

93.575 CHILD CARE DEVELOPMENT BLOCK GRANT (CCDBG)
93.575 CHILD CARE DEVELOPMENT FUND, DISCRETIONARY
(CCDF)

N/A STATE APPROPRIATIONS

State Project/Program: CHILD CARE QUALITY AND AVAILABILITY

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Authorization: Primarily Section 418 [42 U.S.C.618] of the Social Security Act;
Child Care and Development Block Grant Act of 2014

State Authorization: NC Session Law 2017-57

**N. C. Department of Health and Human Services
Division of Child Development and Early Education**

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Address Confirmation Letters To:

SFY 2021 audit confirmation reports for payments made to Counties, Local Management Entities (LMEs), Managed Care Organizations (MCOs), Boards of Education, Councils of Government, District Health Departments and DHSR Grant Subrecipients will be available by mid-October at the following web address:

<https://www.ncdhhs.gov/about/administrative-offices/office-controller/audit-confirmation-reports>

At this site, click on the link entitled “Audit Confirmation Reports (State Fiscal Year 2020-2021). Additionally, audit confirmation reports for Nongovernmental entities receiving financial assistance from DHHS are found at the same website except select “[Non-Governmental Audit Confirmation Reports \(State Fiscal Years 2019-2021\)](#).”

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.

Auditors may request documentation of monitoring visits by the State Agencies.

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This compliance supplement must be used in conjunction with the OMB 2021 Compliance Supplement which will be issued in the summer. This includes “Part 3 - Compliance Requirements,” for the types that apply, “Part 6 - Internal Control,” and “Part 4 - Agency Program” requirements if the Agency issued guidance for a specific program. The OMB Compliance Supplement is Section A of the State Compliance Supplement.

Division of Child Development and Early Education Contracts:

CONTRACT TYPES BY FUNDING SOURCE		
CONTRACT TYPES	FUNDING SOURCE	CFDA NUMBER
Resource and Referral Contracts	Child Care and Development Fund (CCDF)	93.575
All Other Quality Enhancement Contracts	Child Care and Development Fund (CCDF) and (sometimes) State Funds	93.575

I. PROGRAM OBJECTIVES

The mission of the NC Department of Health and Human Services is, in collaboration with our partners, to provide essential services to improve the health, safety and well-being of all North Carolinians. To that end, we implement quality standards, increase access for families, and collaborate to promote enhanced service delivery of care and education across the State. DCDEE has numerous contracts, the purpose of which generally is two-fold: (1) to provide services to young children and their families which will further the goal of making the families healthy, independent and self-sufficient, and/or (2) enhance the quality of child care services provided to young children and their families.

II. PROGRAM PROCEDURES

All the contracts presented in the chart above are effected through a written contract between DCDEE and each entity with which DCDEE is contracting (the contractor). Because the funding sources for a given type of contractor vary from contractor to contractor and even across a fiscal year, it is not always possible to specify a fund type for a specific type of contract. The written contract between the two parties, however, is prepared by DCDEE so as to reflect all the requirements of all the possible funding sources for the contract. For this reason, therefore, DCDEE recommends that the contract document be the main source of guidance regarding the compliance audit. Descriptions of some specific examples of the major contract types are provided below:

A. Contract Type: Child Care Resource and Referral

Contract Description

High quality, coordinated, statewide Child Care Resource and Referral (CCR&R) Services are essential to improving the quality and availability of early care and education for North Carolina’s youngest citizens. CCR&R agencies help families find and evaluate child care, and they provide vital linkages to support programs, including those that can help families pay for child care. CCR&R agencies train child care providers, and provide on-site technical assistance to help providers implement new practices in their classrooms and improve the quality of care they provide. CCR&R agencies connect child care providers to resources in their communities, and through data collection and reporting and public outreach, CCR&R’s help to build community support for the early care and education system. Through these five CCR&R Core Services of Consumer Education; Technical Assistance; Professional Development; Data Collection; and Public Awareness, North Carolina’s CCR&R system assures consistency of quality and equity of access for parents, child care providers, and the

