



State of North Carolina

Department of State Treasurer

RICHARD H. MOORE
TREASURER

*State and Local Government Finance Division
and the Local Government Commission*

JANICE BURKE
DEPUTY TREASURER

Memorandum #997

July 29, 2003

To: Finance Officers of Counties, Municipalities, Boards of Education, Public Authorities, and Certified Public Accountants

From: T. Vance Holloman, Director
Fiscal Management Section

Subject: Single Audit and Yellow Book Issues for the Fiscal Year Ending June 30, 2003

The following is a discussion of issues concerning local governments and public authorities that are required to have federal or State single audits or audits conducted under Governmental Auditing Standards only for year ending June 30, 2003. A more inclusive discussion of federal and State single audit issues can be found in Section 35-E of the *Audit Manual for Governmental Auditors in North Carolina*.

Additional State Requirement to Audit Certain Federal Programs as Major Effective for Years Ending on or after June 30, 2003

As a result of the recent changes to the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplements for audits of States, Local Governments, and Non-Profit Organizations, the auditor of the State is responsible for meeting the internal control and compliance audit objectives for eligibility (refer to LGC memo #993, April 23, 2003). Since the new eligibility requirements are to be tested by the local government auditors, there is a change in determining major programs.

In addition to using the risk-based criteria for federal programs and the threshold amounts for State programs, the N. C. Office of State Auditor (OSA) identifies programs to be audited as a major by certain counties and area public health authorities in order to satisfy federal requirements on testing eligibility for programs determined to be major by the State of North Carolina. The Local Government Commission notified the counties and public health authorities and their auditors in early May of 2003 of the additional programs. Both will be notified in April of each year hereafter.

For year ending June 30, 2003, the programs that are major by the State are as follows:

Medical Assistance Program (Medicaid)	93.778
Temporary Assistance for Needy Families (TANF)	93.558
Low-Income Home Energy Assistance (LIHEAP)	93.568
State Children's Insurance Program (CHIP)	93.767
Foster Care - Title IV-E	93.658
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557

Additional documentation that is required by the local government auditor would be a one page "Turnaround Document" and a CPA Representation letter addressed to the State Auditor, The Honorable Ralph Campbell. This would be submitted to this office along with the audit report. The turnaround document would be used by the OSA as part of their audit documentation to satisfy the federal eligibility compliance requirement. Copies of both the turnaround document and representation letter may be obtained at our Single Audit Resources website.

So if a local government auditor audits any of the programs listed above as major, a turnaround document and CPA Representation letter must be completed. The LGC will not approve invoices for audit reports that do not have the required turnaround document and CPA representation letter enclosed with the audit reporting package

Eligibility Testing for Medical Assistance Program (Medicaid)

Recent changes in the federal requirements for testing eligibility will result in the Office of State Auditors relying the work of local government auditors in testing eligibility (please refer to LGC memorandum # 993). Some of the auditors have questioned the procedures to be performed due to the statements made at CPE courses covering testing eligibility of the Division of Medical Assistance programs. Auditors should follow the guidance in the State Compliance Supplement, such as verifying information in the statewide information systems, and Federal Compliance Supplements.

Financial Assistance from N.C. Department of Transportation

In determining whether programs from the N.C. Department of Transportation (DOT) are to be tested as major programs, auditors should identify the program by using the compliance supplement and not rely solely on grant numbers or work order numbers noted in the Grant Master List sent to units of governments and public authorities and auditors. This is similar to the procedure used for federal programs using CFDA numbers. For example, a public authority or municipality that receives Public Transportation Grant funds (Compliance Supplement #DOT-11) for projects with several work order numbers and grant numbers, should combine all the funds expended for that grant to determine if it is a major program. This would be the similar procedure if the funds were received from Community Transportation Program (Public Transportation for Nonurbanized Areas), #20.509.

Financial Assistance from Federal Emergency Management Administration

Federal grants from Federal Emergency Management Administration (FEMA) passed through from the NC Department of Crime Control and Public Safety (CCPS) may require matching as much as twenty five percent (25%). The matching comes from State dollars so it should be properly presented on the schedule of expenditures of federal and state awards. If the State match is greater than or equal to \$300,000, then the program will be required to be audited as a major program.

