Yellow Book and Single Audit Reporting

Audit Requirements: North Carolina General Statute (G.S.) 159-34 states that each unit of local government and public authority must have its accounts audited as soon as possible after the close of each fiscal year. When specified by the Secretary of the Local Government Commission (LGC), the audit must evaluate the performance of a unit of local government or public authority with regard to compliance with all applicable Federal and State agency regulations. In accordance with this statute and regulations set by the Secretary of the LGC, local governments and public authorities are subject to the following audit requirements:

- All local governments and public authorities subject to G.S. 159, Article 3, *The Local Government Budget and Fiscal Control Act*, must have an audit performed in accordance with generally accepted auditing standards (GAAS).
- Local governments and public authorities that **expend** $100,000 or more in **combined** Federal or State financial assistance must have an audit performed in accordance with generally accepted government auditing standards (GAGAS).
- In accordance with Federal requirements, local governments and public authorities that expend $1,000,000 or more in Federal financial assistance must have a single audit performed in accordance with Office of Management and Budget (OMB) Uniform Guidance, Subpart F (2 CFR 200.501).[1] Local governments and public authorities that have expended $1,000,000 or more in State financial assistance must have a single audit performed in accordance with the State Single Audit Implementation Act.[2]

Non-State Entities That Are Not Subject to LGC Oversight

Non-State entities that are not under the authority of the audit and reporting requirements of the LGC, such as nonprofit organizations (NPOs), are subject to G.S. 143C-6-23 and are required to have audits in accordance with North Carolina Administrative Code Title 9, subchapter 3M (09 NCAC 03M). Audit requirements are found in section .0205. A single or program-specific audit, prepared and completed in accordance with *Government Auditing Standards*, is required if, within its fiscal year, a recipient or subrecipient[3] (defined by 09 NCAC 03M .0102(14, 17)) receives, holds, uses, or expends grants (defined by 09 NCAC 03M .0102(10)) in an amount equal to or

[1] Changes reflect revisions to the U.S. Office of Management and Budget Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards: Final Rule* (Uniform Guidance) that are effective beginning with audits with fiscal years ending on or after October 1, 2024. These revisions are part of OMB Guidance for Grants and Agreements, now called the OMB Guidance for Federal Financial Assistance, which also revised 2 CFR Parts 1, 25, 170, 175, 180, 182, 183, 184, and 200 (Federal Register (FR) 89 FR 30046, published on April 22, 2024).

[2] The State Single Audit Implementation Act was adopted by the North Carolina General Assembly in 1987 (S.L. 1987-287) to apply to State financial assistance awarded to local governments and public authorities.

[3] Please refer to 09 NCAC 03M .0102 for definitions related to audits of non-State entities that are not subject to G.S. 159-34.

greater than the dollar amount listed in 2 CFR 200.501(a), the Unform Guidance, which is currently $1,000,000. The LGC does not have oversight of non-State entities subject to G.S. 143C-6-23. G.S. 159-34 does not apply to these non-State entities.

Compliance Testing and Internal Control Responsibilities for Audits Performed in Accordance with Generally Accepted Auditing Standards

GAAS require that the auditor design the audit to provide reasonable assurance that the financial statements as a whole are free of material misstatements resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts and disclosures in the financial statements. These requirements are described in AU-C §250, *Consideration of Laws and Regulations in an Audit of Financial Statements* (American Institute of Certified Public Accountants (AICPA), Professional Standards: *Clarity Statements on Auditing Standards*). According to AU-C §240, *Consideration of Fraud in the Financial Statements,* misstatements in the financial statements can arise from either fraud or error. For a GAAS audit, the auditor is also responsible for considering provisions of contracts and grant agreements and how they impact the audit. This would include performing specific procedures to identify potential noncompliance that has a material indirect effect on the financial statements (AU-C §250.06b).

Noncompliance as defined by AU-C §250.11 is acts of omission or commission by the entity, either intentionally or unintentionally, which are contrary to the prevailing laws and regulations. The auditor should communicate to "those charged with governance"[4] – the governing board and those who are involved with management – consequential matters involving noncompliance with laws, regulations, contracts, and grant agreements that come to the auditor's attention during the course of the audit (AU-C §250.21).

If the matters are considered material and intentional, then the communication should be as soon as practical (AU-C §250.22). For a GAAS audit, if the auditor feels that these matters of noncompliance should be reported in writing, they may be reported in a management letter or reported in a report in accordance with AU-C §260, *The Auditor's Communication with Those Charged With Governance.*[5] The auditor should use professional judgment to determine if the matters of noncompliance occurred due to deficiencies in internal control. Matters of noncompliance should be communicated to management and, if necessary, the governing board. For GAAS audits, if control deficiencies are at the level of significant deficiencies or material weaknesses, then they should be reported in a report in accordance with AU-C §265, *Communicating Deficiencies in Internal Control*.[6] For deficiencies not at the level of significant deficiencies or those that are inconsequential, if the auditor believes these matters should be communicated in writing, then a management letter or the AU-C §265 report may be used.

In addition to the requirements under GAAS, the Governmental Accounting Standards Board (GASB) requires governments to disclose certain violations of compliance requirements in the

---

[4] AU-C §260, *The Auditor's Communication With Those Charged With Governance,* defines those charged with governance as the person(s) or organization(s) responsible for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity. Management is defined as person(s) responsible for the conduct of the entity's operations. Auditors should use professional judgment in determining those charged with governance. This document will reference those charged with governance as the governing board and management, which are managers of the government including the finance officers.

[5] AU-C §260 requires the auditor to communicate significant findings or issues from the audit. Other items required to be communicated to those charged with governance are found in the exhibit to AU-C §260.

[6] AU-C §265, *Communicating Deficiencies in Internal Control,* defines deficiencies in internal control, significant deficiencies, and material weaknesses that are to be reported as findings in audits performed under Yellow Book as well. Examples of circumstances that may be deficiencies, significant deficiencies, or material weakness are located in AU-C §265 Appendix (paragraph .A37) and illustrative examples of a report Exhibit A (paragraph .A38) and Exhibit B (.A39).

notes to the financial statements. National Council on Governmental Accounting (NCGA) Interpretation No. 6, *Notes to the Financial Statement Disclosures*, paragraph 4, states that the notes to the financial statements should disclose material violations of financial-related legal and contractual provisions. Auditors are required to know the general statutes and other legal and contractual provisions that apply to local governments and public authorities, including Article 3 of G.S. 159, The Local Government Budget and Fiscal Control Act, and Article 31 of G.S. 115C, The School Budget and Fiscal Control Act.

GASB standards expand on that requirement by requiring disclosure concerning noncompliance with specific related legal and contractual provisions. For example, significant violations during the reporting period of legal or contractual provisions for deposits and investments are required to be disclosed in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchasing Agreements), and Reverse Repurchase Agreements*, paragraph 66. Significant violations of finance-related legal or contractual provisions require that the notes disclose both the nature of the violation and the actions taken during the year or subsequent to year-end to address the violation in accordance with GASB Statement No. 38 *Certain Financial Statement Note Disclosures*, paragraphs 9 and 45.

Audits Performed Under the Yellow Book

Financial audits under GAGAS, also referred to as Yellow Book standards, incorporate GAAS but add requirements that extend beyond GAAS. The U.S. Government Accountability Office (GAO) has revised the standards for GAGAS in the 2018 Revision, which was effective beginning with year ends on or after June 30, 2020. **Auditors performing an audit under GAGAS should obtain a copy of GAO's *Government Auditing Standards*, April 2021, and become familiar with those standards. The GAO website is www.gao.gov.**

CPE: The Yellow Book requires auditors, including CPAs and non-CPAs, responsible for planning, directing, or performing audit procedures or reporting on Yellow Book audits to complete at least 80 hours of continuing professional education (CPE) every two years. Of the 80 hours, 24 hours must be in a subject matter that directly relates to governmental auditing, the government environment, or the specific or unique environment in which the audited entity operates. Auditors who are involved in any amount of planning, directing, or reporting on Yellow Book audits and auditors who are not involved in those activities but charge 20 percent or more of their time annually to Yellow Book audits should complete an additional 56 hours of CPE for a total of 80 hours of CPE in every two-year period. The additional 56 hours should be CPE that, in the auditor's professional judgment, enhances the auditor's professional proficiency to perform audits. The auditor is required to complete at least 20 hours of CPE in each year of the two-year period. Auditors may be exempted from the 56-hour CPE requirement, but not the 24-hour requirement, if they charge less than 20 percent of their time annually to Yellow Book engagements and are only involved in performing engagement procedures, but not involved in planning, directing, or reporting on the engagement.

