NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

BRADFORD B. BRINER
STATE TREASURER OF NORTH CAROLINA

Module 1: Responsibilities of Board Members & Introduction to Local Government Commission

Revised March 2025

Responsibilities of Board Members

- Members of a governing board have a fiduciary responsibility to the unit's taxpayers and residents to manage funds and the unit appropriately.
- The governing board is ultimately responsible for the finances and fiscal health of the unit.

Responsibilities of Board Members

Local governing boards are granted specific financial authorities and responsibilities in *North Carolina General Statute 159, Article 3*:

The Local Government Budget and Fiscal Control Act (LGBFCA). [1]

[1] G.S. 159, Article 3. The Local Government Budget and Fiscal Control Act.

The Local Government Budget and Fiscal Control Act

The LGBFCA sets forth requirements for local governments in areas such as:

1. Budgets
2. Fiscal control
3. Borrowing money

Members of governing boards should develop a strong working knowledge of the LGBFCA.

The act is just 35 pages and is available to read at ncleg.gov.

Key sections are covered in this training.

The Local Government Budget and Fiscal Control Act

- Governing boards play a crucial role in overseeing a unit's compliance with the LGBFCA.
- Board members set expectations for employees to follow requirements of the LGBFCA.

Local Government Commission (LGC)

Established in 1931 to address fiscal challenges faced by local governments during the Great Depression, the **Local Government Commission** (LGC)[2] continues to provide financial oversight for more than **1,100 units of local government** across the state, including **550+ municipalities** and **all 100 counties**.

[2] G.S. 159, Article 2. Local Government Commission.

LGC Impact

90+ years of LGC oversight has led to:

- Above-average debt ratings for local governments.
- "AAA" credit rating for the state from all three ratings agencies.
- Lower cost of borrowing for North Carolina taxpayers.
- Confidence in North Carolina's debt market and the fiscal health of its local governments.

*"When state and local officials talk about best practices in financial oversight, they often point to **North Carolina**."*

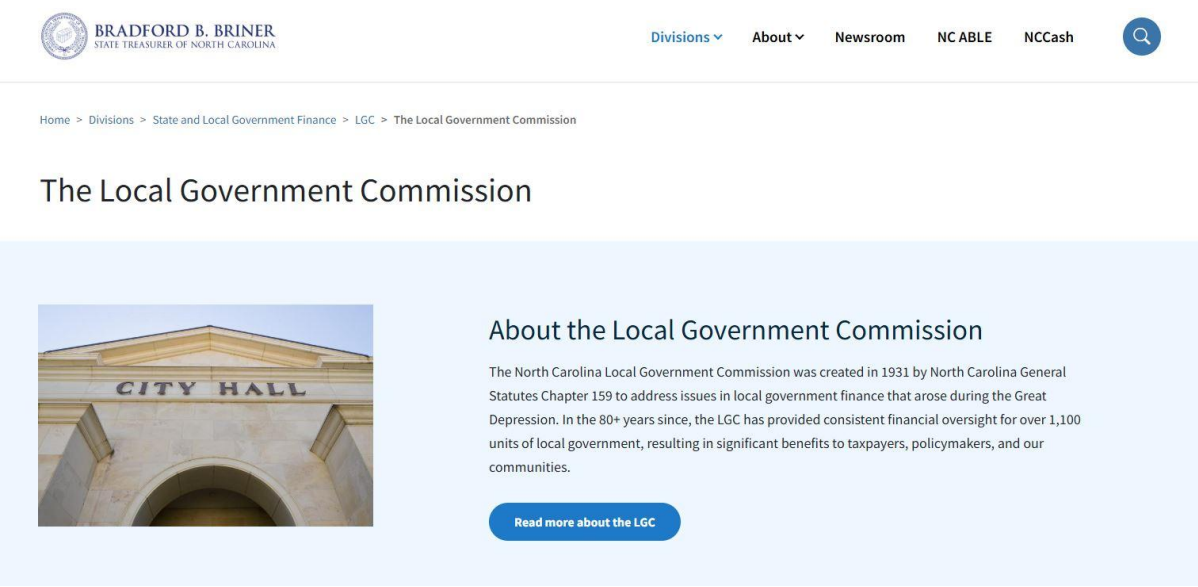
- The Pew Charitable Trusts, "State Strategies to Detect Local Fiscal Distress" (2016)

LGC Members

- The LGC is composed of **nine members**.
- State Treasurer, **Brad Briner**, serves as Chair.
- Other members include the State Auditor, Secretary of Revenue, Secretary of State, and five appointed members.

LGC Meetings

- LGC meetings are held the first Tuesday of each month at 1:30 p.m.
- Meetings can be live streamed from the LGC page on the Department of State Treasurer website.
- The LGC page also contains links to meeting agendas and recordings of past meetings.



LGC Staff

- The LGC is staffed by employees of the **State and Local Government Finance Division** (SLGFD) within the Department of State Treasurer (DST).
- LGC staff work hard to assist the LGC and units of local government across the state.

LGC staff provide:

- Expert assistance to units as needed.
- In-person and virtual education/training for local officials.
- Up-to-date guidance on local government finance via memos and blog posts.
- Helpful information and resources on the LGC website.

Reporting Requirements and Due Dates for Local Governments

Units are required by law to regularly submit certain financial information to the LGC. This includes, but is not limited to:

- **Annual Audit**[3] – Due Dec. 31 for units with a June 30 fiscal year end
- **Annual Financial Information Report (AFIR)**[4] – Due Dec. 31
- **Semi-Annual Cash and Investment Report (LGC-203)**[5] – Due Jan. 25 and July 25
- **Register of Deeds Fees Report (Counties)**[6] – Due on the 10th of each month

Visit the LGC Reporting Requirements and Due Dates page for more information on these and other reporting deadlines.

[3]G.S. 159-34(a) [4]G.S. 159-33.1 [5]G.S. 159-33 [6]G.S. 161-11.5

Key Areas of LGC Authority for Local Governments

The Local Government Commission has authority under certain circumstances:

1. To require the finance officer or anyone performing the duties of the finance officer to participate in training.[7]
2. To require local governments and public authorities to contract with outside entities, such as a third-party bookkeeper, to fulfill the duties of finance officer.[8]
3. To impound the books and records of a local government and assume full control of all its financial affairs.[9]

[7]G.S. 159-25(d) [8]G.S. 159-25(e) [9]G.S. 159-181(c)

Resources

- UNC School of Government
  - NC Finance Connect
  - Finance Calendar of Duties
  - NC Local Government Finance 101
- NC League of Municipalities
- North Carolina Association of County Commissioners
- Government Finance Officers Association - Best Practices & Resources

- **Contact LGC Staff:** (919) 814-4300
- **Visit the LGC Website**
- **Sign up for the LGC Staff Blog**
- **Stay up to date with SLGFD Memos**

Quiz: Module 1

1. Who is ultimately responsible for the finances and fiscal health of a unit?
2. Who is the Chair of the Local Government Commission?
3. Does the Local Government Commission have the authority to impound the books and records and assume full control of all financial affairs of a unit?

