditor should determine by testing the requirement.
4. Provide suggested audit procedures for each requirement to be tested. Section C of the State Compliance Supplement does not contain general suggested audit procedures; therefore, the State agency must develop all suggested audit procedures for each requirement listed in the program supplement.

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

If the pass-through agency monitors a program requirement, list the requirement in the supplement and consider describing the monitoring procedures.

In the compliance supplement, the Objectives and Procedures are followed by the applicable requirements in numerical order (1 through 13).

### 6. Determine Special Tests and Provisions (Requirement 14)

Determine whether any program requirements cannot be classified under the first 13 State compliance requirement categories.

For each such requirement, provide:

- A detailed description of the compliance requirement.
- The audit objective — what the local auditor should determine by testing the requirement.
- Suggested audit procedures.

### 7. Complete the Matrix for State Programs in Section C

Each program supplement includes a matrix in Section III, Compliance Requirements, identifying the Types of Compliance Requirements that apply to the program. State agencies no longer submit a separate document listing applicable Types. LGC staff will compile matrices for federal and State programs included in the State Compliance Supplement.

Based on Steps 1 through 6 above, enter "Y" or "N" in the Section III matrix for each Type of Compliance Requirement.

For a cluster of programs, the same requirements must apply to every program in the cluster and should appear only once in the matrix.

For programs subject to cross-cutting requirements, use the additional matrix column provided. A State agency division that has issued a Cross-Cutting Compliance Supplement should use the "StateTemplate-CC programs.docx" template.

**State Compliance Supplement**
**Multiple State Supplements Prepared for One Federal Program**
**For the Fiscal Year 2027**

A federal program may be granted to multiple State agencies or Division of a State agency. The agencies/divisions may use that same federal award to fund multiple State objectives/programs that fits the criteria for the federal award. This is common for federal block grants (social service block grant). For example:

DOT subgrants a federal award to fund multiple NC objectives/programs.

**DOT 20.205 Federal Program: Highway Planning and Construction**

Subgrants as:
1) Highway, Planning, and Construction (20.205-1)
2) Enhancement Programs: Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) (20.205-2)
3) Bicycle and Pedestrian Transportation Enhancement Programs: Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFEA LU), MAP 21 FAST Act (20.205-4)
4) Metropolitan Planning Program (20.205-5)
5) Safe Routes to School Programs (20.205-7)
6) State Planning and Research (20.205-8)

COM and DEQ uses the same federal program to fund different NC objectives/programs.

**Federal Program Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii**

**COM 14.228 (14.228-1)**

Subgrants as: North Carolina Small Cities CDBG and Neighborhood Stabilization Program

**DEQ 14.228 (14.228-2)**

Subgrants as: Community Development Block Grant – Infrastructure Fund

Different Divisions within an Agency receive the same federal funding to fund State objectives/programs.

**DHHS – DMA 93.778 (93.778-1)**

Subgrants as: Medical Assistance

**DHHS – Public Health 93.778 (93.778-7)**

Subgrants as: Sickle Cell Patient Services

Each agency/division should prepare its own supplement for the federal program it subgrant. On each supplement provided, the federal program name should be the same on all supplements (item A. on federal template) and should match the name of the federal program in the Assistance Listing (formerly Catalog of Federal Domestic Assistance). All subgrants should be identified to the subrecipients so that they may record the information in a manner that makes the audit of money less confusing.

**Whether to Address a Compliance Requirement in the Program Supplement**

**Federal Programs passed through State Agency and OMB has issued a Uniform Guidance (UG) Compliance Supplement in Part 4**

| UG Part 2 Matrix Compliance Requirement | Compliance Requirement Addressed in OMB Compliance Supplement Part 3 or Part 4 | State Agency Prepared Federal Matrix Section B | Requirement Addressed in State Agency Prepared Compliance Supplement Section B |
|---|---|---|---|
| Y | **Sufficiently** addresses requirement and suggested audit procedures **and** the State Agency is not adding restrictions or does not need to clarify the federal requirements or added details of North Carolina's program implementation are not needed. | Y | Do **not** have to address. |
| Y | Does **not** sufficiently address and/or there are additional restrictions, details or clarifications needed to evaluate the program | Y | **Should** address additional requirements / restrictions / clarifications / details. Give authorization. Add suggested audit procedures as necessary. |
| N or shaded | **Not** address and requirement is not added by State Agency | N | Do **not** address. |
| N or shaded | State Agency adds the requirement and desires for the local CPA to test. | Y | **Should** address. |

