

**CHAPTER 31**  
**LOCAL AUTHORITIES**

**Authority**

N.J.S.A. 40A:5A-1 et seq. (P.L. 1983, c.313).

**Source and Effective Date**

R.1995 d.27, effective January 3, 1995.  
See: 26 N.J.R. 4128(a), 27 N.J.R. 91(a).

**Executive Order No. 66(1978) Expiration Date**

Chapter 31, Local Authorities, expires on January 3, 2000.

**Chapter Historical Note**

Chapter 31, Local Authorities (originally titled Municipal Finance Commission) was filed as R.1970 d.40, effective April 13, 1970. See: 1 N.J.R. 17(d), 2 N.J.R. 39(a). Chapter 31 was repealed by R.1979 d.16, effective January 17, 1979. See: 10 N.J.R. 529(a), 11 N.J.R. 59(d). Chapter 31, Local Authorities, was adopted as a new rule by R.1984 d.601, effective January 7, 1985. See: 16 N.J.R. 1835(a), 17 N.J.R. 72(a). Pursuant to Executive Order No. 66(1978), Chapter 31 was readopted as R.1990 d.4, effective December 1, 1989. See: 21 N.J.R. 3046(a), 22 N.J.R. 26(a).

Pursuant to Executive Order No. 66(1978), Chapter 31 expired on December 1, 1994, and subsequently was adopted as new rules by R.1995 d.27. See: Source and Effective Date.

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**SUBCHAPTER 1. GENERAL PROVISIONS**

**5:31-1.1 Scope**

This chapter shall constitute the rules governing the preparation, introduction, approval, adoption and execution after adoption of any budget by a local authority, the accounting principles and policies for such authorities, the administration of financial affairs of such authorities, the annual audit of the financial statements of such authorities, and financial reporting practices of such authorities under the Local Authorities Fiscal Control Law, L.1983, c.313.

**5:31-1.2 Definitions**

The following words and terms as used in this chapter, shall have the following meanings, unless the context clearly indicated otherwise.

“Act” means the Local Authorities Fiscal Control Law, L.1983, c.313 (N.J.S.A. 40A:5A-1 et seq.).

“Authority” means a body, public and corporate, created by one or more municipalities or counties pursuant to any law authorizing that creation, which law provides that the public body so created has at least the following powers:

1. To adopt and use a corporate seal;
2. To sue and be sued;
3. To acquire and hold real or personal property for its purposes; and
4. To provide for and secure the payment of its bonds or other obligations, or to provide for the assessment of a tax on real property within its district, or to impose charges for the use of its facilities, or any combination thereof; but shall not include any public body for which Federal or State fiscal controls differing from those imposed by the Act, have been explicitly established by law, but only to the extent of that difference.

“Audit” means an examination of the financial statements of an authority in accordance with generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants by the independent auditor or by the Division of Local Government Services engaged by the authority, in the manner more specifically described by these regulations.

“Audit report” means the report on the results and findings of the audit by the independent auditor or by the Division of Local Government Services engaged by the authority.

“Budget” means the budget of an authority.

“Capital budget” means the first year of a capital program.

“Capital program” means a projected, multi-year plan and schedule for capital projects, which shall set forth among other things all prospective financing sources including, but not limited to, proceeds of bond sales, grants and budget appropriations.

“Capital project” means any of the following activities or undertakings which an authority is empowered to bond for, with an estimated useful life of five years or more and a prospective individual or (when added to the cost of other such items as are listed below) cumulative cost in any year of \$25,000 or more, regardless of the financing sources:

1. Acquisition and/or development of land;
2. Acquisition of equipment, furnishings or other personal property;
3. Acquisition, construction, improvement and/or renovation of buildings, roads, utilities, structures improvements or public works;
4. Any other matter for which an authority is empowered to issue bonds.

“Director” means the Director of the Division of Local Government Services in the Department of Community Affairs.

“Division” means the Division of Local Government Services in the Department of Community Affairs.

“Full membership” means the number of members of the governing body when all seats are filled.

“Governing body” means the Board having control of the finances of an authority.