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Module 2: Budgets

Revised March 2025

Budget Overview

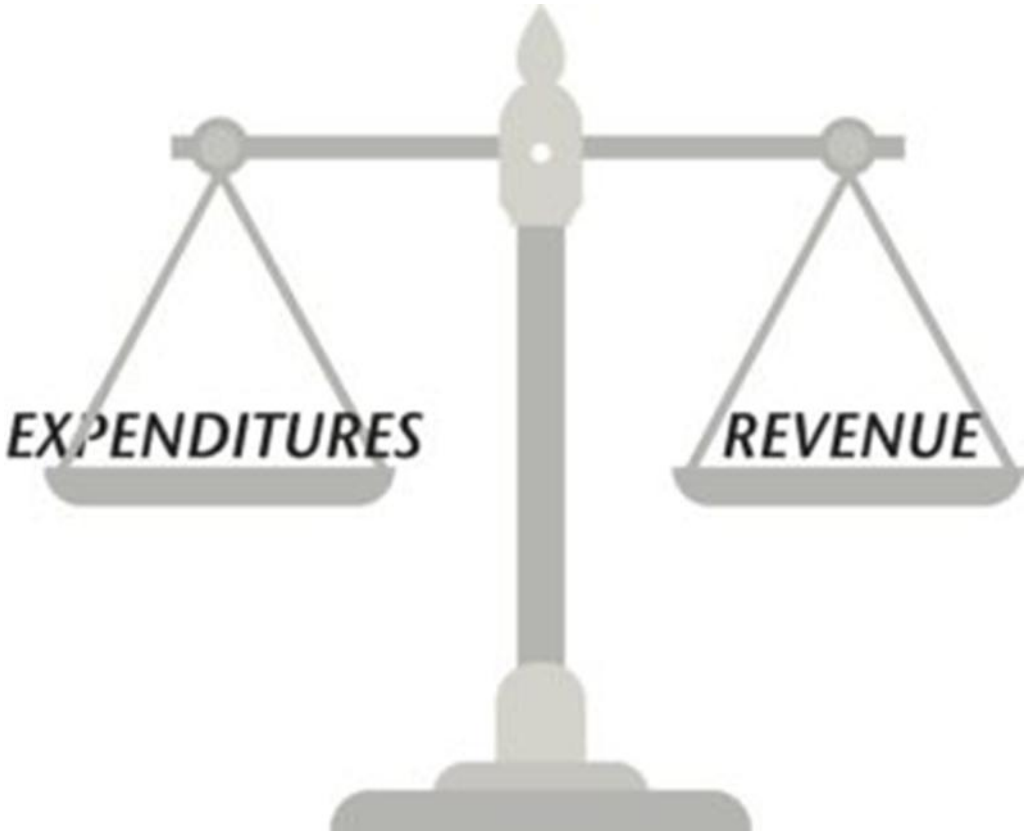
- The budget is the most important fiscal document a governing board produces.
- Developing a budget is a fundamental responsibility of a governing board.
- The budget reflects the priorities of the governing board.

The **Local Government Budget and Fiscal Control Act (LGBFCA)** provides requirements for the development and adoption of a budget, including key dates.[1]

[1] G.S. 159, Article 3. The Local Government Budget and Fiscal Control Act.

Budget Requirements

- The budget for a local government must cover a period from July 1 to June 30.[2]
  - This is the unit's fiscal year.
- The budget must be balanced.[3]
  - Recurring revenues should equal recurring expenditures.
- Fund balance should be reserved for special or unexpected circumstances.
  - It should not be used to fund recurring expenditures such as payroll or utilities.



[2]G.S. 159-8(b) [3]G.S. 159-8(a)

Budget Requirements

With limited exceptions, local governments may not spend any money that is not accounted for in the annual budget.[4]

[4] G.S. 159-8(a)

Budget Officer

- **Every local government must have a budget officer.**[5]
- For units operating under a manager form of government, **the manager is the budget officer**.
  - This includes all 100 North Carolina counties.
- Municipalities **not** using the council-manager form of government may impose the duty of budget officer on **any officer or employee**, including the mayor.

The budget officer has two main duties:

1. Prepare the annual budget
2. Execute the annual budget

[5] G.S. 159-9

Governing Board Responsibilities

The governing board plays a key role in the budget preparation process by:

- Establishing a solid timeline that allows the unit to consistently meet deadlines laid out in the LGBFCA.
- Providing guidance, priorities, and goals to the budget officer.
  - For example, a board may wish to allocate funds for staff raises, implement a new tax rate, etc.

Budget Ordinance

The budget ordinance is the legal document that:[6]

1. Estimates operating revenues.
2. Establishes authority to spend public monies via appropriations.
3. Levies ad valorem taxes.

A budget ordinance should also include provisions for staff such as authority to transfer appropriations within a fund up to a certain limit.

NC LOCAL GOVERNMENT FINANCE POLICY MANUAL

Town of WolfPack, NC Annual Budget Ordinance

AN ORDINANCE ADOPTING THE BUDGET FOR THE TOWN OF WOLFPACK, NC FOR THE FISCAL YEAR 20XX-20XX

SECTION 1. ESTIMATED REVENUES
The following revenues are hereby estimated to be available for the fiscal year beginning July 1, 20XX, and ending June 30, 20XX:

General Fund:	
Property Taxes:	$1,750,000
Sales Taxes:	$900,000
Utility Franchise Taxes:	$300,000
Powell Bill (State Street Aid):	$200,000
Building Permits & Fees:	$150,000
Other Revenues (fines, licenses, interest earnings, etc.):	$50,000
Appropriated Fund Balance:	$150,000
Total General Fund Revenues:	$3,500,000
Water Fund:	
Water Service Charges:	$1,500,000
Tap Fees:	$200,000
Legislative Appropriation:	$200,000
Total Water Fund Revenues:	$1,900,000
Special Revenue Fund:	
Grants and Restricted Revenues:	$100,000
Total Special Revenue Fund Revenues:	$100,000

[6] G.S. 159-13(a)

Budget Ordinance

- The budget ordinance must levy taxes "at rates that will produce the revenue necessary to balance appropriations and revenues."[7]
- Therefore, the budget ordinance should include:
  1. Tax rate
  2. Valuation of taxable property
  3. Expected collection percentage

- Units may not assume a higher tax collection percentage than what was actually realized during the last fiscal year.[8]
- **"In other words, the budget may not be overly optimistic about how much of next year's tax levy will result in actual dollars in the bank."[9]**

[7]G.S. 159-13(c) [8]G.S. 159-13(b)(6) [9]Chris McLaughlin, "Budgets and the Tax Collection Percentage"

Budget Adoption Timeline

January – April

The unit should hold budget workshops to discuss goals and priorities for the next budget.