**Federal Programs passed through State Agency and OMB has not issued a Uniform Guidance (UG) Compliance Supplement in Part 4**
(not included in Part 2 – Matrix or Part 4 – Program Supplements)

| Compliance Requirement Applicable to Program | Compliance Requirement Addressed In Part 3 | State Agency Prepared Federal Matrix Section B | Requirement Addressed in State Agency Prepared Compliance Supplement Section B |
|---|---|---|---|
| Yes | **Sufficiently** addresses requirement and suggested audit procedures to audit program **and** the State Agency is not adding restrictions or does not need to clarify the federal requirements or added details of North Carolina's program implementation are not needed. | Y | Do **not** have to address. |
| Yes | Does **not** sufficiently address and/or there are additional restrictions or guidance needed to evaluate the program. | Y | **Should** address additional requirements / restrictions. Give authorization. Add suggested audit procedures as necessary |
| No | N/A | N | Do **not** address. |

**State Program**

There is **not** a Part 3 with general compliance requirement descriptions and suggested audit procedures; however, there is a Compliance Requirements for State Program that has common compliance testing requirements that can be referenced in the State Program compliance supplement.

| Compliance Requirement Applicable | Scenarios | State Agency Prepared State Matrix in Section C | Requirement Addressed in State Agency Prepared Compliance Supplement Section C |
|---|---|---|---|
| Y | State **Agency monitors** and does not want the CPA to perform test work. | Y | Indicate no audit procedures necessary for that compliance requirement. Additionally, briefly state that the state agency is monitoring and how. |
| Y | State Agency does not monitor and wishes for the CPA to perform test work. | Y | Address the requirement and provide suggested audit procedures. |
| Y | State Agency does some monitoring but still has a need for the CPA to perform test work. | Y | Address the requirement and indicate the type of monitoring performed by the state agency. Provide specific suggested audit procedures. |
| N | N/A | N | Do not address. |

## APPENDIX I

### How the North Carolina Compliance Supplement is organized

The Supplement is organized into five sections as described below:

**Section A – Office of Management and Budget (OMB) Uniform Guidance Compliance Supplement.**

This section is a reproduction of the most recent Compliance Supplement issued by the Office of Management and Budget (OMB), hereafter referred to as the Federal Compliance Supplement and is electronically linked to the document at the federal Office of Management and Budget. The compliance requirements and the relevant information in this Section have been identified and provided by the federal agencies and OMB. Organizations receiving federal funds should refer to the OMB Uniform Guidance (2 CFR 200), Subpart F, for federal audit requirements.

The OMB Federal Compliance Supplement is divided into seven Parts.

Part 1 – Background, Purpose, and Applicability of Compliance Supplements,

Part 2 – Matrix of program for 12 compliance requirements,

Part 3 – Compliance requirements that are generic to nearly all programs,

Part 4 – Agency requirements for specific programs (approximately 150 programs),

Part 5 – Identifies cluster of programs that are defined by federal agencies,

Part 6 – Internal control testing guidance for each of the 12 federal compliance requirements,

Part 7 – Guidance for auditing federal programs that do not have compliance supplements issued.

Appendix I - Federal Programs Excluded from Portions of 2 CFR Part 200

Appendix II - Federal Agency Codification of Government-wide Requirements and Guidance for Grants and Cooperative Agreements

Appendix III _ Federal Agency Single Audit, Key Management Liaison, and Program Contacts

Appendix IV - Internal Reference Tables

Appendix V - List of Changes for the 2025 Compliance Supplement

Appendix VI - Program-Specific Audit Guides

Appendix VII - Other Audit Advisories

Appendix VIII - Examinations of EBT Service Organizations

Appendix IX - Compliance Supplement Core Team

Section B – Compliance Supplements for Federal Programs passed through the State written by State Agencies.

This section provides the following for federal programs subgranted by a State agency for:

1) federal programs for which federal agencies have identified program compliance requirements (programs 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,

2) federal programs for which federal agencies have not identified program compliance requirements (programs in Section A), State agencies identify federal requirements and their own requirements and provide details as to how these requirements relate to the federal programs subgranted by State agencies.

