



LOCAL GOVERNMENT COMMISSION
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
GREGORY C. GASKINS, DEPUTY TREASURER

**IMPORTANT INFORMATION AND INSTRUCTIONS
ON THE 2020 AUDIT CONTRACT**

The audit contract form (LGC-205) is intended to standardize the submission of contract information and reduce the amount of time required for contract review and approval. All auditors and units are encouraged to use the LGC-205 form and to use the current version of the form available on the DST website (revised versions are available in October of each year). Important information and instructions on completing and submitting the audit contract follow.

For additional assistance on audit contract forms, please call (919) 814-4299.

To share feedback on the audit contract process, visit our [feedback form](#).

Changes to the 2020 Contract Form

Several changes were made to the 2020 contract form in an effort to improve the contract terms as well as the submission and approval process. A summary of the changes follows; please see Appendix A for a complete description of the changes.

Contract Body

- Paragraphs 2 and 13: References to AUPs required by OSA were removed.
(Not applicable to hospital or charter school contracts).
- Paragraph 8 and 9: The language in paragraph 8 in the 2019 contract was split between paragraph 8 and a new paragraph 9.
- Paragraph 16: Exclusion defined for services and fees incorporated by reference.
- Paragraph 27: New contract term added to address independence rules.
- Paragraph 28: New contract term added applicable to charter school contracts.
- Paragraph 32: New contract term added to prohibit changes to the contract form.

Fees Page

New requirement for the auditor to identify preparer of financial statements and SKE individual.

References to "prior year audit fee" corrected to "prior year billings".
(Not applicable to hospital contracts)

Fee fields modified to provide flexibility in reporting fees.

Amended Contract

"Explanation of Modified Contract Terms" is now broken out into two sections for completion: explanation for delay and plan to prevent future late filing.



Completing the Audit Contract

Contract Forms

There are 3 contract forms available:

- Standard Contract (for all units other than charter schools)
- Charter School Contract *NEW* Contract language is identical to standard contract, but signature pages include fields to list all schools included in the audit
- Contract Amendment (to amend date or fees of original contract)

Note that there is no longer a hospital contract form. Nearly all of the hospital contract language was identical to the standard contract language; therefore, the separate hospital contract has been eliminated and language has been added to the standard contract, as needed, to address hospital-specific exclusions to contract terms.

Audit Report Due Date

The due date provided must be no later than four months after the end of the fiscal year, even though amended contracts may not be required until a later date.

Fees Page

The fee section must be completed for both the Primary Government and the DPCU (if applicable).

Paragraph 1 now includes information related to independence standards and must be completed, if applicable.

The terms and fees specified in the engagement letter must agree with those in the audit contract. "In case of conflict between the terms of the engagement letter and the terms of this contract, the terms of this contract shall take precedence" (reference contract paragraph 16).

For variable fees for services, please be sure that the hourly rates or other rates are clearly stated in detail. If the fees are detailed in an addendum, the addendum must be acknowledged in writing by the Governmental Unit.

For fees for services that are a combination of fixed and variable fees, both the services to be provided for the fixed portion of the fee and the hourly rates or other rates for the services to be provided for the variable portion of the fee must be clearly stated.

For units other than hospitals, the 75% cap for interim invoice approval should be calculated as:

- 75% of the current year's audit fee for fixed fee contracts
- 75% of last year's billings for variable fee contracts. Note: If any part of the fee is variable, the contract is considered variable and interim payments are limited to 75% of the prior year's total billings per our records.



LOCAL GOVERNMENT COMMISSION
STATE AND LOCAL GOVERNMENT FINANCE DIVISION

GREGORY C. GASKINS
DEPUTY TREASURER

A report of audit fees paid by each governmental unit is available on the DST website at <https://www.nctreasurer.com/sgl/fm/forms-instructions/Pages/Annual-Audit-Forms-and-Resources.aspx>

Note that the LGC does not approve invoices for hospitals and the 75% cap line item does not appear in the hospital contract.

Signature Pages

There are two signature pages: one for the Primary Government Unit and one for the DPCU. Please ensure all fields on the pages are completed. Note that all sections require a typed/printed name as well as signature – please ensure both are included in each section.

Be sure to provide current email addresses for the audit firm and finance officer as these will be used to communicate official approval of the contract.

The pre-audit certificate section for the Primary Government Unit and the DPCU (if applicable) must be signed and dated by the appropriate party. A pre-audit certificate is not required for hospitals and charter schools.

