



Memorandum #2023-05

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

FROM: Susan McCullen, Director, Fiscal Management Section

SUBJECT: Alternative Engagement for Audit of Local Fiscal Recovery Funds, Education Stabilization Funds, Internal Control Issues, New Auditor Reports, and Other Compliance Comments

DATE: August 29, 2022

Coronavirus State and Local Fiscal Recovery Fund

The federal program that has provided the predominant amount of funding from American Rescue Plan Act (ARP) to local governments is the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF), 21.027. Though the Uniform Guidance applies to these funds, municipalities and counties were encouraged to designate the maximum amount allowable as “revenue loss” funds which limits sections of the Uniform Guidance that apply. The applicable requirements of Sections D (Post Federal Award Requirements) and E (Cost Principles) applicable to CSLFRF funds designated as revenue loss can be found in [question 13.15 of the Final Rule FAQ](#) (as of July 27, 2022). Not listed are requirements with Property Standards, Procurement Standards, Subrecipient Monitoring, and others.

The amount reported on a Schedule of Expenditures of Federal and State Awards (SEFSA) for revenue loss expenditures should be the aggregate expenditures for all four eligible use categories. A recipient would not report the result of a revenue loss calculation or standard allowance. NEUs are to report their CSLFRF expenditures as direct awards. Guidance on reporting CSLFRF on the SEFSA can be found in the 2022 OMB Compliance Supplement for the CSLFRF ([21.027](#)) under “Other Information.”

US Treasury has allowed as an option to have an “**Alternative Compliance Examination Engagement**” (Alternative CSLFRF Engagement) performed in accordance with *Governmental Auditing Standards* if CSLFRF expenditures push a unit over the threshold for a federal single audit. This is allowed if an eligible recipient that received at or below \$10 million of CSLFRF and CSLFRF expends federal awards of \$750,000 or more during a fiscal year. If the eligible recipient federal expenditures are less than \$750,000, not including the CSLFRF expenditures, they are allowed to have an audit performed under an Alternative Engagement. Under the Alternative Engagement, the only compliance requirements auditors must test are “Activities Allowed/Unallowed” and “Allowable Costs/Cost Principles.” Guidance on how to audit using the Alternative Engagement can be found on page 10 of the 2022 OMB Compliance Supplement for the CSLFRF ([21.027](#)), under “Other Information.” The AICPA’s Governmental Auditing Quality Center (GAQC) has an illustrative report ([CSLFRF Alternative Engagement report](#)) that an auditor can use when reporting on the Alternative Engagement.

If an auditor decides to use the Alternative Engagement, our office will need to approve a contract, which can be the engagement letter. Once the Alternative Engagement is completed, the auditor will need to submit the final

report to our office for our review in accordance with the Audit Contract, LGC-205 item 8. We will place these audits on our portal, available to State Agencies.

Education Stabilization Fund

A program designated as higher risk by OMB is the Education Stabilization Fund (84.425). There are subfunds to this program including Governor's Emergency Education Relief Fund (GEER) and Elementary and Secondary School Emergency Relief (ESSER) Programs. Funding for GEER and ESSER should be reported on SEFSA as part of Education Stabilization Fund. Compliance requirements for GEER and ESSER are included in the Education Stabilization Fund OMB and State compliance supplement. NC Department of Public Instruction provides a "[Summary of COVID-19 Funding](#)" report located on their [Financial and Business Services](#) website that show the respective PRC's. Based on the Summary, the major ARP funding source for LEA's is the Education Stabilization Fund. The Summary of COVID-19 Funding, as of August 4, 2022, has funding for CSLFRF from PRCs 140, 141 and 142.

Internal Control Issues

State Agencies have informed our office and our staff have noticed on unit visits for certain governments that it is not uncommon to find that account reconciliations are not being performed, and in certain instances, monthly bank reconciliation are not being performed timely, if at all. These are serious internal control issues that can potentially lead to severe repercussions. The auditors should report as findings, and include a cause and recommendation, in order for the unit to have a plan of corrective action. Even if a unit of government hires a year-end bookkeeper to assist in getting the accounts and bank statements reconciled, this does not remedy the fact that key accounts are not being timely performed during the year. This should be addressed in the audit, and the governing board should be told of the importance and potential consequence of not addressing this internal control matter.

New Auditors' Reports

Local auditors are reminded that the reporting standards, SASs No. 134 – 140, are now in effect. The auditors' opinions and compliance reports have been revised to incorporate these standards which were effective for audits with year-end beginning with December 31, 2021. Examples of these reports can be found on our website ([Audit Opinion Resources](#)). Our office cannot accept audit reports that have years ending December 31, 2021, and later that do not include the new reports.

Opioid Settlement Funds

The LGC recently issued Memo No. 2023-03 that provides guidance on auditing and reporting on the SEFSA expenditure related to Opioid Settlement Funds. These funds should not be considered a Federal Award or a State Award, but Other Financial Assistance. They are subject to the State Single Audit Act. Expenditures for these funds should be reported in a section separate from Federal Award and State Award sections, preferably at the bottom of the SEFSA. Expenditures should be included in the State Award column. If an auditor selects these funds to be audited as major, they would be included as the percentage of State Awards audited.

Changes in Terminology

"Assistance Listing number" and "Assistance Listing program title" have replaced the definitions "Catalog for Federal Domestic Assistance (CFDA) number" and "CFDA program title" to reflect change in terminology. These changes were effective November 20, 2020 (*Guidance for Grants and Agreements, Federal Register* August 13, 2020). Please be sure to use the correct terms on SEFSA, Schedule of Findings and Question Costs, and Auditor reports. The five-digit identifying number and the respective program titles are the same. The CFDA.gov website is no longer accessible. The website [SAM.gov](#) should be used to find information on federal programs.

NC Department of Transportation (DOT) and NC Dept. of Environmental Quality (DEQ) reports

Below is the link to both the **DOT 2022 Grant Master List (GML)** and **DEQ 2022 Disbursements report** which reports payments from DOT and reimbursements from DEQ to local governments during fiscal year ending June 30, 2022. Please refer to the GML for confirmation of financial assistance local governments received from these agencies. These are cash-basis reports. Expenditures for these awards are to be reported on the SEFSA, if one is required, in the period they were incurred, so the amounts on the GML and Disbursement Report will not necessarily tie to a unit's SEFSA.

To help auditors and oversight agencies and other interested parties, these awards must be identified by the correct federal program or State program/project name on the SEFSA. These programs should be identified using a proper identify number, such as those noted on the GML and Disbursement report.

If you have any questions concerning the programs and amounts reported on the NCDOT GML, contact: Wayne Davenport at 919-707-4581, wdavenport@ncdot.gov. For the Disbursement Reports, contact: Jennifer House, jennifer.house@ncdenr.gov, 919-707-9161.

At the link to the [NCDEQ, NCDHHS, and NCDOT reports](#) website is the "Key to Codes on the DEQ Disbursement Report" that identifies the federal and State program name and the proper state compliance supplement to use, if the program is to be audited as major. DHHS confirmation report links and templates will be available at the end of the month.

Our office has updated all the examples of Auditor's Reports, SEFSA, SFQC, and other schedules to incorporate the above changes. If you have questions, please contact: SLGFD@nctreasurer.com, or 919-814-4300.