If an internal specialist is part of the engagement team and is involved in planning, directing, or performing engagement procedures or reporting on the Yellow Book audit, then he or she is considered an auditor and subject to the Yellow Book CPE requirements. A specialist is an individual or organization possessing special skill or knowledge in a particular field other than accounting or auditing that assists auditors in conducting engagements. External specialists are not considered auditors subject to Yellow Book requirements.

Peer Reviews: The Yellow Book also requires that external peer reviews be completed at least once every three years and be provided to the parties contracting for the audit. Since the LGC is a party to all local government contracts in North Carolina, a copy of this document must be provided to our office as well as to the local government. All Audit Organizations must comply with Yellow Book Peer Review requirements for Assessment of Peer Review Risk (par. 5.66 to 5.71), Peer Review Report Ratings (par. 5.72 to 5.74), and Availability of the Peer Review to the Public (par. 5.77 to 5.80). In addition to these requirements, audit organization that are affiliated with one of the five recognized organizations listed in the Yellow Book (par. 5.61), such as the AICPA, should comply with the respective recognized organizations peer review requirements. Any organization not affiliated should comply with the requirements listed in the Yellow Book paragraphs 5.81 to 5.94.

Independence: In addition to performing the audit of a local government or public authority, an auditor or audit organization may perform a nonaudit service, such as preparing draft financial statements. Providing the nonaudit service in addition to performing the audit could threaten the auditor's independence. The 2018 revisions of the Yellow Book include a Conceptual Framework for Independence, first introduced in the 2011 revisions, that auditors use to identify, evaluate, and apply safeguards to address threats to independence. Auditors should apply the conceptual framework at the audit organization, engagement team, and individual auditor levels to identify threats and evaluate their significance, both individually and in the aggregate. Auditors are to use professional judgment in applying the conceptual framework. Auditors should evaluate the broad categories of threats when applying the Yellow Book conceptual framework that include categories such as self-interest, self-review, bias, familiarity, undue influence, management participation, and structural. Examples of circumstances that create threats are listed in the Yellow Book paragraphs 3.38 to 3.44. Auditors should consider qualitative and quantitative threats to independence. Threats do not necessarily impair independence. When evaluating threats, an acceptable level is a level at which a reasonable and informed third party would likely conclude an auditor is independent.

After an evaluation by the auditor of how significant the threat is, the auditor should apply safeguards as necessary to eliminate the threat or threats or reduce them to an acceptable level. Safeguards are actions or other measures taken by auditors and audit organizations that effectively eliminate threats or reduce them to an acceptable level. If safeguards are applied, the auditor should document the threat and identify the safeguards.

Examples of safeguards given in the Yellow Book (paragraph 3.50) include consulting an independent third party, involving another audit organization to perform part of the audit, having a professional staff member who was not part of the audit team review the work performed, and removing an individual from an audit team when that individual poses a threat to independence. The 2018 Yellow Book revisions provide examples of actions that in certain circumstances could be safeguards in addressing threats to independence related to nonaudit services (paragraph 3.69). This includes not including individuals who provide the nonaudit services as engagement team members. Another safeguard could be having another auditor not associated with the engagement and nonaudit work (as appropriate) or another audit organization evaluate the results of the nonaudit services.

Designating an Individual with Skills, Knowledge, and Experience: An area of a potential threat to independence would be lack of management participation by the audited entity if a nonaudit service is being performed by the auditor. Before the auditor agrees to provide a nonaudit service to a local government or public authority, such as preparing the draft financial statements, the auditor must determine if the audited entity has designated an individual, preferably within senior management, who possesses suitable skills, knowledge, and experience (SKE) and that the individual understands the services to be performed sufficiently to oversee them. The auditor must document consideration of management's ability to effectively oversee nonaudit services to be performed. The auditor should obtain an agreement from the audited entity management specifying that the entity assumes all management responsibilities, oversees the services, evaluates the results, and accepts responsibility for the service. If an audit entity does not assume the responsibility, including providing a designated individual with SKE, then the auditor should include that the provision for these services is an impairment to independence.

It is not necessary that the designated person with SKE possess the expertise to perform the service. An indicator of management's ability to effectively oversee the nonaudit service includes management's ability to determine the reasonableness of the results and recognize a material error, omission, or misstatement in the results of the nonaudit services. The designated person with SKE is not a safeguard. Examples of activities that are considered management responsibilities are listed in the Yellow Book standards (paragraph 3.81) and include setting policies and strategic direction for the audited entity, having custody of assets, and accepting responsibility for designing, implementing, or maintaining internal controls. The auditor should exercise professional judgment to determine whether an activity performed is a management responsibility. Also, the activity depends on the facts and circumstances.

Nonaudit Services that Impair, Threaten, or Significantly Threaten Independence: For nonaudit services such as preparing accounting records and financial statements, the 2018 Yellow Book has established three categories. Services that impair independence are a) determining or changing journal entries, account codes, classifications for transaction, or other accounting records without management's approval, b) authorizing or approving the entity's transactions, and c) preparing or making changes to source documents without management approval. Providing activities such as a) recording transactions or posting entries that management has approved, b) preparing certain line items or sections of the financial statements, and c) performing reconciliations for management's evaluation creates threats for which an auditor should evaluate the significance.

The 2018 Yellow Book considers an auditor's preparation of financial statements, including cash to accrual conversions, as a significant threat to the auditor's independence. The auditor should apply safeguards to eliminate or reduce threats to an acceptable level. The auditor should document the threats and the safeguards applied.

Results of Previous Audits: The Yellow Book states that auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous audits. Auditors should inquire of the audited entity's management to identify previous financial audits and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current objectives.

Noncompliance with Provisions of Laws, Regulations, Contracts and Grant Agreements, Waste and Abuse: In addition to the AICPA requirements concerning fraud and noncompliance with provisions of laws and regulations, for Yellow Book audits, the auditor should extend the AICPA requirements pertaining to the auditor's responsibilities for laws and regulations to also apply to considerations of compliance with provisions of contracts or grant agreements. The auditor is not required to detect waste or abuse in the financial statements since the determination of waste and abuse is subjective; however, if, as part of the Yellow Book audit, auditors become aware of waste or abuse, they may consider whether and how to communicate such matters. Auditors may discover that waste and abuse are indicative of fraud or noncompliance. Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight. Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Examples of both waste and abuse are presented in the Yellow Book (par. 6.22 and 6.24).

Auditors should consider internal control deficiencies in their evaluation of identified findings when developing the cause element of the identified findings. To assist auditors in determining whether underlying internal control deficiencies exists as the root cause of findings, an auditor should consider internal control in the context of a comprehensive internal control framework.[7] If

[7] *Government Auditing Standards* (par. 6.30) and the AICPA (AU-C §940 ¶.A16) refers to *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and GAO's Standards for Internal Control in the Federal Government (Green Book) as frameworks that provide suitable and

comparative financial statements are issued, the auditor's report on internal control and compliance relates only to the most recent audit period.

Before the audit report is issued, the auditor should document evidence of supervisory review of the work performed that supports findings, conclusions, and recommendations contained in the audit report. The auditor should document any departures from the Yellow Book requirements and the impact on the audit and on the auditor's conclusions when the audit is not in compliance with applicable Yellow Book requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit. This applies to departures from the unconditional and presumptively mandatory requirements when alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the requirements. Subject to applicable provisions of laws and regulations, auditors should make available appropriate individuals and audit documentation to other auditors or reviewers upon request in a timely manner.

If the law or regulation requiring an audit specifically identifies the entities to be audited, the auditor should communicate pertinent information both to individuals contracting for or requesting the audit or those such as oversight entities and granting agencies, including pass-through entities. This communication, as well as any decisions reached as a result as part of the overall audit strategy, should be documented. When the auditor complied with all applicable Yellow Book requirements, audit reports must state that the audit was performed in accordance with *Government Auditing Standards*. Auditors should report on internal control and compliance with provisions of laws, regulations, contracts, or grant agreements regardless of whether they have identified deficiencies or noncompliance. The Yellow Book also requires the report on internal controls over financial reporting and of compliance to include a description of the scope of the auditor's testing of internal controls over financial reporting, of compliance with provisions of laws, regulations, contracts, or grant agreements, and a statement as to whether or not the tests performed provide sufficient and appropriate evidence to support an opinion on the effectiveness of internal controls and on compliance.

<u>Presenting Findings in the Audit Report</u>: The auditor should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, 1) the significant deficiencies and material weaknesses in internal control, 2) all instances of fraud and noncompliance and any other instances warranting the attention of management and/or the governing board, 3) noncompliance with provisions of the contracts or grant agreements that have a material effect on the audit, and 4) abuse that has a material effect on the audit. The GAGAS report should include relevant information about fraud, noncompliance with provisions of laws or regulations material to the financial statements, and abuse that is quantitatively or qualitatively material. If these instances of noncompliance are less than material but warrant the attention of the board and/or management, this should be communicated in writing. The auditor may consult with authorities or legal counsel about whether such reporting would compromise investigation or legal proceedings and may limit public reporting to matters that would not compromise those proceedings.

