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.