“Financing agreement” means an agreement of a local unit or units intended to provide security for an issue of obligations of an authority, including, but not limited to, a contract providing for payments by a local unit or units with respect to use, services or provision of the project, facility or public improvement of an authority or payments for debt service therefor.

“Local Finance Board” means the Local Finance Board in the Division of Local Government Services in the Department of Community Affairs.

“Local unit or units” means a county or municipality which created or joined in the creation of an authority, or which proposes to create or join in the creation thereof, or which has entered or proposes to enter into a financing agreement with an authority.

“Operations” means all activities of an authority conducted in accordance with N.J.S.A. 40A:5A-1 et seq. and any other legislation governing the affairs of the authority.

“Project financing” means the financing by an authority of a facility for the benefit of the inhabitants of a local unit or units and includes payment for the design and plan for the facility.

“Security agreement” means a bond resolution of an authority, or a trust indenture to be executed by an authority, or other similar proceeding or document.

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## SUBCHAPTER 2. BUDGETS

### 5:31-2.1 Annual budget preparation and content

(a) Every authority as herein defined shall prepare an annual budget for each fiscal year in which an expenditure of money is expected.

(b) The budget shall comply with the terms of any security agreement and be prepared in compliance with these regulations.

(c) The total budget appropriations shall not exceed total anticipated revenues reasonably expected to be realized.

(d) Every budget shall be prefaced by a narrative explanation of its contents, entitled “budget message.” Content of the budget message shall be prescribed by the Director.

(e) Signatures required on all budget documents, budget amendments and information supporting the budget shall be hand-written signatures.

(f) Annual budgets, capital budgets and capital programs shall be prepared on standard forms provided by the Division as promulgated by the Local Finance Board.

(g) Operating appropriations shall be classified as to “salaries and wages” and “other expenses.”

(h) All introduced budgets, adopted budgets and budget amendments shall contain the recorded vote of the governing body.

2. The cash management plan may be modified from time to time in order to reflect changes in Federal or State law or regulations.

(b) All moneys received by the authority from any source shall within 48 hours be deposited to the credit of the authority in its legal depository.

(c) No authority shall engage in the practice of cashing checks with public funds.

#### SUBCHAPTER 4. APPROVAL AND PAYMENT OF CLAIMS

##### 5:31-4.1 Payment of authority moneys; approval of claims

(a) All persons submitting a claim for payment from authority moneys shall present a detailed bill of items or demand, specifying how the bill or demand is made up, with the certification of the party claiming payment that it is correct.

(b) All claims shall carry a certification of an official or designated employee of the authority having knowledge of the facts that the goods have been received by, or the services rendered to the authority.

(c) The governing body shall approve or disapprove all claims in accordance with regulations adopted by the authority.

(d) All claims approved for payment by the governing body shall be recorded in the minutes of the authority meetings and shall, upon approval of the minutes, be open to the public.

(e) Payment of claims shall be by check drawn on the authority, signed by the governing body chairman, the chief financial officer and countersigned by such other officer or official as designated by the resolution.

(f) The governing body shall by resolution, passed by not less than a majority of the full membership, designate the manner in which and the time in which salaries, wages or other compensation for services shall be paid.

Amended by R.1985 d.511, effective October 21, 1985.  
See: 17 N.J.R. 1823(a), 17 N.J.R. 2537(a).

Added text "chief financial officer" and deleted "or other chief executive officer and the secretary."

##### 5:31-4.2 Signatures on checks drawn upon the treasury of the authority

Every authority shall at each organizational meeting designate by resolution the individuals whose signatures shall appear on checks drawn upon the treasury of the authority.

Amended by R.1985 d.511, effective October 21, 1985.

See: 17 N.J.R. 1823(a), 17 N.J.R. 2537(a).

Deleted text "in addition to the signature of the secretary."

