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.[1]

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).[2]

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

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[1] 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.

[2] 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.