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DEPARTMENT OF STATE TREASURER

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COMPLIANCE REQUIREMENTS FOR STATE AWARDS

INTRODUCTION

Overview

The objectives of most compliance requirements for state projects/programs administered by local governments and nonstate entities are generic in nature and are broadly applicable. For example, many projects/programs have eligibility requirements for individuals or organizations to participate in a particular program. While the criteria for determining eligibility vary by the project/program, the objective of the compliance requirement that only eligible individuals or organizations participate is consistent across State projects/programs.

Rather than repeat the compliance requirements, audit objectives, and suggested audit procedures for each of the State projects/programs contained in Section C of the State Compliance Supplements, they are provided once in this part. For each State project/program included in the State Compliance Supplement, Section C contains additional information about the State program/project and the compliance requirements that arise from the general statutes and regulations governing its administration. Also, Section C specifies the specific type of compliance requirements that are applicable and are to be tested using the guidance in this part. These types of compliance requirements are also identified in Section C, Agency Matrix for State Programs.

Auditors shall consider the compliance requirements and related audit objectives in this part and Section C (for programs included in Section C) in every audit conducted under the State Single Implementation Audit Act or Subchapter 03M of the NC Administrative Code, *Uniform Administration of State Awards of Financial Assistance* (09 NCAC 03M). In deciding not to test a compliance requirement, the auditor must conclude that the requirement does not apply to a particular non-State entity's major program or that noncompliance with the requirement could not have a direct and material effect on a major program. The descriptions of the compliance requirements in this part and Section C generally are summaries of the actual compliance requirements. The auditor must refer to the citations referenced to laws and regulations for the complete statement of the compliance requirements.

The suggested audit procedures are provided to assist auditors in planning and performing tests of local government, public authority, or non-State entity compliance with the requirements of State project/programs. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objective and whether alternative audit procedures are needed.

For State projects/programs not included in Section C, the auditor must determine the applicable compliance requirements. While a State program may have many compliance requirements, normally there are only a few key compliance requirements that could have a direct and material effect on the program. Since the single audit process is not intended to cover every compliance requirement, the auditor's focus must be on the 13 types of State types of compliance

requirements. This part shall provide guidance in testing the types that are applicable to the State project/program.

Internal Control

Consistent with the requirements of 2 CFR Part 200, Subpart F as applied to State awards, this part includes generic audit objectives and suggested audit procedures to test internal control. However, the auditor must determine the specific procedures to test internal controls on a case-by-case basis, considering factors such as the non-State entity's internal controls, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in 2 CFR Part 200, Subpart F, as applied to State awards.

1. ACTIVITIES ALLOWED OR UNALLOWED

Activities Allowed or Unallowed almost always applies to State projects/programs. The auditor should look at the program requirements and State award documents for what constitutes allowable or unallowable activities.

Compliance Requirements

The specific requirements for activities allowed or unallowed are unique to each State project/program and are found in the State general statutes, regulations, and the terms and conditions of the State award pertaining to the program. This type of compliance requirement specifies the activities that can or cannot be funded under a specific State project/program. Refer to Section C of the State Compliance Supplement to determine if a separate Compliance Supplement was issued by the State Agency for the project/program.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control. Refer to 2 CFR section 200.514(c) as applied to State awards.

2. Determine whether State awards were expended only for allowable activities.

Suggested Audit Procedures – Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures – Compliance

1. Identify the types of activities which are either specifically allowed or prohibited by State statutes, regulations, and the provisions of the contracts or grant agreements of the State award pertaining to the project/program.
2. When allowability is determined based upon summary level data, perform procedures to verify that:
    a. Activities were allowable.
    b. Individual transactions were properly classified and accumulated into the activity total.
3. When allowability is determined based upon individual transactions, select a sample of transactions, and perform procedures to verify that the transaction was for an allowable activity.
4. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities.

2. ALLOWABLE COSTS

Allowable Costs/Cost Principles almost always applies since most State programs have charges for goods or services. However, if a State project/program only involves benefits to eligible recipients, with no administrative costs, purchases of goods or services (including salaries and overhead), or allocated costs, then allowable costs may not apply.