When presenting findings for a Yellow Book financial audit, the auditor should develop the elements of the finding to the extent necessary to assist management or oversight officials of the audited entity in understanding the need for corrective action, including findings related to deficiencies from the previous year that have not been remediated. Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results

available criteria against which management may evaluate and report on the effectiveness of the entity's internal controls over financial reporting. If another framework is selected, GAGAS AU-C §940 ¶.A14 provides guidance on evaluating the suitability of the framework.

in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.

When findings are identified, the auditor should plan and perform procedures to develop the elements of findings that are relevant and necessary to achieve audit objectives. Elements of the finding include criteria, condition, cause, and effect or potential effect. The elements, defined in the Yellow Book (par. 6.25 to 6.28), assist management or oversight officials of the audited entity in understanding the need for taking corrective action. The auditor should include a recommendation for corrective action and should obtain the views of responsible officials of the audited entity (management response) concerning the findings, conclusions, and recommendation, as well as planned corrective action. Compliance with Standards: Due to the objectives and public accountability of Yellow Book audits, there are additional considerations related to materiality and early communication of deficiencies. The auditor may find it appropriate to use a lower materiality level compared with the materiality of non-Yellow Book audits because of public accountability of governmental entities and entities receiving government funds. Also, in determining materiality levels, the auditor may consider various legal and regulatory requirements and the visibility and sensitivity of government programs. For some matters, early communication of deficiencies to appropriate officials may be important because of the relative significance and urgency for corrective follow-up action.

Single Audits

Federal Single Audit requirements can be found in *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards: Final Rule* (Uniform Guidance) issued by the Office of Management and Budget (OMB)[8] and are part of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200. The audit requirements are located in Subpart F.[9]

Appendix XI to Part 200 of the Uniform Guidance is the Compliance Supplement, which provides auditors with guidance in performing the required audits of Federal and State financial award programs. This is issued by OMB. In addition, in accordance with G.S. 159-34(c), the staff of the LGC compiles and issues updates to the State Compliance Supplement, which is required to be used by the auditors of local governments and nonprofits that receive State awards. **The auditor will be unable to adequately perform single audits without becoming familiar with these documents.**

Sections of the Uniform Guidance that Apply to State Awards

In accordance with G.S. 159-34, the State Single Audit Implementation Act, the Secretary of the LGC has determined that the following sections of Uniform Guidance apply to the audit of State awards:

Section	
200.000	Acronyms, as applicable
200.Subpart A	Definitions, as applicable
200.502	Basis for determining awards expended
200.331	Subrecipient and contractor (vendor) determinations
200.303	Internal controls
200.503(a)(b)(c)	Relation to other audit requirements
200.505	Sanctions

[8] The Single Audit Act Amendments of 1996 (Public Law 104-156) updated the original Single Audit Act of 1984 law to streamline and enhance the auditing of federal funds received by states, local governments, and nonprofit organizations. OMB issued Circular A-133 to incorporate the provisions of the amended act, which was later replaced by the Uniform Guidance (2 CFR Part 200). (*Federal Register* Vol. 78 No. 248 December 26, 2013). Refer to footnote 1.

[9] Uniform Guidance §200.103(c): Audit requirements under Subpart F are authorized under the Single Audit Act Amendments of 1996.

200.425	Audit services
200.508	Auditee responsibilities
200.509(a)(b)	Auditor selection
200-510	Financial statements
200-511	Audit findings follow-up
200-513	Awarding agency responsibilities
200-332	Requirements for pass-through entities
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 a low-risk auditee
200-521(a)(c)(d)(e)	Management decision

The requirements in each section referenced should be applied as appropriate to State awards. The following is a discussion of each section.

The OMB Uniform Guidance can be accessed at 2 CFR 200 Uniform Guidance. The State Compliance Supplements can be obtained from the Department of State Treasurer (DST) website at nctreasurer.gov; select State Local Government Finance Division, select LGC, select Local Fiscal Management, select Annual Audit, Compliance Resources, and Compliance Supplements. A link to OMB's Compliance Supplement is provided. You may call LGC staff with questions at (919) 814-4299.

Basis for Determining State Awards Expended

Section 502 of the Uniform Guidance discusses the basis for determining awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the local government or public authority to comply with State statutes, regulations, and the terms and conditions of State awards, such as expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property (including surplus property); the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the local government or public authority to an interest subsidy; and the period when insurance is in force.

Loan and loan guarantees (loans) - State government is at risk for loans until the debt is repaid. Therefore, the following guidelines must be used to calculate the value of State awards expended under loan programs:

1) The value of new loans made or received during the audit period; plus
2) The balance of loans from previous years for which the State government imposes continuing compliance requirements; plus
3) Any interest subsidy, cash, or administrative cost allowance received.

Prior loan and loan guarantees (loans) - Loans, the proceeds of which were received and expended in prior years, are not considered State awards expended under Uniform Guidance when the State statutes, regulations, and the terms and conditions of and State awards pertaining to such loans impose no continuing compliance requirements other than to repay the loans.

Free rent - Free rent received by itself is not considered a State award expended. However, free rent received as part of an award to carry out a State program must be included in determining State awards expended and is subject to single audit requirements.

Valuing non-cash assistance - State non-cash assistance, such as free rent, food commodities, donated property, or donated surplus property, that is received as part of a State award to carry out a State program must be valued at fair market value at the time of receipt or the assessed value provided by the State agency and must be included in determining State awards expended.

Medicaid - Though Counties and Special Districts Health Departments determine eligibility for direct benefit payments (i.e. payments for programs in which the County Department of Social Services (DSS) or District Health Departments determine eligibility and the benefits are paid directly by the state to the participant), these direct benefit payments should not be reflected on the local government or public authority's Schedule of Expenditures of Federal and State Awards (SEFSA), such as the County's and District Health's. Common Federal and State programs that meet the requirements are Medicaid, Temporary Assistance to Needy Families/Work First, Foster Care - Title IV-E, State Children's Insurance Program/NC Health Choice, and Special Supplemental Nutrition Program for Women Infants and Children.

Cluster of Programs

"Cluster of programs" is a grouping of closely related programs that share common compliance requirements. OMB identifies cluster of programs for Federal programs in Part 5 of the Compliance Supplement. The only type of cluster of programs referenced in Part 5 that is applicable to units of local government and public authorities is other clusters. A cluster of programs must be considered as one program for determining major programs.

A State agency may add a Federal or State program to an OMB cluster of programs or create a cluster of programs not considered by OMB. A State agency may consider two or more State programs/projects a cluster of programs. State clusters of programs, which include the OMB other clusters, are listed on the State Compliance Supplements page.

Cluster of programs should be listed on a SEFSA[10] by including the name of the cluster, listing each individual program within the cluster of programs, providing applicable Federal and State agency names, and using applicable Assistance Listing Numbers. A total should be included for each cluster. For Federal and State programs added to the cluster, they should be presented separate from the OMB cluster of programs. Include a total for the entire cluster.[11] The total of the cluster of programs is what determines the Type A/B threshold or State major program.

Confirmation Reports from State Agencies

State Agencies that award financial assistance to local governments provide documents or links to documents that show amounts awarded to the local governments and public authorities. Auditors need this information to provide "confirmation" of the award amounts reported on the entity's accounting records. There are links to confirmation reports from the NC Departments of Transportation, Health and Human Services, Environmental Quality, and State Treasurer on the DST website. These reports can be found on the State Agency Confirmation Reports page(nctreasurer.gov, select State and Local Government Finance Division, select LGC, select Local Fiscal Management, select Annual Audit, Compliance Resources, and NCDEQ, NCDHHS, NCDOT Reports).

Reports from the Department of Health and Human Services (DHHS): The DHHS Controller's Office generates various confirmation reports and related Keys to Account Codes, all of which may be accessed from the State Agency Confirmation Reports web page. Also at the web page are spreadsheets that provide guidance to help preparers of SEFSAs in presenting programs for DHHS-Division of Social Service Programs, Mental Health, Developmental Disabilities,

[10] Refer to Uniform Guidance §510(b) for the requirements of properly presenting Federal and State programs on a SEFSA, including cluster of programs.

[11] Please refer to illustrative samples of SEFSAs of Dogwood, Carolina County, and Carolina County Schools found on DST's website, Single Audit Reporting. The examples have incorporated the Federal and State requirements.

Substance Abuse Service Programs, and Public Health Programs. Included are instructions, a spreadsheet for data entry, and a spreadsheet that displays the proper presentation. Users may need to make modifications for a particular unit of government.

Report from the Department of Transportation (DOT): The Grant Master List shows the payments to local governments from DOT.