Some of the auditors and local finance officers have indicated that reports from CCPS (EM_GMS_CPA report) do not identify what portion of the funding received is State dollars. Auditors are instructed to confirm total dollar amounts using the EM_GMS_CPA report with the Cost Report filed by the units. The Cost Reports breakout the federal and State dollars and this report should be used for properly reporting the grant portions on the schedule of expenditures of federal and state awards.

Criteria for Low-Risk Auditees-State Single Audits

Single audits that were performed based solely on funding from State of North Carolina do not meet the percentage of coverage rule requirements of OMB Circular A-133 §__530 since no federal awards were audited as major programs. Charter Schools need to be careful since federal funding for charter schools is increasing and many had single audits performed the previous two years due to the State Public School Fund expenditures.

Submission of Audited Financial Statements to the LGC

Our office often receives more copies of the audit package than the required number of copies to be submitted. The auditor is responsible for submitting two bound copies (three for councils of governments, one for Housing Authorities) of the audited financial statements and the management letter to the LGC when a single audit or yellow book has been performed. If an auditor desires to submit an unbound copy to be reviewed, prior to sending the audit reports to the printers for mass printing, then only one copy be submitted. However the audit report will not be approved until we receive the second bound copy that can be forwarded to the required State agency.

The LGC will be submitting the additional copy of the reporting package to the State agency that most commonly distributes funds to that type of government to allow the agency to follow up on identified compliance and internal control problems. We will distribute this copy of the audit report for the following types of entities to the agencies indicated below:

<u>Unit of Government</u>	<u>State Agency Receiving Copy of Report from LGC</u>
Boards of Education and Charter Schools	Department of Public Instruction
Counties	Department of Health and Human Services
Regional Mental Health Centers	Department of Health and Human Services
District Health Departments	Department of Health and Human Services
Councils of Governments	Department of Health and Human Services and Department of Commerce
Municipalities	Department of Transportation

Regional Libraries
Regional Airports

Department of Cultural Resources
Department of Transportation

The Agencies listed above only utilize copies of the reporting package that have first been reviewed by the staff of the LGC and stamped by the LGC, so copies sent directly to these agencies by the unit or auditor will be discarded.

The audit report we send to the Department of Health and Human Services (DHHS) will be utilized by all of the divisions in that agency. Each local government will be responsible for providing copies to other State agencies that provided assistance in programs that had findings. In addition to the copies required to be submitted to the LGC and the federal clearinghouse, one copy of the reporting package must be submitted to each State grantor that provided State financial assistance, except for the State agencies that receive copies of the reports from the LGC as noted above.

For audits that are **not** performed under either Single Audit (federal or State) or Government Auditing Standards, a single bound copy of the audited financial statements with the management letter, if applicable, should be submitted to the LGC.

Presentation of Grants from the Department of Health and Human Services

DHHS Controller's Office has requested that our office ensure that the proper divisions of DHHS for their programs are presented when reviewing the schedule of expenditures of federal and state awards. DHHS Controller's Office is primarily concerned with being able to identify those audit findings, reportable conditions, and other matters that relate to DHHS programs. DHHS Controller's Office staff often reviews the Schedule of Expenditures of Federal and State Awards in order to assist them with that task.

Common presentation deficiencies on the grant schedules are referencing the Department of Environmental, Health, and Natural Resources and Department of Human Resources. Personal health services joined with the functions of human resources in 1997 to form the Department of Health and Human Services (DHHS) while the Department of Environmental and Natural Resources (DENR) remained to exercise the remaining functions including the environmental health portion of health services. Another common presentation deficiency is reporting grants for public health programs. The former three separate divisions, Division of Community Health, Division of Epidemiology, and the Division of Women's and Children's Health are now combined into the Division of Public Health.

Division of Youth Services is no longer part of DHHS. These programs are part of the North Carolina Department of Juvenile Justice and Delinquency Prevention. Community Based Alternatives, a program from the former Division of Youth Services of DHHS, is now the Juvenile Crime Prevention Program.

