GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

H.B. 593
Mar 31, 2025
HOUSE PRINCIPAL CLERK

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HOUSE BILL DRH10268-ST-8

Short Title:	Local Government Audits.	(Public)
Sponsors:	Representative Winslow.	
Referred to:		

A BILL TO BE ENTITLED

AN ACT TO MODIFY THE PROCESS BY WHICH UNITS OF LOCAL GOVERNMENT, PUBLIC AUTHORITIES, AND LOCAL SCHOOL ADMINISTRATIVE UNITS SELECT AN ACCOUNTANT TO CONDUCT ANNUAL AUDITS; AND TO APPROPRIATE FUNDS TO THE STATE AUDITOR TO ASSIST LOCAL GOVERNMENTS WITH FINANCIAL RECORD KEEPING.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 159-34 reads as rewritten:

"**§ 159-34. Annual independent audit; rules and regulations.**

(a) Each unit of local government and public authority shall have its accounts audited as soon as possible after the close of each fiscal year by ~~a certified public accountant or by~~ an accountant certified by the ~~Commission as qualified to audit local government accounts.~~ State Auditor in accordance with subsection (b1) of this section. When specified by the secretary, the audit shall evaluate the performance of a unit of local government or public authority with regard to compliance with all applicable federal and State agency regulations. This audit, combined with the audit of financial accounts, shall be deemed to be the single audit described by the "Federal Single Audit Act of 1984".

(a1) The auditor shall be selected by and shall report directly to the governing ~~board.~~board, but in no instance may the governing board select an auditor not certified by the State Auditor as qualified to audit the accounts of units of local government or public authorities. The governing board shall solicit sealed bids for conducting the audit, which may be done annually but at least once every five years. The governing board shall select an auditor from those sealed bids based solely on cost, expertise, and time for completion of the audit and without information as to identity of the bidder. If upon opening that sealed bid, the governing board determines that the auditor cannot meet the audit schedule of the governing board or has performed inadequately on a prior audit of the governing board, the governing board may reject that sealed bid and solicit sealed bids again in accordance with this subsection.

(a2) The audit contract or agreement shall ~~be~~ comply with all of the following:

~~(i)~~(1) Be in ~~writing, include~~ writing.

~~(ii)~~(2) Include the entire entity in the scope of the audit, except that an audit for purposes other than the annual audit required by this section should include an accurate description of the scope of the ~~audit, require~~ audit.

~~(iii)~~(3) Require that a typewritten or printed report on the audit be prepared as ~~set forth herein, include~~ required by this section.

~~(iv)~~(4) Include all ~~of its~~ terms and ~~conditions, and be~~ conditions.

~~(v)~~(5) Be submitted to the secretary for ~~his~~ approval as to form, terms, conditions, and compliance with the rules of the Commission.

(a3) As a minimum, the required audit report shall include the financial statements prepared in accordance with generally accepted accounting principles, all disclosures in the public interest required by law, and the auditor's opinion and comments relating to financial statements. The audit shall be performed in conformity with generally accepted auditing standards. The finance officer shall file a copy of the audit report with the secretary, and shall submit all bills or claims for audit fees and costs to the secretary for ~~his~~ approval. Before giving ~~his~~ approval the secretary shall determine that the audit and audit report substantially conform to the requirements of this section. It shall be unlawful for any unit of local government or public authority to pay or permit the payment of ~~such~~ the bills or claims without ~~this approval.~~the approval of the secretary.

(a4) Each officer and employee of the local government or local public authority having custody of public money or responsibility for keeping records of public financial or fiscal affairs shall produce all books and records requested by the auditor and shall divulge ~~such~~ the information relating to fiscal affairs as ~~he~~ the auditor may request. If any member of a governing board or any other public officer or employee shall conceal, falsify, or refuse to deliver or divulge any books, records, or information, with an attempt thereby to mislead the auditor or impede or interfere with the audit, ~~he~~ that individual is guilty of a Class 1 misdemeanor.

