

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2017

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SENATE BILL 304
PROPOSED COMMITTEE SUBSTITUTE S304-PCS45310-RN-6

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.



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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.