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DEPARTMENT OF STATE TREASURER

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Discussion of Single Audit in North Carolina

Whether a "non-State entity"[1] in North Carolina is required to have an audit – as well as the specific kind of audit – depends on the type of non-State entity and how much federal and/or State financial assistance it received and expended.

- Local governments and public authorities are subject to the requirements found in North Carolina General Statute 159-34, *Annual Independent audit; rules and regulations* (G.S. 159-34(a)). These units of government are subject to the State Single Audit Implementation Act and are required to have a State Single Audit if they spend $1,000,000 or more in State financial assistance in a fiscal year. The State Single Audit Implementation Act incorporates sections of the Uniform Guidance[2], including Subpart F. These requirements can be found in the "*Audit Manual for Governmental Auditors in North Carolina*" document, which can be accessed from the Department of State Treasurer (DST) State Local Government Finance Division (SLGFD) website. A local government or public authority may have both a federal and State Single Audit performed.

  Units of local government are required to have an audit performed under *Government Auditing Standards* (a Yellow Book audit) if the unit expends $100,000 or more in combined federal and State financial assistance.

- Non-State entities that are not local governments or public authorities 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[3] or subrecipient (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 greater than the dollar amount listed in 2 CFR 200.501(a), the Uniform Guidance[2], which is currently $1,000,000.

  Non-State entities subject to 09 NCAC 03M should contact the State granting agency for guidance on compliance and reporting requirements.

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[1] A non-State entity is defined in the State Budget Act, G.S. 143C-1-1(d)(18): "Non-State entity – Any of the following that is not a State agency: an individual, a firm, a partnership, an association, a county, a corporation, or any other organization or group acting as a unit. The term includes a unit of local government and public authority."

[2] Federal Single Audit requirements are found in the U.S. Code of Federal Regulations (CFR), Title 2, Part 200 (2 CFR 200), Subpart F. 2 CFR 200 is the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Effective for audits with fiscal years ending on or after September 30, 2025, a federal Single Audit is required if a nonfederal entity expends federal financial assistance of $1,000,000 in a fiscal year. Prior to fiscal years with ending on September 30, 2025, the threshold was $750,000.

[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.

There are three types of audits required for non-State entities:

Single Audit[4]

A Single Audit incorporates the requirements of an audit performed under both *Governmental Auditing Standards* (Yellow Book) and *Generally Accepted Auditing Standards* (GAAS), both discussed later, and an audit of a selected federal or State program or programs. The independent auditor determines if the program(s) selected are in compliance with the terms and conditions of a contract or an agreement between the agency that is providing the federal or State financial assistance and the entity responsible for the programmatic requirements of the funding. The programs selected by the auditor to test are considered "major" programs. The auditor will look to see if the entity is following the rules and regulations regarding the program(s). Compliance requirements are categorized into areas such as "allowable/unallowable activities," "allowable/unallowable costs," "eligibility," "program income," "reporting," etc. There are twelve areas, known as types of compliance requirements (Types)[5].

Important: Auditors prefer that the awarding agency identify the "Types" that the agency determines most important to test and provide guidance on how the Types should be tested. The agency is responsible for monitoring the program and knows which Types should be tested. If a Type does not apply or is not as significant to the program, such as program income or eligibility, the agency should inform the auditor. The audit guidance should be communicated to an auditor in a compliance supplement for the program prepared by the oversight agency. If no compliance supplement is provided for the program, the auditor will have to determine what Types apply and should be tested using their professional judgment. This could be time consuming for the auditor and a potential risk that important Types are not selected or tested adequately.

The U. S. Office of Management and Budget (OMB) coordinates with the Office of Inspector General (OIG) of each federal agency and issues the OMB Compliance Supplement for federal programs[6]. DST, in accordance with G.S. 159-34(c) and 09 NCAC 03M .0401(a)(3), corresponds with State agencies to develop the State Compliance Supplement[3]. The State Compliance Supplement is used by auditors of non-State entities that receive federal funding passed through State agencies and State funding for State programs/projects.

A Single Audit consists of the following reports and schedules. Guidance on the presentation of these reports and schedules can be found in the Uniform Guidance (UG) Subpart F. Illustrative examples can

[4] The term "Single Audit" originates from the Single Audit Act of 1984, which consolidated audits for recipients of federal funds. Before this act, organizations with multiple federal grants underwent multiple, often redundant audits, but the Single Audit Act established a cost-effective, organization-wide audit to cover all federal assistance, hence the name "Single Audit." 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.

[5] Key areas of compliance testing focus on specific types of requirements outlined by the OMB, adopted by the State Single Audit requirements, such as Allowable Activities and Costs, Cash Management, Eligibility, Equipment and Real Property Management, Matching/Level of Effort/Earmarking, Period of Availability of Federal (or State) Funds, Procurement & Suspension & Debarment, Program Income, Reporting, Subrecipient Monitoring, and Special Test & Provisions. The State includes Conflict of Interest.

[6] The OMB Compliance Supplements are included as part of the State Compliance Supplements and can be accessed on the DST website.

be found on the American Institute of Certified Public Accountants (AICPA)'s or DST's Single Audit Reporting web pages.