Submitting the Contract

Ensure all fields are completed and signatures provided (as applicable) on:

- page one of the contract
- the fees page
- the signature page(s)

Submit a single PDF file (following upload instructions below) containing:

- Audit contract
- Engagement Letter
Peer Review Report
(required only if current peer review report is not on file with the LGC – reference contract item 5)
- Contract addendum *(if applicable)*

Upload the File

- Access the Leapfile portal at <https://nctreasurerslgfd.leapfile.net>
- Select "NC Dept. of the State Treasurer - State and Local Government Division - Document Upload Portal"
- Select "LGC Contracts"
- Complete contact information as required
- Enter in the subject line "Unit Name 20XX Contract" (example: "Dogwood 2018 Contract")
- In the Message/Description/Instructions box, enter the email addresses of the auditor and unit



**LOCAL GOVERNMENT COMMISSION
STATE AND LOCAL GOVERNMENT FINANCE DIVISION**

GREGORY C. GASKINS
DEPUTY TREASURER

finance officer

- Check delivery option if you desire notification that we have downloaded your files (note: this notification does not mean that the audit contract has been reviewed, only that we have received and downloaded your files)
- Select the bar that reads "Select files to send (Regular Upload)"
- Upload documents by selecting "Browse" then "Upload and Send"

Other Important Information

LGC Staff Review

Upon receipt of the contract materials, LGC staff will review the contract and notify the unit and auditor by email (using the email addresses provided on the signature page(s)) that either the contract is approved, or the steps to be taken to secure approval. Please note that this email is your official notice of audit contract approval and a printed copy will not be provided.

DPCU Audit Contract Requirements

If a DPCU is subject to the audit requirements of the Local Government Budget and Fiscal Control Act and a separate audit report is issued for that DPCU, a separate audit contract is required for the DPCU. If a separate audit report is not being issued for the DPCU and is to be included in the Primary Government's audit report, the DPCU must be named with the Primary Government on the audit contract for the Primary Government. The board chairperson of the DPCU must also sign the audit contract in addition to the elected leader of the Primary Government.

Submission of Invoices (units other than hospitals)

A valid contract must be in place for the LGC to approve invoices, and all invoices must be submitted to and approved by the LGC prior to payment.

"All invoices for services rendered in an audit engagement as defined in 20 NCAC 3 .0503 shall be submitted to the Commission for approval before any payment is made. Payment before approval is a violation of law." 20 NCAC 03 .0505

Note that this section does not apply to hospitals.

Amended Contracts:

If an audit cannot be completed by the due date or if the fees specified in the original contract are modified, the Auditor or Governmental Unit must file an Amended Contract form (Amended LGC-205). Please refer to the "Audit Contract Amendment Instructions" for details on completing and submitting a contract amendment.



APPENDIX A: CHANGES TO 2020 LGC-205 CONTRACT FORMS

Changes to 2020 LGC-205 Contract Body

Text:

2. At a minimum, the Auditor shall conduct his/her audit and render his/her report in accordance with GAAS. The Auditor shall perform the audit in accordance with Government Auditing Standards.

...

If the audit and Auditor communication are found in this review to be substandard, the results of the review may be forwarded to the North Carolina State Board of CPA Examiners (NC State Board). County and Multi-County Health

County and Multi-County Health Departments: The Office of State Auditor will require Auditors of these Governmental Units to perform agreed upon procedures (AUPs) on eligibility determination on certain programs. Both Auditor and Governmental Unit agree that Auditor shall complete and report on these AUPs on eligibility determination as required by OSA and in accordance with the instructions and timeline provided by OSA.

Explanation of Change:

Highlighted text was removed from the contract. For audits with fiscal years ending June 30, 2019, the Office of State Auditors will **not** be using the work of the local auditors in testing State major programs with split-eligibility requirements. Therefore, the local auditors will **not** be responsible for submitting documents to OSA, such as CPA representation letters, turnaround documents, or agreed upon procedures reports. OSA will **not** be designating programs to be tested as major as in previous years. For fiscal year ending in June 30, 2019, OSA has elected to hire a subject matter expert to perform the testing of eligibility determinations for both Medicaid and TANF for the State's Single Audit for FY2019. Local auditors are reminded that the responsibility to determine direct and material compliance requirements for all programs that are determined major for your county lies with the auditor of that county. That includes the determination of whether eligibility is a direct and material compliance requirement for the major program. Per OMB Compliance Supplement, Part 3, "The responsibility of the auditor of the State for auditing eligibility does not relieve the auditor of the other entity (e.g., local government) from responsibility for meeting those internal control and compliance audit objectives for eligibility that apply to the other entity's responsibilities." The responsibility for determining eligibility for Medicaid and other split-eligibility programs were given to the county departments of social services by *North Carolina General Statutes*. Based on conversations with the Office of Inspector General of US DHHS, the expectation is that eligibility will be tested at the county for split-eligible programs determined major under the Single Audit. Another reminder, local auditors should refer to the OMB Compliance Supplement Part 4 for Medicaid which states "the auditor should consider that the Department of Health and Human Services has identified the Medical Assistance Program (Medicaid) as a program of higher risk."

