

## SPECIAL APPROPRIATIONS

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**State Authorization:**      **General Assembly Appropriation Bills**  
NC G.S. §143-1-1, 143-6-22, NC G.S. §143-6-23  
NC Administrative Code: Title 9, Chapter 3, Subchapter 3M  
**Office of State Budget and Management**

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**Agency Contact Person - Program**  
Providence Hakizimana  
(984) 236-0626  
[Providence.hakizimana@osbm.nc.gov](mailto:Providence.hakizimana@osbm.nc.gov)

**Agency Contact Person – Financial**  
Providence Hakizimana  
(984) 236-0626  
[providence.hakizimana@osbm.nc.gov](mailto:providence.hakizimana@osbm.nc.gov)

**Address Confirmation Letters To:**  
Providence Hakizimana  
Office of State Budget and Management  
20320 Mail Service Center  
Raleigh, North Carolina 27699-0320  
(984) 236-0626  
[providence.hakizimana@osbm.nc.gov](mailto:providence.hakizimana@osbm.nc.gov)

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 of monitoring visits by the State Agencies.

### I. PROGRAM OBJECTIVES

Each session, the General Assembly enacts Appropriation Bills that usually include special provisions for private, non-profit entities. These provisions are intended to assist these entities by providing funds for day-to-day operations or special projects.

### II. PROGRAM PROCEDURES

#### **Authorization**

The authorization for Special Appropriations comes from the General Assembly in their Appropriation Bills. The Appropriations bill is available at the North Carolina General Assembly’s website: <http://www.ncga.state.nc.us>.

#### **Administration**

The Office of State Budget and Management administer Special Appropriations as directed by the General Assembly in the Appropriation Bills. Each private, non-profit entity must sign an agreement, provide scope of work, statement of no overdue tax debts, and a conflict-of-interest policy statement with the Office of State Budget and Management before funds can be distributed.

#### **Fund Allocations**

The General Assembly will make a specific appropriation to a specific entity. After reviewing the various Appropriation Bills and upon receiving the appropriate organizational information, the Office of State Budget and Management distribute the funds to the entity in the total.

Disbursement of funds to a no-state entity that meets all applicable requirements shall begin as soon as practicable, but no later than 100 days after appropriation of the funds.

### Application Process

Upon notification that the General Assembly's Appropriation Bill has passed, the Office of State Budget and Management informs each organization by e-mail or letter and send them contract which must be executed in order to receive special appropriations from the General Assembly. The contract must be signed and return to the Office of State Budget and Management for the State Budget Director signature, as well as a notarized conflict of interest policy statement and a statement on no overdue tax debts. The organization is also informed of the reporting requirements for the appropriation at the end of the fiscal year. After receiving and verifying the information from the organization, the Office of State Budget and Management distributes the appropriation accordingly.

### 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	N	Y	Y	Y	N	Y	Y	N

#### 1. Activities Allowed or Unallowed

State funds allocated by the General Assembly should be used only for those purposes as specified by the General Assembly in the original Appropriation Bill(s).

An application or contract/grant agreement may be required that will may include activities that are allowed or unallowed. in the application/contract, there may be general statutes or reference to the NC Administrative Code (NCAC) as amended July 1, 2024, that are applicable to the funding.

#### Audit Objectives

Determine whether State awards were expended only for allowable activities.

### **Suggested Audit Procedures**

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. Allowable Costs/ Cost Principles**

The recipient is authorized to use funds for goods or services determined in scope of work and supported by the agreement contract and consistent with the appropriations bill.

09 NCAC 03M.0201 states that expenditures of grants by any recipient or subrecipient shall be in accordance with the cost principles outline in 2 CFR Part 200.

### **Audit objectives**

Determine whether State awards were expended only for allowable costs.

### **Suggested Audit Procedures:**

Verify that the expenditures or funds are for the purposes stated in the appropriations bill by examining each expenditure or if there are a great number of expenditures, by examining a test sample.

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**

Each private, non-profit entity is limited to the total amount approved by the General Assembly. The funds are disbursed after the execution of the agreement. The RECIPIENT entity agrees that funds paid through this contract shall be accounted for in a separate fund and accounting structure within the RECIPIENT's central accounting and grant management system. The RECIPIENT agrees to manage all accounts payable disbursements, check register disbursements and related transactions in a detailed manner that supports fully transparent accounting of all financial transactions associated with this funding allocations.

### **Audit Objectives**

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.

### **Suggested Audit Procedures:**

Perform test to ascertain if the non-state entity complied with applicable program requirements.

## **4 Conflict of Interest**

Each private, non-profit entity eligible to receive State funds, either by General Assembly appropriation, or by grant, loan, or other allocation from a State agency shall file with the disbursing agency a notarized copy of that entity's policy addressing conflicts of interest that might arise involving the entity's management employees and the members of its board of directors or other governing body.

### **Audit Objective**

Determine whether there is a conflict of interest involved in the administration of the program.