Report from the Department of Environmental Quality (DEQ): The DEQ Disbursement Report shows payments made to local governments and public authorities and the funding source these payments came from. A key for each funding source that includes a program name and refence to the appropriate State compliance supplement is provided.

Internal Controls

Section 303 of the Uniform Guidance discusses Internal Controls. The recipient and subrecipient must:

(a) Establish, document, and maintain effective internal control over the State award that provides reasonable assurance that the recipient or subrecipient is managing the State award in compliance with State statutes, regulations, and the terms and conditions of the State award. These internal controls should align with the guidance in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Another resource is "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States.

(b) Comply with the State statutes, regulations, and the terms and conditions of the State award.

(c) Evaluate and monitor the recipient's or subrecipient's compliance with statutes, regulations, and the terms and conditions of State awards.

(d) Take prompt action when instances of noncompliance are identified.

(e) Take reasonable cybersecurity and other measures to safeguard information including protected personally identifiable information (PII) and other types of information. This also includes information the Federal agency or State agency designates as sensitive or other information the recipient or subrecipient considers sensitive and is consistent with applicable Federal, State, local, and tribal laws regarding privacy and responsibility over confidentiality.

Recipient, Subrecipient, and Contractor Determinations

Section 331 of the Uniform Guidance discusses subrecipient and contractor determinations. As this applies to State awards, a local government or public authority may receive State awards as a recipient from a State agency but may provide the funds to a non-State entity, such as another local government or public authority or a not-for-profit organization (NPO). Whether the funds provided are a subaward or for procurement of services determines if there is a subrecipient or contractor relationship. The State agency or the recipient that passes State funding is responsible for making case-by-case determinations to determine whether the entity receiving the State award is a subrecipient of a subaward or a contractor that provides a service and is not held accountable for fulfilling a programmatic compliance requirement. The State agency may require the recipient to comply with additional guidance to make these determinations.

The State agency does not have a direct legal relationship with local government or public authority's subrecipients or contractors; however, the State agency is responsible for monitoring the recipient's oversight of the subrecipients. All of the characteristics listed below, found in Section 331, may not be present in all cases, and some characteristics from both categories may be present at the same time. No single factor or any combination of factors is necessarily determinative. The recipient must use judgment in classifying each agreement as a subaward or a procurement contract. In making this determination, the substance of the relationship is more important than the form of the agreement.

Recipients and Subrecipients. A State award or subaward is for the purpose of carrying out a portion of the State award and creates a State financial assistance relationship with a recipient and subrecipient. See the definition of subaward in Uniform Guidance § 200.1 as it applies to a State award. Characteristics that support the classification of the local government or public authority as a subrecipient include, but are not limited to, when the entity:

(1) Determines who is eligible to receive what State financial assistance;
(2) Has its performance measured against whether the objectives of the State program are met;
(3) Has responsibility for programmatic decision making;
(4) Has responsibility for adherence to applicable State program compliance requirements; and
(5) Implements a program of the organization as compared to providing goods or services for a program of the pass-through entity.

Contractors. A contract is for the purpose of obtaining goods and services for the local government or public authority's own use and creates a procurement relationship with a contractor. See the definition of a contract in §200.1. Characteristics that support a procurement relationship between the recipient or subrecipient and a contractor include, but are not limited to, when the contractor:

(1) Provides the goods and services within normal business operations;
(2) Provides similar goods or services to many different purchasers;
(3) Normally operates in a competitive environment;
(4) Provides goods or services that are ancillary to the implementation of a State program; and
(5) Is not subject to compliance requirements of the State program as a result of the agreement. However, similar requirements may apply for other reasons.

Recipients of CDBG Awards and DENR Grants and Loans

Local governments that receive funding from N.C. Department of Commerce for the N. C. Small Cities Community Development Block Grant (CDBG) program and use the resources for scatter site housing, concentrated needs, infrastructure, housing development, and revitalization projects (any reimbursement construction projects that cover multi-periods) are required to present these funds in the financial statements so that they can identify all revenues and expenditures for each project separately. These funds should be budgeted by a project ordinance and should be presented in a Special Revenue Fund, Capital Project, or Grant Project Fund with each project specifically identified and each grant year specified and separated. The fund(s) should present revenues and expenditures for each year, as well as the project to date. The N.C. Department of Commerce may disallow additional CDBG funding if reporting is not done properly. Even though financial statement preparation is the responsibility of the unit of local government or public authority, improper reporting of these funds could result in a delay in approval of the audited financial statements by the LGC. Small Cities CDBG grants intended for loans that are administered by a financial institution should be budgeted and expended through an annual budget by the local government in the year that the proceeds of the grant are distributed to the institution.

New loans and grants for construction projects from N. C. Department of Environmental and Natural Resources (DENR) now require a multi-year project ordinance in accordance with G.S. 159-13.2 and should be presented in the audit reports in such a manner. This requirement has been added to the LGC 108A form that is submitted with all federal and State loan applications with DENR. A copy of the project ordinance must be submitted with the first reimbursement request.

County Grants for School Capital Outlay

Public School Building Capital Funds – These funds are grants to the county according to G.S. 115C-546.1. Therefore, if the expenditures are handled by the board of education, the county is required to treat these funds as pass through to the school. County governments should report both revenues and expenditures for these funds in the financial statements as well. The County's Annual Financial Information Report (AFIR) information must reconcile to the County's audit report. The information on School Capital Outlay is taken from the audit reports and included in the Report on County Spending on Public School Capital Outlay, which is issued to the General Assembly as required by G.S. 115C-440.1.

Opioid Settlement Funds

Expenditures incurred from Opioid Settlement Funds are to be reported on the Municipality's or Counties' SEFSA under the State Awards section. The funding may be included on the SEFSA in a separate section below the State Awards section as "Other Financial Assistance." A footnote to SEFSA should be included stating that these funds are not considered State Financial Assistance but are to be included under State Expenditures only for reporting and audit purposes. An example is provided in the illustrative County SEFSA located on the DST website.

As mentioned in Section F of the MOA, the expenditures incurred from Opioid Settlement Funds are subject to State Single Audit requirements. Therefore, these funds will be considered State Awards in determining a major program and included in the calculation of the percentage of total State Awards expended. DOJ considers Opioid Settlement Funds a program of higher risk. Local auditors should consider the inherent risk of a new program. Please refer to LGC staff Memorandum #2023-03.

Relation to Other Audit Requirements

Section 503 of OMB's Uniform Guidance discusses the relationship between a single audit and other audits.

a) *Other financial audits.* An audit conducted in accordance with this part must be in lieu of any financial audit of Federal or State awards which a local government or public authority is required to undergo under any other Federal or State statute or regulation. To the extent that such an audit provides a Federal or State agency with the information it requires to carry out its responsibilities under Federal or State statute or regulation, a Federal or State agency must rely upon and use that information.

b) *Conducting additional audits*. Notwithstanding paragraph (a) of this section, a Federal agency, Inspector General, GAO, or State agency may conduct or arrange additional audits to carry out its responsibilities under Federal or State statute or regulation. The provisions of Subpart F of the Uniform Guidance do not authorize any unit of government to place constraints on, in any manner, such a Federal or State agency carrying out or arranging for such additional audits; however, the Federal or State agency must plan such audits not to be duplicative of other audits of Federal or State awards. Prior to commencing such an audit, the Federal or State agency must review the Federal Audit Clearinghouse for recent audits submitted by the unit of government, and to the extent that such audits meet a Federal or State agency's needs, the Federal or State agency must rely upon and use such audits. Any additional audits must be planned and performed in such a way as to build upon work performed, including the audit documentation, sampling, and testing already performed by other auditors.

c) *Authority to conduct additional audits*. The provisions Subpart F of the Uniform Guidance do not limit the authority of Federal or State agencies to conduct, or arrange for the performance of, audits and evaluations of Federal or State awards, or limit the authority of any federal or State agency Inspector General or other Federal or State officials. For example, requirements that may be applicable under the Federal Acquisition Regulations (FAR) or Cost Accounting Standards (CAS) and the terms and conditions of a cost-reimbursement contract may include additional applicable audits to be conducted or arranged for by Federal agencies.

Sanctions

Section 200.505 of the Uniform Guidance discusses sanctions. In cases of continued inability or unwillingness to have an audit conducted in accordance with the Uniform Guidance, Federal and State agencies and pass-through entities must take appropriate action as provided in §200.339 Remedies for noncompliance and G.S. 159-34 Annual independent audit; rules and regulations (a)(b)(d)(e)(f)(g)(h).