The budget officer should estimate revenues and expenditures for the current and upcoming fiscal years.

Before April 30*

Department heads must submit budget requests and estimated revenues for their departments.[10]

*Or earlier if required by the budget officer

By June 1

The budget officer must submit the proposed budget and budget message to the governing board.[11]

Ideally, this submission should be part of a public meeting.

Upon submission

The budget officer must file the proposed budget with the board's clerk on the same day it is submitted to the board.[12]

The clerk must then make the budget available to the media/public and schedule a public hearing.

Before the budget is approved

The board must hold a public hearing at which those who wish to comment on the budget are allowed to speak.[13]

By July 1

The board must adopt a budget ordinance.[14]

At least 10 days must pass between submission of the budget to the governing board and adoption of the budget ordinance.

Within five days of adoption

Copies of the budget ordinance must be filed with the finance officer, budget officer and board's clerk.[15]

[10] G.S. 159-10 [11] G.S. 159-11(b) [12] G.S. 159-12(a) [13] G.S. 159-12(b) [14] G.S. 159-13 [15] G.S. 159-13(d)

Interim Budget

- If the budget ordinance cannot be adopted by July 1, **an interim budget ordinance must be adopted.**[16]
- Disbursements cannot be made after June 30 without an annual budget ordinance or interim budget ordinance.
- Property taxes are not levied in an interim budget ordinance.
- Interim budgets should be used **rarely** and for the shortest possible time.
- When the final budget is adopted, the expenditures incurred under the interim budget must be included in the final budget.

[16] G.S. 159-16

Budget Amendments

- The budget can be amended by the governing board at any time, as long as it remains balanced and continues to meet all other statutory requirements.[17]
- A budget amendment is adopted at a regular meeting and does not require a public hearing.
- Budget amendments must be made **prior to** obligating funds in excess of budgeted appropriations.

An amendment to the budget ordinance may not alter the tax levy **unless**:

1. The board is directed to do so by a court or authorized state agency.

OR

2. Revenues received are substantially more or less than the amount estimated in budget. (In this case, the amendment may only be adopted before **January 1**.)

[17] G.S. 159-15

Fund Balance Available

- **Fund Balance Available** or **FBA** is a governmental accounting term used only in North Carolina.
- It is the portion of a unit's total fund balance that can legally be used, if needed, to balance the annual budget.
- FBA can be calculated from a unit's annual audit using this spreadsheet provided by LGC staff.

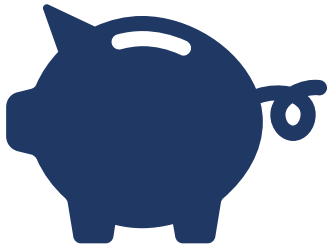
- Governments should develop a fund balance policy and adhere to it when taking budget actions.
- Sample fund balance policies are available from NC Finance Connect.
- Following a well-established fund balance policy can help units ensure that sufficient funds are available for special or unexpected circumstances.

FBA Targets

- While there is no mandated minimum fund balance for units, the LGC uses established FBA thresholds as a measure of a unit's financial health.
- To learn more about the LGC's FBA recommendations and determine a target that is appropriate for your unit, start by reading this blog post.
- Annual reports on Management of Cash and Taxes and Fund Balance Available are available on the LGC website.

Creating Capital Reserves

To save money for capital projects, such as new buildings or infrastructure improvements, governing boards can and should establish a **capital reserve fund**.



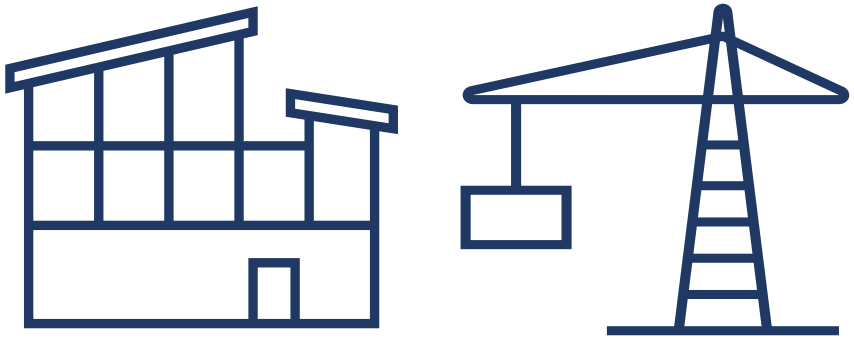
The resolution or ordinance establishing the capital reserve fund must include:[18]

1. The purposes for which the fund is created.
2. The approximate period of time during which the moneys are to be accumulated for each purpose.
3. The approximate amounts to be accumulated for each purpose.
4. The sources from which moneys for each purpose will be derived.

[18] G.S. 159-18

Using Capital Reserves

- To make a withdrawal from a capital reserve fund, the governing board must pass a separate resolution or ordinance authorizing the specific withdrawal.[19]
- Withdrawals may only be authorized for purposes specified in the original resolution/ordinance establishing the fund **or** a purpose added in a subsequent amendment.



[19] G.S. 159-22

Other Considerations

Before transferring excess revenues from an enterprise fund to another fund, governing boards should:

- Understand the statutory limitations[20] and potential consequences of such transfers.
- Carefully consider whether the specific transfer is in the best interest of the unit.
- Read this blog post for an in-depth discussion of this topic.

[20] G.S. 159-13(b)(14)

Other Considerations

If an operating expense serves/benefits multiple funds, it may be posted **across** those funds, using a reasonable allocation basis such as square footage.

For Example:

If the offices for a utility enterprise take up 20% of the square footage in city hall, then 20% of the upkeep expenses for city hall may be allocated to the enterprise fund.

Other Considerations

- When developing a budget, governing boards should always try to think **long-term**.
- Current budgeting priorities may impact the government for years to come.

Resources

- Introduction to Local Government Budgeting (UNC School of Government)
- N.C. Local Government Finance Policy Manual, Chapter 2: Budgeting (UNC School of Government)
- N.C. Local Government Finance Policy Manual, Chapter 3: Fund Balance (UNC School of Government)
- Sample Budget Ordinances (UNC School of Government)
- Sample Adopted Budget (UNC School of Government)
- Sample Budget Amendment
- Fund Balance Available calculation
- Sample Fund Balance Policies (UNC School of Government)

Resources

- UNC School of Government
  - NC Finance Connect
  - Finance Calendar of Duties
  - NC Local Government Finance 101
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Quiz: Module 2

1. What is the most important fiscal document a governing board produces?
2. Who is responsible for preparing and executing the annual budget?
3. By what date must the budget ordinance be adopted by the governing board?

