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STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

Memorandum #2024-05

TO: State Agencies, Independent Auditors, North Carolina Local Governments and Public Authorities, Interested Parties

FROM: Kendra Boyle, Director, Fiscal Management Section

SUBJECT: 2024 State Compliance Supplements and Other Compliance Resources Updates

DATE: May 26, 2024

The North Carolina State Compliance Supplements (State Compliance Supplements) have been updated for the year 2024. This resource was developed in cooperation with State agencies to assist the local auditor in identifying program compliance requirements and audit procedures for testing those requirements.

Copies of all Compliance Supplements, Sections A through E, may be downloaded from the State Treasurer's Single Audit website [here](#). The U.S. Office of Management and Budget (OMB) has not yet released the OMB Compliance Supplement, which is Section A of the State Compliance Supplements. For auditing federal programs that have funding passed through State Agencies, the OMB Compliance Supplement is to be used in conjunction with the State Compliance Supplement.

Local auditors should refer to the OMB supplement, when it becomes available, to review the list of programs that OMB has identified as programs of "higher risk." **Coronavirus State and Local Fiscal Recovery Funds (SLFRF) (21.027)** and **Education Stabilization Fund (84.425)** have been identified as high-risk programs in the prior years. Medicaid 93.778 is always listed as a program of higher risk.

Compliance Requirements for State Awards: Included as part of the 2024 State Compliance Supplement is the document *Compliance Requirements for State Awards* that auditors may use in testing programs with State financial assistance when a compliance supplement is not available for the State program/project. These compliance requirements are generic in nature and include audit objectives and suggest audit procedures similar to Part 3 of the OMB Compliance Supplement. Auditors should determine what Types of Compliance Requirements are applicable to the State program/project, using their professional judgment. The *Compliance Requirements for State Awards* includes audit guidance on 13 Types.

Obligation Interim Final Rule (IFR): Local Governments are expected to continue to incur expenditures related to SLFRF until the fiscal year ending June 30, 2027, if the funds have been properly obligated. U.S. Dept. of Treasury has issued an [Obligation IFR](#) (November 20, 2023) to amend the definition "obligation" set forth in Treasury's regulations with respect to SLFRF. Under the revised definition, an "Obligation" will continue to include an order placed for property and services and entry to contracts, subawards, and similar transactions that require payment. Under the Obligation IFR, a recipient is also considered to incur an obligation by December 31, 2024, based on the federal law and regulation requirements or terms and conditions of the SLFRF awards that a recipient is subject to for receiving or expending SLFRF funds.

Recipients may obligate and spend SLFRF funds after December 24, 2024, for the following eligible legal and administrative related costs:

- reporting and compliance
- record retention and internal control
- environmental compliance
- single audit costs
- property standards
- civil rights and nondiscrimination

Recipients of SLFRF funds can take advantage of these exceptions and utilize these funds for administrative costs by following a four-step process: 1) estimating the amount needed, 2) documenting the justification of the estimate, 3) reporting the estimate by specific deadlines, January 31, 2025, for quarterly reporters and April 30, 2025, for annual reporters, and 4) detailing the final amount spent at the award closeout.

For a recipient that enters into a subaward or contract to cover costs, the funds are considered obligated. Subrecipients of SLFRF funds are not subject to December 31, 2024, obligation deadline. In general, recipients cannot re-obligate funds or obligate additional SLFRF funds after December 31, 2024. However, after the obligation deadline, recipients are permitted to replace a contract or subaward that was entered prior to December 31, 2024, under certain circumstances related to termination of contracts.

CSLFRF FAQ updated: US Treasury aims to clarify the definition of “obligation” of SLFRF funds in their [CSLFRF FAQ](#), version 4.0, (updated March 29, 2024) which includes a section, “17. Obligation.” Other questions updated in version #4 are noted in the FAQ Categorization table at the beginning of the document. Some of the key points included in the latest version:

- Treasury considers an interagency agreement, including agreements in the form of memorandum of understanding, an obligation if the agreement either imposes a condition of the use of funds, governs the provision of funds for eligible uses, or governs the procurement of goods or services between governmental entities. In addition, the agreement specifies scope of work and project deliverables, is signed by all parties, and creates a binding obligation. (Refer to FAQ #17.6)
- Treasury will consider a recipient to have incurred an obligation with respect to personnel costs for an employee through December 31, 2026, to the extent the employee is serving a position that was established and filled prior to December 31, 2024. (Refer to FAQ #17.7,.8)
- Treasury can use SLFRF to cover cost increases in contracts entered into by December 31, 2024, for change orders or contingencies specified in the original contract, or contract amendment, within the same scope or the same purpose. (Refer to FAQ #17.16)

Important: Units that have not yet expended all of their SLFRF funds should refer to the Obligation IRF and CSLFRF FAQ (March 29, 2024) on the US Treasury [State and Local Fiscal Recovery Funds](#) website for details on these circumstances and the details on the items discussed to assure SLFRF funds have been properly obligated. US Treasury has also issued an [Obligation IFR Quick Reference Guide](#).

Uniform Guidance Revision: OMB posted a [pre-publication version of the Uniform Guidance](#) and issued a [memo to the federal agencies](#), which discusses their responsibility in the implementation of the new regulation. As expected, the changes include an increase of the threshold for an audit to \$1 million, from \$750,000. Not previously included in the proposed changes is that the Type A threshold will also increase to \$1 million, and this threshold will apply to expenditures of federal awards of \$34 million, an increase from \$25 million.

The thresholds value for equipment (2 CFR 200.313) and for unused supplies (2 CFR 200.314) will increase to \$10,000 from \$5,000. The definition of questioned costs has been expanded and includes known questioned cost, which was previously defined in 2 CFR 200.516. The concept of likely

questioned costs is included in the definition. Related to an audit finding, when an amount of questioned costs is “undetermined” or “not reported,” the auditor will have to explain why.

The pre-publication version includes revisions to several parts of the OMB Guidance for Grants and Agreements, now called the OMB Guidance for Federal Financial Assistance, located in title 2 of the Code of Federal Regulations (CFR). The effective date of the Uniform Guidance revision is October 1, 2024. The Final Guidance is expected to be issued this summer.

Yellow Book Revisions (2024 Revisions): As expected, the Government Accountability Office (GAO) has issued revisions to *Governmental Auditing Standards*, also known as the Yellow Book. The major change is the replacement of Chapter 5 *Quality Control and Peer Review* with a new Chapter 5 titled *Quality Management, Engagement Quality Reviews, and Peer Reviews*. GAO’s objective for the changes made to Quality Management is to strengthen and modernize an audit organization’s system for managing engagement quality using a proactive and risk-based approach. The 2024 Yellow Book is effective for periods beginning on or after December 15, 2025.

The only other change to the previous version is the addition of application guidance in Chapter 6, *Standards for Financial Audits*. A paragraph is added regarding the reporting of “key audit matters:”

“Although there is no requirement in GAGAS to communicate key audit matters in the auditor’s report, auditors may be required to communicate in the auditor’s report key audit matters for audits of government entities and entities that receive government financial assistance if (1) engaged to do so by management or those charged with governance (refer to GAGAS ¶1.04), or (2) required by law or regulation (refer to AU-C §701).”

Should you have any questions regarding specific requirements, agency contact persons referenced in the Compliance Supplements can assist you. Questions or comments to the SLGFD staff may be directed to Jim Burke via telephone at (919) 814-4301 or via email at james.burke@nctreasurer.com.