

04 NCAC 19L .0912 AUDIT

(a) The recipient's financial management systems shall provide for audits to be made by the recipient or at the recipient's direction, in accordance with the following:

- (1) The recipient shall provide for an audit of its CDBG program on an annual basis for any fiscal year in which twenty-five thousand (\$25,000) or more in CDBG funds are received in accordance with the annual independent audit procedures set forth in G.S. 159-34;
- (2) The CDBG program audit shall be performed in conjunction with the regular annual independent audit of the recipient and shall contain an examination of all financial aspects of the CDBG program as well as a review of the procedures and documentation supporting the recipient's compliance with applicable statutes and regulations;
- (3) CDBG program funds may only be used to pay for the CDBG portion of the audit costs if more than three hundred thousand dollars (\$300,000) in all Federal Programs are used;
- (4) The recipient shall submit the Annual Audit Report to the Division, including the information identified in Paragraph (b) of this Rule, along with an Annual Performance Report as required by Rule .1101 of this Subchapter; and
- (5) The Division may require separate closeout audits to be prepared by the recipient in accordance with Paragraph .0913(e) of this Section.

(b) Audits shall comply with the requirements set forth in this Paragraph:

- (1) Audits shall include, at a minimum, an examination of the systems of internal control, systems established to insure compliance with laws and regulations affecting the expenditure of grant funds, financial transactions and accounts, and financial statements and reports of recipient organizations;
- (2) Financial statements shall include footnotes, comments which identify the statements examined, the period covered, identification of the various programs under which the recipient received CDBG funds, and the amount of the awards received;
- (3) Audits shall be made in accordance with the GENERAL ACCOUNTING OFFICE STANDARDS FOR AUDIT OF GOVERNMENTAL ORGANIZATIONS, PROGRAMS, ACTIVITIES AND FUNCTIONS, THE GUIDELINES FOR FINANCIAL AND COMPLIANCE AUDITS OF FEDERALLY ASSISTED PROGRAMS, any compliance supplements approved by the Federal Office of Management and Budget (OMB), and generally accepted auditing standards established by the American Institute of Certified Public Accountants;
- (4) The audit shall include the auditor's opinion as to whether the financial statements are fairly presented in accordance with generally accepted accounting principles. If an unqualified opinion cannot be expressed, the auditor shall state the nature of the qualification;
- (5) The auditors' comments on compliance and internal control shall:
 - (A) Include comments on weaknesses in and noncompliance with the systems of internal control, separately identifying material weaknesses;
 - (B) Identify the nature and impact of any noted instances of noncompliance with the terms of agreements and those provisions of State or Federal laws and regulations that could have a material effect on the financial statements and reports;
 - (C) Contain an expression of positive assurance with respect to compliance with requirements for tested items and negative assurance for untested items;
 - (D) Comment on the accuracy and completeness of financial reports and claims for advances or reimbursement to Federal agencies;
 - (E) Comment on corrective action taken or planned by the recipient;
- (6) Work papers and reports shall be retained for a minimum of five years from the date of the audit report unless the auditor is notified in writing by the Division of the need to extend the retention period based on changes in Federal regulations. The audit work papers shall be made available upon request to the Division and the General Accounting Office or its designees;
- (7) If during the course of the audit, the auditor becomes aware of irregularities in the recipient organization the auditor shall promptly notify the Division and recipient management officials about the level of involvement. Irregularities include such matters as conflicts of interest, falsification of records or reports, and misappropriation of funds or other assets;
- (8) Selection of an independent auditor shall be in accordance with Rule .0908 of this Section.

(c) A "single audit," in which the regular independent auditor will perform an audit of all compliance aspects for all federal grants along with the regular financial audit of the recipient, is permissible. Where feasible, the recipient

shall use the same auditor so that the audit will include the financial and compliance work under a single plan in the most economical manner.

(d) Small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in the performance of contracts awarded with CDBG funds. Recipients shall take the following affirmative action to further this goal:

- (1) Assure that small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals as defined in P.L. 95-507 are used to the fullest extent practicable;
- (2) Make information on forthcoming opportunities available, and arrange time frames for the audit so as to encourage and facilitate participation by small or disadvantaged firms;
- (3) Consider in the contract process whether firms competing for larger audits intend to subcontract with small or disadvantaged firms;
- (4) Encourage contracting with small or disadvantaged audit firms which have traditionally audited government programs, and in such cases where this is not possible, assure that these firms are given consideration for audit subcontracting opportunities;
- (5) Encourage contracting with consortiums of small or disadvantaged audit firms when a contract is too large for an individual small or disadvantaged audit firm; and
- (6) Use the services and assistance, as appropriate, of the Small Business Administration, and the Minority Business Development Agency of the U.S. Department of Commerce in the solicitation and utilization of small or disadvantaged audit firms.

(e) All records, data, audit reports and files shall be maintained in accordance with Rule .0909 of this Section, unless otherwise stated in this Rule.

(f) The provisions of this Rule do not limit the authority of the Department to make audits of recipients' organizations.

*History Note: Authority G.S. 143B-10; 143B-431; 159-34; 42 U.S.C.A. 5304(d)(2),(e); 24 C.F.R. 44.6; 24 C.F.R. 85.36(e); 24 C.F.R. 570.492;
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Temporary Amendment Eff. January 1, 2001;
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