Audit Services

Section 200.425 of the Uniform Guidance discusses audit services.

a) A reasonably proportionate share of the costs of audits required by and performed in accordance with the Single Audit Act Amendments of 1996 (31 U.S.C. 7501–7507) and the requirements of §200.501 are allowable. However, the following audit costs are unallowable:

(1) Any costs when audits required by the Single Audit Act and Subpart F – Audit Requirements of the Uniform Guidance have not been conducted or have been conducted but not in accordance with the requirements; and

(2) Except as provided for in paragraph (c) of this section, any costs of auditing a local government or public authority that is exempted from having an audit conducted under the Single Audit Act and Subpart F – Audit Requirements because its expenditures under Federal awards are less than $1,000,000 during the non-Federal entity's fiscal year.

(b) The costs of a financial statement audit of a local government or public authority that does not currently have a Federal award may be included in the indirect cost pool for a cost allocation plan or indirect cost proposal.

(c) Pass-through entities may charge Federal awards for the cost of agreed-upon procedures engagements to monitor subrecipients (in accordance with subpart D, Subrecipients and Monitoring Management (§§ 200.331–333) exempt from having an audit conducted under the Single Audit Act and the requirements of Subpart F. This cost is allowable only if the agreed-upon procedures engagements are:

(1) Conducted in accordance with GAGAS or applicable international attestation standards, as appropriate;

(2) Paid for and arranged by the pass-through entity; and

(3) Limited in scope to one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; and reporting.

If a single audit is required due to State requirements, audit costs would be allowable costs to the State funds that caused the local government or public authority to meet the threshold for a single audit. Since certain audit costs may not be chargeable to Federal awards, auditors should document the amount of audit time for each major program. When a Federal program is audited as a major program because State expenditures in the program are equal to $1,000,000 or more, but the program would otherwise not be audited as a major program under the provision of the OMB Uniform Guidance Subpart F, the audit costs should only be charged to State funds.

Auditee Responsibilities

Section 508 of OMB Uniform Guidance discusses responsibilities of the auditee. The auditee must:

(a) Arrange for the audit required by a State Single Audit in accordance with §200.509 Auditor selection, and ensure it is properly performed and submitted in accordance with §200.512 Report submission.

(b) Prepare financial statements, including the SEFSA in accordance with §200.510.

(c) Promptly follow up and take corrective action on audit findings. This includes preparing a summary schedule of prior audit findings and a corrective action plan in accordance with Audit findings follow-up §200.511(b)(c).

(d) Provide the auditor access to personnel, accounts, books, records, supporting documentation, and any other information needed for the auditor to perform the audit required by this part.

Auditor Selection

Although the selection of the auditor is the responsibility of the local government or public authority's governing board, the LGC recommends the use of a two-part process, which conforms to the recommendations from the National Intergovernmental Audit Forum (NIAF). The use of the two-part process will help the units that are subject to single audit document compliance requirements with section 509(a) of the OMB Uniform Guidance. The request for proposal (RFP) process involves an initial determination of the firm's credentials and fitness to conduct the audit. This is done in the absence of the knowledge of the firm's monetary bid on the engagement. Those firms meeting the requirements in the first part of the process move on to the second part, which is the evaluation of the bids submitted. This process provides the staff presenting a recommendation to the local officials with an objective basis for selecting an auditor who did not submit the lowest bid but may be best qualified to perform the audit.

If the audit is subject to both Federal and State single audit requirements, when procuring audit services, the auditee must follow the procurement standards in sections 200.317 (Procurement by states) through 200.327 (Contract provisions) of Subpart D – Post Federal Award Requirements of the Uniform Guidance or the FAR (48 CFR Part 42), as applicable.

a) In procuring audit services, units of government and public authorities are reminded of the auditor procurement requirements stated in §§ 200.317 through 200.327 of subpart D of the Uniform Guidance. In requesting proposals for audit services, the objectives and scope of the audit must be made clear, and the units of government and public authorities must request a copy of the audit organization's peer review report, which the auditor must provide under GAGAS. Factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of peer and external quality control reviews, and price. Whenever possible, the auditee must make efforts to contract with businesses stated in §200.321, as applicable.

b) An auditor who prepares the indirect cost proposal or cost allocation plan may not be selected to perform the single audit when the indirect costs recovered by the auditee during the prior year exceed $1 million. This restriction applies to the base year used to prepare the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs.

Financial Statements

Financial Statements - Section 510 of the OMB Uniform Guidance discusses financial statements. The auditee must prepare financial statements that reflect its financial position, results of operations or changes in net position, and, where appropriate, cash flows for the fiscal year audited. The financial statements must be for the same organizational unit and fiscal year chosen to meet the requirements of the Uniform Guidance. However, organization-wide financial statements of the unit of local government or public authority may also include departments, agencies, and other organizational units that have separate audits in accordance with OMB Uniform Guidance §200.514(a) and prepare separate financial statements.

Schedule of expenditures of Federal and State awards (SEFSA)[12] - The auditee must also prepare a SEFSA for the period covered by the auditee's financial statements. The schedule must include the total Federal and State awards expended as determined in accordance with §200.502 Basis for determining Federal and State awards expended. The auditee may choose to provide information requested by Federal and State awarding agencies and pass-through entities to make the schedule easier to use. The schedule must:

1. List individual Federal and State programs by Federal and State agency, using the applicable Assistance Listing number(s) for Federal programs. For Federal and State programs included in a cluster of programs, list individual Federal and State programs within a cluster of programs.[13]
2. For Federal and State awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
3. Provide total Federal and State awards expended for each individual Federal and State program and provide the Assistance Listing Number for each Federal program or other identifying number when the Assistance Listing information is not unavailable. For a cluster of programs, the auditee must also provide the total for the cluster.
4. Include the total amount provided to subrecipients from each Federal and State program.
5. For loan or loan guarantee programs described in §200.502(b) Basis for determining Federal awards expended, identify the balances outstanding at the end of the audit period in the notes to the schedule. This requirement is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
6. Include notes describing the significant accounting policies used in preparing the schedule and whether the auditee elected to use the de minimis indirect cost rate of up to 15 percent (see §200.414 Indirect (F&A) costs).

Audit Findings Follow-Up

General – The Audit Guide on Government Auditing Standards and Single Audit and §200.511 discusses audit findings follow-up. The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings. The auditee must also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan must include the reference numbers the auditor assigns to audit findings under OMB Uniform Guidance §200.516(c) Reference Numbers. Since the summary schedule may include audit findings from multiple years, it must include the fiscal year in which the finding initially occurred. The corrective action plan and summary of prior audit findings must include financial statement findings that the auditor was required to report in accordance with GAGAS.

Summary schedule of prior audit findings - The summary schedule of prior audit findings must report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal and State awards. The summary schedule must also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected, no longer valid, or not warranting further action.

[12] Refer to footnote 9.

[13] Refer to the previous discussion of "Cluster of Programs" in this document and footnote 9.

(1) When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.

(2) When audit findings were not corrected or only partially corrected, the summary schedule must describe the reasons for the audit finding's recurrence, the planned corrective action, and any partial corrective action taken. When the corrective action taken significantly differs from the corrective action plan or the Federal or State agency or pass-through entity's management decision, the summary schedule must provide an explanation.

(3) When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position must be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:

(i) Two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse or funding State agency;

(ii) The Federal or State agency or pass-through entity is not currently following up with the auditee on the audit finding; and

(iii) A management decision was not issued.

Corrective action plan - At the completion of the audit, the auditee must prepare a corrective action plan to address **each audit finding** included in the auditor's reports for the current year. The corrective action plan must be a document separate from the auditor's findings described in §200.516 Audit Findings. The corrective action plan must also provide the name(s) of the contact person(s) responsible for the corrective action to be taken and the anticipated completion date. When the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include a detailed explanation of the reasons.

Report Submission

Auditors are required to submit audit reports and other required documents to the LGC no later than six months after fiscal year end (except for housing authority audits, which are due 10 months after fiscal year end). For June 30 fiscal year-end audits, the due date is December 31. Audit reports and other required documents, including a completed "Data Input Report (DIR)" (formerly Data Input Workbook (DIW)), must be submitted online using the instructions and resources provided on the Submitting Your Audit page.

Items to be Submitted to the Local Government Commission

1. Audited financial statements, including the Schedule of Expenditures of Federal and State awards;
2. Summary Schedule of Prior Audit Findings, when applicable;
3. Auditor's reports (see discussion of required reports);
4. Schedule of Findings and Questioned Costs, which must include:
   a) A summary of auditor's results,
   b) Findings which are required to be reported in accordance with GAGAS,
   c) Findings and questioned costs for federal awards, if applicable; and
   d) Findings and questioned costs for State awards, if applicable;
5. Corrective action plan (if findings), presented on the unit's letterhead, separate from the funding;
6. Summary schedule of prior audit findings, if applicable; and

7. Auditor communication such as *Communication on Internal Controls Related Matters* (AU-C §265), *Auditor's Communication to Those Charged with Governance* (AU-C §260), and/or a management letter.