general public in all 100 counties. In 2005 DCDEE created a council management structure to manage CCR&R Core Services and special quality improvement initiatives across North Carolina's Regional CCR&R System. These three CCR&R Council Management agencies oversee CCR&R service delivery in all 100 counties through a regional system. DCDEE contracts with 3 CCR&R Council members that provide direct service delivery in 3 regions, and that in turn subcontract with the other 14 CCR&R Regional Lead Agencies. Each Regional Lead Agency provides direct service delivery in their local area, and subcontracts with local CCR&R's in their region as needed to ensure that CCR&R services are available in all 100 counties across the State.

Eligibility Requirements

Eligible applicants include public agencies and private 501(c)(3) nonprofit corporations that now provide or intend to provide the following services.

Required Services: The agency will ensure that the key elements of CCR&R Core Services are provided statewide in a consistent manner. The CCR&R Core Services include:

- consumer education and counseling to parents and the community, resulting in higher quality child care options for families;
- professional development and training for child care providers offered through seminars, workshops, conferences and credit bearing courses;
- effective technical assistance to child care programs or individual teachers and providers to help them implement quality improvement or start-up plans;
- data collection, evaluation and analysis of various child care program information; and
- public awareness activities around the supply and demand of child care.

Such services may be supported by fiscal resources other than the Child Care Development Fund (CCDF).

Please note that DCDEE has imposed other requirements in addition to the federal requirements for the CCR&R contracts issued to the lead CCR&R agencies. These requirements are generally listed in the Scope of Work of the contract.

Agency Providing Services

Child Care Resource and Referral Agencies

Funding Source

Child Care and Development Fund

B. Contract Type: Quality Enhancement

Contract Title

The Teacher Education And Compensation Helps (T.E.A.C.H.) Early Childhood® Project is an example of one of DCDEE's other Quality Enhancement contracts.

Contract Description

The T.E.A.C.H. Early Childhood® Project provides comprehensive educational scholarships to early care and education professionals as a strategy to improve the quality of childcare across the State through increased education, compensation and retention of the workforce. Scholarships help to pay for tuition, books, travel, and in some cases release time. These scholarships give early care and education professionals the opportunity to complete coursework leading toward credentials, degrees, certification or licensure at all 58 of North Carolina’s community colleges and 16 universities. Participants must increase their education by completing a minimum number of credits annually. Sponsoring child care programs commit to giving participants raises or bonuses in recognition of their achievement. More importantly, participants are required to commit to the early care and education field or to their employing child care program for six months to one year, thereby increasing workforce retention.

Eligibility Requirements

To be eligible for a T.E.A.C.H. Early Childhood® scholarship, an applicant must work a minimum number of hours per week in a child care program that is licensed or regulated by the North Carolina Division of Child Development. An applicant must have the sponsorship of their employing child care program. Teacher and family child care provider applicants must earn less than \$14.60 per hour and directors or director/owners must earn less than \$15.00 per hour. Partial scholarships may be available for providers earning just over the maximum. Each type of scholarship has additional eligibility requirements specific to the scholarship model.

Agency Providing Services

Child Care Services Association

Funding Sources

Child Care and Development Fund (CCDF)

III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements that are applicable to the federal program. These Types are determined by the federal agency, noted as “Y,” on the “Matrix of Compliance Requirements” located in Part 2 of the OMB 2021 Compliance Supplement; however, the State Agency may have added the Type and this is noted by “Y.” If the State determines that the federal requirement does not apply at the local level or if the State modifies the federal requirements, this is noted in the supplement under the type of compliance requirement. If the federal and/or State agencies have determined that the type is not applicable, it is noted by “N.”

