I. PROGRAM OBJECTIVES

The Race to the Top – Early Learning Challenge Grant funds an array of projects that improve the quality of early learning and development services for young children in North Carolina. The projects funded by the grant aim to build the capacity of early learning and development programs and to strengthen the early childhood workforce in order to enhance the social-emotional development of young children and prepare young children for academic success in school.

II. PROGRAM PROCEDURES

The State of North Carolina was awarded a $69.9 million federal Race to the Top-Early Learning Challenge grant through a competitive application process for a grant period of January 2012 through December 2015 to implement the projects described in the approved grant application.
There are 18 major funded projects in the approved Scope of Work, with several activities within each project. In June of 2015, North Carolina was awarded a grant extension to complete selected activities through December 2016.

Three state agencies receive federal Race to the Top – Early Learning Challenge funding to implement the projects in the approved Scope of Work: the Division of Child Development and Early Education; the Division of Public Health; and the Department of Public Instruction. The Division of Child Development and Early Education is the lead fiscal agent for the grant. There is no State or local funding match requirement.

Each of the three State agencies that receive the federal grant funding has contracts or Memoranda of Understanding/Memoranda of Agreement (MOU/MOA) with other State agencies, local health departments, universities and/or non-profit organizations for particular activities. These contractors may also have subcontractors for particular activities.

The contract document is the main source of guidance regarding the compliance audit. The contract specifies whether the funding is transferred to the contractor through reimbursement only or if advances are allowed.

III. COMPLIANCE REQUIREMENTS

A. ACTIVITIES ALLOWED OR UNALLOWED

Funds may only be used for activities included in North Carolina’s approved grant application and approved Scope of Work, unless otherwise approved by the U. S. Department of Education. Each contract or MOU/MOA funded by the grant includes a Scope of Work for the specific activities funded within the contract that help the State meet the overall approved Scope of Work. The contract or MOU/MOA defines the allowable activities.

The State may not use grant funds to provide direct health services. Direct health services are considered services or equipment provided by a doctor or other medical professional such as well child visits, immunizations, preventive or restorative dental services and eyeglasses. Activities that support positive health practices, healthy development, and behavioral health such as screenings and health consultations, as they are currently performed within early learning and development programs such as Head Start, are not considered direct health services, and States may use program funds for such activities as identified in their State plan.

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 200.

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.

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 200, 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 the Omni Circular. 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.

C. CASH MANAGEMENT

Contracts or MOU/MOAs are funded on a reimbursement basis, unless the contract specifies that funds may be advanced. If the advance of funds is specified in the contract, then the contract will specify procedures that must be followed to ensure that funds are expended properly and to minimize the time between the draw-down of funds and their disbursement.

F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

The contractor may purchase equipment if it is specified in the contract.

H. PERIOD OF PERFORMANCE

The period of performance for the Race to the Top-Early Learning Challenge grant is January 1, 2012 through December 31, 2016. Grant funds may only be used for obligations incurred during the funding period.

Activities for which the contract pays must occur within the contract period. Every contract has a specified period.

I. PROCUREMENT AND SUSPENSION AND DEBARMENT

All grantees that expend federal funds (received either directly from a federal agency or passed through the N.C. Department of Health and Human Services) are required to conform with federal agency codifications of the grants management common rule accessible on the Internet at [http://www.whitehouse.gov/omb/grants/chart.aspx](http://www.whitehouse.gov/omb/grants/chart.aspx).

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 procurement standards described in the North Carolina General Statutes and the North Carolina...

Nongovernmental sub-recipients shall maintain written Procurement policies that are followed in procuring the goods and services required to administer the program.

L. REPORTING

Contractors are required to submit Program Reports, as specified in the contract, to the State Agency on a regular basis that provide updates on activities specified in the Scope of Work. Contractors are also required to submit monthly expenditures for reimbursement to the State Agency, or as otherwise specified in the contract.

The State Agency is required to use the information from contractors and subcontractors acquired through reporting to provide regular reporting in the federally-required GRADS360 on-line system for grant management for the Race to the Top–Early Learning Challenge grant. The State Agency is also required to report to the federal granting agencies through the Annual Performance Report for the Race to the Top–Early Learning Challenge grant that is informed by the contractor reporter.

M. SUBRECIPIENT MONITORING

Contractors may subcontract funds further. If funds are subcontracted, it becomes the responsibility of the contractor to conduct subrecipient monitoring.

N. SPECIAL TESTS AND PROVISIONS

Conflicts of Interest and Certification Regarding No Overdue Tax Debts

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(b1)) and a written statement (if applicable) completed by the grantee’s board of directors or other governing body 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)). 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 grant funds.