

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2023

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HOUSE BILL 122  
Committee Substitute Favorable 2/28/23

Short Title: Reimburse Late Audit Costs with Sales Tax Rev.

(Public)

Sponsors:

Referred to:

February 15, 2023

A BILL TO BE ENTITLED

AN ACT TO INCREASE COMPLIANCE BY COUNTIES AND MUNICIPALITIES THAT  
FAIL TO TIMELY SUBMIT AN ANNUAL AUDIT REPORT.

The General Assembly of North Carolina enacts:

**SECTION 1.** G.S. 159-34 is amended by adding four new subsections to read:

"(e) The secretary shall provide a notice of noncompliance to each county or municipality that fails to submit an annual audit report as required under subsection (a) of this section within nine months of the county or municipality's fiscal year end. The notice shall be sent to the governing board by first-class mail at the county or municipality's primary mailing address. The notice shall be issued within 30 days following nine months after the county or municipality's fiscal year end. A county or municipality that fails to comply with the notice of noncompliance and to complete the annual audit required under subsection (a) of this section within 12 months of its fiscal year end shall be deemed to have given consent to the withholding of a portion of its sales tax distributions, as provided in subsection (g) of this section.

(f) Upon receiving a notice of noncompliance under subsection (e) of this section, a county or municipality may notify the secretary in writing that it plans to appeal the action and the county or municipality will be scheduled to appear before the Commission at its next regularly scheduled meeting. The written notice shall state the basis for the appeal and include any evidence to support the appeal. The Commission shall establish guidelines outlining specific criteria that would warrant a successful appeal. If a county or municipality appeals prior to the secretary taking action to withhold under subsection (g) of this section, the secretary must delay withholding if the Commission determines that the county or municipality has provided sufficient evidence that the failure to provide a copy of their annual audit report is due to circumstances within the guidelines established by the Commission. If the county or municipality appeals after the secretary takes action to withhold under subsection (g) of this section, the secretary must notify the Secretary of Revenue to release any funds withheld under subsection (g) of this section if the Commission determines that the county or municipality has provided sufficient evidence that the failure to provide a copy of their annual audit report is due to circumstances within the guidelines established by the Commission.

(g) A county or municipality that fails to file a copy of its annual audit report with the secretary within 12 months of its fiscal year end may have a portion of its sales tax distributions withheld. The total cumulative amount that may be withheld is an amount equal to one hundred fifty percent (150%) of the cost of the required annual audit as indicated in the audit contract between the county or municipality and its external auditor for the audit report, if such a contract has been executed, or one hundred fifty percent (150%) of the actual fee for the most recently filed audit report if a contract has not been executed for the current year audit.



1        The Secretary of Revenue must withhold from the county or municipality's distribution under  
2 G.S. 105-486, and from the county or municipality's distribution under G.S. 105-501 if  
3 necessary, the amount required to be withheld upon written notification to do so from the  
4 secretary. The notifications must be made on a quarterly basis. The amount to be withheld is five  
5 percent (5%) of one-twelfth of the county or municipality's annual general fund budget as it was  
6 adopted at the beginning of the fiscal year in which the withholding begins until the total  
7 cumulative withholding amount is reached. The total cumulative amount to be withheld and any  
8 schedule of withholding shall be provided by the secretary in its notification to the Secretary of  
9 Revenue. The Secretary of Revenue shall begin withholding from the county or municipality's  
10 first distribution of sales and use tax that is at least 45 days after they receive notification from  
11 the secretary.

12        (h) When the report required under subsection (a) of this section has been filed with the  
13 secretary, reviewed to ensure compliance with the requirements of this section, and accepted by  
14 the secretary or an appeal was successful under subsection (f) of this section, the secretary must  
15 notify the Secretary of Revenue within 30 days to release the funds. The Department of Revenue  
16 must release the funds in the county or municipality's first scheduled distribution of sales tax that  
17 is at least 45 days after the earlier of the following:

18                (1) Two years from the date of notification for the funds to be withheld.

19                (2) The date the Secretary of Revenue receives notification from the secretary that  
20 either (i) a report complying with the requirements of this section was filed  
21 and accepted by the secretary or (ii) the county or municipality has  
22 successfully appealed action taken under subsection (g) of this section."

23        **SECTION 2.** The Local Government Commission must establish and make available  
24 the guidelines required under G.S. 159-34(f) prior to the Secretary of the Local Government  
25 Commission sending out a notice of noncompliance under G.S. 159-34(e). The Commission may  
26 establish the guidelines required under G.S. 159-34(f) prior to January 1, 2024, however, the  
27 guidelines may not become effective until on or after that date.

28        **SECTION 3.** Section 1 of this act becomes effective January 1, 2024, and applies to  
29 audits for fiscal years ending on or after June 30, 2023. The remainder of this act is effective  
30 when it becomes law.