

**SPECIAL APPROPRIATIONS**

**State Authorization: Aid and Public Assistance  
Senate Bill 622, Section 13-1(c) - 13.16**

**North Carolina Department of Commerce  
Fiscal Management Division**

**Agency Contact Person - Program and Financial**

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**The auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current.**

**The grantor agency may elect to review audit working papers to determine that audit tests are adequate. Auditors may request documentation of monitoring visits by the State Agencies.**

**I. PROGRAM OBJECTIVES**

Special appropriations are funds appropriated from the General Fund by the General Assembly to the Department of Commerce to supplement the budgets of local government and non-profit entities for regional and statewide programs in the areas of community development, and economic development. Funds are either appropriated from the state’s General Fund directly to the non-state agency or to a state agency for the purpose of transfers to the non-State agency. If the appropriation is a direct appropriation, the funds are budgeted (certified) in the Special Appropriations Reserve in the Office of State Budget and Management. If the appropriation is made to a state agency, funds are budgeted (certified) in that agency’s operating budget code.

**II. PROGRAM PROCEDURES**

After the appropriation is made a letter should be sent by the Department of Commerce, in which funds are budgeted, to the recipient organization stating that the General Assembly has appropriated funds to the organization and the purpose for which the funds are to be expended. Special appropriations can only be expended for authorized projects and purposes specified in the appropriating legislation.

Included with the letter to the recipient organization should be a “Request for Payment of Appropriation Form” which must be filled out completely and notarized by the recipient organization. The form should specify the recipient, amount, and purpose of the appropriation. Any matching requirements or other restrictions imposed by the General Assembly should also be specified. Additional information, such as charter, by-laws, list of board members, and tax-exemption letters, should be attached to complete the “Request for Payment of Appropriation Form.” Upon return of the requested information and upon successful review by the Department

of Commerce, disbursements can be made. Before disbursement is made, the Office of State Budget and Management may require recipients of special appropriations to supply information demonstrating that the recipient is capable of managing funds in accordance with law and has established adequate financial procedures and controls. If, during the Department's review of a recipient, the Department needs assistance in procuring additional information from the recipient, the Department should immediately contact their budget analyst in the Office of State Budget and Management for assistance associated with the Special Appropriation.

### III. COMPLIANCE REQUIREMENTS

#### 1. Activities Allowed or Unallowed

##### Compliance Requirement

According to G.S. 143-6.1 Every corporation, organization, and institution that receives, uses, or expends any State funds shall use or expend the funds only for the purposes for which they were appropriated by the General Assembly or collected by the State. Special appropriations funds appropriated from the General Fund by the General Assembly are to be expended only for the purpose of community development and economic development as set forth in the effective appropriations bill.

##### Suggested Audit Procedures

1. The auditor should perform procedures to verify that funds were used to supplement existing resources and review samples of expenditures to see if the expenses concur with the goals and objectives as required by the appropriations bill.
2. To determine that restricted funds are properly classified and disclosed, the auditor should inquire of management, audit contract and sub grantee contracts, lease agreements and review board of director minutes for disclosures on restriction of cash.

#### 3. Cash Management

##### Compliance Requirement

Pursuant to G.S. 143-26 and the State's Cash Management Plan, special appropriations totaling more than \$100,000 should be disbursed on a quarterly basis unless specified differently in the Appropriations Act. The Department Head can make exceptions to this procedure.

##### Suggested Audit Procedures:

1. Review deposits to insure that funds were received quarterly from Department of Commerce.
2. If an exception was made, obtain documentation approving the exception
3. Review changes in bank balances for reasonableness and compare ending balances with cash budget balances; explanations should be obtained for significant or unusual variations.