If the Matrix indicates “Y,” the auditor must determine if a particular type of compliance requirement has a direct and material effect on the federal program for the auditee. For each such compliance requirement subject to the audit, the auditor must use the OMB 2021 Compliance Supplement, Part 3 (which includes generic details about each

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compliance requirement other than Special Tests and Provisions) and Part 4 (which includes any program-specific requirements) to perform the audit.

If there is no program listed on the “Matrix” in Part 2 or Part 4, the State has determined the Type that is applicable. If a Type is determined direct and material, the auditor should refer to the requirements found in Part 3 and listed in this supplement.

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	Y	N	Y	Y	N	N	N	Y	Y

A. Activities Allowed or Unallowed

Activities for which payment may be made are those described in the contract (usually in an attached work plan or in the contractor’s proposal which is attached and becomes part of the contract).

B. Allowable Costs/Cost Principles

All grantees that expend State funds (including federal funds passed through the N. C. Department of Health and Human Services) are required to comply with the cost principles described in the N. C. Administrative Code at 09 NCAC 03M .0201 which requires expenditures to adhere to cost principles outlined in 2 CFR Part 200. These are factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

1. Costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be allocable to Federal awards under the provisions noted in 2 CFR, Part 225.
2. Costs must be authorized or not prohibited under State or local laws or regulations.
3. Costs must conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
4. Costs must be consistent with policies, regulations and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

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5. Costs must be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
6. With exception as otherwise provided in 2 CFR Part 225, be determined in accordance with generally accepted accounting principles.
7. Costs must not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period except as specially provided by Federal law or regulation.
8. Costs must be adequately documented and charged to the general ledger. In addition, the (budget line item category) costs must be correctly charged to the Financial Status Report (FSR) as to the proper account, amount and period.
9. Costs must be net of all applicable credits that result from transactions that reduce or offset costs. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates and adjustments for overpayments or erroneous charges.
10. Reasonable costs. A cost is considered to be reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time a decision is made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. Consideration must be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization, the performance of the award, or the provision of services.
11. A cost is allocable to a particular cost objective, if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. In order for a cost to be allocable to a Federal grant or award, the cost must be treated consistently with other costs incurred for the same purpose under like circumstances. The cost must benefit both the award and other activities of the organization and be distributed to the cost objective in a reasonable proportion to the benefits received although a direct relationship to a particular cost objective cannot be shown. It should be noted that any cost allocable to a particular award or cost objective cannot be shifted to other Federal awards either to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the award.

Audit Objectives – Determine whether:

1. charges made to Federal grant awards were for allowable costs, and
2. methods of allocating costs to Federal grant awards produce an equitable distribution.

Suggested Audit Procedures

Test a sample of transactions to determine compliance as stated in the contract's scope of work with the following criteria:

1. The allowability of costs incurred.
2. Represented charges for actual costs, not budgeted or projected amounts.
3. Calculated in conformity with generally accepted accounting principles.
4. Supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, or personal records. Correctly charged to the general ledgers and reconciled to the FSR's as to account, amount, and period. Documentation requirements for salaries/wages and time and effort distribution are described in applicable Uniform Guidance cost principles circulars. Documentation may be in an electronic form.
5. Reviewed financial documents to ensure that cost is not used to meet cost sharing matching.
6. Determined that the costs charged are in accordance with the organization's approved indirect cost plan. Review the contract to determine if indirect costs are an allowable charge to the program.

E. Eligibility

Eligibility requirements and determinations are unique and based on the specific contract. Most contracts will not have a client eligibility component.

Suggested Audit Procedures – Review contracts to determine if there is a client eligibility component.

G. Matching, Level of Effort, Earmarking

Compliance Requirement – Matching funds may be required in certain contracts if documented within the contract.

If the contract requires a match, the cash and in-kind expenditures must be documented satisfactorily and the cash/in-kind expenditures made for the same types of activities funded by the contract.

The federal CCDF does have matching, level of effort, and earmarking requirements. Meeting the requirements, however, is managed at the State level by the DCDEE and is not applicable at the local level.