Compliance Requirements

The requirements for allowable costs are contained in the project/program legislation, State awarding agency regulations, and the contracts or grant agreements of the award. Other requirements may be found if a separate Compliance Supplement was issued by the State Agency for the project/program in Section C.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control. Refer to 2 CFR section 200.514(c) as applied to State awards.

2. Determine whether State awards were expended only for allowable activities.

Suggested Audit Procedures - Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.

3. Consider the results of the testing of internal control in assessing the risk of non- compliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures – Compliance

1. Identify the types of costs that are either specifically allowed or prohibited by the laws, rules, and provisions of contracts or grant agreements pertaining to the project.

2. Select a sample of transactions and perform procedures to verify that:

    a) the transactions were for an allowable cost and not for prohibited uses.

    b) Costs were adequately documented.

3. CASH MANAGEMENT

Cash Management almost always applies to State programs/projects.

Compliance Requirements

Specific cash management requirements unique to a State project/program may be found in the general statutes, regulations, and the provisions of contracts or grant agreements pertaining to the State project/program. For advance payment methods, non-State entities shall minimize the time elapsing between the transfer of funds from the State Agency and disbursement by the non-State entity for program or project costs, whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means. State Agencies may have adopted the federal requirements found in 2 CFR section 200.305(b) as applied to State awards. What constitutes minimized elapsed time for funds transfer may depend on what payment system/method a non-State entity uses. A State Agency may determine an acceptable time.

The reimbursement payment method may be the preferred payment method of a State Agency.

The reimbursement payment method may also be used on a State award for construction or for other construction activity.

To the extent available, the non-State entity shall disburse funds available from program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional State cash draws.

Loans, Loan Guarantees, Interest Subsidies, and Insurance

Non-State entities must comply with applicable program requirements for payment under loans, loan guarantees, interest subsidies, and insurance.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c) as applied to State awards.
2. Determine that cash management procedures are in accordance with general statutes, regulations, and the provisions of contracts or grant agreements pertaining to the state project/program.
3. Determine that interest income, when allowable, is correctly recorded and returned to the state agency or applied against the contract or grant agreement.

Suggested Audit Procedures - Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.

3. Consider the results of the testing of internal control in assessing the risk of non- compliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures – Compliance

1. Review reimbursement requests and trace to supporting documentation. Ensure that costs for which reimbursement was requested were paid prior to the date of the reimbursement request.
2. Determine whether any interest income was owed to the state agency and either remitted to the agency or applied against amounts owed by the state agency.
3. Perform test to ascertain if the non-state entity complied with applicable program requirements.

4. CONFLICTS OF INTEREST

Conflicts of Interest almost always applies to State awards.

Compliance Requirement

G.S. §14-234 includes a general prohibition against any public official having a personal interest in any contract to which he/she is a party in his/her official capacity. Any other statute or agency policy that applies should be tested as part of this compliance requirement.
Non-State entities, other than non-State entities subject to the reporting requirements of the Local Government Commission (G.S. §159-34), shall file with the State agency disbursing funds to the non-State entity a copy of that non-State entity'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.

Audit Objective

Determine whether there are conflicts of interest involved in the administration of the program.

Suggested Audit Procedure – **Compliance**

1. Auditors should 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 (recipient) has received written waiver of the conflicts of interest provision from the contractor.
2. Auditors should review policy addressing conflicts of interest to ensure that the policy is being followed, that any violations are addressed, and that appropriate action is taken.
3. Confirm that a conflicts of interest statement was signed by all employees, officers, and key contractors.

5. ELIGIBILITY

Eligibility applies to most State projects/programs which provide benefits to individuals, groups of individuals, or make subawards. For State projects/programs with eligibility requirements, the auditor should review the program laws, regulations, and provisions of contracts or grant agreements to determine the specific eligibility requirements. Furthermore, eligibility involves determining who is eligible as well as and the amount of benefits provided to those who are eligible.