(b) The ~~Local Government~~ Commission has authority to issue rules and regulations for the purpose of improving the quality of auditing and the quality and comparability of reporting pursuant to this section or any similar section of the General Statutes. The rules and regulations may consider the needs of the public for adequate information and the performance that the auditor has demonstrated in the past, and may be varied according to the size, purpose or function of the unit, or any other criteria reasonably related to the purpose or substance of the rules or regulation.

(b1) Notwithstanding subsection (b) of this section, the State Auditor shall establish a process for certified public accountants and accountants to become certified to conduct annual audits under this section. Any certified public accountant or accountant certified to conduct annual audits may be removed for cause.

(c) Notwithstanding any other provision of law, except for Article 5A of Chapter 147 of the General Statutes pertaining to the State Auditor, all State departments and agencies shall rely upon the single audit accepted by the secretary as the basis for compliance with applicable federal and State regulations. All State departments and agencies which provide funds to local governments and public authorities shall provide the Commission with documents that the Commission finds are in the prescribed format describing standards of compliance and suggested audit procedures sufficient to give adequate direction to independent auditors retained by local governments and public authorities to conduct a single audit as required by this section. The secretary shall be responsible for the annual distribution of all ~~such~~ standards of compliance and suggested audit procedures proposed by State departments and agencies and any ~~amendments thereto.~~ amendments. Further, the Commission with the cooperation of all affected State departments and agencies shall be responsible for the following:

(1) Procedures for the timely distribution of compliance standards developed by State departments and agencies, reviewed and approved by the Commission to auditors retained by local governments and public authorities.

(2) Procedures for the distribution of single audits for local governments and public authorities ~~such~~ so that they are available to all State departments and agencies which provide funds to local units.

(3) The acceptance of single audits on behalf of all State departments and agencies; provided that, the secretary may subsequently revoke ~~such~~ the acceptance for cause, whereupon affected State departments and agencies

shall no longer rely upon ~~such~~ the audit as the basis for compliance with applicable federal and State regulations.

(d) Notwithstanding the requirement that the auditor is selected by and reports directly to the governing board in ~~subsection (a)~~ subsection (a1) of this section, the Commission may require the governing board ~~of a local government or public authority~~ that has been the subject of an investigative audit with findings by the State Auditor, upon receipt of the investigative audit report in accordance with G.S. 147-64.6(c)(14), to select the certified public accountant to conduct the annual audit required by this section from a list of three certified public accountants provided by the Commission. The Commission may instruct the ~~Secretary~~ secretary to issue a request for proposals when selecting a certified public accountant under this subsection. Upon exercise of this authority granted by this subsection, the ~~certified public accountant~~ auditor shall report directly to the Commission and governing board, shall comply with all rules of the Commission, and shall be paid by the governing board. The Commission may exercise the authority granted by this subsection for up to three fiscal years after the release of the investigative report with findings by the State Auditor.

(e) The secretary shall provide a notice of noncompliance to each ~~county or municipality~~ unit of local government or public authority that fails to submit an annual audit report as required under subsection (a) of this section within nine months of the ~~county or municipality's~~ fiscal year end. The notice shall be sent to the governing board by first-class mail ~~at the county or municipality's~~ to the primary mailing ~~address.~~ address on record with the Commission. The notice shall be issued within 30 days following nine months after the ~~county or municipality's~~ fiscal year end. A county or municipality that fails to comply with the notice of noncompliance and to complete the annual audit required under subsection (a) of this section within 12 months of its fiscal year end shall be deemed to have given consent to the withholding of a portion of its sales tax distributions, as provided in subsection (g) of this section.

(f) Upon receiving a notice of noncompliance under subsection (e) of this section, a county or municipality may notify the secretary in writing that it plans to appeal the action and the county or municipality will be scheduled to appear before the Commission at its next regularly scheduled meeting. The written notice shall state the basis for the appeal and include any evidence to support the appeal. The Commission shall establish guidelines outlining specific criteria that would warrant a successful appeal. If a county or municipality appeals prior to the secretary taking action to withhold under subsection (g) of this section, the secretary must delay withholding if the Commission determines that the county or municipality has provided sufficient evidence that the failure to provide a copy of ~~their~~ the annual audit report required by subsection (a) of this section is due to circumstances within the guidelines established by the Commission. If the county or municipality appeals after the secretary takes action to withhold under subsection (g) of this section, the secretary must notify the Secretary of Revenue to release any funds withheld under subsection (g) of this section if the Commission determines that the county or municipality has provided sufficient evidence that the failure to provide a copy of ~~their~~ the annual audit report required by subsection (a) of this section is due to circumstances within the guidelines established by the Commission.