#### SUBCHAPTER 5. DATA PROCESSING

##### 5:31-5.1 Approval of electronic data processing systems or process center utilization

(a) An authority planning any electronic data processing installation or utilizing the services of an electronic data processing center for applications that are primarily financial in nature shall, before entering into any agreement or contract, submit to the Director a request for approval including a detailed description of the system, the type thereof, the results to be obtained, the personnel required, the estimated cost of operation and the benefits to be obtained. Material to be submitted with the request for approval shall include copies of the bid specifications, vendors bids and such other documents that will identify the computer applications proposed.

1. After satisfactory completion of a review of the proposed system the Division will express its approval in writing.

2. The Division will disapprove a proposed system if there are inadequate controls or any other undesirable features such as failure to document data processed or to provide an audit trail or visible records to facilitate audit thereof.

#### SUBCHAPTER 6. SURETY BONDING

##### 5:31-6.1 Surety bond for authority employees and officials

The governing body of an authority shall by resolution designate authority employees and officials required to furnish surety bonds and determine minimum bonds for each such employee and official. The minimum requirement for the surety bond shall be determined with due regard for the duties and responsibilities of each such designated employee and official. Each person in the office handling funds shall be bonded in accordance with their responsibility.

#### SUBCHAPTER 7. ACCOUNTING AND AUDITING

Authority  
N.J.S.A. 40A:5A-10 and 15.

Source and Effective Date  
R.1984 d.601, effective January 17, 1985.  
See: 16 N.J.R. 1835(a), 17 N.J.R. 72(a).

Executive Order 66 (1978) Expiration Date  
Pursuant to the requirements and criteria of Executive Order 66 (1978), this subchapter expires on December 1, 1989.

**5:31-7.1 Accounting systems**

(a) A double-entry accounting system for recording all transactions shall be required for authorities and special districts.

(b) The major components of the double-entry accounting system shall include books of original entry, a general journal, a general ledger and a system of internal control.

1. The books of original entry shall reflect all transactions involving cash receipts, cash disbursements, purchasing and payrolls.

2. The general journal shall maintain control over all adjustments to the general ledger that are not reflected in the books of original entry.

3. The general ledger shall reflect the impact of financial transactions on the revenues, expenses or expenditures, assets, liabilities and fund balances or equity of the entity.

4. The system of internal control shall provide for segregation of duties in originating and recording accounting transactions, insofar as practicable depending upon the size and complexity of the authority or district.

(c) The general ledger shall be summarized and balanced frequently by periodic trial balances.

(d) Revenue realized and expenditures or expenses incurred shall be compared with budgeted amounts at frequent intervals.

New Rule, R.1985 d.511, effective October 21, 1985.

See: 17 N.J.R. 1823(a), 17 N.J.R. 2537(a).

Old section recodified to 7.2.

**5:31-7.2 Accounting principles and policies for other than special districts**

(a) Accounting transactions and records shall be maintained on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) for enterprise funds as described in Statement 1, "Governmental Accounting and Reporting Principles" promulgated by the National Council on Governmental Accounting (NCGA), located at 180 North Michigan Avenue, Suite 800, Chicago, Illinois 60601.

1. Revenues shall be recognized and recorded in the accounting period in which they are earned and become measurable.

i. Revenue from services rendered shall be recognized when services have been performed and are billable.

ii. Revenue from use of money or property such as interest or rent shall be recognized upon the passage of time as the resources are used.

2. Expenses shall be recognized and recorded in the period incurred, if measurable. Expenses resulting from the consumption of materials and supplies may be recognized and recorded as they are consumed or alternatively, may be recognized at date of purchase if the amount of expenses in a fiscal period would not be materially distorted as a result of such alternative treatment.

(b) Fixed assets of any authority shall be reflected in the accounts at cost, or if the cost is not practically determinable, at estimated cost. Donated fixed assets shall be recorded at their estimated fair value at the time received.

(c) Depreciation of fixed assets shall be recognized and recorded annually so that the asset cost will be spread over the estimated useful lives of the assets.

1. The straight line method shall be used in recording depreciation.

2. The estimated useful lives of the separate assets or classes of assets shall be determined by the management of each authority.

(d) Assets, cash and investments restricted for specific non-operating purposes by security agreements, financing agreements and management policy shall be separately identified in the accounting records. Liabilities payable from such restricted assets shall also be separately identified in the accounting records.

