

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2017

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SENATE BILL 304  
State and Local Government Committee Substitute Adopted 3/28/17

Short Title: Required Financial Audits.

(Public)

Sponsors:

Referred to:

March 20, 2017

1 A BILL TO BE ENTITLED  
2 AN ACT TO REQUIRE FINANCIAL AUDITS OF CERTAIN NONPROFIT  
3 CORPORATIONS AND ALL STATE OFFICES, DEPARTMENTS, AND AGENCIES  
4 AND AN ANNUAL SUBMISSION OF COMPLETED AUDITS TO THE STATE  
5 AUDITOR BY UNITS OF LOCAL GOVERNMENT AND PUBLIC AUTHORITIES.

6 The General Assembly of North Carolina enacts:

7 **SECTION 1.** Article 5A of Chapter 147 of the General Statutes is amended by  
8 adding a new section to read:

9 **"§ 147-64.6E. Required financial audits.**

10 (a) Principal State Department Requirement. – All principal offices and departments  
11 listed in G.S. 143A-11 and G.S. 143B-6 shall be subject to an annual financial audit.

12 (b) Requirement for Other State Agencies. – State agencies not subject to the  
13 requirement set forth in subsection (a) of this section shall be subject to a biennial financial  
14 audit.

15 (c) Nonprofit Corporation Requirement. – All nonprofit corporations that receive State  
16 funds, as defined in G.S. 143C-1-1, or funds from a county or municipality shall be subject to a  
17 quadrennial financial audit or a quadrennial financial review as provided herein:

18 (1) If the nonprofit corporation has annual total revenues of one million dollars  
19 (\$1,000,000) or greater and the nonprofit corporation receives funds from  
20 the State, a county, or a municipality, an independent financial audit must be  
21 prepared and reported.

22 (2) If the nonprofit corporation has annual total revenues of nine hundred  
23 ninety-nine thousand nine hundred ninety-nine dollars (\$999,999) or less and  
24 the nonprofit corporation receives funds from the State, a county, or a  
25 municipality, an independent financial review must be prepared and  
26 reported. An independent financial audit is also permissible to comply with  
27 this subdivision.

28 (3) A nonprofit corporation may select the certified public accounting firm to  
29 perform the required independent financial audit or independent financial  
30 review, as appropriate, and the nonprofit corporation is responsible for the  
31 cost of the required independent financial audit or independent financial  
32 review.

33 (d) Exceptions to Nonprofit Corporation Requirement. – The requirement in subsection  
34 (c) of this section shall not apply to any of the following:

35 (1) A nonprofit corporation that has performed an independent financial audit or  
36 an independent financial review in compliance with federal law.



1           (2)    A nonprofit corporation that has submitted an audit or review as prepared by  
2           a certified public accountant in the ordinary course of business. In either  
3           case, the nonprofit corporation is not required to submit any different or  
4           additional audit or review.

5           (3)    A nonprofit corporation that has dissolved or ceased operations at the time  
6           an audit is required under subsection (c) of this section.

7           (e)    Local Government Requirement. – Each unit of local government and public  
8           authority subject to G.S. 159-34 shall submit to the Auditor, the General Assembly, and the  
9           Governor any audit of its accounts completed in accordance with G.S. 159-34. Audits  
10          submitted in accordance with this subsection shall be a public record. A public authority  
11          subject to G.S. 159-34 may comply with this subsection by submitting the audit required by the  
12          Local Government Commission, if this audit meets the criteria of an independent financial  
13          audit, as generally recognized by the North Carolina Association of Certified Public  
14          Accountants.

15          (f)    Performance of Audits. – The State Auditor may select independent certified public  
16          accountants to perform the audits required under subsections (a) and (b) of this section, and if  
17          an independent certified public accountant is selected, the audit shall be completed under the  
18          supervision of the Auditor. The results of the audits shall be submitted to the Auditor, the  
19          General Assembly, and the Governor and shall be a public record.

20          (g)    Timing. – To the extent possible, and to avoid duplication of efforts, the Auditor  
21          shall align the completion of audits required under subsections (a) and (b) of this section with  
22          the completion of the State's Comprehensive Annual Financial Report.

23          (h)    Contract. – Contracting for services under subsection (f) of this section shall be in  
24          accordance with Article 3 of Chapter 143 of the General Statutes. In addition, the following  
25          requirements shall be met:

26               (1)    The maximum length of any contract under this section shall be 10 years.

27               (2)    An independent certified public accountant shall not perform more than 10  
28               consecutive financial audits for the same State office, department, or agency.

29          (i)    Costs. – Notwithstanding any provision of law to the contrary, the Auditor is  
30          authorized to charge and collect from each State office, department, or agency, the actual costs  
31          of audit work required under subsections (a) and (b) of this section; provided, however, the  
32          Auditor and the State are not responsible for the actual costs of audits and financial reviews  
33          under subsection (c) of this section and those costs shall be the responsibility of the nonprofit  
34          corporation.

35          (j)    Discretionary Audits. – Audits performed under this section shall be in addition to  
36          any audit made at the discretion of the Auditor under G.S. 147-64.6."

37          **SECTION 2.** G.S. 147-64.6(c)(2) reads as rewritten:

38          "(c)    The Auditor shall be responsible for the following acts and activities:

39               ...

40               (2)    ~~Financial~~ Except as otherwise provided in G.S. 147-64.6E, financial and  
41               compliance audits may be made at the discretion of the Auditor without  
42               advance notice to the organization being audited. Audits of economy and  
43               efficiency and program results shall be discussed in advance with the  
44               prospective auditee unless an unannounced visit is essential to the audit."

45          **SECTION 3.** This act becomes effective July 1, 2018.