

**SPECIAL APPROPRIATIONS**

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**State Authorization: Session Law 2021, Senate Bill 105: An act to make base budget appropriations for Current operations of State Departments, Institutions, and Agencies, and for other purposes**

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

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**Agency Contact Person - Program and Financial**

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

**The grantor agency may elect to review audit working papers to determine that audit tests are adequate.**

**Auditors may request documentation for monitoring visits by the State Agencies.**

**I. PROGRAM OBJECTIVES**

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

**II. PROGRAM PROCEDURES**

After the appropriation is made a letter should be sent by the Department of Commerce, in which funds are budgeted, to the recipient organization stating that the General Assembly has

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appropriate funds to the organization and the purpose for which the funds are to be expended. Special appropriations can only be expended for authorized projects and purposes specified in the appropriating legislation.

Included with the letter to the recipient organization should be two original contracts, a “Request for Payment of Appropriation Form”, and a copy of the most current North Carolina Administrative Code (NCAC) Subchapter 03M. The recipient organization must return one signed and notarized original contract to the Department of Commerce and the second contract should be kept for their records. In addition, the recipient organization must return the “Request for Payment of Appropriation Form” completely filled out and notarized with the contract prior to funds being released. The form should specify the recipient, amount, purpose of the appropriation, federal tax ID number, recipient’s fiscal year end, and any matching requirements.

Additional information is required from all non-governmental recipients, such as articles of incorporation and by-laws, trust indenture, partnership agreement, etc., list of board of directors/trustees, conflict of interest policy, and a sworn statement of no overdue tax debts should be attached to the complete and notarized “Request for Payment of Appropriation Form.” Non-profit entities are required to submit a copy of their IRS tax exempt letter in addition to the information previously listed. Upon return of the requested information and successful review by the Department of Commerce, disbursements can be made. Before disbursement is made, the Office of State Budget and Management may require recipients of special appropriations to supply information demonstrating that the recipient is capable of managing funds in accordance with law and has established adequate financial procedures and controls. The Department should immediately contact their budget analyst in the Office of State Budget and Management for assistance associated with the Special Appropriation, if the Department needs assistance in obtaining additional information from a recipient during the Department’s review of that recipient.

**III. COMPLIANCE REQUIREMENTS**

Noted below in the following matrix are the types of compliance requirements that are applicable to the State program. These Types are determined by the State agency noted by “Y.”

If the Matrix indicates “Y,” the auditor must determine if a particular type of compliance requirement has a direct and material effect on the State program for the auditee.

1	2	3	4	5	6	7	8	9	10	12	13	14
Activities Allowed or Unallowed	Allowable Costs/ Cost Principles	Cash Management	Conflict-of-Interest	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	Y	N	Y	Y	N	Y	N	Y	Y	Y

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### **1. Activities Allowed or Unallowed**

#### Compliance Requirement

1. According to G.S. 143C-6-22, every non-State entity that receives, uses, or expends any State funds shall use or expend the funds only for the purposes for which they were appropriated by the General Assembly, including federal funds that flow through the State Treasury. Special Appropriation funds appropriated from the General Fund by the General Assembly are to be expended only for the purpose of community development and economic development as set forth in the effective appropriations bill

#### **Audit Objectives**

- Maintain reports and accounting records that support the allowable expenditure of State funds.

#### Suggested Auditing Procedures

1. According to the North Carolina Administrative Code (NCAC) Subchapter 03M, the auditor should conduct periodic monitoring reviews to ensure that State awards are used for authorized purposes in compliance with laws, regulations, and the provisions of grant agreements and that performance goals are achieved.

2. The auditor should inquire with management, audit grantee contract and subgrantee contracts, lease agreements and review board of director minutes for disclosures on restriction of cash to determine that restricted funds are properly classified and disclosed.