(e) Accounts comprising the fund equity group of accounts shall be separately classified as contributed capital and retained earnings.

1. The contributed capital account group shall include accounts separately identified as to the source of the contribution (Federal government, State government, local government, developers, etc.)

2. The retained earnings account group shall include accounts separately identified as unreserved retained earnings and reservations of retained earnings comprising tentative plans by management for utilization in a future period.

(f) The management of an authority shall be responsible for instituting a plan providing for the following separations of accounting functions, wherever practical, so as to provide a system of internal control over initiating and recording financial transactions with the objective of safeguarding assets and maintaining reliable financial records:

1. Separate the function of revenue billing from that of collecting and depositing receipts.

2. Separate the function of disbursing funds from that of purchasing and receiving materials and services.

3. Separate the function of reconciling balances on deposit with depositories with general ledger controls from those of receiving, depositing and disbursing cash.

4. Separate the function of payroll preparation from that of distributing payroll checks to employees.

5. Separate the function of hiring, promoting, establishing and adjusting compensation and terminating employees from the functions enumerated in item 4 above.

Amended by R.1985 d.511, effective October 21, 1985.

See: 17 N.J.R. 1823(a), 17 N.J.R. 2537(a).

Recodified from 7.1. Text added in (a) "in accordance with ... Chicago, Illinois, 60601."

### 5:31-7.3 Accounting principles and policies for special districts

(a) Accounting transactions and records shall be maintained on the modified accrual basis of accounting in accordance with generally accepted accounting principles for governmental type funds as described in Statement 1 promulgated by the National Council on Governmental Accounting (NCGA) located at 180 North Michigan Avenue, Suite 800, Chicago, Illinois 60601, as modified by regulation of the Local Finance Board.

1. Revenues shall be recognized and recorded in the accounting period in which they become measurable and available to finance expenditures of the current fiscal period.

2. Expenditures are recognized when the related liability is incurred. Exceptions to the general rule are:

i. Unmatured principal and interest on general obligation debt are recognized when payable;

ii. Inventories of material and supplies shall be considered expenditures when purchased. Significant amounts of inventory should be reported on the balance sheet, equally offset by a fund balance reserve account.

iii. Expenditures for insurance and similar services extending over more than one accounting period need not be allocated between or among accounting periods but may be accounted for as expenditures of the period of acquisition. When prepaid insurance or other similar items are reported on the balance sheet, the amount of such items must also be equally offset by fund balance reserve accounts.

(b) The accounting system shall be organized and operated on a fund basis, each fund being defined as a fiscal and accounting entity with a self-balancing group of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives.

1. The general fund is used to account for all financial resources, except those to be accounted for in another fund. Current operating expenditures, certain capital outlays and debt service expenditures are accounted for in

the general fund. Their spending is controlled primarily through the annual operating budget.

i. Estimated general fund expenditures and the proposed revenues required to finance them are set forth in the annual operating budget which, when adopted, provides authorization for general fund spending.

ii. Budgetary accounts are formally integrated into the general fund ledger.

2. The capital fund is used to account for the purchase or construction of major capital facilities, or fixed assets. The activities are financed primarily through general obligation bond issues or intergovernmental funds. Capital fund spending is controlled primarily by bond indenture provisions or intergovernmental fund grant requirements. Long term liabilities of a district are accounted for in the capital fund at their face value.

3. Fixed assets of a district shall be reflected in the General Fixed Assets Account Group at cost, or if the historical cost is not practically determinable, at estimated cost. Donated fixed assets shall be recorded at their estimated fair value at the time received.

4. Depreciation of general fixed assets should not be recorded in the accounts of governmental funds. Depreciation of general fixed assets may be recorded in cost accounting systems or for cost finding analysis; and accumulated depreciation may be recorded in the General Fixed Assets Account Group.

Amended by R.1985 d.511, effective October 21, 1985.

See: 17 N.J.R. 1823(a), 17 N.J.R. 2537(a).

Recodified from 7.2 and substantially amended.

