

To: Harley Will
From: Eddie Burke
Date: April 11, 2018
Subject: Single Audit Changes

Purpose: The purpose of this memo is to give some clarification on the changes for fees to Counties in North Carolina based on the changes to the Schedule of Federal and State Awards (SEFSA) enacted by the Office of the State Auditor (OSA).

Background: As indicated by James Burke, Assistant Director Fiscal Management section of the State and Local Government Finance Division (LGC) on 3/9/2018, programs with split eligibility where the eligibility was determined by the County were showing direct benefit payments at the County level and those same payments were also being shown at the State level. Starting with fiscal year (FY) 2018 these direct benefit payments will no longer be shown on the County SEFSA for both Federal and State programs.

Impact: In the prior years the direct benefit payments accounted for a large portion of the Federal and State dollars that were being shown on the County's SEFSA. By removing the direct benefit payments, the amount of Federal and State dollars on the SEFSA has dramatically decreased from the prior year. This change impacts the single audit compliance testing in 2 distinct ways:

1. Under the Uniform Guidance (UG) Standards and State Single Audit Implementation Act auditors are required to test a certain amount of all Federal and State dollars each year. Starting with FY 2017 the dollar requirement for testing was 20% Federal dollars for low risk auditee up to 40% Federal dollars for a high risk auditee. Prior to FY2017 the requirement was to test 25% of Federal dollars for low risk auditee up to 50% of Federal dollars for a high risk auditee. The State requirement has maintained a 50% requirement of State dollars to be tested each year. To test the required minimum amount as indicated by the UG and State Single Audit Implementation Act auditors now have to potentially test more programs in order to achieve the minimum amount of Federal and State dollars to be tested than had to be done in the prior years.
2. A lower amount of dollars on the SEFSA changes the threshold used for determining what a major Federal program is. For Guilford County the prior year amount was determined to be \$3,000,000. For the current year the major program amount could be \$750,000. This means more programs could now be determined as major programs that were not major programs in the past. This automatically requires those programs to be tested. Removing the State direct benefit payments did not change the threshold for determining major state programs which has remained at \$500,000.

These changes are causing Counties to see anywhere from a 20% increase in fees to upwards of a 30% increase in fees. Both the LGC and the Office of State Auditor have indicated to Counties that the change will result in fee increases and to expect fee increase due to changes in the number of programs that may have to be audited as well as the types of programs that may have to be audited that had not been audited previously.

Testing History: Below is a summary of how these changes will impact the number of programs that are required to be tested moving forward:

- Average number of 8 federal and state programs audited during the last three years
- There will be approximately 12 federal and state programs that will be required to be audited in 2018

Conclusion: Historically there has been an agreement in place to increase our audit fees each year by the lower of 1% or CPI. That fee arrangement assumed no significant changes to the scope of our work. Based upon the new requirements we are requesting an overall 5% increase over the prior year fee.