### **2. Allowable Costs/Cost Principles**

#### Compliance Requirement

1. According to the North Carolina Administrative Code (NCAC) Subchapter 03M, expenditures of State funds by any grantee shall be in accordance with the Cost Principles outlined in the Office of Management and Budget (OMB) Uniform Guidance 2 CFR Part 200 Subpart E – Cost Principles. If the grant funding includes federal sources, the grantee shall ensure adherence to the cost principles established by the Federal Office of Management and Budget

#### **Audit Objective**

- Determine whether awarded funds were only expended for authorized projects and activities.

#### Suggested Auditing Procedures

1. The auditor should reference the Cost Principles outlined in the Office of Management and Budget (OMB) Uniform Guidance 2 CFR Part 200 Subpart E – Cost Principles during the monitoring and oversight process.

### **3. Cash Management**

#### Compliance Requirement

Pursuant to G.S. 143C-6-21 and the State's Cash Management Plan, an annual appropriation of one hundred thousand dollars (\$100,000) or less to or for the use of a nonprofit

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corporation may be made in a single annual payment. An annual appropriation of more than one hundred thousand dollars (\$100,000) to or for the use of a non-profit corporation shall be made in quarterly or monthly payments unless specified differently in the Appropriations Act. The Director of the Budget can make exceptions to this procedure.

### **Audit Objective**

- To determine that State financial assistance is spent consistently with the purposes for which it was awarded and ensure that account coding information is sufficient to provide for tracking of the disbursement through the agency's accounting system.

### Suggested Auditing Procedures

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

### Compliance Requirement

According to 143C-6-23, every grantee shall file with the State agency disbursing funds to the grantee a copy of that grantee's policy addressing conflicts of interest that may arise involving the grantee's management employees and the members of its board of directors or other governing body before funds may be disbursed by the State agency. The policy shall address situations in which any of these individuals may directly or indirectly benefit, except as the grantee's employees or members of its board or other governing body, from the grantee's disbursing of State funds, and shall include actions to be taken by the grantee or the individual, or both, to avoid conflicts of interest and the appearance of impropriety.

### **Audit Objective**

- Determine the recipient's compliance with G.S. 143C-6-23.

### Suggested Auditing Procedures

1. Review contracts to ensure that the beneficiary or contractor is not an employee or agent of the non-state agency (recipient) who exercises any function or responsibility with regard to the non-state agency nor an immediate family member. If a conflict exists, determine whether the nonstate agency (recipient) has received written waiver of the conflict of interest provision for the contractor.
5. Eligibility  
Not Applicable
6. **Equipment and Real Property Management**

### Compliance Requirement

The Grantee agrees that it shall be responsible for the proper custody and care of any property furnished to it for use in connection with the performance of this Grant Agreement and will reimburse Commerce for loss of, or damage to, such property. At the termination

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of this Grant Agreement, the Grantee shall contact Commerce for instructions as to the disposition of such property and shall comply with these instructions.

### **Audit Objective**

- Ensure the recipient follows the agency's equipment management procedures.

### Suggested Auditing Procedures

Look at the company's fixed asset report to verify when the equipment is being tracked to verify it falls within the grant award period

## **7. Matching, Level of Effort, Earmarking**

### Compliance Requirement

Special appropriations subject to a matching requirement should be disbursed and expended in accordance with G.S. 143C-4-5, non-state match restrictions.

### § 143C-4-5. Non-State Match Restrictions

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

### **Audit Objective**

- To determine that the recipient retains the matching amount received in its possession and shall spend an equal percentage of the appropriation, and of the matching amount each time an expenditure is made.

### Suggested Auditing Procedures

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

## **8. Period of Performance**

Not Applicable

## **9. Procurement and Suspension and Debarment**

### Compliance Requirement

The Grantee, its officers, agents, and employees shall comply and are subject to the provisions of the North Carolina General Statutes and the North Carolina Administrative Code (01 NCAC 05 B. .0301) relating to and governing procurement, public contracts, suspension, and debarment. Grantee shall, by contract, ensure that the provisions of the North Carolina General Statutes and the North Carolina Administrative Code relating to and governing procurement, public contracts, suspension, and debarment are made applicable to and binding upon any of the Grantee's sub-grantees, sub-sub-grantees, etc.

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### **Audit Objective**

- Ensure that recipients have procurement policies and procedures that comply with the procurement standards outlined in the Uniform Guidance.

### Suggested Auditing Procedures

Test to ensure grantee follows procurement standards as established by North Carolina General Statutes and the North Carolina Administrative Code (01 NCAC 05 B. .0301).

### **10. Program Income**

Not Applicable

### **11. Reserve:**

**Not Applicable**

### **12. Reporting**

#### Compliance Requirement

As a condition on the receipt of State funds, non-profit entities shall comply with the following:

By September 1 of each year, and more frequently as requested, report to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division the following information:

- Prior State fiscal year program activities, objectives, and accomplishments.
- Prior State fiscal year itemized expenditures and fund sources;
- Provide the Fiscal Research Division a copy of the organization's annual audited financial statement within 30 days of issuance of the statement.

These reporting requirements are pursuant to Senate Bill 99.

### **Audit Objective**

- Ensure that recipients submit their reports in a timely manner and provide a reasonably accurate representation of the activity reported.

### Suggested Auditing Procedures

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

### **13. Subrecipient Monitoring**

#### Compliance Requirement

A recipient or subrecipient that receives State financial assistance shall ensure that those funds are utilized for their intended purpose and shall expend those funds in compliance with requirements established by this Subchapter and their contract (09 NCAC 03M .0202).

Recipients and subrecipients shall:

- (1) Provide the information required by the disbursing agency in order to comply with the procedures for disbursement of funds.

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- (2) Maintain reports and accounting records that support the allowable expenditure of State funds. Recipients and subrecipients shall make available all reports and records for inspection by the awarding agency, the Office of State Budget and Management, and the Office of the State Auditor for oversight, monitoring, and evaluation purposes.

### **Audit Objectives**

- Determine whether the pass-through entity evaluates the impact of subrecipient activities on the pass-through entity.
- Determine that the recipients comply with all reporting requirements established by this Subchapter and their contract and maintain reports and accounting records that support the allowable expenditure of State funds.

### **Suggested Auditing Procedures**

- (1) Ensure that subrecipients comply with all reporting requirements established by this Subchapter and their contract and report to the appropriate disbursing entity.
- (2) Perform monitoring and oversight functions as specified in agency monitoring plans to ensure that State financial assistance is used for authorized purposes in compliance with laws.
- (3) Ensure that the source of funds, such as federal or state, is identified, including the CFDA number and percentages of each source where applicable.
- (4) Ensure account coding information is sufficient to track disbursements through the disbursing agency's accounting system.

## **14. Special Tests and Provisions**

### **Compliance Requirement**

A recipient of a directed grant must expend the funds by a certain date specified in the biennium Current Operations Appropriations Act, General Provisions Section.

### **Audit Objectives**

- To determine the integrity of the program and participation data reported by the recipient on which claims for reimbursement are based.
- To test and review the report to determine if the recipient complies with applicable laws and regulations.
- To obtain an understanding of the internal control structure.

### **Suggested Auditing Procedures**

- (1) Review the Current Operations Appropriations Act, General Provisions Section for the date the funds are to be expended.
- (2) Review General Ledger for date expenses are incurred to ensure the funds are expended by date specified in the Act.

### **Acronyms**

- NCAC: North Carolina Administrative Code
- OMB: Office of Management and Budget

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- CFDA: Catalog of Federal Domestic Assistance (Assistance Listing Number)

### **The North Carolina General Statutes**

- CFR Part 200 Subpart E: Cost Principles/ General Provision
- G.S. 143C-6-22: Use of State funds by non-State entities.
- G.S. 143C-6-21: Payments to nonprofits.
- 143C-6-23: State grant funds: administration; oversight and reporting requirements.
- G.S. 143C-4-5: Non-State match restrictions.
- 01 NCAC 05 B. .0301: Contracting Requirements.
- 09 NCAC 03M .0202: Recipient and Subrecipient Responsibilities