### 5:31-7.4 Auditing procedures and scope

(a) Each authority shall cause an annual examination of its financial statements performed in accordance with generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants (AIC-PA). The audit shall cover all the financial transactions of the authority for a complete fiscal year, and include a review of the records of all officials or employees who handle funds.

1. Cash on hand shall be counted at the date of starting the audit and all cash balances shall be reconciled with independent verifications obtained directly from the depositories.

2. The audit shall include a review of the authority's internal control and financial administrative procedures, compliance with the statutes and the Division rules and regulations, and compliance with the security and financing agreements.

3. Exceptions in compliance and major weakness in internal control and financial administrative procedures observed during the audit shall be documented and shall

be stated by specific comments and recommendations in a separate section of the audit report.

(b) The audit shall be conducted in accordance with generally accepted auditing standards and with the procedures, rules and regulations as promulgated by the Local Finance Board and with such additional procedures as shall be required by any security and financing agreements.

(c) The audit shall embrace all the books, accounts and transactions of the authority in sufficient depth and scope to enable the auditor to express an opinion on the financial statements. The auditor shall comment on any non-compliance with law and regulations, security and financing agreements and major weakness in internal control and financial administration procedures which came to his attention during the audit and include his recommendations thereon to the governing body.

(d) The audit report shall be signed by and conducted by or supervised by the registered municipal accountant or an employee of the Division of Local Government Services or the certified public accountant, who has been engaged by the authority to conduct the annual audit.

(e) The auditor must utilize an appropriate written audit program based on his analysis of the system of internal control and other pertinent factors.

(f) All audit workpapers shall indicate the name or initials of the person who performed the audit work. All workpapers shall be made available to the Director upon request. Workpapers shall be retained by the auditor for a minimum of seven years. The audit workpapers shall include the following:

1. Audit program utilized;
2. Internal control review documentation;
3. Extent and basis of statistical sampling utilized;
4. Audit work performed, including tests of federal, state and authority compliance and extent of testing of transactions relating to the financial audit, and auditor's statement of objectives and conclusions on fairness of presentation;
5. Abstracts of official minutes and resolutions;
6. Schedules and analyses supporting the financial statements.

(g) If the auditor's examination causes him to believe or suspect that irregularities or illegal acts have occurred, the Division shall be notified at once by means of the special confidential report. This rule is not directed merely toward conditions which might indicate a shortage in the accounts of any authority, but to unusual conditions or suspicious circumstances.

1. The governing body shall be advised to make immediate report to the surety bonding company upon presentation of the preliminary report of the auditor. It is the duty of the governing body to report every shortage or irregularity involving public moneys to the prosecutor.

2. At its inception a confidential report need not be submitted to the governing body at the time it is filed with the Division. However, should further investigation reveal any clear irregularity, such irregularity must be reported to the governing body immediately.

Amended by R.1985 d.511, effective October 21, 1985.

See: 17 N.J.R. 1823(a), 17 N.J.R. 2537(a).

Recodified from 7.3 and substantially amended.

#### 5:31-7.5 Audit reports and financial reporting practices for other than special districts

(a) All authority audits shall be completed and the audit reports thereon shall be filed with the governing bodies within four months after the close of the authority's fiscal year or within such shorter period specified in the authority's security or financing agreement, or in the statute authorizing the creation of the authority. After expiration of the due date, the Division shall have the prerogative to perform the audit itself or to engage a qualified auditor to conduct the audit. The costs of any such work, after approval by the Director, shall be billed to and paid by the authority.

(b) Each audit report shall include the auditor's report on the financial statements and the following information for the current and immediately preceding fiscal year:

1. Comparative balance sheet;
2. Comparative statement of revenues, expenses and changes in retained earnings;
3. Comparative statement of changes in financial position;
4. Notes to the financial statements, required by generally accepted accounting principles;
5. Supplementary information comprising a schedule of Federal grants, a schedule of revenues, expenses and changes in retained earnings for each account group, a schedule of cash receipts, cash disbursements and changes in cash and investments for each account group, a schedule of revenues classified by source and expenses classified by object and comparison with the annual budget;
6. Such other supplementary schedules as deemed necessary or requested by the authority;
7. General comments and recommendations including the auditor's report on internal control.