(continued)



Changes to 2020 LGC-205 Contract Body (continued)

Text:

8. All local government and public authority contracts for audit or audit-related work require the approval of the Secretary of the LGC. This includes annual or special audits, agreed upon procedures related to internal controls, bookkeeping or other assistance necessary to prepare the Governmental Unit's (Units') records for audit, financial statement preparation, any finance-related investigations, or any other audit-related work in the State of North Carolina. Approval is not required on contracts and invoices for system improvements and similar services of a non-auditing nature.

9. Invoices for services rendered under these contracts shall not be paid by the Governmental Unit(s) until the invoice has been approved by the Secretary of the LGC. (This also includes any progress billings.) [G.S. 159-34 and 115C-447] All invoices for Audit work shall be submitted in PDF format to the Secretary of the LGC for approval. The invoice marked 'approved' with approval date shall be returned to the Auditor to present to the Governmental Unit(s) for payment. This item is not applicable to contracts for audits of hospitals.

Explanation of Change:

Paragraph 8 in the 2019 audit contract form (text below) addressed both approval of contracts and approval of invoices. For 2020, this paragraph was broken into two separate paragraphs: Paragraph 8 (which uses the text in yellow) to solely address approval of contracts and a new Paragraph 9 (which uses the text in blue) to address invoice approval. A final sentence was added to Paragraph 9 to exclude hospitals from invoice approval (based on statute).

2019 audit contract form:

8. All local government and public authority contracts for audit or audit-related work require the approval of the Secretary of the LGC. This includes annual or special audits, agreed upon procedures related to internal controls, bookkeeping or other assistance necessary to prepare the Governmental Unit's (Units') records for audit, financial statement preparation, any finance-related investigations, or any other audit-related work in the State of North Carolina. Invoices for services rendered under these contracts shall not be paid by the Governmental Unit(s) until the invoice has been approved by the Secretary of the LGC. (This also includes any progress billings.) [G.S. 159-34 and 115C-447] All invoices for Audit work shall be submitted in PDF format to the Secretary of the LGC for approval. The invoice marked 'approved' with approval date shall be returned to the Auditor to present to the Governmental Unit(s) for payment. Approval is not required on contracts and invoices for system improvements and similar services of a non-auditing nature.

(continued)



Changes to 2020 LGC-205 Contract Body (continued)

Text:

14. [previously paragraph 13] The Auditor shall submit the report of audit in PDF format to LGC Staff when (or prior to) submitting the final invoice for services rendered.

...

If the OSA designates certain programs to be audited as major programs, as discussed in Item 2, a turnaround document and a representation letter addressed to the OSA shall be submitted to LGC Staff.

Explanation of Change:

Highlighted text removed from the contract. For fiscal year ending June 30, 2019, OSA will **not** be designating programs to be audited as major as in years past. There will be no additional documentation related to these programs to be submitted to OSA or to the LGC. Please refer to item 2 for further explanation.

Text:

17. [previously paragraph 16] A copy of the engagement letter, issued by the Auditor and signed by both the Auditor and the Governmental Unit(s), shall be attached to this contract, and **except for fees, work, and terms not related to audit services**, shall be incorporated by reference as if fully set forth herein as part of this contract. In case of conflict between the terms of the engagement letter and the terms of this contract, the terms of this contract shall take precedence. Engagement letter terms that conflict with the contract are deemed to be void unless the conflicting terms of this contract are specifically deleted in Item 26 of this contract. Engagement letters containing indemnification clauses shall not be accepted by LGC Staff.

Explanation of Change:

Highlighted text was added to the contract to exclude non-audit related services in the engagement letter from the contract requiring LGC review/approval. Allows auditors to include additional services in the engagement letter that are outside of the authority of the LGC staff to review/approve.

(continued)



Changes to 2020 LGC-205 Contract Body (continued)

Text:

27. For all non-attest services, the Auditor shall adhere to the independence rules of the AICPA Professional Code of Conduct (as applicable) and Governmental Auditing Standards, 2018 Revision. Financial statement preparation assistance shall be deemed a "significant threat" requiring the Auditor to apply safeguards sufficient to reduce the threat to an acceptable level. If the Auditor cannot reduce the threats to an acceptable level, the Auditor cannot complete the audit. If the Auditor is able to reduce the threats to an acceptable level, the documentation of this determination, including the safeguards applied, must be included in the audit workpapers.