Compliance Requirements

This compliance requirement specifies the criteria for determining the beneficiaries (individuals or groups of individuals), or the subrecipients that can participate in the project and the amounts for which they qualify. The specific requirements for activities allowed or unallowed are unique to each State project/program and are found in the State general statutes, regulations, and the terms and conditions of the State award pertaining to the program. Other requirements may be found if a separate Compliance Supplement was issued by the State Agency for the project/program in Section C.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control. Refer to 2 CFR section 200.514(c) as applied to State awards.
2. Determine whether required eligibility determinations were made (including obtaining any required documentation/verification) and that only eligible individuals, or groups of individuals participated in the State project/program.
3. Determine that subawards were made only to eligible subrecipients.
4. Determine whether amounts provided to or on behalf of eligible participants or groups of participants were calculated in accordance with program requirements.

Suggested Audit Procedures – Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures – Compliance

1. Eligibility for Individuals
   a. For some State projects/programs with a large number of people receiving benefits, the

non-State entity may use a computer system for processing individual eligibility determinations and delivery of benefits. The auditor should perform audit procedures relative to the computer system for eligibility as necessary to support the opinion on compliance for the major program. Due to the nature and controls of computer systems, the auditor may choose to perform these tests of the computer systems as part of testing the internal controls for eligibility.

b. Perform procedures to ascertain if the non-State entity's records/database includes all individuals receiving benefits during the audit period (e.g., that the population of individuals receiving benefits is complete).

c. Select a sample of individuals receiving benefits and perform tests to ascertain if:

   i. The required eligibility determinations and redeterminations (including obtaining any required documentation/verifications) were performed and if the individual was determined to be eligible in accordance with the compliance requirements of the program.

   ii. Benefits paid to or on behalf of the individuals were calculated correctly and in compliance with the requirements of the program.

   iii. Benefits were discontinued when the period of eligibility expired.

2. Eligibility for Subrecipients

   a. If the determination of eligibility is based upon an approved application or plan, obtain a copy of this document, and identify the applicable eligibility requirements.

   b. Select a sample of the awards to subrecipients and perform procedures to verify that the subrecipients were eligible and amounts awarded were within funding limits.

6. EQUIPMENT AND REAL PROPERTY MANAGEMENT

Equipment and Real Property Management requirements apply to State programs that allow for purchase of equipment or real property.

Equipment Management -- Grants and Cooperative Agreements

Equipment means tangible personal property, including information technology systems having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of a capitalization level established by the non-State entity or by the State Agency in the contract or grant agreement. There is not a uniform threshold for State awards, but the non-State entity or State Agency may have adopted the federal threshold, which is currently $10,000. The requirements for eligibility are contained in project/program legislation, State awarding agency regulations, and the terms and conditions of the award. Though there are no specific general statutes that establish compliance requirements for State awards, State Agencies may have requirements in contract or grant agreement, or they may have adopted requirements for federal awards in accordance with 2 CFR section 200.313 as applied to State awards.

1. Equipment, including replacement equipment, be used in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by the State award or, when appropriate, under other State awards; however, the non-State entity must not encumber the equipment without prior approval of the State awarding agency.
2. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property, who holds title, the acquisition date, cost of the property, percentage of State participation in the project costs for the State award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property.
3. A physical inventory of the property should be periodically taken, and the results reconciled with the property records.
4. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.
5. Adequate maintenance procedures must be developed to keep the property in good condition.
6. If the non-State entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.
7. When original or replacement equipment acquired under a State award is no longer needed for a State project/program (whether the original project or program or other activities currently or previously supported by the State government), the non-State entity must request disposition instructions from the State awarding agency if required by the terms and conditions of the award.

Real Property Management – Grants and Cooperative Agreements

Real property will be used for the originally authorized purpose as long as needed for that purpose, during which time the non-State entity must not dispose of or restrict or limit the use of the property without prior approval of the State awarding agency. Title to real property acquired or improved by non-State entities under grants and cooperative agreements vests in the non-State entity subject to the obligations and conditions specified in the contract or grant agreement. A State

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Agency may have adopted requirements for federal awards in accordance with 2 CFR section 200.311 as applied to State awards.