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Module 3:
Finance Officer & Monthly Financial Reports

Revised December 2025

Finance Officer

- The Local Government Budget and Fiscal Control Act (LGBFCA) requires local governments to have a finance officer at all times.[1]
- The governing board should ensure a qualified person is in the role of finance officer.

[1] G.S. 159-24

Finance Officer: Powers and Duties

The finance officer is responsible under law for all of the following:[2]

1. Keeping the unit's accounts
2. Disbursing all funds
3. Preparing and filing financial reports
4. Receiving and depositing all moneys (or supervising receipts and deposits)
5. Monitoring and managing debt
6. Supervising investment of idle funds
7. Performing other duties assigned by law, manager, budget officer, governing board, or LGC rules and regulations
8. Attending training that may be required by the LGC[3]
9. Contracting with outside entities to ensure fulfilment of duties

[2]G.S. 159-25(a) [3]G.S. 159-25(d)

Finance Officer: Faithful Performance Bond

- To protect the local government from any losses caused by a finance officer who fails to properly carry out their duties, finance officers are required to obtain a **faithful performance bond** in an amount determined by the governing board in accordance with specific statutory requirements.
- **Note that these requirements have changed as of Jan. 1, 2023.**[4][5][6]

"The amount of the bond fixed by the governing board may not be less than the greater of the following:

(1) Fifty thousand dollars ($50,000).

(2) An amount equal to ten percent (10%) of the unit's annually budgeted funds, up to one million dollars ($1,000,000)."[7]

[4]S.L. 2022-53 [5] SLGFD Memorandum 2023-06 [6]UNC Local Finance Bulletin No. 62 [7]G.S. 159-29(a)

Contracted Third-Party Bookkeeper

- The finance officer is empowered to contract with a third party for assistance with certain assigned duties.[8]
- Any work performed by a third-party bookkeeper should be closely supervised to ensure all contractual obligations to the unit are being met.
- The third-party bookkeeper may be asked to attend board meetings to answer any questions the board might have.

When working with a third-party bookkeeper:

- The board should continue to ensure a qualified finance officer is in place at all times.
- The finance officer is still ultimately responsible for ensuring all duties are carried out in an accurate and timely manner.

[8] G.S. 159-25(a)(9)

Contracted Third-Party Bookkeeper

Contract Considerations

- Monthly financial reporting should be included in the contract.
- The contract should also include specific language stating that the contractor will not be paid if the work outlined in the contract is not completed.
- A sample contract for a third-party bookkeeper is available on the LGC website.

SAMPLE

AGREEMENT BETWEEN THE CITY OF DOGWOOD AND A THIRD-PARTY BOOKKEEPER

THIS AGREEMENT, is made and entered into this ___ day of _____, 20___ by and between Dogwood, North Carolina (the "City") party of the first part; and _____ (the "Provider"), party of the second part;

W I T N E S S E T H:

For the purpose and subject to the terms and conditions hereinafter set forth, the City hereby contracts for the services of the Provider, and the Provider agrees to provide the services to the City in accordance with the terms of this Agreement.

I. SERVICES TO BE PROVIDED BY PROVIDER

A. Board Meeting Duties

1. Attend board meeting (at least one each month) to answer questions about the monthly financial reports presented to the board – budget to actual report, cash balances, expenditures, status of bank and other account reconciliations.

B. Ongoing Monthly General Accounting Duties

1. Accounts payable (bills to be paid on the 15th and 30th of each month). Review approved invoices and prepare checks for Mayor and Finance Officer's signatures. City will mail checks. Precautions will be taken to ensure invoices are properly noted when paid to prevent duplicate payments.
2. Prepare monthly financial reports to the governing board and city staff including monthly and YTD budget to actual comparisons and a comparison to the same time last year by the 15th of the following month. Ending cash balances for all bank accounts should also be included with monthly information. An executive summary narrative should accompany the reports that highlight revenue and expenditure trends and any unusual or unexpected fiscal transactions.
3. Recommend budget amendments when necessary.
4. File required financial reports and certifications timely and accurately to the State and IRS.
5. Monthly bank statement reconciliations completed by the 15th of the subsequent month with backup requested by the Finance Officer including, but not limited, to General Ledger trial balance, documentation of reconciled items, and paid and outstanding check lists.
6. Reconciled items should be resolved and corrected in the ledger before the end of the subsequent month.

SAMPLE

Monthly Financial Reports

Governing boards should expect and require monthly financial reports.

Budget-to-actual reports for significant funds, including the general fund and utility funds

Compared to prior year

Broken down by function or department

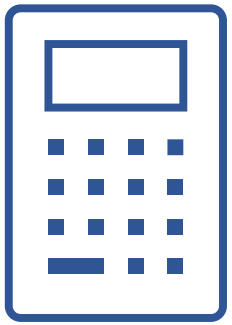
GENERAL FUND

REVENUES	ACTUAL FY '18/19	ANNUAL BUDGET	ACTUAL TO DATE	Y-T-D % COLLECTED
CURRENT YEAR LEVY OF PROPERTY TAXES	$ 3,078,833	$ 3,210,000	$ 2,315,109	72%
MOTOR VEHICLE TAXES	245,850	240,000	148,280	62%
UTILITIES FRANCHISE TAXES	592,400	635,000	297,025	47%
LOCAL OPTION SALES TAXES	1,183,473	1,150,000	643,849	56%
FUND BALANCE APPROPRIATED	-	339,500	-	0%
ALL OTHER REVENUES	1,343,384	1,283,000	716,219	56%
TOTAL	$ 6,443,941	$ 6,857,500	$ 4,120,483	**60%**

EXPENDITURES	ACTUAL FY '18/19	ANNUAL BUDGET	ACTUAL TO DATE	Y-T-D % SPENT
GOVERNING BODY	$ 348,909	$ 302,500	$ 138,490	46%
ADMINISTRATION	796,621	778,500	432,445	56%
INSURANCE	904,496	1,106,000	556,043	50%
PUBLIC BUILDINGS	360,636	691,000	227,524	33%
POLICE	1,521,720	1,587,000	785,560	49%
FIRE	812,712	898,500	367,996	41%
PLANNING	396,071	408,500	122,424	30%
STREETS & HIGHWAYS	412,894			
SANITATION	223,233	276,500	111,065	40%
RECREATION	295,354	497,000	147,557	30%
DEBT SERVICE	262,338	312,000	60,352	19%
TOTAL	$ 6,334,984	$ 6,857,500	$ 2,949,456	**43%**
			Without Debt Serv	**44%**
Y-T-D FUND BALANCE INC (DEC)	**$ 108,956**		**$ 1,171,027**	

Monthly Financial Reports

- Finance staff should explain any unusual transactions or amounts that are over/under performing against the budget.
- Governing boards should always know the financial state of the unit.
- Ask questions and follow up with the finance officer until you understand.