Preparers of the Schedule of Expenditures of Federal and State Awards are encouraged to use the current State Compliance Supplements or the sample of schedules found in the *Audit Manual for Governmental Auditors in North Carolina*. Correct program names, granting agencies, and divisions are referenced in both.

Mental Health, Developmental Disabilities, and Substance Abuse Services

In last year's LGC Single Audit memorandum #970, DHHS Controller's Office requested that we inform Area Mental Health Programs that reviews of their audit reports by DHHS Controller's Office were not supporting the expenditure figures included in the Cost Finding Report. With the focus of recent legislature on area mental health reform, capitation of administrative costs, and consistency in reporting, it is even more imperative that audits support the Cost Finding report data. The Cost Finding report as well as the Area Mental Health Program audits should be in accordance with the Department of State Treasurer's chart of accounts. In particular, the personnel figures (1xx line items) as well as the Contracts for Direct Service (6xx line items) should agree between the Cost Finding report and the audit. It is mandatory for the fiscal year 2002-2003 reporting year, with the incorporation of the new matrix and the progression of implementation of the Mental Health Bill (S.L. 2001-437), that the Cost Finding Report and audit figures agree.

DHHS Controller's Office states that should any of these items occur with the 2003 cost finding, the area program will be required to have either the cost finding or the audit changed so that both items are in sync.

Single County Area Programs were sent a memorandum from the DHHS Controller's Office dated June 6, 2002 notifying them that their subsequent audit should support the cost report. County finance officers have contacted our office asking to what detail the single counties be required to report mental health programs. In conversations with the staff of DHHS Controller's Office, there will be no additional reporting requirements in the Single Counties audit report when implementing the new cost matrix. However, if the County reports expenditures using object codes from the Department of State Treasurer's Chart of Accounts, they must be able to tie to the cost finding report. The following will be the presentation for Carolina County found in the *Audit Manual for Governmental Auditors in North Carolina*:

Expenditures—Mental Health Programs		
Administration and Services		
Personnel Services	(1xx)	XXX
Supplies and Materials	(2xx)	XXX
Current Obligation and Services	(3xx)	XXX
Fixed Charges and Other	(4xx)	XXX
Capital Outlay	(5xx)	XXX
Contracts, Grants, Subsidies, Allocations	(6xx)	XXX
Transfers, Refund, Non-Operation	(8xx)	XXX
Total Mental Health		XXXX

FYE 2003 Confirmation Reports from DHHS

The N. C. Department of Health and Human Services (DHHS) Controller's Office is again preparing to make all reports that supply auditors with an independent confirmation of the financial assistance provided to units of government available on the Controller's website at the following URL: <http://www.dhhs.state.nc.us/control/>. Since these reports may be accessed and printed from this website, DHHS will not routinely mail hardcopies to users. For SFY 2002, DHHS continued to receive confirmation requests from many CPAs and their local

government clients even though the confirmation reports were available on our website. We encourage you to obtain these reports online and save the cost of generating and mailing confirmation letters. The DHHS Controller's Office target date for the reports to be available on the website is August 30, 2003. **The LGC has prepared Excel spreadsheets that will provide assistance in preparing the Schedule of Expenditures of Federal and State Awards for Subsidized Childcare, Mental Health, Developmental Disabilities, and Substance Abuse Service Programs, and Public Health Programs.** Included are instructions, a spreadsheet for data entry, and a spreadsheet that displays the proper presentation. Modifications may be necessary by the user for a particular unit of government. The DHHS Controller's Office generates various confirmation reports and related Keys to Account Codes (when required), all of which may be accessed at the website.

Hurricane Relief Funds

The Department of Commerce is no longer distributing money for Hurricane Relief. Crime Control and Public Safety is now handling those funds through their existing programs.

Questioned Costs

Occasionally, the auditor will list a compliance finding and cite the questioned costs as "none" or "undeterminable." Although it is understandable that questioned costs cannot be determined in certain findings of noncompliance, an explanation as to why is necessary. Funding agencies need this information to adequately make a management decision. The LGC will reject single audit reports that have compliance findings and either no questioned costs amount is provided or there is no explanation as to why the finding had no questioned costs. OMB Circular A-133 § 510(a)(3) states that "Known questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program" shall be reported as a finding.