#### 4. Conflict of Interest

##### Compliance Requirement

According to Chapter 443, Section 7.5, 1997 Session Laws: Each private, non-profit entity eligible to receive State funds, either by General Assembly appropriation, or by grant, loan, or other allocation from a State agency, before funds may be disbursed to the entity, shall file with the disbursing agency a notarized copy of that entity's policy addressing conflicts of interest that might arise involving the entity's management employees and the members of its board of directors or other governing body. The policy shall address situations where any of these individuals may directly or indirectly benefit, except as the entity's employees or members of the board or other governing body, from the entity's disbursing of State funds, and shall include actions to be taken by the entity or the individual, or both, to avoid conflicts of interest and the appearance of impropriety.

Suggested Audit Procedures

1. Review contracts to insure that the beneficiary or contractor is not an employee or agent of the non-state agency (recipient) who exercises any function or responsibility with regard to the non-state agency nor an immediate family member. If a conflict exists, determine whether the non-state agency (recipient) has received written waiver of the conflict of interest provision for the contractor.
2. Matching, Level or Effort, Earmarking

Compliance Requirement

Special appropriations subject to a matching requirement should be disbursed and expended in accordance with G.S. 143-31.4, non-state match restrictions.

G.S. 143-31.4 Non-State match restrictions

Whenever money is required to match an appropriation made for a specific purpose by the State of North Carolina, the recipient of the appropriation shall actually receive as a gift, grant, earnings in actual money, or a pledge that can be used as collateral in any prudent loan transaction, the matching amount required. The recipient shall retain the matching amount received in its possession until spent for that purpose and shall spend an equal percentage of the appropriation and of the matching amount each time an expenditure is made, unless the individual appropriation requires otherwise. (1985, c. 479, s. 155.)

Suggested Audit Procedures

1. Test expenditure and related records to determine the percentage of funds spent for each transaction and determine whether match requirements have been met.
12. Reporting

Compliance Requirement

According to G.S. 143-6.1 the State may not disburse State funds appropriated by the General Assembly to any grantee or collected by the State for use by any grantee if that grantee has failed to provide any reports or financial information previously required by this section. By January 15, 2006, and more frequently as requested, report to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division the following information:

- State fiscal year 2004-2005 program activities, objectives and accomplishments
- State fiscal year 2004-2005 itemized expenditures and fund sources
- State fiscal year 2005-2006 planned activities, objectives and accomplishments including actual results through December 31, 2005 and
- State fiscal year 2005-2005 estimated itemized expenditures and fund sources including actual expenditures and fund sources through December 31, 2005.

By January 15, 2007, and more frequently as requested report to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division the following information:

- State fiscal year 2004-2006 program activities, objectives and accomplishments
- State fiscal year 2005-2006 itemized expenditures and fund sources
- State fiscal year 2006-2007 planned activities, objectives and accomplishments including actual results through December 31, 2006 and
- State fiscal year 2006-2007 estimated itemized expenditures and fund sources including actual expenditures and fund sources through December 31, 2006.

And provide to the Fiscal Research Division a copy of the organization's annual audited financial statement within 30 days of issuance of the statement.

Section 13.9(6) of Senate Bill 622 reads:

No funds appropriated under this act shall be released to a nonprofit organization listed in subsection (a) of this section until the organization has satisfied the reporting requirement for January 15, 2005. Fourth quarter allotments shall not be released to any nonprofit organization that does not satisfy the reporting requirements by January 15, 2006 or January 15, 2007.

*State Agency Reports.* – A State agency that receives State funds and then disburses the State funds to a grantee must identify the grantee to the State Auditor, unless the funds were for the purchase of goods and services. The State agency must submit documents to the State Auditor in a prescribed format describing standards of compliance and suggested audit procedures sufficient to give adequate direction to independent auditors performing audits.

Suggested Audit Procedures:

1. Check to see that reports were filed with the Department of Commerce, State Auditor, JLC on Governmental Operations and Fiscal Research as requested and show that the funds were spent on approved activities as shown in the approved grant application and budget. Sample expenditures reported for the funds and check them against a copy of the application and budget.