Download a financial summary template from the LGC website.

Monthly Financial Reports

Timely, accurate financial reports allow governing boards to:

- Monitor the financial state of the unit and identify potential problems.
- Ensure adequate reserves are maintained to address emergency needs.
- Tailor budget amendments and future budgets to better match the needs of the unit.

Resources

- North Carolina Government Finance Officers Association
  - NC Finance Officers' Certification Program
- Sample Financial Summary
- Sample Bookkeeper Contract
- SLGFD Memo on Revised Fidelity Bond Requirements
- UNC School of Government Local Finance Bulletin: Impending Changes to Bonding requirements for Finance Officers

Resources

- UNC School of Government
  - NC Finance Connect
  - Finance Calendar of Duties
  - NC Local Government Finance 101
- NC League of Municipalities
- North Carolina Association of County Commissioners
- Government Finance Officers Association - Best Practices & Resources

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Quiz: Module 3

1. What is the amount for which the LGBFCA requires the finance officer to be bonded?
2. Who is responsible for preparing financial reports and supervising investments for the unit?
3. Who should always know the financial state of the unit?

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Module 4:
Preaudits & Disbursements

Revised March 2025

What is a Preaudit?

Under North Carolina law:

> "No obligation may be incurred in a program, function, or activity accounted for in a fund included in the budget ordinance **unless** the budget ordinance includes an appropriation authorizing the obligation **and** an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year."[1]

When a local government **preaudits** an obligation, it is simply ensuring that these requirements have been met.

[1] G.S. 159-28(a)

What is a Preaudit?

In essence, a **preaudit** is the act of ensuring that for every financial obligation a unit makes:

1. Funds have been budgeted
2. Funds are actually available

A preaudit must be carried out **before** any obligation is incurred.

- The **finance officer** is responsible for establishing procedures to ensure that the preaudit requirement is consistently met.[2]
- Specific language must be included on written agreements, such as contracts and purchase orders, certifying that the document has been preaudited as required by statute.[3]
  - This certificate must be signed by the finance officer or a deputy finance officer approved by the governing board.
  - An exemption to the certificate requirement is provided for certain electronic payments. See slide 8.

[2] G.S. 159-28(a2) [3] G.S. 159-28(a1)

Why Preaudit?

Preaudits are a core component of effective fiscal management:

- The preaudit requirement ensures that no obligation is incurred without sufficient funds in the budget.
- By not spending money it does not have, a unit stands a better chance of staying within its budget throughout the fiscal year.

Fund Availability

To fulfill the second component of the preaudit requirement, a unit must ensure that enough **unencumbered funds** are on hand to cover all costs associated with an obligation for the current fiscal year.

Unencumbered funds are distinct from total funds in the budget, which may include money which has already been encumbered (set aside) for other purposes.

For Example:

The city of Dogwood wants to spend $10,000 on new office furniture for the finance department during the current fiscal year.

Dogwood has $20,000 in the budget for furniture, but $15,000 has already been encumbered to purchase items for the city's board room.

That means just $5,000 are only unencumbered funds, so Dogwood cannot incur the $10,000 obligation for the finance office furniture.

Failure to Preaudit

- If a unit fails to perform a preaudit for an obligation (contract, purchase order, etc.), that obligation is invalid and may not be enforced.[4]
- The finance officer can be held personally liable for payments made against an invalid obligation.[5]

[4]G.S. 159-28(a2) [5]G.S. 159-28(e)

Disbursements

"When a bill, invoice, or other claim against a local government or public authority is presented, the finance officer shall either approve or disapprove the necessary disbursement."[6]

- Disbursements of local government funds are governed by separate but similar statutory requirements to those for preauditing obligations.
- The **finance officer** determines whether there are sufficient funds in the budget and the bank.
- With limited exceptions[7], checks and claims must include a signed certificate attesting that the payment has been approved.[8]

[6]G.S. 159-28(b) [7]G.S. 159-28(f) [8]G.S. 159-28(d1)

Automated Systems & Electronic Payments

- Units are allowed to use an **automated computer system** to fulfill the preaudit requirement, as long as the system meets certain technical requirements.[9]
- If using such a system, the finance officer must file an annual certification with the LGC within 30 days of the start of the fiscal year.
- The certification can be filed digitally on the LGC File Transfer Portal.

- Under North Carolina Administrative Code, certain **electronic payments** can be made exempt from certificate requirements for preaudits and disbursements.[10][11]
- SLGFD Memo #2018-05 contains instructions related to this exemption.
- Electronic payments **must still be preaudited**, even if a certificate is not required.

[9]G.S. 159-28(a3) [10]20 NCAC 03 .0409 [11]20 NCAC 03 .0410

Setting Expectations

- When crafting policies/procedures and communicating with staff, governing boards should:
  - Set clear expectations that all preaudit and disbursement requirements will be followed.
  - Emphasize that these processes are required by law and carry penalties for noncompliance.
  - Support the finance officer when they must tell department heads that goods or services that are not budgeted cannot be purchased.

Resources

- N.C. Local Government Finance Policy Manual, Chapter 12: Preaudits and Disbursements (UNC School of Government)
- Sample Preaudit and Disbursement Policies (UNC School of Government)
- Automated Systems and the Preaudit Requirement
  - Preaudit System Certification
  - Public list of verified certifications
- SLGFD memo on certificate exemptions for electronic payments with sample resolution for local governments

Resources

- UNC School of Government
  - NC Finance Connect
  - Finance Calendar of Duties
  - NC Local Government Finance 101
- NC League of Municipalities
- North Carolina Association of County Commissioners
- Government Finance Officers Association - Best Practices & Resources

- **Contact LGC Staff:** (919) 814-4300
- **Visit the LGC Website**
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Quiz: Module 4

1. When must the preaudit function be performed?
2. What happens to a contract or purchase order if a unit fails to perform the preaudit?
3. What can the preaudit process help a local government avoid?

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Module 5:
Annual Audit Process

Revised March 2025

Annual Audit

- The Local Government Budget and Fiscal Control Act (LGBFCA) requires each local government and public authority to have an audit performed annually by an independent certified public accountant.[1]
- The auditor performs various audit procedures to examine the unit's accounts.
- Completed audits are submitted to LGC staff for review and made available to the public on the LGC website.

[1] G.S. 159-34(a)

Audit Contracts

- The governing board is responsible for selecting and entering into a contract with a qualified auditor.[2]
- It is a best practice to periodically issue a Request for Proposal (RFP) for audit services.
  - Consider issuing an RFP every 3-5 years.
- Audit contract forms, sample RFPs and other audit resources are available on the LGC website.