### **Suggested Audit Procedure**

- 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.
- 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.
- Confirm that a conflicts of interest statement was signed by all employees, officers, and key contractors.

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

There is no requirement for matching funds or earmarking funds unless so stipulated by the General Assembly in the original appropriation.

### **Suggested Audit Procedures (if applicable in the appropriation requirements)**

Verify that the organization has completed all requirements as set forth in the appropriations bill for any matching funds, levels of effort and/or earmarking.

## **8 Period of Performance**

The period of performance is set up by General Assembly and per G.S. 143C-6-23(f1), the funds are to be disbursed by August 31 immediately following the fiscal year in which the funds are appropriated by General Assembly.

### **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**

1. 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.
2. Test a sample of transactions that were charged to the state project during the period of availability and verify that the underlying obligations occurred within the period of availability.

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

The Office of State Budget and Management has the power to suspend disbursement of grant funds to grantees or subgrantees, to prevent further use of grant funds already disbursed, and to recover grant funds already disbursed for noncompliance with rules adopted. Pursuant to N.C.G.S 143C-6-8, the RECIPIENT entity understands and agrees that agreement funding shall be subject to the availability of appropriated funds. However, in the event of agreement termination due to lack of adequate appropriated funds, the AGENCY will ensure that it will pay for services and goods acquired and obligated on or before the notice of agreement termination.

**12. Reporting**

RECIPIENT shall comply with all rules and reporting requirements established by statute or administrative rules. For convenience, the requirements of 9 N.C.A.C. Subchapter 3M.0205 are set forth in this Attachment.

**09 NCAC 03M .0205 MINIMUM REPORTING REQUIREMENTS FOR RECIPIENTS AND SUBRECIPIENTS**

- (a) For the purposes of this Subchapter, there are two reporting levels established for recipients and subrecipients receiving State financial assistance. Reporting levels are based on the level of State financial assistance from all funding sources. The reporting levels are:
  - (1) Level I – A recipient or subrecipient that receives, holds, uses, or expends State financial assistance in an amount less than the dollar amount requiring audit as listed in the 2 CFR 200.501(a) within its fiscal year.
  - (2) Level II - A recipient or subrecipient that receives, holds, uses, or expends grants in an amount equal to or greater than the dollar amount requiring audit as listed in 2 CFR 200.501(a) within its fiscal year.
- (b) Agencies shall establish reporting requirements for recipients that meet the following reporting standards on an annual basis:
  - (1) All recipients and subrecipients shall provide a certification that State financial assistance received or, held was used for the purposes for which it was awarded.
  - (2) All recipients and subrecipients shall provide an accounting of all State financial assistance received, held, used, or expended.
  - (3) Level II and III recipients and subrecipients shall report on activities and accomplishments undertaken by the recipient, including reporting on any performance measures established in the contract.
  - (4) Level III recipients and subrecipients shall have a single or program-specific audit prepared and completed in accordance with Generally Accepted Government Auditing Standards, also known as the Yellow Book.
- (c) All reports shall be filed with the disbursing agency in the format and method specified by the agency no later than three months after the end of the recipient's fiscal year, unless the same information is already required through more frequent reporting. Audits must be provided to the funding agency no later than nine months after the end of the recipient's fiscal year.
- (d) Agency-established reporting requirements to meet the standards set forth in Paragraph (b) of this Rule shall be specified in each recipient's contract.
- (e) Unless prohibited by law, the costs of audits made in accordance with the provisions of this Rule shall be allowable charges to State and Federal awards. The charges may be considered a direct cost or an allocated indirect cost, as determined in accordance with cost principles outlined in the Code of Federal Regulations, 2 CFR Part 200. The cost of any audit not conducted in accordance with this Subchapter shall not be charged to State awards.

- (f) Notwithstanding the provisions of this Subchapter, a recipient may satisfy the reporting requirements of Subparagraph (b)(4) of this Rule by submitting a copy of the report required under federal law with respect to the same funds.

History Note: Authority G.S. 143C-6-22; 143C-6-23.

*Eff. July 1, 2005;*

*Readopted Eff. July 1, 2016.*

***Amended Eff. July 1, 2024***

The North Carolina Administrative Code is available on the Office of Administrative Hearing' website: <http://www.oah.state.nc.us> and additional information on the State Auditor's website: <http://www.ncauditor.net/NonProfitSite>.

### **13. Subrecipient Monitoring**

The Recipient entity acknowledges and agrees that, if it grants any of the grant funds awarded hereunder to one or more sub-recipients or sub-sub-recipients, the Recipient shall, by contract, ensure that said cost principles are made applicable to and binding upon any and all such sub-recipients, sub-sub-recipients, etc. in their handling, use and expenditure of the funds awarded to the Recipient hereunder.

#### **Suggested Audit Procedures**

##### **Audit Objectives**

Determine whether award information and compliance requirements were identified in award documents to subrecipients.

##### **Suggested Audit Procedures**

1. Review award documents to ascertain if the nonstate entity made subrecipients aware of information and requirements, including the required access to records.
2. 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.