



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

JANET COWELL
TREASURER

T. VANCE HOLLOMAN
DEPUTY TREASURER

February 19, 2010

The Honorable
Department of

Dear:

General Statute 159-34 requires each State agency that provides funds to local governments and public authorities to furnish the Local Government Commission with standards of compliance and suggested audit procedures (compliance supplements) for each grant program administered by that State agency. The compliance supplements must be prepared in a format prescribed by the Commission and must give adequate guidance to the independent auditor to conduct the single audit of local governments and public authorities. The supplements submitted to the Commission for local government audits also may be used for audits of not-for-profit organizations.

We do not anticipate any significant changes in the prescribed format or the required content of the compliance supplements from the prior year. The staff of the Commission will work with State agencies on an as needed basis to assist them in understanding the format that their compliance supplements must follow. The compliance supplements are a vital tool State agencies use in monitoring grantees' use of federal and State awards. These supplements will continue to represent a "safe harbor" for the independent auditors of local governments and public authorities, meaning the auditor is not responsible for identifying compliance requirements beyond those appearing in the compliance supplements. It is important that each agency understand the responsibilities that General Statutes 159-34 imposes upon them.

Most of the funding for the American Recovery and Reinvestment Act of 2009 (ARRA) that has been distributed was after fiscal year ended June 30, 2009. Additional guidance for programs with ARRA funding, including cluster of programs, should be included in the 2010 State Compliance Supplements.

Each agency should complete the attached questionnaire for each grant that is distributed to local governments. An exception to completing a questionnaire for a grant will be made if a long-form compliance supplement was prepared in 2009 and the agency is planning to issue a long form for 2010. Other than this exception, there are no major changes to the program in 2010. This questionnaire will help identify the key programs that are likely to be selected and audited as major programs, as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Not-Profit Organizations*, and the State Single Audit Implementation Act. In addition, the questionnaire asks for an agency contact person. This person should be familiar with all the agency's programs to local governments and the financial policies for those programs. These questionnaires should be completed and returned to the Commission no later than April 1, 2010. If a State agency does not distribute any funds to a local government or public authority that would be subject to single audit requirements, please indicate this when completing the questionnaire.

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The questionnaire should be returned by April 1, 2010 to:

Jim Burke
Local Government Commission
North Carolina Department of State Treasurer
325 N. Salisbury St.
Raleigh, NC 27603-1385

Instructions and guidance on writing compliance supplements and additional copies of the questionnaire can be obtained at the State Treasurer's web-site www.nctreasurer.com. Choose "State and Local Government", "Auditing and Reporting Resource" and "Single Audit resources". The schedule of deadlines also will be similar to last year's. The schedule is as follows:

Supplements to be Written and Reviewed by Agency	December through March
Supplements Packages to LGC	April 1
Review for Format by LGC	April 15
All Corrections received by LGC	April 30
Print and Distribution by the LGC	May 15

We encourage agencies to submit the compliance supplements for their most significant grants as soon as possible. Independent auditors must begin the compliance part of the audits of local governments as soon as possible after their tax season is completed in order to meet the contractual due dates for their audit reports. If any agency feels that they will not be able to meet the deadlines, please let the LGC know as soon as possible. Agencies that fail to submit all required compliance supplements will not be in compliance with General Statute 159-34. These agencies will be required to supply independent auditors of local governments and public authorities with the standards of compliance and suggested audit procedures for these grants when requested.

The Office of State Auditor will be evaluating the content of selected compliance supplements on a sample basis as part of their single audit of the State of North Carolina. If they identify any significant deficiencies in the compliance supplements or a failure to comply with General Statute 159-34, then an audit finding and recommendation discussing the deficiency may be issued for that agency.

The Commission requests that you actively monitor your staff's progress on this important project. If you have any questions about the compliance supplements, you may contact Jim Burke at (919) 807-2389 (james.burke@nctreasurer.com). The fax number is 919-807-2398.

Sincerely,

Sharon Edmundson
Director of Fiscal Management Section

cc: