

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



BRADFORD B. BRINER  
STATE TREASURER OF NORTH CAROLINA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION

# Compliance Audit Review Update

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## Compliance Audit Review Update: Agenda

- Changes to the State Single Audit Act
- State Cashflow Loans for Disaster Response Activities
- Multi-year Capital Project Funds Reporting
- Common Compliance Reporting Issues
- Changes to the Uniform Guidance 2024
- Yellow Book Revisions 2024
- Statement of Audit Standards (SAS)

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## Audits Submitted to the LGC: Level of Audits

	*2024 Audits	%	2023 Audits	%	2022 Audits	%
Federal and State Single Audits	330	36%	361	35%	330	31%
Federal Single Audits/ CSLFRF Alternative	66	7%	134	13%	118	11%
State Single Audits	64	7%	37	4%	50	4%
<b>Total Single Audits</b>	<b>460</b>	<b>50%</b>	<b>532</b>	<b>52%</b>	<b>498</b>	<b>46%</b>
Yellow Book only	240	26%	272	26%	287	27%
GAAS only	214	24%	232	22%	286	27%
<b>Total</b>	<b>914</b>		<b>1,036</b>		<b>1,071</b>	
* As of May 14, 2025						

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## \*Changes to the State Single Audit Act

- The following summarizes the changes to the State Single Audit Implementation Act:

- The threshold for a State Single Audit will increase to \$1,000,000 from \$500,000.
- The threshold to determine a major state program will increase to \$1,000,000 from \$500,000.

- The effective date for changes to the State Single Audit Implementation Act is for fiscal years ending on or after June 30, 2026.

\*State Single Audit Act is only applicable to local governments and public authorities subject to G.S. 159-34. Other non-State entities should follow 09 NCAC 03M .0205.

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### Uniform Guidance (UG) Sections that Apply to State Single Audit Act

- Subpart A – Definitions, as applicable
- 200.303 – Internal Controls
- 200.331 – Subrecipient and contractor determinations
- 200.502 – Basis for determining awards expended
- 200.503 (a, b, c) – Relation to other audit requirements
- 200.505 – Sanctions
- 200.508 – Auditee responsibilities
- 200.509 – Auditor selection
- 200.510 – Financial statements
- 200.511 – Audit findings follow-up
- 200.511 – Requirements for pass-through entities
- 200.513 – Awarding Agency responsibilities, pass-through entity responsibilities
- 200.514 – Scope of audit
- 200.515 – Audit reporting
- 200.516 – Audit findings
- 200.517 – Audit documentation
- 200.519 – Criteria for program risk
- 200.520 - Criteria for low-risk auditee
- 200.521 (a, c, d, e) – Management decisions

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### Uniform Guidance (UG) Sections that DO NOT Apply to State Single Audit Act

- 200.500 – Purpose
- 200.501 – Audit Requirements
- 200.503 (d, e) – Relation to other audit requirements
- 200.504 – Frequency of audits
- 200.506 – Audit cost
- 200.507 – Program specific audits
- 200.512 – Audit submission
- 200.518 – Major program determination
- Appendix X - Data Collection Form (SF-SAC)

➤ For requirements on State Awards on the sections that do not apply to the Uniform Guidance, refer to “Discussion of Single Audit in North Carolina” and LGC-205 (Contract to Audit Accounts) located on the SLGFD’s website.

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## Changes to the State Single Audit Act

- *Questioned Costs* (UG 200.1). The definition is revised with more specific and clarifying policy. *Known questioned cost* is defined and the reference to *Likely questioned cost* is now included in the definition of questioned costs in §200.1.
- Internal controls (§200.303):
  - Requirement added, *Take reasonable cybersecurity and other measures to safeguard information including protected personally identifiable information (PII) and other types of information.*
  - Added that recipients must *document* effective internal controls over Federal and State awards that recipients are managing.

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## State Single Audit Changes (cont.)

- Standards and scope of the audit (§200.514) (heading change)
- §200.514(d)(4) was revised to read as follows: “The compliance testing must include tests of transactions or other auditing procedures necessary to provide the auditor with sufficient appropriate audit evidence to support an opinion on compliance.”
- §200.514(e) was clarified to state: “The auditor must follow up on prior audit findings regardless of whether a prior audit finding is related to a major program in the current year.”
- Audit findings (§ 200.516) - Removed the description of known questioned costs from §200.516(a)(3) and placed it within the definition of *Questioned costs* in §200.1.
- Added an additional requirement to §200.516(b)(7): “When there are known questioned costs but the dollar amount is undetermined or not reported, a description of why the dollar amount was undetermined or otherwise could not be reported.”