When real property is no longer needed for the originally authorized purpose, the non-State entity must obtain disposition instructions from the State awarding agency or the pass-through entity, as applicable. When real property is sold, sales procedures must be followed that provide for competition to the extent practicable and that result in the highest possible return. If the property is to be sold, retained, or disposed, non-State entities must follow State Agency guidance as provided in the contract or grant agreement or by contacting the State Agency. A State Agency may have adopted requirements for federal awards in accordance with 2 CFR section 200.311 as applied to State awards.

Compliance Requirements

The requirements for the use, management, and disposal of equipment and real property are contained in the project/program legislation, laws, regulations, and the term and conditions of the State Awards. The State Agency may have adopted requirements found in 2 CFR 200.313 (equipment) and 2 CFR section 200.311 (real property), as applied to State awards.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c) as applied to State awards.

2. Determine whether the non-State entity maintains proper records for equipment and adequately safeguards and maintains equipment.

3. Determine whether disposition or encumbrance of any equipment or real property acquired or improved under State awards is in accordance with State requirements and the terms and conditions of the contract or grant agreement. If applicable, determine whether the State awarding agency was properly compensated for its portion of any property sold or converted to non-State use.

Suggested Audit Procedures – Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.

3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures – Compliance

1. Identify equipment acquired and trace selected purchases to the property records. Verify that the property records contain the required information.

2. Verify that the required physical inventory of equipment was performed. Test to ensure any differences between the physical inventory and equipment records were resolved.

3. Select a sample from all equipment acquired under State awards from the property records, physically inspect the equipment, and determine whether the equipment is appropriately safeguarded and maintained.

4. Identify equipment dispositions for the audit period and perform procedures to verify that the dispositions of equipment acquired under State awards were properly reflected in the property records.

5. For dispositions of equipment acquired under grants and cooperative agreements, verify that the non-State entity followed the instructions of the State awarding agency, and that the disposal is in accordance with laws, regulations, and the provisions of contracts and grant agreements.

6. Identify real property dispositions for the audit period and determine whether such real property was acquired or improved under State awards.
7. For dispositions of real property acquired or improved under grants and cooperative agreements, verify that the non-State entity followed the instructions of the State awarding agency, and that the disposal is in accordance with laws, regulations, and the provisions of contracts and grant agreements.

7. COST SHARING

Cost Sharing, formerly Matching, is not universal, and, if applicable, would be specific to the State program and often the non-State entity. Therefore, the auditor will have to review the general statutes, regulations, and the provisions of contracts or grant agreements applicable to the program to determine specific requirements for Cost Sharing, level of effort, and/or earmarking.

Compliance Requirements

This requirement specifies the acceptable contributions of a stated amount or percentage to match state awards. Cost Sharing may be in the form of allowable costs incurred or in- kind contributions. The specific requirements for Cost Sharing are unique to each state project and are found in Section C, if a State Compliance Supplement was issued for the project/program, or in the general statutes, regulations, and the provisions of contracts or grant agreements.

Audit Objectives

Determine whether the minimum amount or percentage of contributions or Cost Sharing funds was provided.

Suggested Audit Procedures – Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures – Compliance

Cost Sharing

a. Perform tests to verify that the required Cost Sharing contributions were met.

b. Ascertain the sources of Cost Sharing contributions and perform tests to verify that they were from an allowable source.

c. Test records to corroborate that the values placed on in-kind contributions (including third party in-kind contributions) are in accordance with 2 CFR sections 200.306, 200.434.

d. Test transactions used to match for compliance with the allowable costs/cost principal requirements. This test may be performed in conjunction with the testing of the requirements related to allowable costs/cost principles.

8. PERIOD OF PERFORMANCE

Period of Performance almost always applies to State programs. The State award often indicates the period during which the funds are available for obligation under the program. The auditor should also look for program requirements regarding carry-over of unused funds to future funding periods, and whether pre-award costs are allowable, to what extent, and under what circumstances.

