



LOCAL GOVERNMENT COMMISSION
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
GREGORY C. GASKINS, DEPUTY TREASURER

North Carolina State Compliance Supplement

APRIL 2020

Introduction

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

G.S. 159-34, as amended (S.L. 2001-160), requires state departments and agencies which provide funds to local governments and public authorities to provide the Local Government Commission (LGC) with documents in a prescribed format describing standards of compliance and suggested audit procedures sufficient to give adequate direction to independent auditors retained by local governments and public authorities to conduct a single audit as required under G. S. 159-34.

There are additional requirements under G.S. 143-6.1 for state agencies that receive state funds and then disburse the state funds to corporations, organizations, and institutions. State agencies are to submit documents to the State Auditor in a prescribed format describing standards of compliance and suggested audit procedures sufficient to give adequate direction to independent auditors performing audits.

Auditors must use the State Compliance Supplement when performing audits of grantees receiving and expending state and/or federal funds from the State of North Carolina. The 2020 State Compliance Supplement is effective for audits of fiscal years beginning after June 30, 2019 and supersedes the compliance supplements issued prior to that date for the programs contained therein. Auditors should recognize that previously issued compliance supplements may need to be used if the beginning date of the period being audited does not coincide with the effective date of the currently issued State Compliance Supplement.

The audit requirements for local governments and public authorities are contained in G. S. 159-34. The audit requirements for nongovernmental organizations are contained in G.S. 143-6.2 and further explained in Audit Advisory Number 2 issued by the Office of the State Auditor. These requirements are in addition to those of the federal government related to the audit of federal funds contained in Office of Management and Budget (OMB) Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) in December 2013.



How to Use the State Compliance Supplement

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

- If the program to be audited includes only federal funds received from any entity other than a unit of the State of North Carolina, the auditor must consider Section A. The auditor need not consider the other sections. The Federal Compliance Supplement must be used whenever the entity is required to have an audit in accordance with Subpart F of the Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards, (Uniform Guidance) Title I of the Code of Federal Regulations, Chapter I & II, Part 200 and appears in the Federal Register Vo. 78, No. 248, December 26, 2013. Nothing that is contained in the State Compliance Supplement supersedes requirements imposed by the federal government through OMB Uniform Guidance or the Federal Compliance Supplement.

Generally, those entities expending \$750,000 or more of federal funds (revised from \$500,000 in Uniform Guidance) received either directly or indirectly from the federal government are required to have an audit performed in accordance with OMB Circular Uniform Guidance. The auditor should refer to this Circular for specific audit requirements.

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

Notes:

1. For any federal program being audited, if there is a federal supplement in Section A, the matrix in Section B, at a minimum, will "mirror" the matrix in Section A.
2. State Agencies may designate requirements applicable to a federal program on the matrix in Section B in addition to the requirements designated on the federal matrix in Section A.
3. For federal requirements designated as applicable to a federal program on the Matrix in Section B, the auditor must consider all requirements and "Suggested Audit Procedures" stated on the agency prepared supplement in Section B and the federal requirements and "Suggested Audit Procedures" provided in Section A, Part 3 and Part 4.
4. For federal requirements that are applicable to a federal program, but the State agency requires no testing of the requirement by the local auditor, the agency will state the reasons under the applicable requirement on the program supplement in Section B.
5. If a State agency did not provide "Suggested Audit Procedures" for any compliance requirements in Section B, the auditor is expected to consider the "Suggested Audit Procedures" in Section A, Part 3 for the applicable requirement.



6. If a State agency provided "Suggested Audit Procedures for compliance requirements in Section B, the auditor is expected to consider the "Suggested Audit Procedures" in Section A, Part 3 for the applicable requirement in addition to the procedures provided by the agency.
- If the program to be audited includes only state funds received from any agency or department of the State of North Carolina, the auditor must consider Section C and Section D, if applicable.
 - If a federal or state program has a portion of the program requirements included in the crosscutting supplement for the Agency/Division, the individual supplement will refer the auditor to the crosscutting compliance supplement. There will be instances where an individual requirement on the crosscutting supplement will not be applicable to a program covered by the crosscutting supplement. In those instances, the individual program requirement will state that the auditor need not perform any audit procedures for that requirement. This statement on the individual supplement will take precedence over the requirements on the crosscutting supplement.
 - If a program met the criteria for writing a Short-Form Supplement, no supplement will be found in Sections B, C, or D.

Organization

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

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

This Section is Appendix B of the Office of Management and Budget Uniform Guidance Compliance Supplement issued June 2020, hereafter referred to as the Federal Compliance Supplement, and is electronically linked to the document at the federal Office of Management and Budget (OMB). The compliance requirements and the relevant information in this Section have been identified and provided by federal agencies and OMB. Organizations receiving federal funds should refer to OMB Circular Uniform Guidance for federal audit requirements. To obtain Section A, please refer to How to Obtain this Document section that follows.

Section B - State Compliance Requirements - Federal Programs

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

- For federal programs for which federal agencies have identified compliance requirements (programs shown in Section A), this section identifies additional



requirements imposed by state agencies and/or provides more specific details on federal requirements as they apply to federal programs subgranted by state agencies.

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

Section C - State Compliance Requirements - State Programs

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

Section D - Crosscutting Compliance Requirements

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

Section E – Short-Form Supplements

State agencies are required to write compliance supplements for every program under which grants or subgrants are made. However, detailed program requirements are not published for relatively small programs. This Section provides Short-Form Supplements for such programs. A Short-Form supplement is prepared whenever the amount provided to any one local government or public authority is less than \$187,500 or the amount provided to any one nonprofit organization is less than \$25,000.

Safe Harbor

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



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Regarding Sections B, C and D, the auditor should not consider the supplement to be "safe harbor" for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a "safe harbor" for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the supplement are current. The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

How to Obtain the State Compliance Supplement

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

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