



# HOUSE BILL 799: Local Government Audits.

2023-2024 General Assembly

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<b>Committee:</b>	House Local Government. If favorable, re-refer to Appropriations. If favorable, re-refer to Rules, Calendar, and Operations of the House	<b>Date:</b>	May 1, 2023
<b>Introduced by:</b>	Reps. Winslow, Penny, Zenger	<b>Prepared by:</b>	Erika Churchill
<b>Analysis of:</b>	PCS to First Edition H799-CSSTa-25		Staff Attorney

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**OVERVIEW:** *The proposed committee substitute(PCS) for House Bill 799 would do the following:*

- *Require the accountants performing annual audits for local governments, public authorities, and local school administrative units to be certified by the Local Government Commission as qualified to conduct such audits.*
- *Require the governing board of the local government, public authority, and local school administrative unit to solicit sealed bids from the accountants certified to conduct local governmental audits, and to make a selection based solely on cost, expertise, and time for completion of the audit.*
- *Appropriate \$3.52 million in recurring funds to the NC Association of Regional Councils of Governments to provide accounting services to units of local government and public authorities, with a priority to those on the Unit Assistance List.*

## CURRENT LAW:

### Local School Administrative Units

The School Budget and Fiscal Control Act, found in Article 31 of Chapter 115C of the General Statutes, establishes a uniform budget format to facilitate the accomplishment of the following objectives: "(i) to enable the board of education and the board of county commissioners to make the local educational and local fiscal policies embodied therein; (ii) to control and facilitate the fiscal management of the local school administrative unit during the fiscal year; and (iii) to facilitate the gathering of accurate and reliable fiscal data on the operation of the public school system throughout the State." G.S. 115C-426.

One of the requirements of the School Budget and Fiscal Control Act is that each local school administrative unit must 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 Local Government Commission as qualified to audit local government accounts. G.S. 115C-447.

### Local Governments and Public Authorities

The Local Government Budget and Fiscal Control Act, found in Article 3 of Chapter 159 of the General Statutes, "prescribe[s] for local governments and public authorities a uniform system of budget adoption

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# House 799 PCS

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and administration and fiscal control." G.S. 159-7. One of the requirements of the Local Government Budget and Fiscal Control Act is that each unit of local government must have its accounts audited as soon as possible after the close of each fiscal year.

The auditor is selected by and reports directly to the governing board. G.S. 159-34. However, when the State Auditor has published an audit report that is the result of an investigation of a unit of local government, the Local Government Commission may require the governing board to select from a list of three certified public accountants the accountant to conduct their annual audit. This authority may be exercised for up to three fiscal years after the release of the investigative report. The certified public accountant selected reports directly to the Local Government Commission and the governing board and is paid by the governing board.

The annual audit is generally conducted in the fall following the end of the fiscal year on June 30<sup>th</sup>. The audit report is due October 31st to the Local Government Commission and considered late after November 30th. These dates may be extended under the audit contract due to extenuating circumstances, with the approval of the Local Government Commission.

**BILL ANALYSIS:** The PCS would do all of the following:

- Require the accountants performing annual audits for local governments, public authorities, and local school administrative units to be certified by the Local Government Commission as qualified to conduct such audits.
- Allow the Local Government Commission to establish a process for certified public accountants and accountants to become certified to conduct annual audits, including a removal process which must be for cause.
- Require the governing board of the local government, public authority, and local school administrative unit to solicit sealed bids from the accountants certified to conduct governmental audits. The governing board would select from the sealed bids based solely on cost, expertise, and time for completion of the audit. If the governing board determined that the selected auditor could not meet the audit timeline or had inadequately performed on a previous audit of the governing board, the governing board could reject that bid and solicit sealed bids again.
- Require an annual report from the Secretary of the Local Government Commission to the Commission and the General Assembly of a list of local governments, public authorities, and local school administrative units that fail to complete in a timely fashion two or more consecutive annual audits.
- Appropriate \$3.52 million, in recurring funds beginning in the 2023-24 fiscal year, to the North Carolina Association of Regional Councils of Governments to create a financial administration program to provide finance professionals in the 16 regions to assist small local governments and public authorities, prioritizing units on the Unit Assistance List published by the Local Government Commission.
- Make other conforming changes.

**EFFECTIVE DATE:** Effective for audits conducted on or after July 1, 2023.