Compliance Requirements

This requirement specifies the time period during which the nonstate entity may use state financial assistance. The specific requirements for the availability of funds are unique to each state project and are found in the general statutes, regulations, and the provisions of contracts or grant agreements pertaining to the State project/program. Refer to Section C of the State Compliance Supplement to determine if a separate Compliance Supplement was issued by the State Agency for the project/program.

Audit Objectives

Determine whether state funds were obligated within the period of availability and whether obligations were liquidated within the required time period.

Suggested Audit Procedures – Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures – Compliance

1. Review laws, rules, and contracts or grant documents pertaining to the project, determine any award-specific requirements related to the period of availability, and document the availability period.
2. Test a sample of transactions that were charged to the state project after the end of the period of availability and verify that the underlying obligations occurred within the period of availability.

9. PROCUREMENT AND SUSPENSION AND DEBARMENT

1. Procurement

Compliance Requirement – Procurements for contractual services shall be conducted in accordance with North Carolina General Statute 143, Article 8.

Local government contracts must be entered into by someone with legal authority to bind the entity. In North Carolina, this authority rests with the governing board (NC G.S. §153A Article 2 for counties, NC G.S. §160A Article 2 for municipalities), although the board may delegate this authority, unless a statute specifically requires board action. The governing board may delegate the authority to purchase apparatus, supplies, materials, or equipment §143-129(a). NC G.S. 143(b) requires board approval for formal construction and repair contracts and to enter into contracts pursuant to certain exceptions to bidding requirements.

NC G.S. §143-131 requires all contracts for construction or repair work or the purchase of apparatus, supplies, materials, or equipment, involving the expenditures of State awards, in the amount of $30,000 or more, but less than $90,000, be made after informal bids have been secured. All such contracts shall be awarded to the lowest responsible, responsive bidder, taking into consideration quality, performance, and the time specified in the bids for the performance of the contract. Adequate documentation to support compliance of §143-131 must be maintained.

NC G.S. §143-129 contains the key competitive bidding requirements. Expenditures of State Awards for all contracts for construction or repair work equal to or more than $500,000; or purchase of apparatus, supplies, materials, or equipment in an amount equal to or more than $90,000 must be contracted for only after a formal process and approval by the appropriate authority in accordance with the requirements of §143-129, including Advertisement and Sealed Bids.

The State program/project may require State Agency or LGC approval. A bid tabulation and governing agency resolution recommending award is required for contract award to lowest responsible bidder (G.S. 143-129). Please review the grant agreement for additional information.

Contracts that include the expenditures of federal awards must follow the requirements found in the 2 CFR §200, “Procurement Standards,” subparts §200.317 – §327 (Uniform Guidance).

Audit Objective – Determine whether procurements for construction or repair work or for supplies, materials, equipment, and contractual services complied with N.C. General Statue 143, Article 8.

Suggested Audit Procedures – Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedure – Compliance

1. Review the grant agreement for additional procurement requirements, including the procurement of goods with State funds.
2. Obtain a copy of the nonstate entity's policies and procedures and verify that the procedures for procurement comply with the applicable State Statute.
3. Select a sample of procurements purchases and verify compliance with the requirements in NC General Statute 143, Article 8.
4. Examine procurements and verify that the entity obtained written approval from the appropriate State Agency and division and adhered to the competitive bidding requirements outlined in the contracts or grant agreements.
5. Verify that bid opening, publication, and contract award are sufficiently documented for each contract.

1. Debarment

Compliance Requirement – Grantees are prohibited from awarding contracts or grant agreements to entities debarred by any government agency, Federal or State. The entity's agents or contractors shall not be debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from participation in transactions by any Federal or State department or agency.

Audit Objective – Determine that grantees have not entered into contracts or grant agreements with entities that are debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from participation in transactions by any Federal or State department agency.