Audit contracts must include specific requirements[3] and be approved by the LGC prior to any work starting.[4][5]

[2]G.S. 159-34(a) [3]20 NCAC 03 .0502 (c) [4]G.S. 159-34(a)(v) [5]20 NCAC 03 .0501

When is LGC Approval Required?

The LGC **must approve**:

- Audit contracts (before work begins)
- Audit invoices (before they are paid by the unit)[6]

The LGC does **not approve**:

- Audits
  - While the completed audit must be filed with and reviewed by the LGC, the LGC does not approve audits.
- Auditors
  - The LGC maintains a list of firms offering audit and non-audit services.
  - This list is offered purely as a resource for local governments.
  - Neither the LGC nor its staff recommend, endorse, or approve firms.

[6] G.S. 159-34(a)

Modified and Unmodified Opinions

The auditor will give an opinion on whether the unit's financial statements are presented in accordance with generally accepted accounting principles.

This can take one of two forms:

1. Unmodified opinion
2. Modified opinion

Modified and Unmodified Opinions

An <u>unmodified</u> opinion is issued when:

- The auditor determines that a unit's financial statements are presented **fairly**, meaning they provide a generally accurate picture of the unit's finances.
- There are **no material misstatements** – misstatements that could give a false impression of the unit's financial position.

An unmodified opinion is <u>not</u>:

1. A finding that everything is 100% correct.
2. A guarantee there has been no fraud.
3. A statement that the unit did a good job with public funds.

Modified and Unmodified Opinions

A <u>modified</u> opinion is issued when:

- The auditor determines that a unit's financial statements contain **material misstatements**, which create a wrong or misleading picture of the unit's finances.
  - Material misstatements may include incorrect or missing information.

In most cases, LGC staff will not accept an audit with a modified opinion.

Assessment of Internal Controls

- In addition to determining if financial statements are presented fairly, the auditor must also review the unit's system of internal controls.[7]
- **Internal controls** are policies and procedures that a unit implements to protect assets and ensure accountability.
- The auditor will provide a letter with findings and recommendations for improving internal controls.

[7] 20 NCAC 03 .0502 (c)(2)

Audit Deadline and Amended Contracts

- Completed audits for fiscal years ending June 30, 2025, and later are due to the LGC six months after fiscal year end (**December 31**).
  - See the LGC staff blog for more information on the new due date.
- Amended contracts are required for any audits submitted on or after **January 1**.
  - The amended contract must specify the revised date the unit plans to file its completed audit.
  - There is no "grace period" for submission of amended contracts.
  - Specific instructions and the contract amendment form are available on the LGC website.

Throughout the audit process, the governing board should:

- Set expectations that the audit will be on time.
- Ask for routine updates from staff about the status of the audit.

Auditor's Presentation

- No later than 45 days after filing the completed audit with the LGC, the auditor must make a presentation to the board at an official meeting in open session.[8]
- The governing board should come prepared and ask questions as needed.
- Governing board members should have a strong understanding of the information being presented.

[8] 20 NCAC 03 .0502 (c)(5)

Auditor's Presentation

The presentation will include:[9]

- A description of the auditor's findings, including any issues related to the unit's finances, internal controls, or compliance with applicable regulations.
- An update on the status of the prior year's audit findings.
- Values of Financial Performance Indicators (calculated from the amounts reported in the financial statements).
- Notification if the board must develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters" due to the presence of **Financial Performance Indicators of Concern (FPICs)** (defined on the following slides).

[9] 20 NCAC 03 .0502 (c)(5)(A)-(D)

Financial Performance Indicators of Concern

- The LGC developed a list of Financial Performance Indicators and defined specific "concern" levels.
- **Financial Performance Indicators of Concern** or **FPICs** are defined as "Financial Performance Indicators with values which may indicate inadequate financial conditions or fiscal management concerns within the government unit."[10]

As of FY2021, the auditor is required to report FPICs to the governing board at the time the audit is presented.[11]

[10] 20 NCAC 03 .0502 (e)(2) [11] 20 NCAC 03 .0502 (c)(5)(C)-(D)

Financial Performance Indicators of Concern

- Financial Performance Indicators are calculated by entering unit data into the Data Input Workbooks provided by LGC staff.
- Once the necessary data is entered, values for each Financial Performance Indicator are calculated, and those that do not meet specified thresholds will turn red.

	Minimum Threshold	Unit Results
The General Fund had total fund balance less than zero - Fund Deficit	Positive Fund Balance	($1,500)

- **These red values in the Unit Results column are Financial Performance Indicators of Concern - FPICs.**

Financial Performance Indicators of Concern

- If FPICs are identified, the governing board must submit a response to the LGC describing **in detail** its plan to address and remedy each specific FPIC.[12]
  - Exceptions: If the auditor identifies **only** a lack of segregation of duties and/or a lack of expertise, and no additional FPICs are present, no response is required.

[12] 20 NCAC 03 .0508

Financial Performance Indicators of Concern

FPIC responses must be signed by a majority of the governing board and submitted to the LGC no later than **60 days** after the audit is presented to the board **or** before the unit is included on the LGC agenda for debt approval.[13]

- Sample FPIC responses and related resources are available on the LGC website.
- Completed responses should be uploaded to the LGC File Transfer Portal.
- The LGC will review FPIC responses carefully to determine if the unit is taking appropriate action, with particular attention to repeated FPICs.

[13]See Module 7: Establishing a Debt Policy

Annual Audit Timeline

Start here

Select auditor and discuss terms

See audit contract form on LGC website

(Suggested timeframe: January – March)

→

Prior to start of audit work

Submit audit contract to LGC for approval

(Suggested Timeframe: March – April)

→

After contract is approved

Receive PBC (prepared by client) request list from auditor, preliminary audit work may begin

→

By Dec. 31

Audit work completed, audit submitted to LGC

*Any audit submitted on or after **Jan. 1** requires an amended contract.

→

Within 45 days of audit submission

Audit presentation to governing board

→

Within 60 days of audit presentation

Governing board must submit any required FPIC responses to LGC

Resources

- Audit Resources
- Submitting Your Audit
- LGC Staff Blog: FY2025 Audit Due Dates
- Annual Audit Reports Submitted To LGC
- Financial Performance Indicators of Concern
- Financial Performance Indicators and Responses to the LGC
- FPIC Sample Responses and Resources
- SLGFD Memo #2023-04: How to Respond to Financial Performance Indicators of Concern (FPICs)

Resources

- UNC School of Government
  - NC Finance Connect
  - Finance Calendar of Duties
  - NC Local Government Finance 101
- NC League of Municipalities
- North Carolina Association of County Commissioners
- Government Finance Officers Association - Best Practices & Resources

- **Contact LGC Staff:** (919) 814-4300
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Quiz: Module 5

1. How often does the LGBFCA require each local government to have an audit?
2. Who is responsible for selecting and entering into a contract with a qualified auditor?
3. Does the auditor have to present the findings of the audit to the governing board at a public meeting?