For more information on submitting documents to LGC staff or other assistance please call (919) 814-4299 or email SLGFD@nctreasurer.com.

Local governmental entities and public authorities are responsible for filing audit information to the federal audit clearinghouse as required in Uniform Guidance §200.512.

LGC staff makes available to State agencies electronic copies of audit reports and auditor communications by placing them in a portal where they can be accessed. This portal is not available to the public, including the local auditors. State agencies that would like to have access to the audits on the portal can contact LGC staff at 919-814-4299 or SLGFD@nctreasurer.com.

The Federal Audit Clearinghouse (FAC) operates on behalf of the U.S. Office of Management and Budget (OMB). Its primary purposes are to:

- Distribute single audit reporting packages to federal agencies.
- Support OMB oversight and assessment of federal award audit requirements.
- Maintain a public database of completed audits.
- Help auditors and auditees minimize the reporting burden of complying with Single Audit requirements.

The FAC will transition from the U.S. Census Bureau (Census) to the U.S. General Services Administration (GSA) on October 1, 2023.

Section 512 of OMB Uniform Guidance describes the auditee's responsibilities for report submission to the federal government. The FAC website is FAC.gov.

State Agencies and Pass-Through Entities Responsibilities

Section 513 of the OMB Uniform Guidance discusses federal agencies and pass-through entities' responsibilities.

State agencies and pass-through entities responsibilities:

(a) Ensure that every award is clearly identified to the subrecipient as an award and includes the following information at the time of the award. If any of these data elements change, include the changes in subsequent award modification. When some of this information is not available, the State agency must provide the best information available to describe the State award. Required information includes:

(1) State Award Identification.

(i) Recipient's name (which must match the name associated with its unique entity identifier);

(ii) Recipient's unique entity identifier;

(iii) State Award Identification Number;

(iv) Award Period of Performance Start and End Date;

(v) Award Budget Period Start and End Date;

(vi) Amount of State Awards obligated by this action by the State agency to the recipient;

(vii) Total Amount of State Awards obligated to the recipient by the State agency, including the current financial obligation;

(viii) Name of State awarding agency and contact information for awarding official of the State agency; and

(ix) Indirect cost rate for the State award.

(2) All requirements imposed by the State on the subrecipient so that the State award is used in accordance with State statutes, regulations and the terms and conditions of the State award.

(3) Any additional requirements that the State agency imposes on the recipient in order for the State agency to meet its own responsibility to the State awarding agency, including identification of any required financial and performance reports;

(4) A requirement that the subrecipient permit the State agency and auditors to have access to the recipient's records and financial statements as necessary; and

(5) Appropriate terms and conditions concerning closeout of the award.

(b) Evaluate each subrecipient's risk of noncompliance with State statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraph (d) and (e) of this section, which may include consideration of such factors as:

(1) The recipient's prior experience with the same or similar awards;

(2) The results of previous audits, including whether or not the recipient receives a State Single Audit in accordance with the LGC requirements, and the extent to which the same or similar subaward has been audited as a major program;

(3) Whether the recipient has new personnel or new or substantially changed systems; and

(4) The extent and results of State awarding agency monitoring (e.g., if the recipient also receives State awards directly from a State awarding agency).

(c) Monitor the activities of the recipient as necessary to ensure that the award is used for authorized purposes, in compliance with State statutes, regulations, and the terms and conditions of the award; and that award performance goals are achieved. State agency monitoring of the recipient must include:

(1) Reviewing financial and programmatic reports required by the State agency.

(2) Following up and ensuring that the recipient takes timely and appropriate action on all deficiencies pertaining to the State award provided to the recipient from the State agency detected through audits, on-site reviews, and written confirmation from the recipient, highlighting the status of actions planned or taken to address Single Audit findings related to the particular award.

(3) Issuing a management decision for applicable audit findings pertaining only to the State award provided to the recipient from the State agency.

(e) Depending upon the State agency's assessment of risk posed by the recipient (as described in paragraph (b) of this section), the following monitoring tools may be useful for the State agency to ensure proper accountability and compliance with program requirements and achievement of performance goals:

(1) Providing recipients with training and technical assistance on program-related matters;

(2) Performing on-site reviews of the subrecipient's program operations; and

(3) Arranging for agreed-upon procedures engagements.

(f) Consider whether the results of the recipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the State agency's own records.

(g) Consider taking enforcement action against noncompliant recipients.

Management Decisions

Section 200.521 of the Uniform Guidance discusses the management decision. The management decision must clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the State agency may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee. While not required, the State agency may also issue a management decision on findings relating to the financial statements which are required to be reported in accordance with GAGAS.

A State awarding agency is responsible for issuing a management decision for audit findings that affect the State awards it makes to recipients.

For State awards, alternate arrangements may be made on a case-by-case basis by agreement among the State agencies concerned.

The entity responsible for making the management decision must do so within six months of receipt of the audit report. Corrective action must be initiated within six months after receipt of the audit report and proceed as rapidly as possible. Corrective action should begin no later than upon receipt of the audit report. Management decisions must include the reference numbers and the auditor assigned to each audit finding.

Standards and Scope of a Single Audit

Section 200.514 of the Uniform Guidance discusses the scope of a single audit. The audit must be conducted in accordance with GAGAS. The audit must also cover the entire operations of the auditee; or, at the option of the auditee, such an audit must include a series of audits that cover departments, agencies, and other organizational units which expended or otherwise administered State awards during fiscal year. In these instances, the audit must include the financial statements and SEFSA for each such department, agency, and other organizational unit, which must be considered to be a local government or public authority. The financial statements and SEFSA must be for the same fiscal year.

Financial Statements -The auditor must determine whether the auditee's financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (or a special purpose framework such as cash, modified cash, or regulatory as required by State law). The auditor must also determine whether the SEFSA is presented fairly in all material respects in relation to the auditee's financial statements taken as a whole.

Internal Control - The compliance supplement provides guidance on internal controls over State programs based upon the guidance in the *Internal Control – Integrated Framework* issued by COSO. Another resource that may be used is *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States. An audit firm may have an internal control framework that may be used for testing but should use professional judgment to determine if appropriate and cost-effective internal control provides reasonable assurance of compliance with State program requirements given the environment or circumstance. In addition to the requirements of GAGAS, the auditor must perform procedures to obtain an understanding of internal control over State programs that is sufficient to plan the audit to support a low assessed level of control risk for major programs.

The auditor must:

(1) Plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and

(2) Perform testing of internal control as planned.

When internal control over some or all of the compliance requirements for a major program is likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described above are not required for those compliance requirements. However, the auditor must report a significant deficiency (including whether any such condition is a material weakness), assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective internal control.

Compliance - In addition to the requirements of GAGAS, the auditor must determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs. The principal compliance requirements applicable to most State programs are included in the State compliance supplements. For the compliance requirements related to State programs contained in the compliance supplements, an audit meeting these compliance requirements will meet the requirements of the OMB Uniform Guidance. Where there have been changes to the compliance requirements of a State program and the changes are not reflected in the compliance supplement, the auditor must determine the current compliance requirements and modify the audit procedures accordingly. For those State programs not covered in the State compliance supplement, the auditor should follow the compliance supplement's guidance for programs not included in the supplement. The compliance testing must include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient and appropriate audit evidence to support an opinion on compliance.

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.

Audit follow-up - 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 follow-up includes performing procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee. When the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding, the auditor must report this condition as a current year audit finding.

Required Audit Reports

Auditors should use the report examples provided by the Local Government Commission that can be found on the DST website. These reports are based on sample reports issued by the AICPA and have been modified for the State Single Audit Implementation Act. The following reports are required for single audits of local governments and public authorities in North Carolina.

Report on the Basic Financial Statements - Required for all audits. An opinion (or disclaimer of opinion) on whether the financial statement(s) of the auditee is (are) presented fairly in all material respects in accordance with generally accepted accounting principles (or a special purpose framework such as cash, modified cash, or regulatory as required by State law). The auditor must also decide whether the SEFSA is stated fairly in all material respects in relation to the auditee's financial statements as a whole.

Report On Compliance and on Internal Control Over Financial Reporting Required by Government Auditing Standards - Required for all Yellow Book audits and all single audits. A report on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements. This report must describe the scope of internal control and compliance testing and the results of the tests. Where applicable, the report must refer to the separate schedule of findings and questioned costs (SFQC) described below.

Report On Compliance With Requirements Applicable To Each Major Federal Program and Internal Control Over Compliance Required By the Uniform Guidance - Required for all single audits when expenditures of federal awards are $1,000,000 or more. A report on compliance for each major federal program and a report on internal control over compliance. This report must describe the scope of testing of internal control over compliance and include an opinion (or disclaimer of opinion) as to whether the auditee complied with Federal statutes, regulations, and the terms and conditions of Federal awards that could have a direct and material effect on each major program and refer to the separate SFQC described below.

