



SENATE BILL 304: Required Financial Audits.

2017-2018 General Assembly

Committee:	Senate State and Local Government. If favorable, re-refer to Appropriations/Base Budget. If favorable, re-refer to Rules and Operations of the Senate	Date:	March 27, 2017
Introduced by:	Sens. Tarte, Hise, B. Jackson	Prepared by:	Brad Krehely
Analysis of:	PCS to First Edition S304-CSR-6		Committee Co-Counsel

OVERVIEW: *The Proposed Committee Substitute (PCS) for Senate Bill 304 would require financial audits of certain nonprofit corporations and all State offices, departments, and agencies and an annual submission of completed audits to the State Auditor by units of local government and public authorities. The PCS clarifies which nonprofits are subject to quadrennial financial reviews and audits, creates exceptions for certain nonprofit corporations, clarifies that the nonprofit corporation selects the accounting firm and is responsible for costs of the audit or review, provides that the Auditor may select an independent certified public accountant to perform audits of State offices, departments, and agencies, changes the effective date to July 1, 2018, and makes other conforming changes.*

BILL ANALYSIS: The PCS for Senate Bill 304 would require financial audits as follows.

- **Principal State Departments-** The principal State Departments under G.S. 143A-11 would be subject to an *annual* financial audit (Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Public Instruction, Justice, Agriculture and Consumer Services, Labor, and Insurance).
- **Principal Departments-** The principal departments in G.S. 143B-6 would be subject to an *annual* financial audit: (Departments of Natural and Cultural Resources, Department of Health and Humans Services, Revenue, Public Safety, Environmental Quality, Transportation, Administration, Commerce, Community Colleges System Office, Information Technology, and Military and Veterans Affairs).
- **Other State Agencies-** Other State agencies are subject to a biennial financial audit. (i.e. must occur every two years).
- **Nonprofit Corporations-** Nonprofit corporations that receive State funds or funds from a county or municipality are subject to a quadrennial financial audit or financial review (i.e. once every four years) as described below:
 - If the nonprofit corporation has annual total revenues of \$1 million or greater and the nonprofit corporation receives funds from the State, a county, or a municipality, an independent financial audit must be prepared and reported.

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- If the nonprofit corporation has annual total revenues of \$999,999 or less and the nonprofit corporation receives funds from the State, a county, or a municipality, an independent financial review must be prepared and reported. An independent financial audit is also permissible.
- A nonprofit corporation may select the certified public accounting firm to perform the required independent financial audit or independent financial review, as appropriate, and the nonprofit corporation is responsible for the costs.
- **Exceptions to Nonprofit Corporation Requirement-** The requirement to file a financial audit or financial review does not apply to:
 - A nonprofit corporation that has performed an independent financial audit or an independent financial review in compliance with federal law.
 - A nonprofit corporation that has submitted an audit or review as prepared by a certified public accountant in the ordinary course of business.
 - A nonprofit corporation that has dissolved or ceased operations at the time an audit is required.
- **Local Governments-** Each unit of local government and public authority subject to annual auditing requirements under the Chapter 159 must submit to the Auditor, the General Assembly, and the Governor any audit of its accounts. Audits submitted in accordance with this subsection shall be a public record. A public authority subject to G.S. 159-34 may comply with this subsection by submitting the audit required by the Local Government Commission, if this audit meets the criteria of an independent financial audit as generally recognized by the North Carolina Association of Certified Public Accountants.
- **Performance of Audits-** The State Auditor may select independent certified public accountants to perform the audits of State offices, departments, and agencies, and if an independent accountant is selected, then the audits are completed under the supervision of the Auditor. The results are submitted to the Auditor, the General Assembly, and the Governor.
- **Timing-** The Auditor is directed to align the completion of required audits with the completion of the State's Comprehensive Annual Financial Report.
- **Contracting-** In contracting for independent certified public accountants, the Auditor must follow purchase and contracting requirements in the General Statutes. Additionally, the maximum length of any contract shall be 10 years, and a CPA must not perform more than 10 consecutive audits on the same entity.
- **Costs-** The Auditor may charge and collect costs for the audits or financial reviews from each State office, department or agency. However, the costs of audits and financial reviews of nonprofit corporations are the responsibility of the nonprofit corporation.
- **Discretionary Audits-** Audits performed under this section are in addition to audits the Auditor may make under her powers and duties.

The act also makes a conforming change to the State Auditor's powers and duties.

EFFECTIVE DATE: The act would become effective July 1, 2018.