County Grants for School Capital Outlay

Public School Building Bond Funds – The Public School Building Bond Act of 1996 identifies these funds as grants to counties. Public School Building Capital Funds – The Office of Management and Budget from the Governor's Office administers these funds. The funds are grants to the county according to G.S. 115C-546.1. **Therefore, if the expenditures are handled by the board of education, the county is required to treat these funds as pass through to the school.** County governments should report both revenues and expenditures for these funds in the financial statements as well. The County's Annual Financial Information Report (AFIR) information must reconcile to the County's audit report. The information on School Capital Outlay is taken from the audit reports and included in Report on County Spending on Public School Capital Outlay which is issued to the General Assembly as required by G.S. 115C-440.1.

Most Common Single Audit Deficiencies for Fiscal Year Ended June 30, 2002

Cluster of Programs

- 1) Cluster(s) of programs were not audited as a major program. (Refer to discussion on Cluster of Programs, page 5 of this memo and Audit Manual page 35-E-1.6.)
- 2) Cluster(s) of programs were not properly listed as major program(s) in the ID of major programs section of the Summary of Auditor's Results. Please refer to Identification of Federal (or State) Programs on page 8, #2 for an explanation.

Subrecipients Identification

- 1) Amounts provided to subrecipients were not listed on the Schedule of Expenditures of Federal and State Awards. (Refer to discussion on Subrecipients Identification, Audit Manual page 35-E-1.7(c).)

Financial Opinion

- 1) The auditor's report did not reference the accompanying Schedule of Expenditures of Federal and State Awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Yellow Book Report

- 1) Management letter referenced immaterial compliance findings, but the management letter was not referenced in the compliance section of the report.

Section III Federal Awards and Section IV State Awards Findings and Questioned Costs

- 1) Questioned costs were not given and there was no explanation as to why the finding resulted in no questioned costs.

Corrective Action Plan

- 1) Corrective Action Plan was not included for Yellow Book findings.
- 2) Corrective Action Plan did not contain the name(s) of the contact person(s) responsible for corrective action and the anticipated completion date. (Refer to Section 315(c) of OMB 133 and page 2 of this memo).

Identification of Federal (or State) Programs

- 1) Program(s) that are listed as (a) major program(s) in the Summary of Auditor's Results, Schedule of Findings and Questioned Costs should have the same program name as presented on the Schedule of Expenditures of Federal and State Awards.
- 2) Cluster(s) of Programs should be presented by cluster name and corresponding CFDA's for the programs listed. If the cluster is not presented properly on the Schedule of Expenditures of Federal and State Awards, all programs associated with the cluster should be listed within the ID of Federal (or State) Programs.

Data Collection Forms

- 1) Copy of data collection form was not received.

The LGC has issued memoranda addressing yellow book and single audit issues as follows:

#993	Impact of 2003 Federal Compliance Supplements Upon Local Government Supplements	4/23/03
#970	Single Audit and Yellow Book Issues for the Fiscal Year Ending June 30, 2002	7/24/02
#950	Single Audit Issues for the Fiscal Year Ending June 30, 2001.	8/02/01
#918	Single Audit and Yellow Book Issues for the Fiscal Year Ending June 30, 2000	6/16/00
#898	Amendments to <u>Governmental Auditing Standards</u> (Yellow Book)...	10/21/99
#882	Single Audit Issues for the Fiscal Year Ending June 30, 1999.....	5/11/99
#855	Single Audit Issues for the Fiscal Year Ended 6/30/97.....	7/22/97
#854	Audits Performed Under the Yellow Book.....	7/23/97
Misc.	Single Audit Issues Related to Benefit Payments.....	7/07/97
#845	Audit Requirements for the Fiscal Year Ended 6/30/97.....	2/11/97

These memos along with other yellow book and single audit resources can be obtained from the N. C. Department of State Treasurer's Web page at: <http://www.treasurer.state.nc.us>, by scrolling down to single audit issues in "select a topic" box. If you have any questions relating to these issues, contact Jim Burke at (919) 807-2389 or james.burke@treasurer.state.nc.us.