Report On Compliance With Requirements Applicable To Each Major State Program and Internal Control Over Compliance Required By Applicable Sections of the Uniform Guidance and the State Single Audit Implementation Act - Required for all single audits when **$1,000,000 or more in state financial assistance has been expended**. A report on compliance for each major State program and a report on internal control over compliance. This report must describe the scope of testing of internal control over compliance and include an opinion (or disclaimer of opinion) as to whether the auditee complied with State statutes, regulations, and the terms and conditions of State awards that could have a direct and material effect on each State major program and refer to the separate SFQC described below.

Schedule Of Findings And Questioned Costs (SFQC) – Required for all single audits, and must include the following four components, if applicable:

(1) A summary of the auditor's results, which must include the following, if applicable. If a single audit was not performed either under Federal requirements or State requirements, it is not necessary to include a section on the SFQC:

(i) The type of report the auditor issued (unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion) on whether the audited financial statements were prepared in accordance with GAAP;

(ii) A statement that significant deficiencies[6] or material weaknesses in internal control were disclosed by the audit of the financial statements;

(iii) A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee;

(iv) A statement that significant deficiencies[6] or material weaknesses in internal control over major federal programs were disclosed by the audit;

(v) The type of report the auditor issued (unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion) on compliance with major programs;

(vi) A statement as to whether the audit disclosed any audit findings for federal programs which the auditor is required to report under §200.516(a);

(vii) An identification of major federal programs by listing each individual major program; however, in the case of a cluster of programs, only the cluster name as shown on the Schedule of Expenditures of Federal and State Awards is required;

(viii)The dollar threshold used to distinguish between Type A and Type B programs, as described in §200.518(b)(1) or (b)(3) when a recalculation of the Type A threshold is required for large loans or loan guarantees; and

(ix) A statement as to whether the auditee qualified as a low-risk auditee under §200.520, Criteria for low-risk auditee.

(x) Where applicable, a statement that significant deficiencies[6]or material weaknesses in internal control over major State programs were disclosed by the audit;

(xi) The type of report the auditor issued on compliance for major State programs (i.e., unmodified opinion, modified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);

(xii) A statement as to whether the audit disclosed any audit findings for State programs which the auditor is required to report under the State Single Audit Implementation Act;

(xii) An identification of major State programs;

(xiii) The dollar threshold for a major State program ($1,000,000); and

(xiv) A statement as to whether the auditee qualified as a low-risk State auditee using the criteria for low-risk State auditee.

(2) Findings relating to the financial statements required to be reported in accordance with GAGAS.

(3) Findings and questioned costs for federal awards which must include audit findings as defined in §200.516(a) in the following manner (see (4)(i)(ii)).

(4) Findings and questioned costs for State awards which must include audit findings as defined in §200.516 (a) in the following manner:

(i) Audit findings (for example, internal control findings, compliance findings, questioned costs, or fraud) which relate to the same issue should be presented as a single audit finding. Where practical, audit findings should be organized by federal and State agency or pass-through entity.

(ii) Audit findings which relate to both the financial statements (paragraph (2) of this section) and federal and/or State awards (paragraphs (3) and (4)), must be reported in both sections of the schedule. However, the reporting in one section of the schedule may be in summary form and reference a detailed reporting in the other section.

Audit Findings

As discussed above, the schedule of findings and questioned costs (SFQC) should include a section that reports the findings relating to the financial statements. This section of the schedule must include all significant deficiencies[6] in the internal control over financial reporting and other findings relative to the audit of the financial statements that are required to be reported by GAAS and *Government Auditing Standards*, including those that do not affect federal awards. In addition to requiring auditors to report significant deficiencies[6] in the internal control over financial reporting, *Government Auditing Standards* require auditors to report all but clearly inconsequential fraud and illegal acts that the auditor concludes, based on the evidence obtained, either occurred or are likely to have occurred. *Government Auditing Standards* also require the auditor to report other noncompliance (for example violations of the provisions of contract or grant agreements) that is material to the financial statements. In addition, the auditor is to communicate abuse that is material, either quantitatively or qualitatively.

Section 516 of the Uniform Guidance discusses single audit findings. The auditor must report the following as an audit finding for State awards in a schedule of findings and questioned costs:

(1) Significant deficiencies[6] and material weaknesses in internal control over major programs. The auditor's determination of whether a deficiency in internal control is a significant deficiency[6] or a material weakness for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the compliance supplement.

(2) Material noncompliance with the provisions of State statutes, regulations, or the terms and conditions of State awards related to a major program. The auditor's determination of whether a noncompliance with the provisions of State statutes, regulations, or the terms and conditions of State awards is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the compliance supplement.

(3) Known questioned costs which are greater than $25,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor must also report known questioned costs when likely questioned costs are greater than $25,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor must include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

(4) Known questioned costs which are greater than $25,000 for a State program which is not audited as a major program. Except for audit follow-up, the auditor is not required under the Uniform Guidance to perform audit procedures for such a State program; therefore, the auditor will normally not find questioned costs for a program which is not audited as a major program. However, if the auditor does become aware of questioned costs for a State program which is not audited as a major program (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than $25,000, then the auditor must report this as an audit finding.

(5) The circumstances concerning why the auditor's report on compliance for major programs is other than an unmodified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for State awards.

(6) Known or likely fraud affecting a State award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for State awards. This paragraph does not require the auditor to report publicly information which could

compromise an additional reporting when the auditor confirms that the fraud was reported outside of the auditor's reports under the direct reporting requirements of GAGAS.

(7) Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.

Questioned Costs

The LGC will reject single audit reports that have compliance findings and either no questioned cost amount is provided or there is no explanation of why the finding had no questioned cost. OMB Uniform Guidance §200.516(a)(3) states that "Known questioned costs which are greater than $25,000 for a type of compliance requirement for a major program" must be reported as a finding. Occasionally, the auditor will list a compliance finding and cite questioned costs as "none" or "undeterminable". Though it is understandable that questioned costs cannot be determined in certain findings of noncompliance, an explanation of why is necessary. Funding agencies need this information to adequately make a management decision.

Audit findings must be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for State agencies and pass-through entities to arrive at a management decision. Findings relating to federal awards should be presented in Section III of the SFQC. Findings relating to State awards should be presented in Section IV. Findings that relate to both federal and State programs should be presented in both Sections III and IV. The following specific information must be included, as applicable, in audit findings:

(1) State program name and specific State award identification and year, name of State agency. When information, such as State award number, is not available, the auditor must provide the best information available to describe the State award.

(2) The criteria or specific requirement upon which the audit finding is based, including State statutes, regulatory, or terms and conditions of the State awards. Criteria generally identify the required or desired state or expectation with respect to the program or operation.

(3) The condition found, including facts that support the deficiency identified in the audit finding.

(4) A statement of cause that identifies the reason or explanation for the condition or the factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective action.

(5) The possible asserted effect to provide sufficient information to the auditee and State agency, or pass-through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action. A statement of the effect or potential effect should provide a clear, logical link to establish the impact or potential impact of the difference between the condition and the criteria.

(6) Identification of questioned costs and how they were computed. Known questioned costs must be identified by applicable State award identification number(s).

(7) Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified must be related to the universe and the number of cases examined and be quantified in terms of dollar value. The auditor should report whether the sampling was a statistically valid sample.

(8) Identification of whether the audit finding was a repeat of a finding in the immediately prior audit and, if so, any applicable prior year audit finding numbers.

(9) Recommendations to prevent future occurrences of the deficiency identified in the audit finding.

(10) Views of responsible officials of the auditee.

Each audit finding in the SFQC must include a reference number to allow for easy referencing of the audit findings during follow-up.

Audit Documentation

Section 517 of the OMB Uniform Guidance discusses audit documentation. The auditor must retain audit documentation and reports for a minimum of three years after the date of the auditor's report(s) to the auditee, unless the auditor is notified in writing by the cognizant agency for audit, oversight agency for audit, or pass-through entity to extend the retention period. When the auditor is aware that the federal or State awarding agency, pass-through entity, or auditee is contesting an audit finding, the auditor must contact the parties contesting the audit finding for guidance prior to destruction of the audit documentation and reports.

Audit documentation must be made available upon request to the cognizant or oversight agency for audit or its designee, a federal or State agency providing direct or indirect funding, or GAO at the completion of the audit, as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of OMB Uniform Guidance. Access to audit documentation includes the right of federal or State agencies to obtain copies of audit documentation, as is reasonable and necessary.

Major Program Determination

Federal and State expenditures must not be combined when determining major programs. However, if a program is determined to be either a major federal program or a major State program, the whole program must be tested as a major program.

A major State program is defined as a program with State expenditures, including State benefit payments.