All non-attest service(s) being performed by the Auditor that are necessary to perform the audit must be identified and included in this contract. The Governmental Unit shall designate an individual with the suitable skills, knowledge, and/or experience (SKE) necessary to oversee the services and accept responsibility for the results of the services performed. If the Auditor is able to identify an individual with the appropriate SKE, s/he must document and include in the audit workpapers how they reached that conclusion. If the Auditor determines that an individual with the appropriate SKE cannot be identified, the Auditor cannot perform both the non-attest service(s) and the audit. See "Fees for Audit Services" page of this contract to disclose the person identified as having the appropriate SKE for the Governmental Unit.

Explanation of Change:

This contract paragraph was added to address independence requirements. An associated change was made on the Contract Fees page.

Refer to Memo 2019-07 for further guidance: <https://www.nctreasurer.com/slq/Memos/2019-07.pdf>

Text:

28. Applicable to charter school contracts only: No indebtedness of any kind incurred or created by the charter school shall constitute an indebtedness of the State or its political subdivisions, and no indebtedness of the charter school shall involve or be secured by the faith, credit, or taxing power of the State or its political subdivisions.

Explanation of Change:

This new contract paragraph, applicable to charter school contracts only, was added to fulfill a requirement under NCGS 115C-218.105(b) for this language to be included in every contract or lease into which a charter school enters.

(continued)



Changes to 2020 LGC-205 Contract Body (continued)

Text:

32. Modifications to the language and terms contained in this contract form (LGC-205) are not allowed.

Explanation of Change:

This contract paragraph was added to ensure that units or auditors do not change the LGC-205 standard contract form. LGC staff provides this form as a convenience to auditors and the form's standard language allows LGC staff to quickly approve audit contracts submitted via the form.

(continued)



Changes to 2020 LGC-205 Fees Page

Text:

For all non-attest services, the Auditor shall adhere to the independence rules of the AICPA Professional Code of Conduct (as applicable) and Governmental Auditing Standards, 2018 Revision. Refer to Item 26 of this contract for specific requirements. The following information must be provided by the Auditor; contracts presented to the LGC without this information will be not be approved.

Explanation of Change:

This text was added to the fees page, along with fields that must be completed by the auditor to identify the preparer of financial statements and the SKE individual.

Refer to Memo 2019-07 for further guidance: <https://www.nctreasurer.com/slq/Memos/2019-07.pdf>

Text:

If the current contracted fee is not fixed in total, invoices for services rendered may be approved for up to 75% of the prior year **billings**. Should the 75% cap provided below conflict with the cap calculated by LGC staff based on the prior year **billings** on file with the LGC, the LGC calculation prevails.

(Note: this text does not appear in hospital contracts)

Explanation of Change:

Corrected the 2019 contract, which referred to “audit fee” instead of “billings” where highlighted. Reference: 20 NCAC 03 .0505 AUDIT BILLINGS.

Text:

“Primary Government Fees” and “DPCU Fees (if applicable)” sections were updated to provide a better format for firms to identify fees related to audit work, should they wish to break out fees.

Explanation of Change:

Fee fields were modified to reflect the various fees that audit firms submit. Note that these additional fields were provided as a convenience for firms that wish to break out fees, but these fields are not required if all fees are included in the audit fee.

(continued)



Other Changes To 2020 LGC-205 Contract Forms

Charter School Contract

Explanation of Change:

A separate contract form is now available for charter schools. The charter school contract form body is identical to the standard contract body, but the form includes a signature page that removes the pre-audit section (not required for charter schools) and adds two pages for the auditor to list all schools included in the audit.

Hospital Contract

Explanation of Change:

There is no longer a separate contract form for hospitals. Nearly all of the hospital contract language was identical to the standard contract language; therefore, the separate hospital contract has been eliminated and language has been added to the standard contract, as needed, to address hospital-specific exclusions. See paragraphs 9, 14, 20, and the fees page.

Signature Page

Explanation of Change:

“Date governing board approved contract” field was reformatted to provide more space for completion. This field is required, but was often not completed, resulting in rejected contracts. A missing date in this field was the cause of over 50% of all rejected contracts.

Contract Amendment Form

Explanation of Change:

The “Explanation of Modified Contract Terms” section was broken into two different questions to highlight the need to provide a complete explanation; the wording of the questions remains unchanged.

- Please provide an explanation for the modification to due date and/or fees.
- If the amendment is submitted to extend the due date, please indicate the steps the unit and auditor will take to prevent late filing of audits in subsequent years.