(g) A county or municipality that fails to file a copy of its annual audit report as required by subsection (a) of this section with the secretary within 12 months of its fiscal year end may have a portion of its sales tax distributions withheld. The total cumulative amount that may be withheld is an amount equal to one hundred fifty percent (150%) of the cost of the required annual audit as indicated in the audit contract between the county or municipality and its external auditor for the audit report, if ~~such~~ a contract has been executed, or one hundred fifty percent (150%) of the actual fee for the most recently filed audit report if a contract has not been executed for the current year audit.

The Secretary of Revenue must withhold from the county or municipality's distribution under G.S. 105-486, and from the county or municipality's distribution under G.S. 105-501 if

necessary, the amount required to be withheld upon written notification to do so from the secretary. The notifications must be made on a quarterly basis. The amount to be withheld is five percent (5%) of one-twelfth of the county or municipality's annual general fund budget as it was adopted at the beginning of the fiscal year in which the withholding begins until the total cumulative withholding amount is reached. The total cumulative amount to be withheld and any schedule of withholding shall be provided by the secretary in its notification to the Secretary of Revenue. The Secretary of Revenue shall begin withholding from the county or municipality's first distribution of sales and use tax that is at least 45 days after they receive notification from the secretary.

(h) When the annual audit report required ~~under~~ by subsection (a) of this section has been filed with the secretary, reviewed to ensure compliance with the requirements of this section, and accepted by the secretary or an appeal was successful under subsection (f) of this section, the secretary must notify the Secretary of Revenue within 30 days to release the funds. The Department of Revenue must release the funds in the county or municipality's first scheduled distribution of sales tax that is at least 45 days after the earlier of the following:

(1) Two years from the date of notification for the funds to be withheld.

(2) The date the Secretary of Revenue receives notification from the secretary that either (i) a report complying with the requirements of this section was filed and accepted by the secretary or (ii) the county or municipality has successfully appealed action taken under subsection (g) of this section.

(i) The secretary shall report annually to the Commission and the General Assembly a list of the units of local government and public authorities failing to complete and report to the Commission, in a timely fashion, two or more consecutive annual audits as required by subsection (a) of this section."

SECTION 2.(a) G.S. 115C-447 reads as rewritten:

"**§ 115C-447. Annual independent audit.**

(a) Each local school administrative unit shall have its accounts and the accounts of individual schools therein audited as soon as possible after the close of each fiscal year by ~~a certified public accountant or by~~ an accountant certified by the ~~Local Government Commission~~ State Auditor in accordance with subsection (e) of this section as qualified to audit local government accounts. The auditor who audits the accounts of a local school administrative unit shall also audit the accounts of its individual schools.

(a1) The auditor shall be selected by and shall report directly to the board of education. In no instance may the governing board select an auditor not certified by the State Auditor as qualified to audit local government accounts. The board of education shall solicit bids for conducting the audit by sealed bid, which may be done annually but at least once every five years. The board of education shall select an auditor from those sealed bids based solely on cost, expertise, and time for completion of the audit and without information as to identity of the bidder. If upon opening that sealed bid, the board of education determines that the auditor cannot meet the audit schedule of the board of education or has performed inadequately on a prior audit of the board of education, the board of education may reject that sealed bid and solicit sealed bids again in accordance with this subsection.

(a2) The audit contract shall be in writing, shall include all its terms and conditions, and shall be submitted to the ~~Secretary~~ secretary of the ~~Local Government~~ Commission for ~~his~~ approval as to form, terms and conditions. The terms and conditions of the audit contract shall include the scope of the audit, and the requirement that upon completion of the examination the auditor shall prepare a typewritten or printed report embodying financial statements and ~~his~~ the auditor's opinion and ~~comments relating thereto.~~comments.