Report on Compliance for Each Federal /State Program and on Internal Control over Compliance**:** Once the auditor completes the testing of major programs, the audit firm will issue a report **with an opinion** as to whether the entity was in compliance with the federal or State requirements related to the major programs. The auditor will also include the results of testing of the internal controls related to the federal or State major programs. These reports are commonly referred to the "Federal Single Audit Report**"** or **"**State Single Audit Report." **OMB requests that federal and State reporting be separated and not combined**. Refer to UG 2 CFR 200.515(a)(b)(c).

Schedule of Findings and Questioned Costs (SFQC): The federal or State programs that were determined to be major are listed on a SFQC, Summary of Auditor's Results, in either the federal award section or State award section. If the auditor cites findings in their report, the details of each finding, organized by required specific information, are included in the SFQC, Financial Findings (Yellow Book), or Federal and/or State Program Finding. Refer to UG 2 CFR 200.515(d).

Corrective Action Plan**:** If a finding or findings are reported, the entity is required to prepare a corrective action plan for each of the findings reported by the auditor. Refer to UG 2 CFR 200.515(a)(c).

Summary Schedule of Prior Audit Findings**:** The entity is also responsible for providing a schedule that lists all the findings reported in the prior years that have not been corrected and note what action has been taken to correct the finding. Refer to UG 2 CFR 200.515(a)(d).

Federal and State Single Audit requirements state that the Yellow Book findings are to be included in the entity's Corrective Action Plan and Summary Schedule of Prior Audit Findings.

Schedule of Expenditures of Federal and State Awards (SEFSA): A very important schedule included in a Single Audit is a SEFSA. A SEFSA is a financial schedule that lists the federal and State programs that incurred expenditures during the reporting period (fiscal year). Preparing this schedule is the responsibility of the entity. The auditor will use the SEFSA to determine what programs should be considered major. It is imperative that the correct program name, granting and pass-through agencies, and identifying numbers (such as Assistance Listing Numbers) are listed on the SEFSA. Granting federal and State agencies should identify these items in their contracts or correspondence concerning the program with the non-State entity. Refer to UG 2 CFR 200.515(b).

The reports and schedules required for a Single Audit are to be included in a compliance section, usually located in the back of the audit. Even though the Yellow Book audit is a financial audit, it is usually located in the compliance section of the audit. Sample reports can be found on DST's Single Audit Reporting web page.

Generally Accepted Auditing Standards **(GAAS) audit**

All local governments and public authorities currently are required to have a GAAS audit performed annually. Non-State entities not subject to G.S. 159-34, such as nonprofit organizations, are not required to have a GAAS audit if they receive, hold, use, or expend grants less than $1,000,000. These non-State entities have other reporting requirements found in 09 NCAC 03M .0205(b). GAAS is a financial audit performed under the audit standards established by the Auditing Standards Board of the AICPA. The financial statements in a GAAS audit must be presented in accordance with reporting requirements established by the Governmental Accounting Standards Board (GASB), recognized by the AICPA as

the standard-setting authority for Generally Accepted Accounting Principles (GAAP) reporting for state and local governments.

The auditor will perform audit procedures on the amounts reported in the financial statement audit to obtain reasonable assurance, not absolute assurance, that the financial statements are free from material misstatements caused by error or fraud. In addition, the auditor will determine if the financial statements are presented in accordance with GAAP. The auditor will issue an "Independent Auditor's Report" (auditor's opinion) which should include an unmodified opinion stating that the financial statements in the audit report presented fairly, in all material respects, the financial position of the audited entity and are presented in accordance with GAAP. If the auditor has concerns (i.e., material misstatements are present or the auditor was unable to obtain sufficient appropriate audit evidence to form an opinion), a "modified opinion" may be issued. A modified opinion will either be a qualified, adverse, or disclaimer of opinion.

Generally Accepted Governmental Auditing Standards **(GAGAS) audit**

Also known as a Yellow Book audit, since the standards established by the U.S. Government Accountability Office (GAO) were originally issued in a yellow cover booklet, the Yellow Book is a financial audit that incorporates the requirements of a GAAS, by reference. The auditor cites in a report any noncompliance findings related to laws and regulations which could have a direct or material effect on the financial statements, such as The Local Government Budget and Fiscal Control Act (G.S. 159, Article 3) for local governments and public authorities in North Carolina. There are additional requirements for conducting financial audits, including extending the requirements concerning considerations of noncompliance with laws and regulations to include noncompliance with provisions of contracts and grant agreements.

The Yellow Book adds reporting requirements. An auditor should communicate the results of testing compliance and internal controls regardless of whether internal control deficiencies or instances of noncompliance were identified. The Yellow Book report references the auditor's opinion, required by GAAS, so both reports should have the same date. Any findings cited are commonly noted in a separate schedule with required elements, which is preferred by DST, but the details of the finding can be included in the report.

The Yellow Book imposes additional requirements related to the auditor's ethics, independence professional judgment, and competence. An audit firm that performs Yellow Book audits is required to have a System of Quality Management, perform engagement quality reviews, and have external peer reviews performed.

An entity may have only a Yellow Book audit, which includes a GAAS audit. There is no federal requirement for Yellow Book audits that applies to all nonfederal entities. A Yellow Book audit is required if a local government or public authority expends $100,000 or more in combined federal and State financial assistance. GAO has updated the GAGAS 2018 revisions to 2024 effective for financial audits for periods beginning on or after December 15, 2025. Early implementation is allowed.

In summary, an entity may have a federal Single Audit, which includes the testing of major federal programs, a State Single Audit, which includes the testing of major State programs, or both. A single audit includes Yellow Book and GAAS financial audits.