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Module 6:
Internal Controls

Revised October 2025

Definitions

- As defined by statute, an **internal control** is "an integral process, effected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives related to the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations."[1]
- **Put simply**, "… internal controls help units achieve the things they want to happen, and … prevent unwanted events from occurring."[2]

[1] G.S. 143D-3(1) [2] Rebecca Badgett, "Internal Control in Financial Management: Understanding the Basics"

Definitions

Three core objectives of internal controls for units of local government:

1. Reliability of financial reporting
2. Efficient and effective operations
3. Compliance with applicable laws and regulations

Definitions

- **Stewardship** is the careful and responsible management of something that is entrusted into your care.
- Governing boards have a **stewardship responsibility** to manage public money in a careful, responsible way.

Implementing Internal Controls

- It is the responsibility of the governing board to ensure that internal controls are established and strictly adhered to.
- Properly implemented internal control policies/procedures will help to:
  - Protect assets
  - Ensure accountability
  - Guard against fraud, mistakes and other risks of loss
- The board should work closely with the finance officer and other management personnel to maintain strong internal controls.
- For information and guidance on internal controls, units can consult:
  - SLGFD Memo #2026-04
  - N.C. Local Government Finance Policy Manual, Chapter 9
  - Sample policy documents at the end of this module

Implementing Internal Controls

Internal controls can and should be implemented for a wide variety of different functions and processes within a unit.

At a minimum, governing boards should ensure that strong written policies/procedures are in place for the following:

1. Credit cards and procurement cards (p-cards)
2. Petty cash
3. Bank and general ledger reconciliations
4. Cash receipts and deposits

Diagnosing Control Failures

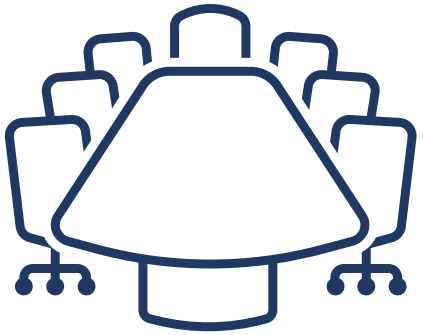
Any of these may be warning signs of weak or failing internal controls:

1. Financial audits are missing or delayed.
2. Bank and other account reconciliations are delayed or inaccurate.
3. The board is not receiving timely and complete monthly financial statements.
4. Expenditures exceed authorized budget on a regular basis.

LGC Authority Over Internal Controls

Governing boards should be aware that the Local Government Commission (LGC) is empowered by statute[3] to:

1. Issue rules and regulations governing units' procedures for receiving, depositing, investing, transferring, and disbursing money or other assets.
2. Investigate the internal control procedures of a unit.
3. Require necessary or desirable modifications to a unit's internal control procedures.



[3] G.S. 159-25(c)

Resources

- N.C. Local Government Finance Policy Manual, Chapter 9: Internal Controls (UNC School of Government)
- The Internal Control Process (UNC School of Government)
- Internal Control in Financial Management: Understanding the Basics (UNC School of Government)
- SLGFD Memo #2026-04: Internal Controls for a Small Unit of Government
- Internal Controls Over Petty Cash
- Internal Controls Over Cash Receipts and Deposits
- Internal Controls Over Inventory and Capital Assets
- Sample Credit Card Policy
- Sample Fleet Maintenance Policy

Resources

- UNC School of Government
  - NC Finance Connect
  - Finance Calendar of Duties
  - NC Local Government Finance 101
- NC League of Municipalities
- North Carolina Association of County Commissioners
- Government Finance Officers Association - Best Practices & Resources

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Quiz: Module 6

1. What is the careful and responsible management of something that is entrusted into your care?
2. What are policies and procedures that help protect assets and ensure accountability?
3. What is one warning sign of internal control problems?

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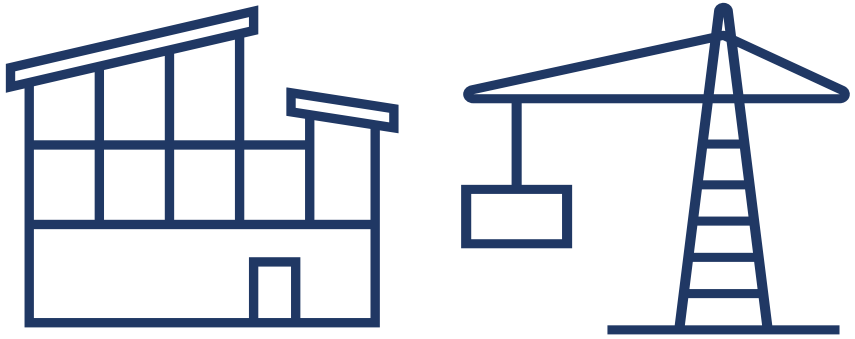
Module 7:
Establishing a Debt Policy

Revised March 2025

Using Debt

- Debt is a tool that can be used to leverage available resources.
- A mixture of debt and current resources may be used to finance projects.
- Debt service must be included in the budget.[1]



[1] G.S. 159-13(b)(1)

Debt Burden

- Before issuing new debt, local governments should think about how it will affect their overall **debt burden**.
- An unreasonable or heavy debt burden will limit future opportunities that a local government can take advantage of.

Debt Service Reminders

The LGC notifies local governments of debt service obligations for all debt approved by the LGC:

- LGC 129s - **Yearly** notifications (sent by May 1) notifying units of total obligations for the coming fiscal year.[2]
- LGC 131s – **Monthly** notifications (sent at least 30 days before payment due dates) reminding units of upcoming principal and/or interest payments on outstanding obligations.[3]
  - Payments must then be reported to the LGC on provided forms.[4]

Questions or concerns related to these reminders should be directed to:

LGC129@nctreasurer.com (annual notifications)

LGC131@nctreasurer.com (monthly notifications)

[2]G.S. 159-35(a) [3]G.S. 159-35(b) [4]G.S. 159-136

Establishing a Debt Policy

- The governing board should establish a debt management policy.
- A debt policy will help the government manage its finances and meet obligations.

Establishing a Debt Policy

A well written debt policy should include:

1. Uses of debt (When should debt be used?)
2. Types of debt permitted (What types of debt should be used in different situations?)
3. Debt limitation (How much debt should the unit take on?)
4. Debt repayment (When should debt be paid off and how should payments be structured over time?)

