



STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

SHARON EDMUNDSON
DEPUTY TREASURER

Memorandum #2022-11

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

FROM: Susan McCullen, Director, Fiscal Management Section

SUBJECT: 2022 State Compliance Supplements

DATE: May 26, 2022

The North Carolina State Compliance Supplements (State Compliance Supplements) have been updated for the year 2022. The State Compliance Supplements have been 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 obtained by downloading them from the State Treasurer's Single Audit website [here](#). The U.S. Office of Management and Budget (OMB) released the OMB Compliance Supplement on May 12, 2022, 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.

A recently created federal program that will have a major impact on audits for fiscal years ending June 30, 2022, is the **Coronavirus State and Local Fiscal Recovery Funds (CSLFRF), 21.027**. This program was created by the American Rescue Plan Act (ARP) which will provide directly from US Treasury over \$2 billion to North Carolina Counties and over \$668 million to the twenty-six municipalities with populations of 50,000 or more. NC Municipalities, with populations of less than 50,000, referred to as non-entitlement units (NEU), have received through October 2021 over \$342 million indirectly from US Treasury, funding passed through from the NC Office of State Budget and Management (OSBM).

CSLFRF's period of performance ends on December 31, 2026, so this funding will potentially be subject to audit for the next six fiscal years. Therefore, local auditors need to become familiar with the CSLFRF, and multiple resources are available:

OMB has issued guidance on auditing CSLFRF 21.027 in the 2022 OMB Compliance Supplement and has limited the Type of Compliance Requirements to be tested to six. OSBM will be providing a State Compliance Supplement for auditors of NEUs. Other State agencies that have passed CSLFRF funding to locals will also prepare a State Supplement. Local County and municipality auditors should read and be familiar with the following documents issued by US Treasury:

US Department of The Treasury: [Coronavirus State and Local Recovery Funds website](#)

- Overview of the Final Rule (effective April 1, 2022)
- Final Rule FAQ.
- Interim Final Rule (effective May 17, 2021, and until April 1, 2022)
- Interim Final Rule FAQ

- Compliance Reporting and Guidance

Other resources:

- NEU: OSBM [NC Pandemic Recovery Office](#)
- State and Local Government Finance - [ARPA Resources](#)

Important: It is expected that the CSLFRF funding will raise the level of municipalities’ audits, due to the increase in federal award expenditures. For many small municipalities, this level may be from a GAAS audit to a yellow book audit. However, if CSLFRF expenditures results in a municipality’s federal award expenditures to total \$750,000 or more, then OMB has allowed a recipient to perform an Attestation Engagement, subject to GAO and AICPA’s attestation standards. This is only allowed if, the total federal awards expenditures, excluding the CLSFRF expenditures are less than \$750,000. Guidance testing CSLFRF for an attestation engagement can be found in the OMB Compliance Supplement, Part 4, CSLFRF 21.027, under “Other Information.”

As a result of the COVID-19 pandemic, existing federal programs and newly created federal programs have received funding from five Acts by US. Congress. OMB has identified certain federal programs that have received COVID-19 funding from these Acts as “high-risk” programs. The list below is taken from the 2022 OMB Compliance Supplement, Appendix IV.

Federal Agency	Assistance Listing (CFDA) Number	Program name
Education	84.425	Education Stabilization Fund
FCC	32.009	Emergency Connectivity Fund Program
HHS	93.461	Testing for the Uninsured
HHS	93.498	Provider Relief Fund
HHS	93.778/93.777/93.775	Medicaid Cluster
Transportation	20.106	Airport Improvement Program
Transportation	20.500/20.507/20.525/20.526	Federal Transit Cluster
Transportation	20.315	National Railroad Passenger Corporation Grants
Treasury	21.023	Emergency Rental Assistance
Treasury	21.027	Coronavirus State and Local Fiscal Recovery Funds

This is a complete list of programs that OMB has identified as “high risk,” so Medicaid (93.778) is included on the list. Auditor should refer to Appendix IV “Impact of “Higher Risk” Status on Major Program Determination” for guidance in determining if these programs should be considered “major.”

Not included on this list but considered “high risk” in the 2021 OMB Compliance Supplement, is the Coronavirus Relief Fund (21.019), which the period of performance ended on December 31, 2021.

Emergency Rental Assistance (21.023) funding has been passed to several Counties from the Office of Recovery and Resiliency (ORR) in the NC Dept. of Public Safety. It is uncertain if ORR will provide a State Compliance Supplement. Auditors should use the 2022 OMB Compliance Supplement for audit guidance.

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Should you have any questions regarding specific requirements, agency contact persons referenced in the Compliance Supplements can assist you. Question 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.