(a3) The financial statements accompanying the auditor's report shall be prepared in conformity with generally accepted accounting principles. The auditor shall file a copy of the audit report with the ~~Secretary~~ secretary of the ~~Local Government~~ Commission, the State Board

of Education, the board of education and the board of county commissioners, and shall submit all bills or claims for audit fees and costs to the ~~Secretary~~ secretary of the ~~Local Government~~ Commission for ~~his~~ approval. It shall be unlawful for any local school administrative unit to pay or permit the payment of ~~such~~ the bills or claims without ~~this approval.~~the approval of the secretary of the Commission.

(a4) Each officer, employee and agent of the local school administrative unit having custody of public money or responsibility for keeping records of public financial or fiscal affairs shall produce all books and records requested by the auditor and shall divulge ~~such~~ the information relating to fiscal affairs as ~~he~~ may ~~request.~~ be requested. If any member of a board of education or any other public officer, employee or agent shall conceal, falsify, or refuse to deliver or divulge any books, records, or information, with an intent thereby to mislead the auditor or impede or interfere with the audit, ~~he~~ that individual is guilty of a Class 1 misdemeanor.

(a5) The State Auditor shall have authority to prescribe the manner in which funds disbursed by administrative units by warrants on the State Treasurer shall be audited.

(b) When the State Board of Education finds that incidents of fraud, embezzlement, theft, or management failures in a local school administrative unit make it appropriate to review the internal control procedures of the unit, the State Board of Education shall so notify the unit. If the incidents were discovered by the firm performing the audit under subsection (a) of this section, the board of the local school administrative unit shall submit the audit together with a plan for any corrective actions relative to its internal control procedures to the State Board of Education and the ~~Local Government~~ Commission for approval and shall implement the approved changes prior to the next annual audit. Where the firm preparing the audit under subsection (a) of this section identifies significant problems with internal control procedures the local school administrative unit shall submit the audit together with a plan for any corrective actions relative to its internal control procedures to the State Board of Education and the ~~Local Government~~ Commission for approval and shall implement the approved changes prior to the next annual audit.

(c) If the incidents were not discovered by the firm performing the audit under subsection (a) of this section, the State Board of Education and the ~~Local Government~~ Commission shall employ an audit firm to review the internal control procedures of that local school administrative unit. Upon completion of this review, the audit firm shall report publicly to the State Board of Education, the ~~Local Government~~ Commission, and the board of the local school administrative unit. If the State Board of Education determines that significant changes are needed in the internal control procedures of the local school administrative unit, the local board shall submit a plan of corrective actions to the State Board of Education and the ~~Local Government~~ Commission for approval and shall implement the approved changes prior to the next annual audit. The local school administrative unit shall pay the cost of this audit.

(d) The Commission has authority to issue rules and regulations for the purpose of improving the quality of auditing and the quality and comparability of reporting pursuant to this section or any similar section of the General Statutes. The rules and regulations may consider the needs of the public for adequate information and the performance that the auditor has demonstrated in the past and may be varied according to the size, purpose, or function of the unit, or any other criteria reasonably related to the purpose or substance of the rules or regulations.

(e) The State Auditor shall establish a process for certified public accountants and accountants to become certified to conduct annual audits under this section. Any certified public accountant or accountant certified to conduct annual audits may be removed for cause.

(f) The secretary shall report annually to the Commission and the General Assembly a list of the local school administrative units failing to complete and report to the Commission, in a timely fashion, two or more consecutive annual audits as required by this section."

SECTION 2.(b) G.S. 115C-423 is amended by adding a new subdivision to read:

"(3m) "Commission" is the Local Government Commission."

SECTION 3. There is appropriated the sum of three million five hundred twenty thousand dollars ($3,520,000) in recurring funds for the 2025-2026 fiscal year to the State Auditor to create a financial administration program. This program shall provide the resources to employ 32 additional finance professionals to assist small local governments and public authorities with returning to a compliant status, with priority for local governments and public authorities with limited means and those local governments or public authorities on the Unit Assistance List published by the Local Government Commission annually.

SECTION 4. This act becomes effective July 1, 2025, and applies to audits conducted on or after that date.