(c) Within five days after the audit report is filed with the authority, the auditor shall file a copy with the Director and with the governing body of each local unit having created the authority.

(d) The auditor shall file a completed audit questionnaire with the Bureau of Authority Regulation in the New Jersey Division on Local Government Services with the audit report. The questionnaire is not to be filed with the authority nor the local unit.

(e) The synopsis of the annual audit required to be published by N.J.S.A. 40A:5A-16 shall, as a minimum, include:

1. Comparative balance sheet;
2. Comparative statement of revenue, expenses and changes in fund equity;
3. Summary of recommendations.

Amended by R.1985 d.511, effective October 21, 1985.  
See: 17 N.J.R. 1823(a), 17 N.J.R. 2537(a).  
Recodified from 7.4 and substantially amended.

#### 5:31-7.6 Audit reports and financial reporting practices for special districts

(a) All district audits shall be completed and the audit reports thereon shall be filed with the governing bodies within four months after the close of the district's fiscal year or within such shorter period specified in the statute authorizing the creation of the district. After expiration of the due date, the Division shall have the prerogative to perform the audit itself or to engage a qualified auditor to conduct the audit. The cost of any such work, after approval by the Director, shall be billed to and paid by the district.

(b) Each audit report shall include the auditor's report on the financial statements and the following information for the current and immediately preceding fiscal year:

1. Financial Statements:
  - i. General Fund:
    - (1) Comparative balance sheet;
    - (2) Statement of revenue, expenditures and changes in fund balance—budget and actual;
    - (3) Statement of expenditures compared to budget;
    - (4) Statement of receipts, disbursements and changes in cash investments.
  - ii. Capital Fund:
    - (1) Comparative balance sheet;
    - (2) Combining balance sheet;
    - (3) Combining statement of revenue, expenditures and changes in fund balance;
    - (4) Combining statement of receipts, disbursements and changes in cash and investments;
    - (5) Combining statement of amount to be provided for retirement of debt;

(6) Combining statement of improvement authorizations;

(7) Combining statement of bond anticipation notes payable;

(8) Combining statement of serial bonds payable.

iii. General Fixed Asset Account Group:

- (1) Comparative balance sheet.
2. Notes to financial statements;
3. Statistical information which shall include, as a minimum:
  - i. A tabulation of district assessed valuations, property tax levies and property tax rates for the current and four preceding years;
  - ii. A tabulation of principal and interest for the next five fiscal years on district debt issued and outstanding at the end of the fiscal year under audit;
  - iii. A tabulation of the unreserved general fund balance or deficit and subsequent budget action thereon for the current and four fiscal years;
  - iv. Such other statistical information as prescribed by the Local Finance Board or desired by district officials.

4. Roster of officials;

5. General comments and recommendations, including the auditor's report on internal control.

(c) Within five days after the audit report is filed with the district, the auditor shall file a copy with the Director and with the governing body of the local unit having created the district.

(d) The auditor shall file a copy of the completed internal control questionnaire with the Bureau of Authority Regulation in the New Jersey Division of Local Government Services within 15 days of filing the audit report.

New Rule R.1985 d.283, effective June 3, 1985.  
See: 17 N.J.R. 504(a), 17 N.J.R. 1409(b).  
Amended by R.1985 d.511, effective October 21, 1985.  
See: 17 N.J.R. 1823(a), 17 N.J.R. 2537(a).  
Recodified from 7.5 and substantially amended.

#### 5:31-7.7 Audit of Federal Grants

When the auditor is engaged to conduct a financial and compliance audit of programs, activities and functions funded in whole or in part by Federal grants, the audit shall be conducted in accordance with the standards for financial and compliance audits contained in the United States General Accounting Office's, standards for Audit of Governmental Organizations, Program, Activities and Functions, 1981 and subsequent revisions, and with due regard to the compliance requirements of Circular 102, Attachment P,

promulgated by the Federal Office of Management and Budget.

Historical Note

Recodified from N.J.A.C. 5:31-7.6.