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## Audit Submission Change / Request for Audit Reissuance

- Change to Audit Submission: Beginning with audits with FYs ending June 30, 2025, audits are required to be submitted to the LGC six months from FYE, which is December 31, 2025, for most units of local government.
  - New Uniform Guidance requirements will allow an extension of federal single audit beginning with audits w/ 9/30/2025 YEs (not applicable with LGC requirements).
- Audit reissuance: 1) Unit of government and auditor can decide if a reissuance is necessary. 2) The secretary of the LGC may decide that an audit reissuance is necessary. This may be based on a request from a State Agency (G.S. 159-34(c)(3)).

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## State Cashflow Loans for Disaster Response Activities

- The State's cashflow loan program administered by the State Treasurer pursuant to S.L. 2024-57 is intended to help local governments bridge funding gaps as they await reimbursement from the federal government for emergency and disaster response due to Hurricane Helene.
- Local governments or public authorities will use or have used loan proceeds to cover expenditures for disaster response activities, which may be expenditures that are eligible for reimbursement by the Federal Emergency Management Agency (FEMA) Public Assistance Program, National Flood Insurance Program, or other federal reimbursement program.
- The local government shall make every reasonable effort to seek reimbursement from the federal government or other alternative resources, such as insurance and donations, for expenditures that will be temporarily covered by loan proceeds under the loan agreement with the State Treasurer.
- If a local government receives funding support for costs incurred from Disaster Assistance from the federal government, the local government shall repay the State Treasurer the equivalent amount of loan proceeds within five (5) business days of receipt of the federal funding support.
- If a local government obtains alternative funds pursuant to the requirements in the loan agreement, the local government shall promptly remit such funds to the State Treasurer.

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## State Cashflow Loans – Audit Requirements

- State Cashflow Loans for Disaster Response Activities advance funds to the local government as proceeds of a loan.
- State Cashflow Loans meet the definition of a loan and loan guarantee and are subject to State Single Audit requirements.
- Audit guidance will be provided as State Compliance Supplement, DST-1. (anticipated issuance mid-summer)
- Limited testing of allowable/unallowable activities and allowable costs. A few types of compliance requirements will apply (guidance will be provided).
- Loan proceeds received (value of new loan) should be reported on the Schedule of Expenditures of Federal and State Awards (SEFSA) as the current year expenditures (in addition to a footnote showing the loan balance) (UG §200.502(b), §200.510(b)(5)).

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## Issues with Multi-Year Grant/Capital Projects Reporting

- Federal and State grant revenue should be presented separately by their program name or funding source and not combined (ex. Restricted intergovernmental revenue – CDBG, Loan proceeds – State Cashflow Loans). This aids State agencies in monitoring the grants.
  - There should be separate federal and State revenue accounts and individual accounts “per program (grant) and funding source.”
- Federal and State grant revenues should be recognized in accordance with GAAP, such as GASB No. 33.
  - In most cases, project/program expenditures should coincide with the reporting of the revenues.

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## Issues with Multi-year Grant/Capital Projects (cont.)

- To avoid recognizing expenditures in one year and related reimbursements in another, it is not uncommon for a government to utilize a longer availability period for expenditure-driven grants (ex. 90 days rather than 60 days).
  - Is there an issue with the grantee with timely filing of reimbursement requests? Issues with the approval of change order requests? This needs to be noted and addressed.
- When grant funding is advanced, the funds should not be used for interfund loans not related to the project/program. If so, this needs to be reported as interfund loans. Granting agency should be notified. Are there unallowable cost concerns?
- Prior year expenditures should tie to the prior year audit report.
- Grant/capital project should be closed timely, once project has been completed.

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## Compliance Reviews FY2024 Comments (Concerns)

- Our office has been asked by State Agencies to assist them in informing units and their auditors of the audit submission requirements to the Federal Audit Clearinghouse (FAC).
  - We have incorporated this in our compliance review process.
  - Auditor and unit should discuss prior to the submission of the LGC-205 (contract) to the LGC the responsibility for submitting the audit to the FAC. Both unit and auditor need to certify.
  - Not submitting the audit to FAC could delay the acceptance of the audit report by our office (and final invoice approval).
- Low-risk auditees must meet the requirements of UG §200.512 (audit FAC submission) and have federal single audits with no internal control weaknesses (yellow book or program) in the previous two years (UG §200.520).

