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.