For federal programs with a $1,000,000 or more State matched financial assistance or State supplement, the program must be audited as major unless it was audited as major in at least one of the two most recent audit periods.

1. A single State financial assistance program with expenditures of $1,000,000 or more must be audited as major if it is determined to be high risk using the criteria for federal program risk found in Section 519 of the OMB Uniform Guidance (or refer to page 35-E-31). A program may be considered low risk if it was audited as major in at least one of the two most recent audit periods and the auditor feels that prior year audit findings, if any, do not preclude the program from being low risk.

Additional State Requirement to Audit Certain Federal Programs as Major - After major federal programs have been determined using the risk-based criteria, all federal programs with a $1,000,000 or more State matched financial assistance or State supplement must be audited as major unless they were audited as major in at least one of the two most recent audit periods.

Percentage of coverage rule for State programs: Programs with State awards expended, either with a match or supplement to a federal program or in a single State financial assistance program, that, in the aggregate, encompass at least 40 percent (0.40) of total state awards expended must be audited as major by the auditor.

State Low-Risk Auditee: An auditee can qualify as a Low-Risk Auditee for State Awards if it meets the criteria found on page 35-E-1.32. If the auditee meets the criteria, the auditor needs only to audit State programs that are required to be tested as major, as stated above. Also, the auditor will need to audit as major any additional State programs with State awards expended where, in aggregate, the total of all State programs audited as major programs are at least 20 percent (0.20) of total State awards expended.

Criteria For State Program Risk

Section 519 of the OMB Uniform Guidance discusses the criteria for State program risk. The auditor's determination should be based on an overall evaluation of the risk of the occurrence of noncompliance which could be material to the State program. The auditor must use auditor judgment and consider the criteria listed below to identify risk in State programs. Also, as part of the risk analysis, the auditor may wish to discuss a particular State program with auditee management and the State agency.

Current and prior audit experience –

(1) Weaknesses in internal control over State programs would indicate higher risk. Therefore, consideration should be given to the control environment over State programs. This includes factors such as the expectation of management's adherence to State statutes, regulations, the terms and conditions, and the competence and experience of personnel who administer the State programs.

(i) A State program administered under multiple internal control structures may have higher risk. When assessing risk in a large single audit, the auditor must consider whether weaknesses are isolated in a single operating unit.

(ii) A weak system for monitoring subrecipients would indicate higher risk when significant parts of a State program are passed through to recipients.

(2) Prior audit findings would indicate higher risk, especially when the situations identified in the audit findings could significantly impact a State program or have not been corrected.

(3) State programs not recently audited as major programs may be of higher risk than State programs recently audited as major programs without audit findings.

Oversight exercised by State agencies - (1) The oversight exercised by State agencies could indicate risk. For example, recent monitoring or other reviews performed by an oversight entity which disclosed no significant problems would indicate lower risk. However, monitoring which disclosed significant problems would indicate higher risk.

Inherent risk of the State program - (1) The nature of a State program may indicate risk. Consideration should be given to the complexity of the program and the extent to which the State program contracts for goods and services. For example, State programs that disburse funds through third party contracts or have eligibility criteria may be higher risk. State programs primarily involving staff payroll costs may be at high risk for noncompliance with time and effort reporting but otherwise be low-risk.

(2) The phase of a State program in its lifecycle at the State agency may indicate risk. For example, a new State program with new or interim regulations may have higher risk than an established program with time-tested regulations. Also, significant changes in State programs, laws, regulations, or the provisions of contracts or grant agreements may increase risk.

(3) The phase of a State program in its lifecycle at the auditee may indicate risk. For example, during the first and last years that an auditee participates in a federal program, the risk may be higher due to the start-up or closeout of program activities and staff.

(4) Type B programs with larger State awards expended would be of higher risk than programs with substantially smaller State awards expended.

Criteria For A Low-Risk State Auditee

Section 520 of OMB Uniform Guidance discusses criteria for a low-risk auditee.

For State Low-Risk Auditee requirements:

(1) Either a Federal or State single audit must have been performed in the previous two years.

(2) The requirements of items a, b, c, d, and e of OMB Uniform Guidance Section 520 (noted below) must be met as it applies to State awards.

(a) Single audits were performed on an annual basis in accordance with the provisions of OMB Subpart F of the Uniform Guidance, including submitting the data collection form and the reporting package to the FAC within the required timeframe.

(b) The auditor's opinions on the financial statements were prepared in accordance with GAAP or a basis of accounting required by State law, and the auditor's opinions in relation to opinion on the schedule of expenditures of Federal and State awards were unmodified.

(c) There were no deficiencies in internal control which were identified as material weaknesses under the requirements of GAGAS.

(d) The auditor did not report a substantial doubt about the auditee's ability to continue as a going concern.

(3) Audits must have been submitted timely to the Local Government Commission. If the unit had to respond to an LGC notice that the audit was late, then the report was not submitted timely for "low-risk State auditee" determination.

Federal and State Compliance Requirements

OMB issues and updates the Compliance Supplement for non-federal entities that receive and expend federal financial assistance.

The State Compliance Supplements are prepared by the funding State agencies and reviewed, approved, and distributed by LGC staff as Volume II of this part of the Audit Manual. Auditors must use the approved Compliance Supplements when performing audits of grantees receiving and expending State funds from the State of North Carolina. Since the supplements are prepared by the funding agencies, specific questions relating to particular programs should be directed to the agency contact person listed in the Compliance Supplements.

The following are the compliance requirements that are detailed in the Compliance Supplements:

Federal Compliance Requirements	**State Compliance Supplements**
A. Activities Allowed or Unallowed	1. Activities Allowed or Unallowed
B. Allowable Costs/Cost Principles	2. Allowable Costs/Cost Principles
C. Cash Management	3. Cash Management
D. Reserved	4. Conflict of Interest
E. Eligibility	5. Eligibility
F. Equipment and Real Property Management	6. Equipment and Real Property Management
G. Matching, Level of Effort, Earmarking	7. Matching, Level of Effort, Earmarking
H. Period of Performance	8. Period of Performance
I. Procurement and Suspension and Debarment	9. Procurement and Suspension and Debarment
J. Program Income	10. Program Income
K. Reserved	11. Reserved
L. Reporting	12. Reporting
M. Subrecipient Monitoring	13. Subrecipient Monitoring
N. Special Tests and Provisions	14. Special Tests and Provisions

General Comments That Relate To All Reports

1. All single audit reports must be signed and dated.
2. The single audit reports should be reviewed carefully before the audit report is issued to ensure that they are complete and consistent with the SEFSA and the SFQC.
3. The first page of each single audit report must be on the firm's letterhead.
4. Since each single audit report references the opinion issued on the audit of the basic financial statements, any departure from the standard report must be described. The most frequent departure would be a reference to other auditors who audited a component unit when the opinion on the general-purpose financial statements or basic financial statements is based in part on the report of other auditors.

APPENDIX A

Resources Needed for a Single Audit

In order to perform a single audit, the auditor must, at a minimum, be familiar with the following:

1. The Single Audit Act Amendments of 1996, Public Law 104-156

2. U. S. Office of Management and Budget (OMB) has issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).[14] This is included in the Code of Federal Regulations, Title 2 OMB Guidance for Federal Financial Assistance, Subtitle A Office of Management and Budget Guidance, Chapter II Office of Management and Budget Guidance, Part 200 (2 CFR 200).

3. Governments Governmental Accounting Office: *Government Auditing Standard*s, (the Yellow Book), 2018.[15] Revision, April 2021 (effective for year ends on or after June 30, 2020).

4. AICPA *Audit Guide: State and Local Governments*

5. AICPA A*udit & Accounting Guide: Government Auditing Standards and Single Audits*

6. The System for Award Management (SAM.gov), an official website of the U.S. Government. This includes a link to information on federal programs and Assistance Listing numbers.

7. AU-C 935, *Compliance Audits*

9. GAO *Standards for Internal Control in the Federal Government* (the Green Book), 2014 Revision[16]

10. State Compliance Supplements, which includes the OMB Compliance Supplement as Section A.

[14] Refer to footnote 1.

[15] *Government Auditing Standards* 2024 Revision is effective for financial audits, attestation engagements, and reviews of financial statements for periods beginning on or after December 15, 2025, and for performance audits beginning on or after December 15, 2025. A system of quality management that complies with *Government Auditing Standards* is required to be designed and implemented by December 15, 2025. An audit organization should complete its evaluation of the system of quality management by December 15, 2026. Early implementation is permitted.

[16] *Standards for Internal Control in the Federal Government* (commonly known as the "Green Book"), sets the standards for an effective internal control system for federal agencies and provides the overall framework for designing, implementing, and operating an effective internal control system. GAO updated the Green Book in 2025 is effective beginning with fiscal year 2026. Early implementation is permitted.