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## Compliance Reviews FY2024 Comments (Concerns) (cont.)

- DEQ projects/programs listed on the SEFSA should be listed by the correct name. An identifying number should be used.
  - The DEQ Disbursement Report 2024/2025 should be used to properly identify awards (funding source, identifying number, etc.).
  - DEQ transmittal memos with the project/program funding sources, identifying numbers are sent to the units.
  - Including only the project name or granting agency on the SEFSA is not acceptable. Including both the name of the project and the funding source on the SEFSA is helpful (ex. SCIF – Dogwood Veterans Memorial Park Project).
  - SEFSA expenditures and project/program names should tie to capital project funds.
  - Program name on the SEFSA should tie to identification of federal (or State) major program.

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## Multiple Capital Projects With One State Funding Source

- If a State funding source (ex. State Capital Infrastructure Funds (SCIF) or DEQ State funding) is used to fund more than one project, auditors are allowed to test only the projects/programs which incurred expenditures that meet the State major program threshold requirements.
- The percentage of coverage rule of State awards must be met.
- The projects need to be presented separately on the SEFSA, with the funding source.
- There should be no confusion on what programs and expenditure amounts reported on the SEFSA were audited as major based on the Schedule of Findings and Questioned Costs, ID of major State programs.

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## Loan and Loan Guarantees SEFSA Reporting

- The value of new loans and loan balance at the beginning of the year should be reported as expenditures on the SEFSA.
  - The loan balance at the beginning of the year should be reported as a footnote to the SEFSA.
  - Federal loans include USDA's Water and Waste Disposal Systems for Rural Communities (10.760) and Community Facilities Loans and Grants (10.766).
  - If interim financing for USDA loans is obtained, expenditures are considered federal award expenditures. The loan balance should be reported as a footnote. 10.766 considers payment of principal and interest (P&I) a compliance requirement. Due to the amount of the loan, this may be considered a Type A program. 10.760 does not consider payment of P&I a compliance requirement.
- \*Clean Water (66.458) and Drinking Water (66.468) State Revolving Loans are not considered loans at the local level. The SEFSA should show the current year expenditures for projects funded with this program.
- \* Refer to the OMB Compliance Supplement under "Other Information."

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## 2025 State Compliance Supplements

- The 2025 State Compliance Supplements were posted in mid-May.
- The State Compliance Supplements are to be used with the OMB 2025 Compliance Supplements, which are expected to be issued in May.
- Auditors are expected to test Internal Control over Compliance with State Programs using an internal control framework. Audit firms may have their own framework. Part 6 "Internal Control" of the OMB Compliance Supplement may be used.
  - Part 6 addresses the objectives, principles, and components of internal control based on the "Green Book", issued by the GAO, and the "Internal Control Integrated Framework" (revised 2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.
- In correctly selecting major programs and reporting programs on the SEFSA, please refer to the "State Cluster of Programs 2025." This will be updated with the 2025 OMB Supplements.
- Compliance Requirements for State Awards (located in section C).
  - Not mandatory for auditors to use. May be used by auditors if they believe additional procedures are needed for a particular type of compliance requirement that applies or if a State program does not have a supplement.

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## Changes to Federal Single Audit Requirements

- Refer to [LGC Memorandum #2025-04](#): “State Single Audit Implementation Act Changes”
- [Council of Federal Financial Assistance](#): Redline edits, 2 CFR key changes, FAQ
- The effective date for the 2024 Uniform Guidance is for fiscal years beginning on or after October 1, 2024.
  - This is applicable for new awards entered into on or after October 1, 2024.
  - Recipients, subrecipients, and local auditors that receive federal grants prior to October 1, 2024, should determine if Final Rule requirements apply to these grants.
- Subparts A – E of the revised Uniform Guidance, the term “non-federal entity” has been replaced with “recipient” and/or “subrecipient.” Subpart F continues to use the term “non-federal entity.”

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## Changes to Federal Single Audit Requirements (cont.)

- Audit requirements (§200.501(a)) - The threshold for a federal Single Audit has increased to \$1,000,000 from \$750,000 of federal awards expenditures per fiscal year.
- Type A / B programs thresholds (§200.518(b)) - The minimum threshold has increased to \$1,000,000 from \$750,000. The maximum threshold that is applicable has increased to \$34 million from \$25 million. After \$34 million, the threshold increases according to the following:

When total federal award expenditures are...	Type A/B threshold will be...
\$1,000,000 ≤ \$34 million	\$1,000,000
\$34 million ≤ \$100 million	.03 times total federal awards expended
\$100 million ≤ \$1 billion	\$3 million

- Modified Total Direct Costs – Increased definitional threshold up to \$50,000 (previously \$25,000) of each subaward (regardless of the period of performance of the subaward under the award).

