

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Fiscal Note

BILL NUMBER: Senate Bill 281 (First Edition)
SHORT TITLE: State Depts. & Agencies/Required Audits.
SPONSOR(S): Senators Tarte, J. Davis, and B. Jackson

FISCAL IMPACT					
(\$ in millions)					
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> No Estimate Available					
State Impact	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
General Fund Revenues:	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
General Fund Expenditures:	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0
State Positions:	0.0	0.0	0.0	0.0	0.0
NET STATE IMPACT	(\$2.0)	(\$2.0)	(\$2.0)	(\$2.0)	(\$2.0)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:					
All State agencies and departments					
EFFECTIVE DATE: January 1, 2016					
TECHNICAL CONSIDERATIONS:					
Yes - See Technical Considerations Section					

BILL SUMMARY: This bill requires the State Auditor to conduct a financial audit of all principal state departments annually (Health and Human Services, Public Instruction, Public Safety, Revenue, State Treasurer, and Transportation) and all other state departments, agencies, and entities for which the State has oversight every two years. The bill also provides instruction on the format of the audits and allows the Auditor to collect the costs of the audit from each state department or agency.

ASSUMPTIONS AND METHODOLOGY:

The cost estimate is calculated by multiplying the estimated hours required for completion by the Office of the State Auditor’s hourly rate. The estimated hours required for completion is based on the size of the agency budget and the complexity of its programs. The Auditor’s Office hourly rate is set at \$100 and this fiscal analysis assumes that rate will remain stable through the next five fiscal years.

The chart on page two shows the following information:

- Departments and entities impacted by this bill.
- Hours required for completion of one audit.
- Cost for one audit.

- Annual audit cost under the proposed bill. Excluding the principal agencies that are audited annually, the annual audit cost under this bill is half the cost of one financial audit. This is due to the requirement that these agencies be audited once every two years.
- Current annual audit cost to the State. Three entities are currently being audited on an existing schedule; public universities receive annual audits, community colleges receive biennial audits, and Clerks of Court receive one audit every four years.
- Bill's net expense. This is calculated by subtracting the current annual audit cost to the State from the annual audit cost under the bill.

Department/Entity	Hours for Completion	Cost for One Financial Audit (\$)	Annual Audit Cost under Bill (\$)	Current Annual Audit Cost to State (\$)	Bill's Net Expense (\$)
Agencies to be audited annually					
Revenue	500	50,000	50,000	-	50,000
State Treasurer	700	70,000	70,000	-	70,000
Public Instruction	2,000	200,000	200,000	-	200,000
Health & Human Services	3,250	325,000	325,000	-	325,000
Transportation	3,425	342,500	342,500	-	342,500
Public Safety	3,500	350,000	350,000	-	350,000
Agencies to be audited biennially					
Secretary of State	100	10,000	5,000	-	5,000
State Board of Elections	100	10,000	5,000	-	5,000
State Controller	300	30,000	15,000	-	15,000
Lieutenant Governor	300	30,000	15,000	-	15,000
Office of Administrative Hearings	300	30,000	15,000	-	15,000
Labor	500	50,000	25,000	-	25,000
Governor's Office / OSBM	1,000	100,000	50,000	-	50,000
NC Wildlife Resources	1,000	100,000	50,000	-	50,000
Insurance	1,000	100,000	50,000	-	50,000
Justice	1,500	150,000	75,000	-	75,000
Information Technology Services	1,500	150,000	75,000	-	75,000
Cultural Resources	1,750	175,000	87,500	-	87,500
Environment & Natural Resources	2,500	250,000	125,000	-	125,000
Agriculture & Consumer Services	2,500	250,000	125,000	-	125,000
Administration	2,500	250,000	125,000	-	125,000
Commerce	3,500	350,000	175,000	-	175,000
Agencies currently audited; to be audited biennially					
Public Universities [1]	17,000	1,700,000	850,000	1,700,000	(850,000)
Community Colleges [2]	18,290	1,829,000	914,500	914,500	-
Clerks of Court [3]	20,000	2,000,000	1,000,000	500,000	500,000
Total Cost:			5,119,500	Net Cost:	2,005,000

[1] Public Universities:

- Statute currently requires all 16 public universities to be audited annually by the State Auditor.
- The annual cost for audits of all universities is \$1,700,000.
- To change from an annual audit to a biennial audit schedule as proposed in this bill, the cost will be half, or \$850,000 per year. This net cost savings of \$850,000 is reflected in the chart on page two.

[2] Community Colleges:

- Statute currently requires all 59 community colleges to be audited biennially by the State Auditor or by a private firm.
- As of this fiscal year, 43 community colleges receive a biennial audit through the Auditor's Office. The proposed bill will require the remaining 16 community colleges currently receiving private firm audits to continue receiving biennial audits, but through the State Auditor.
- The fiscal impact chart on page two reflects a net impact of \$0, as all community colleges will remain on a biennial audit schedule.

[3] Clerks of Court:

- Statute currently requires the State Auditor to conduct audits of all 100 Clerks of Court offices once every four years. Approximately 25 of the 100 offices are audited each year.
- The current annual cost for Clerks of Court audits is \$500,000.
- The total cost of auditing all Clerks of Court offices would be \$2,000,000. To meet the biennial audit schedule required in this bill, the annual cost would be \$1,000,000.
- The fiscal impact chart on page two reflects the cost change by removing the \$500,000 per year audit cost, in place of a biennial audit of all 100 Clerks of Court as required in this bill.

SOURCES OF DATA: North Carolina Office of the State Auditor, U.S. Office of Management and Budget, Government Finance Officers Association

TECHNICAL CONSIDERATIONS: All state agencies, colleges, and universities that spend \$500,000 or more of Federal grants in a year are required to obtain an annual audit in accordance with the Federal Single Audit Act Amendments of 1996.

The Government Finance Officers Association recommends that as a best practice, state and local governments should obtain annual independent audits of their financial statements. These audited financial statements are often included in any debt offering statements issued by the government entity.

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DATE: March 22, 2015



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