Section B contains two parts:

1) Matrix of federal program with compliance requirements for State programs with federal pass-through funding,
2) Compliance requirements for State programs with federal pass-through funding.

Section C – Compliance Supplements for State Programs with only State funding written by State Agencies

Section C contains two parts:

1) Matrix of compliance requirements for State programs with only State funding,
2) Compliance requirements for State programs.

Section D – Crosscutting Requirements.

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

Section E – Short Form Compliance Supplement.

*Federal Programs*: State agencies are not required to write compliance supplements for every program they subgrant. This section provides a short form that details information relating to the program for those programs that did not meet the minimum threshold for writing a standard supplement. A compliance supplement is required whenever the amount subgranted to any one local government or public authority is $250,000[8] or more.

*State Funded Programs:* If the State agency grants a State-funded program AND does not grant two hundred thousand dollars ($500,000)[9] or more in one State program to a subrecipient, then the short form supplement is all that is necessary to be completed by the subgranting agency.

[8] Auditors most likely will not test programs below $250,000, which is twenty-five percent of the Type A/B threshold of $1,000,000 for most federal single audits. Auditors are not required to perform risk-assessment for programs below $250,000. Refer to Uniform Guidance §200.518(d).

[9] The threshold for a major State program is $1,000,000. State programs with expenditures of $500,000 are commonly being audited as major for auditors to meet the requirement that forty percent (40%) of total State awards expended must be audited. Auditors most likely will not test programs below $500,000.

# APPENDIX II

## Requirements for Compliance Supplement Filing by State Agency

### Federal Programs

| Scenario | What must Prepare / Submit |
|---|---|
| Agency does **not** subgrant (pass through) **any** monies | Certification of Exemption from Requirement to Prepare Compliance Supplements |
| Agency does **not** subgrant **$250,000** [10] **or more** to any one local government to any one nonprofit organization | Short-Form Supplement **AND** signed Certification for Submitting Short-Form Supplement for Fiscal Year **2027** |
| Agency **does** subgrant **$250,000** [10] or more to any one local government and/or to any one nonprofit organization | Program Compliance Supplement, Agency Matrix for Federal Program, and signed Certification of **2027** Compliance Supplements |

### State Program

| Scenario | What must Prepare / Submit |
|---|---|
| Agency does **not** subgrant (pass through) **any** monies | Certification of Exemption from Requirement to Prepare Compliance Supplements |
| Agency does **not** subgrant **$500,000**[11] **or more** to any one subrecipient. | Short-Form Supplement **AND** signed Certification for Submitting Short-Form Supplement for Fiscal Year **2027**. However, if the funds subgranted have a direct and material effect on the financial statements of the recipient, the local CPA could select the program for audit as a major and may contact the agency to provide instructions on the program. (i.e. funds represent the majority of the subrecipients revenues or operating funds.) |
| Agency **does** subgrant **$500,000** [11] or more to any one local government | Program Compliance Supplement, Agency Matrix for State Program, and signed Certification of **2027** Compliance Supplements |

[10] The threshold for a major program for most audits performed under Uniform Guidance is $1,000,000. An auditor may determine a program to be major that incurred expenditures of $250,000 or more and less than $1,000,000 in accordance with the requirement in §200.518(d). Auditors most likely will not test programs below this amount, $250,000 (.25 * $1,000,000).

[11] The threshold for a major State program is $1,000,000. State programs with expenditures of $500,000 are commonly being audited as major for auditors to meet the requirement that forty percent (40%) of total State awards expended must be audited.

# Appendix III

## Templates, Instructions, and Certifications

**These forms can be found on NC Dept. of State Treasurers website**

**(at www.nctreasurer.com, select "State and Local Government Finance Division," scroll to "I Want To…" and select Access "Compliance Supplements and Related Resources," select "Compliance Supplement Preparation Resources," select "Templates."**