H. Period of Performance

Compliance Requirement – Activities for which the contract pays must occur within the contract period. Every contract has a specified period, e.g., the State fiscal year (July 1 - June 30). Activities paid for by the contract must occur within the contract period.

M. Subrecipient Monitoring

Compliance Requirement – The contractor is allowed to pass through funds for projects. The pass through should be in the form of a financial assistance contract.

Audit Objective – To determine if contractor is performing and documenting subrecipient monitoring using reasonable testing and data for expenses and performance.

Suggested Audit Procedure – Review sample of financial assistance contracts if applicable and review the contractors monitoring efforts and documentation to determine reasonable effort of subrecipient monitoring is being conducted.

N. Special Tests and Provisions

1. **Compliance Requirement** – The contractor’s detailed financial documents must support the expenses claimed against the contract.

Suggested Audit Procedure – Compare the contractor’s detailed financial documents with the expenses claimed against the contract.

2. **Compliance Requirement** – Most contracts require that subcontracts be approved in advance by DCDEE if the subcontracts were not part of the original contracts.

Suggested Audit Procedure – If there are subcontracts in place which should have received DCDEE approval in advance, perform testing to ensure that the approval was obtained. Perform tests to ensure that the subcontract falls within the time period of the principal contract.

3. **Compliance Requirement** – Private non-profit organizations which are eligible are required to apply for sales tax refunds. If DCDEE participated in costs related to those sales taxes, these costs must be refunded to DCDEE.

Suggested Audit Procedure – If appropriate, perform testing to ensure that applications for sales tax refunds have been submitted by the contractor. Verify that refunds have been made to DCDEE for sales tax costs in which DCDEE participated.

4. **Compliance Requirement** – At the end of a contract, unexpended funds must be returned to DCDEE. This includes funds which were previously reported as expended and subsequently were refunded to the contractor for some reason.

Suggested Audit Procedure – Verify that all unexpended funds were returned to DCDEE promptly.

5. **Compliance Requirement** – Some contracts serve individual clients who are reported to DCDEE.

Suggested Audit Procedure – Verify that a sample of the reported clients was actually served. Ensure that the service occurred during the contract period.

6. **Conflict of Interest, Certification Regarding No Overdue Tax Debts, and other Certifications**

Compliance Requirement

All non-State entities (except those entities subject to the audit and other reporting requirements of the Local Government Commission) that receive, use or expend State funds (including federal funds passed through the N. C. Department of Health and Human Services) are subject to the financial reporting requirements of G.S. 143C-6-23 for fiscal years beginning on or after July 1, 2007. These requirements include the submission of a Notarized Conflict of Interest Policy (see G. S. 143C-6-23(b)); a written statement (if applicable) that the entity does not have any overdue tax debts as defined by G. S. 105-243.1 at the federal, State or local level (see G. S. 143C-6.23(c)). Pursuant to G.S. 143C-6A-6, submission of a Certification of Eligibility under the Iran Divestment Act that the entity does not have any engagement in investment activities in Iran. All non-State entities that provide State funding to a non-State entity (except any non-State entity subject to the audit and other reporting requirements of the Local Government Commission) must hold the subgrantee accountable for the legal and appropriate expenditure of those State grants funds.

Audit Objective – Determine whether the grantee has adopted and has on file a conflict of interest policy and a written statement stating that the grantee does not have any overdue tax debts before receiving and disbursing State funds. In addition, determine if the grantee has on file a Certification of Eligibility.

Suggested Audit Procedures:

- Ascertain that the grantee has a conflict of interest policy and a written statement stating no overdue tax debts in accordance with G. S. 143C-6-23(c).
- Check the conflict of interest policy and verify through board minutes that the policy was adopted before the grantee received and disbursed State funds.
- Check on the Final Divestment List of entities that the State Treasurer has determined engages in investment activities in Iran, in accordance with G.S. 143C-6A-6.