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## Changes to Federal Single Audit Requirements (cont.)

- §200.313 Equipment – Increase the thresholds to \$10,000 from \$5,000 for equipment purchased with federal awards.
  - Unless specified in a federal statute otherwise, title to the equipment must be a conditional title. Clear title is withheld by the federal agency until conditions and requirements specified in the terms and conditions have been fulfilled. Provides federal agencies with the flexibility to determine if disposition requirements are necessary.
- §200.314 Supplies - Increased threshold to \$10,000 from \$5,000.
  - Unused supplies are defined as in new condition, not having been used or opened before. The aggregate value of unused supplies consists of all supply types, not just like item supplies.
  - If the supplies are sold, the federal agency or pass-through entity is entitled to be compensated by an amount determined in §200.314.

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## Changes to Federal Single Audit Requirements (cont.)

- §200.320 Procurement methods - Changed the term “small purchases” to “simplified acquisitions” to be consistent with standard terminology. Clarification that “micro-purchases” and “simplified acquisitions” are types of “informal procurement methods for small purchases.”
- §200.333 Fixed amount subawards - Increased the threshold for fixed amount a recipient may provide as subawards to \$500,000 from \$250,000.
- §200.415 Required certifications – Clarified that subrecipients must certify to pass-through entities that financial information submitted to the pass-through entity is complete and accurate.
- §200.414 Indirect costs – De minimis rate – Increased the de minimus rate from 10% to 15% of modified total indirect costs. An amount up to implies that an entity may not recover an amount greater than actual indirect costs incurred.

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## Yellow Book Revisions (2024 Revisions)

- Government Accountability Office (GAO) has issued revisions to Governmental Auditing Standards, also known as the Yellow Book. The 2024 Yellow Book is effective for periods beginning on or after December 15, 2025.
- 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.
- Application 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 or (2) required by law or regulation."

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## Statement of Auditing Standards No. 146

- SAS No. 146: "Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards" (GAAS)
  - Effective for GAAS engagements for periods beginning on or after December 15, 2025.
- Focuses on the engagement partner's (EP) role in managing and achieving audit quality, emphasizing the importance of ethical conduct, professional skepticism, and a strong audit culture.
- Directly addresses quality management at the individual engagement level, while SAS No. 122, while addressing quality control, didn't have as much specific focus on the engagement level.
- Heightens documentation requirements, particularly for complex audits, to support transparency and accountability.
- SAS No. 146 aligns with SQMS No. 1 (A Firm's System of Quality Management), which sets the foundational requirements for a firm's system of quality management.

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## Statement of Auditing Standards No. 149

- SAS No. 149: "Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)"
  - Effective for GAAS engagements for periods ending on or after December 15, 2026.
- Introduces a risk-based approach to audits of group financial statements, superseding the previous AU-C §600 of SAS No. 122.
- Instead of focusing on identifying "significant components" for audit work, SAS No. 149 directs the group auditor to use professional judgment in determining the components at which to perform procedures, based on assessed risks.
- While the previous AU-C section 600 had two reporting options ("assuming responsibility" and "making reference"), SAS No. 149 refines these, now referring to "being involved in the work of component auditors" or "when component auditors are involved."
- Introduces and defines a "referred-to-auditor," who performs the financial statement audit of a component unit. The referred-to-auditor is not part of the engagement team.
- Revised the definition of a component auditor to indicate that a component auditor is not part of the engagement team.
- This SAS was issued along with SQMS No. 3.

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## NC Department of State Treasurer Compliance Resources

- [State Compliance Supplements](#)
  - Link to the OMB Compliance Supplements.
  - 2025 supplements to be posted in May 2025.
- [Audit Confirmation Reports](#) (NC DEQ, NC DOT, NC DHHS)
  - DEQ and DOT issued in early August, DHHS in early Sept.
- [Single Audit Review Program](#): Illustrative Reports and Schedules, Compliance Audit Review Program (checklist – not all inclusive), and \*Discussion of Single Audit in NC (Detailed document, and a summary document)

\*Includes discussion of the sections of the UG adopted by the State Single Audit.

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