| | |
|---|---|
| Certification Long Form | Certifications for 2027 Federal or State Compliance Supplements |
| Certification Federal Short Form | Certifications for 2027 Federal Short Form Compliance Supplements |
| Certification State Short Form | Certifications for 2027 State Short Form Compliance Supplements |
| Long Form Federal Template | Template for Federal Program Compliance Supplements 2027 (Crosscutting supplements are not used) |
| Long Form Federal Template – CC Programs | Template for Federal Program Compliance Supplements 2027 that uses Crosscutting Supplements |
| Long Form Federal Template Instructions | Instructions for Federal Long Form Template |
| Long Form State Template | Template for State Short-Form Compliance Supplement 2027 (Crosscutting supplements are not used) |
| Long Form State Template – CC Programs | Template for State Program Compliance Supplements 2027 that uses Crosscutting Supplements |
| Long Form State Template Instructions | Instructions for State Long Form Template |
| Short Form Federal Template | Template for Federal Short-Form Compliance Supplement 2027 |
| Short Form State Template | Template for State Short-Form Compliance Supplement 2027 |
| Short Form Template Instructions | Instructions for Federal or State Short Form Template |

## APPENDIX IV

### Terminology

**Below are commonly used terms referenced in this document and in State Compliance Supplement resources. These terms may be used more broadly than defined in the Uniform Guidance 2 CFR 200.1, State Budget Act (§ 143C-1-1(d)), or 09 NCAC 03M.0102.**

**State's Compliance Supplement** – The document that is published in conjunction with State Agencies who subgrant federal and State funds, the Local Government Commission and the Office of the State Auditor that contains that is to be used by local CPAs who audit program compliance for local governments, public authorities, and not-for-profit organizations. The document contains:

A. Uniform Guidance Compliance Supplement.
   - (Section A) (7 Parts, 9 Appendices)
   - Prepared by Federal Agencies
   - More useful for audits at the state level but is a "building block" for agency prepared supplements.

B. Compliance Supplements for federal programs subgranted by State agencies.
   - (Section B) (2 Parts)
   - Prepared by the subgranting State agencies.
   - Used by CPAs auditing local governments, public authorities, and nonprofit organizations,
   - Written and used in conjunction with Parts 3 and 4 in Section A,
   - Section B will contain supplements for federal programs with State matching funds, for federal programs supplemented with State funds, or federal programs which have been clustered with State funds,

C. Compliance Supplements for State programs granted by State agencies.
   - (Section C) (2 Parts)
   - Prepared by the State agencies granting the funds,
   - Contains supplements for only State funded programs,
   - Section is not to be used in conjunction with Section A.

D. Compliance Supplements for Cross-Cutting Requirements.

E. Short form Compliance Supplements for programs not meeting certain criteria

**Assistance Listing** refers to the publicly available listing of Federal assistance programs managed and administered by the General Services Administration, formerly known as the Catalog of Federal Domestic Assistance (CFDA).

**Assistance Listing Number** means a unique number assigned to identify a Federal Assistance Listings, formerly known as the CFDA Number. Denoted as XX.XXX, i.e., 93.558. First two numbers identify the federal agency and the last 3 are for sequencing.

**Auditee** refers to any entity that expends Federal or State awards which must have an audit performed under Subpart F of the Uniform Guidance, State Single Audit Act (§159-34(a), or State Budget Act (09 NCAC 03M .0205)

**Cluster of programs** means a grouping of closely related programs that share common compliance requirements. A cluster of programs must be considered as one program for determining major programs, as described in § 200.518. Federal and State Agencies determine cluster of programs and what programs are included in a cluster of programs.

**Code of Federal Regulations** (**CFR**) is the codification of the general and permanent rules and regulations (sometimes called administrative law) published in the *Federal Register* by the executive departments and agencies of the federal government of the United States. The CFR is divided into 50 titles that represent broad areas subject to federal regulation.

**Direct Programs** – Programs funded directly from federal agencies, not passed through any State agencies.

**Federal financial assistance** means assistance that non-Federal entities receive or administer in the form of grants, cooperative agreements, non-cash contributions or donations of property (including donated surplus property), direct appropriations, food commodities, and other financial assistance. Federal financial assistance also includes assistance that non-Federal entities receive or administer in the form of loans, loan guarantees, interest subsidies, and insurance.

**Finding** – The auditor's discovery of a violation or act of noncompliance in a grant program or a discrepancy in internal controls over compliance that is at a level of significant deficiency or material weakness.