Suggested Audit Procedures – Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedure – Compliance

1. Examine the grantee's procurements and subawards and ascertain that entities and/or contractors/vendors that received payments from the grantee are not included on the NC Debarred Vendor List provided by the NC Department of Administration.
2. Performing a SAM registration search (https://sam.gov/) to verify that each entity has a valid Unique Identifying ID (UEI) number and was not debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from participation in Federal transactions.
3. Verify that the required suspension and debarment certifications were received by the grantee for covered contracts.
4. Review the signed agreement between the grantee and the subrecipient or contractor and verify that the contract provisions include language that prohibits a subrecipient from procuring goods or services from a company, firm, or organization that has been suspended or debarred by the State of North Carolina or the Federal Government.

10. PROGRAM INCOME

Program Income applies to any program that generates program income.

Compliance Requirements

Program income is gross income earned by a non-State entity that is directly generated by a supported activity or earned as a result of the State award during the period of performance. State Agencies may consider types of income directly generated by the program different than other Agencies, so refer to the general statutes, regulations, and contracts or grant documents pertaining to the project. Refer to Section C of the State Compliance Supplement to determine if a separate Compliance Supplement was issued by the State Agency for the project/program.

A State Agency may consider the following program income, but program income is not limited to the following:

- Fees for services performed,
- The use or rental of real or personal property acquired under State awards,
- The sale of commodities or items fabricated under State awards,
- License fees and royalties on patents and copyrights, except as provided below, and
- Principal and interest on loans made with State award funds.

Generally, program income does *not* include the following, but certain State Agencies may differ. Refer to the general statutes, regulations, and contracts or grant documents pertaining to the project.

- Interest earned on advances of State funds.
- Except as otherwise provided in State statutes, regulations or the terms and conditions of the State award, rebates, credits, discounts and interest earned on any of them.
- Taxes, special assessments, levies, fines, and other such revenues raised by a non-State entity, unless the State award or State awarding agency regulations specifically identify the revenues as program income.
- The proceeds from the sale of equipment or real property acquired in whole or in part under the State award.

Program income may be used in any of the following three methods:

1. *Deduction* - Program income is deducted from total allowable costs in order to determine the net allowable costs, rather than to increase the funds committed to the project.
2. *Addition* - With prior approval of the State awarding agency, program income may be added to the State award by the State agency and the non-State entity.
3. *Cost Sharing or Matching* - With prior approval of the State awarding agency, program income may be used to meet the cost sharing or matching requirement of the State award.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
2. Determine whether program income is correctly determined, recorded, and used in accordance with applicable governing requirements.

Suggested Audit Procedures – Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures – Compliance

1. *Identify Program Income*
   a. Review the statutes, regulations, and terms and conditions of the State award applicable to the program and ascertain if program income was anticipated. If so, ascertain the requirements for determining or assessing the amount of program income (e.g., a scale for determining user fees, prohibition of assessing fees against certain groups of individuals), and the requirements for recording and using program income.
   b. Inquire of management and review accounting records to ascertain if program income was received.
2. *Determining or Assessing Program Income* – Perform tests to verify that program income was properly determined or calculated in accordance with stated criteria, and that amounts collected were classified as program income only if collected from allowable sources.
3. *Recording of Program Income* – Perform tests to verify that all program income was properly recorded in the accounting records.
4. *Use of Program Income* – Perform tests to ascertain if program income was used in accordance with applicable governing requirements and the program requirements set by the State awarding agency in its regulations and the terms and conditions of the award.

12. REPORTING

Reporting often applies but can vary with State Agencies and State projects/programs.

COMPLIANCE REQUIREMENTS FOR STATE AWARDS

Compliance Requirements

This requirement specifies the type(s) of financial, performance, and special reporting to be prepared by the nonstate entity as a result of receiving state financial assistance. The specific requirements for activities allowed or unallowed are unique to each State project/program and are found in the State general statutes, regulations, and the terms and conditions of the State award pertaining to the program. Refer to Section C of the State Compliance Supplement to determine if a separate Compliance Supplement was issued by the State Agency for the project/program.

Audit Objectives

Determine whether required reports include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with project requirements.

Suggested Audit Procedures – Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

1. Review award documents and rules pertaining to the project and determine any award-specific reporting requirements.
2. Perform analytical procedures on reported amounts, ascertaining the reason for any unexpected differences.
3. Select a sample of reports and test specified line items for accuracy and completeness.

