

July 7, 1997

TO: Auditors of Counties

FROM: Cheryl J. Spivey, Assistant Director
Fiscal Management Section

The federal Office of Management and Budget has recently issued OMB Circular No. A-133- Revised June 24, 1997 Audits of States, Local Governments, and Non-Profit Organizations. As stated in LGC Memorandum #845, issued February 11, 1997, there have been many changes in the audit requirements for local governments and public authorities in North Carolina.

In addition to the changes discussed in LGC Memorandum #845, OMB Circular No. A-133 changed the definition of federal financial assistance to include assistance that is administered by non-federal entities. Based on the new definition and conversations with the staff of OMB and the NC Office of State Auditor, we have concluded that since counties and special districts determine eligibility for benefit payments such as Medicaid, Food Stamps, AFDC, and WIC, that these payments made by the State to recipients meet the definition of financial assistance to the county or special district that makes the eligibility determination. These benefit payments will be presented on the Schedule of Expenditures of Federal and State Awards, and will be included in each county and special district's determination of major programs using the criteria in OMB Circular No. A-133. For some counties and special districts, the inclusion of these expenditures may significantly increase the threshold for determining Type A programs. The increase in the threshold for determining Type A programs may cause a federal program that was audited as a major program in the past to not meet the criteria of a Type A program under OMB Circular No. A-133, thus making it a Type B program. For some counties, the inclusion of the expenditures in the calculation of total federal awards will increase the threshold for a Type A Program to \$3 million or three-tenths of one percent of total federal awards. Since a Type B program may only be audited as a major program if the program is determined to be a high-risk program and certain Type A programs have been determined to be low-risk programs, a program audited as a major program in the past may not be a major program under the new standards.

If you have any questions, contact me at (919) 715-3731 or Beth Wood at (919)715-3725.