**Major Programs** – **Federal Programs** that meet certain dollar criteria and have been assessed as high-risk program. These programs will be audited by a local CPA at a local government, public authority, or not-for-profit organization.

**Major Programs** – **State Programs** audited by a local CPA at a local government, public authority, or not-for-profit organization because the program met certain dollar criteria. (Subrecipient received $750,000 or more in **one-single** state program or auditor selected the program to meet the percentage of coverage requirement).

**Non-State Entity -** The State Budget Act defines a non-State entity as any of the following that is not a State agency: an individual, a firm, a partnership, an association, a county, a corporation, or any other organization or group acting as a unit. The term includes a unit of local government and public authority.

**OMB – Office of Management and Budget** – Executive Office of the President

Among other things OMB is responsible for implementing the Single Audit Act of 1984, the Amendments of 1996 and various other regulations concerning federal grants, audits, and cost principles.

**Parts** – The divisions of each Section of the OMB and State Compliance Supplement.

**Program Supplement** – an individual supplement written for a single program or a cluster of programs.

**Program-specific audit** means an audit that includes an examination of financial statements, internal controls, and compliance with the requirements and contract clauses for an individual State award.

**Sections**– The divisions of the State's Supplement

**Single Audit** – means an audit that includes an examination of an organization's financial statements, internal controls, and compliance with the requirements of Federal or State awards.

Single audits are performed in accordance with the provisions of OMB Uniform Guidance 2 CFR 200 (Title 2 Code of Federal Regulations Chapter II Part 200) that encompasses:

A. an audit of the basic financial statements,

B. review of internal controls (at the entity level and the federal and State program level), and

C. additional test of compliance with laws and regulations (at the entity level and the federal and State program level

**State Funds** means any funds appropriated by the North Carolina General Assembly or collected by the State of North Carolina. The State Budget Act considers State funds to include federal financial assistance received by the State and transferred or disbursed to non-State entities. Both Federal and State funds maintain their identity as they are disbursed as financial assistance to other organizations.

**Subrecipient** – An entity (local government, public authority, not-for-profit organization) receiving federal or State financial assistance indirectly, from another entity (State agencies) that received the assistance directly from the federal or State agency that created and funded the program.

# APPENDIX V

## Websites

Below is a list of websites which may be useful in the preparation of your agency's compliance supplements:

**A. NC Department of State Treasurer, Single Audit Resources website:**

Link to the State Compliance Supplement:

a. https://www.nctreasurer.com/divisions/state-and-local-government-finance-division/lgc/local-fiscal-management/compliance

Link to Compliance Supplement Preparation Resources

b. For detailed instructions on writing compliance supplements and templates of the various supplement documents start at the following link: https://www.nctreasurer.com/state-and-local-government-finance-division/local-government-commission/annual-audit/compliance-supplements-and-resources/compliance-supplement-preparation-resources

**B. System for Award Management:** https://sam.gov/ Official U.S. government website for people who make, receive, and manage federal awards. Assistance Listing is part of sam.gov. Catalog of Federal Domestic Assistance (CFDA) website is no longer applicable.

**C. Federal Audit Clearinghouse:** (https://fac.gov/) - The Federal Audit Clearinghouse (FAC) is the place to submit and review federal grant audits.

**D. U. S. Office of Management and Budget:** https://www.whitehouse.gov/omb/information-resources/guidance/ (Link to OMB Compliance Supplement, Circulars, OMB memoranda and bulletins, Federal Register.)

**E. US Dept. of Treasury**: https://home.treasury.gov/policy-issues/coronavirus (US Treasury funded programs information and other resources.

**F. Code of Federal Regulations:** https://www.ecfr.gov/

**G. United States Code:** https://uscode.house.gov/

**H. Code of Federal Regulations (CFR)**
*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Title 2 Code of Federal Regulations, Chapter I, Chapter II, Part 200).
This contains the Cost Principles, Administration requirements, and Audit requirements of federal awards:
https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200?toc=1

**I.** The **Uniform Guidance** is printed in the Federal Register Vol 78 No. 248 Thursday, December 26, 2013. The link to the Federal Register:
https://www.federalregister.gov/

**J. North Carolina State Statutes:** https://www.ncleg.gov/Laws/GeneralStatutesTOC

**K. N. C. Administrative Code:** http://reports.oah.state.nc.us/ncac.asp