13. SUBRECIPIENT MONITORING

Subrecipient Monitoring applies when State awards are passed to a non-State entity from a recipient of the State Awards. If the recipient of State awards does not pass the funds, this type of compliance requirement does not apply.

Compliance Requirements

Nonstate entities that provide state financial assistance to a subrecipient shall provide to a subrecipient information needed by the subrecipient to comply with the requirements of the State Single Audit Act; review subrecipient audit reports, including supplemental reports related to the audit, to the extent necessary to determine whether timely and appropriate corrective action has been taken; perform such other procedures as specified in the terms and conditions of the written agreement with the state agency including any required monitoring of the subrecipient's use of state financial assistance through site visits, limited scope audits, or other specified procedures; and require that the subrecipient provide access to its records to the nonstate entity's independent auditor, the state awarding agency, Local Government Commission, or the Office of State Auditor. Refer to Section C of the State Compliance Supplement to determine if a separate Compliance Supplement was issued by the State Agency for the project/program.

Audit Objectives

1. Determine whether award information and compliance requirements were identified in award documents to subrecipients.
2. Determine whether the nonstate entity identified all applicable subrecipient audits and monitored the receipt thereof.
3. Determine whether subrecipient audits, including supplemental reports related to the audit, were reviewed.
4. Determine whether specific requirements regarding subrecipients addressed in the recipient's agreement with the state agency, including any required monitoring of the subrecipient's use of state financial assistance through site visits, limited scope audits, or other specified procedures, were met.

Suggested Audit Procedures – Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g.,

number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

1. Review award documents to ascertain if the nonstate entity made subrecipients aware of information and requirements, including the required access to records.
2. Verify that the nonstate entity had a system in place to monitor the receipt of audit reports from subrecipients required to have a federal or state single audit, including follow-up procedures when required audits were not made or were made but not in accordance with NC General Statutes §159-34 or 09 NCAC 03M.0205.
3. Verify that the nonstate entity reviewed subrecipient audits, including supplemental reports related to the audit, to determine whether timely and appropriate corrective action was taken with respect to audit findings and recommendations pertaining to the state financial assistance provided.
4. Determine whether other procedures specified in the terms and conditions of the written agreement with the state agency, including any required monitoring through on-site visits, limited scope audits, or other procedures, have been performed.

14. SPECIAL TESTS AND PROVISIONS

Since July 1, 2013, every private employer that employs 25 or more employees must use E-Verify. Each employer must retain a record of the E-Verify results during the individual's employment and for one year thereafter. Since January 1, 2007, all North Carolina state agencies including its public universities and community colleges, must use the E-Verify system. Since October 1, 2015, all contractors and subcontractors, with limited exceptions for certain types of contracts, must use E-Verify.

Verification of Work Authorization.

Employers must verify the work authorization of employees through E-Verify (N.C.G.S. §64-26(a)). Verification may be obtained at the U.S. Department of Homeland Security E-Verify website: https://www.e-verify.gov/.

Employers must retain the record of the verification of work authorization for the duration of the employee's employment, and for one year thereafter (N.C.G.S. §64-26(b)).

Any person with a good faith belief that a violation of N.C.G.S. § 64-26 or 143-133.3 has occurred may file a complaint with the N.C. Commissioner of Labor setting forth the basis for that belief (NC G.S. §64-27).

Audit Objective

Audit Objective – Determine whether the recipient and covered contractors complied with the applicable requirements of G.S. 64-26 and G.S. 143-133.3, including any statutory exceptions.

Suggested Audit Procedures – Internal Control

1. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for the applicable compliance requirement and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4) as applied to State awards. This includes reporting a significant deficiency or material weakness in accordance with 2 CFR section 200.516, as applied to State awards, assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedure - Compliance

For contracts subject to G.S. 143-133.3, inspect the contract for the required contractor and subcontractor compliance term. For entities and employees covered by G.S. 64-26, test E-Verify records for a sample of newly hired employees and verify that records were retained for the required period. Consider statutory exceptions.