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Office of the Controller

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MEMORANDUM 2010-05

TO: Division / Institution Directors
Division / Institution Budget Officers

FROM: Laketha M. Miller Laketha M. Miller

SUBJECT: Procedures for Audit Resolution of Local Government and Nongovernmental Agencies

This memorandum is to provide information regarding the reporting requirements for local government entities and nongovernmental organizations (NGOs) receiving financial assistance from the Department of Health and Human Services (the Department) as well as outline the various divisions' responsibilities and appropriate procedures for resolution of audit findings and other audit issues.

In accordance with the Department's official policy, "Audit Resolution for Local Government and Nongovernmental Agencies", revised effective date 07/10/06, the Office of the Controller (OOC) is responsible for resolution of financial audits and has lead responsibility for resolution of audits that cover both financial and program compliance issues. Individual Department division/office/directors are responsible for resolution of findings involving program compliance for programs of financial assistance administered by their respective divisions/offices.

Annual reporting requirements for local government entities and nongovernmental organizations receiving financial assistance from the Department are described below.

Local Government Entity Reporting Requirements:
Pursuant to GS 159-34, local government entities that receive federal financial assistance must submit single audits that conform to OMB Circular A-133 requirements to the Local Government Commission (LGC) in the North Carolina Department of State Treasurer's Office within four months of the entity's fiscal year end. Upon approval of the submitted audit, the LGC forwards a copy to the Department's OOC Audit Resolution and Monitoring Branch for review and resolution of findings of noncompliance and/or internal control issues that impact on programs of financial assistance administered by the Department. Local governmental entities include counties, councils of governments, Local Management Entities (LMEs), health districts and any other local government entities receiving funds from the Department.

Nongovernmental Organization Reporting Requirements:

Pursuant to GS 143C-6-23 and OMB Circular A-133 (when applicable), nongovernmental organizations (NGOs) that receive State grant funds (including federal pass-through) are required to submit annual compliance reports providing programmatic and financial details related to grant expenditures. NGOs receiving $500,000 or more in State grant funds in their fiscal year are required to submit financial statements audited in accordance with Government Auditing Standards (yellow book audit) and, as applicable, OMB Circular A-133. NGOs receiving grant funds from the Department that meet the audit requirement threshold must submit a copy to the Office of the State Auditor and to the OOC Audit Resolution and Monitoring Branch for review and resolution within nine months of the grantee's fiscal year end.

Audit Resolution Process for Local Government Entities and NGOs:

Upon receipt of the audit report, the appropriate OOC Audit Resolution Coordinator will determine if the audit includes findings of noncompliance and/or internal control issues that impact upon programs of financial assistance administered by the Department. If no such findings are included in the audit, the Audit Resolution Coordinator will prepare a letter stating resolution of the audit is closed with respect to programs of financial assistance administered by the Department. No further action by the division is required.

If the audit includes findings of noncompliance and/or internal control issues that impact upon programs of financial assistance administered by the Department, the OOC must issue a management determination letter within 180 days of receipt of the original audit or revised corrective action plan (CAP). Failure for the Department to issue a management determination in this timeframe could result in a Single Audit finding for the Department. All steps necessary for audit finding resolution, including appropriate division responsibilities, must be completed within the 180 day timeframe as outlined below:

1. OOC Audit Resolution Coordinator determines if finding is programmatic. If so, the cognizant (disbursing the majority of Department funds to the entity) division assumes responsibility for formulating the Department's position on the recipient's response to the finding.

    a. The Audit Resolution Coordinator forwards copies of the appropriate documentation (applicable findings from Program Compliance Reports, Internal Control Reports, and Schedule of Questioned Costs/Corrective Action plan) to the Program/Benefit Payment Branch Head (or designee) who oversees payments for the cognizant division.
    b. The Program/Benefit Payment Branch Head (or designee) forwards the documentation to the appropriate division's Budget Officer, who in turn may forward it to division staff for follow-up.
    c. The division has thirty (30) calendar days from receipt of the audit documentation to formulate a position/response on the finding and CAP and submit to the Program/Benefit Payment Branch Head (or designee).
    d. The Program/Benefit Payment Branch Head (or designee) will review the division's response to ensure completeness and suitability to the finding.
    e. The Program/Benefit Payment Branch Head (or designee) forwards an electronic copy of the approved response to the Audit Resolution Coordinator within thirty-five (35) calendar days from initial receipt of the audit documentation.
    f. In cases when a division fails to respond within the requested timeframe, reminder letters will be issued first to the division then to the appropriate Assistant Secretary until a response is received.
    g. The Audit Resolution Coordinator will generate a final determination letter outlining the Department's position incorporating the division prepared response. Upon release by the Controller's Office, a copy will be sent to the appropriate Division Director.

2. If the finding is financial/internal control in nature, the OOC Audit Resolution Coordinator assumes full responsibility for preparation of the response. The OOC releases the final determination letter, copying the appropriate Division Director for monitoring and other types of follow-up, with the exception of county audits. As stated previously, LGC maintains primary oversight for resolution of financial statement findings for counties, thus eliminating the need to distribute determination letters to all funding divisions within the Department.

Key Points to Remember:
While the OOC is responsible for resolution of financial audits and has lead responsibility for resolution of audits covering both financial and programmatic noncompliance, divisions do have responsibilities related to audit resolution for recipients of Department funds. **Policy requires each division/office develop procedures to ensure staff review audit findings in a timely manner and include any issues in the division's monitoring plan. Each division must also notify the Controller's Office in writing of any problems or concerns resulting from an audit or regarding an audit issue or finding.**

Adherence to the procedures outlined above will result in increased consistency, accuracy and efficiency of the audit resolution process for the Department.

Thank you in advance for your continued cooperation and assistance.

cc: DHHS Controller's Office Section Chiefs
Dan Stewart
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