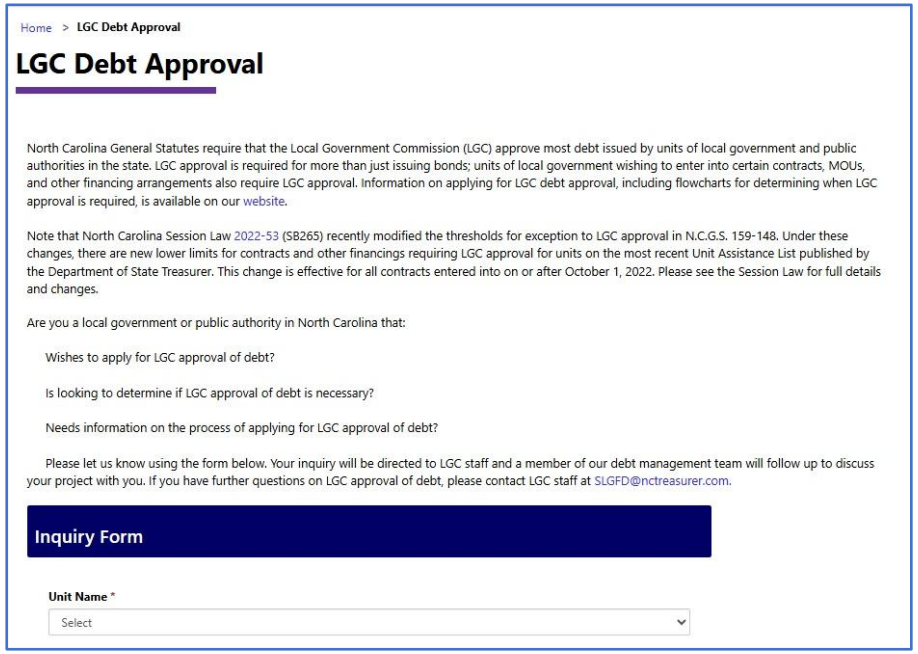
Refer to the sample debt policy on the LGC website as an example.

LGC Approval of Debt

Before issuing bonds[5] or other types of debt[6], governing boards must submit a debt application to the LGC.

To determine whether LGC approval is required for a specific debt issuance:

- Fill out a debt inquiry form with whatever information you can provide.
- Consult the flow charts and other resources on the LGC website.
- **Reach out to LGC staff for guidance.** We are happy to help determine if LGC approval is required.


Home > LGC Debt Approval

LGC Debt Approval

North Carolina General Statutes require that the Local Government Commission (LGC) approve most debt issued by units of local government and public authorities in the state. LGC approval is required for more than just issuing bonds; units of local government wishing to enter into certain contracts, MOUs, and other financing arrangements also require LGC approval. Information on applying for LGC debt approval, including flowcharts for determining when LGC approval is required, is available on our website.

Note that North Carolina Session Law 2022-53 (SB265) recently modified the thresholds for exception to LGC approval in N.C.G.S. 159-148. Under these changes, there are new lower limits for contracts and other financings requiring LGC approval for units on the most recent Unit Assistance List published by the Department of State Treasurer. This change is effective for all contracts entered into on or after October 1, 2022. Please see the Session Law for full details and changes.

Are you a local government or public authority in North Carolina that:

Wishes to apply for LGC approval of debt?

Is looking to determine if LGC approval of debt is necessary?

Needs information on the process of applying for LGC approval of debt?

Please let us know using the form below. Your inquiry will be directed to LGC staff and a member of our debt management team will follow up to discuss your project with you. If you have further questions on LGC approval of debt, please contact LGC staff at SLGFD@nctreasurer.com.

Inquiry Form

Unit Name *

Select

[5] G.S. 159-51 [6] G.S. 159-153(a)

LGC Approval of Debt

- The LGC has adopted specific guidelines for the review and approval of debt applications.
- Units with Financial Performance Indicators of Concern (FPICs) must submit any required FPIC responses before applying for debt.

Resources

- Debt Reports and Notices
- Sample Debt Policy
- Applying for Debt
- Debt Inquiry Form
- LGC Debt Approval Guidelines

Further reading:

- LGC Approval of Bonds, Installment Financings, Leases, and Other Contracts Involving Capital Assets (UNC School of Government)
- How Often Do Local General Obligation Bond Referenda Succeed in North Carolina? (UNC School of Government)

Resources

- UNC School of Government
  - NC Finance Connect
  - Finance Calendar of Duties
  - NC Local Government Finance 101
- NC League of Municipalities
- North Carolina Association of County Commissioners
- Government Finance Officers Association - Best Practices & Resources

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Quiz: Module 7

1. What is a tool that can be used to leverage available resources?
2. Does debt service have to be included in the budget?
3. What is one thing a good debt policy should include?

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Module 8:
Ethics & Conflicts of Interest

Revised December 2025

Disclaimer

Please note that neither the Local Government Commission (LGC) nor the State and Local Government Finance Division (SLGFD) play any role in implementing, enforcing, or interpreting North Carolina ethics laws and guidelines applicable to local elected officials.

This brief module is provided purely to inform local governing board members of their basic responsibilities in the areas of ethics and conflicts of interest. It is not meant to be an exhaustive guide, an authoritative source, or legal advice.

Please see the resources at the end of the module for additional information, and contact the appropriate organization or authority for guidance related to specific questions/concerns.

Ethics Requirements for Local Governing Boards

North Carolina law requires all governing boards to:

- Adopt a code of ethics.[1]
- Receive at least two hours of ethics training within 12 months of being elected or reelected to office.[2]

Elected officials **set the tone** for the organization by carefully adhering to standards of ethical behavior, avoiding impropriety in the exercise of official duties.

[1]G.S. 160A-86 [2]G.S. 160A-87

Principles of Ethical Conduct

- **Honesty and Integrity** - Board members should foster public trust in the board among the community by acting responsibly and transparently.
- **Impartiality and Respect** - All issues and all citizens should be handled with fairness, impartiality and respect.

Principles of Ethical Conduct

- **Fair and Equitable Treatment** - Board members should never act in a way that would result in unfair or preferential treatment.
- **Effort** - Board members have an obligation to faithfully perform their duties.
- **Accountability** - Board members should accept responsibility for upholding their code of ethics.

Conflicts of Interest

- A **conflict of interest** is a situation in which a person stands to receive a personal benefit from actions or decisions they make in an official capacity.
- Public officials may not, for example:
  - Receive direct benefits from public contracts that they are involved in making or administering.[3]
  - Use non-public information for personal financial gain.[4]

Governing boards should understand and comply with state restrictions on accepting gifts or favors from contractors and suppliers.[5]

These are just a few examples of restricted conduct. See the resources on the next slide for more information, and remember to participate in required ethics training.

[3]G.S. 14-234 [4]G.S. 14-234.1 [5]G.S. 133-32

Resources

- Ethics for Local Government Officials (UNC School of Government)
- County and Municipal Government in North Carolina, Chapter 7: Ethics and Conflicts of Interest (UNC School of Government)
- Ethics for Elected Officials training course (UNC School of Government)
- Ethics & Conflicts blog posts (UNC School of Government)

Resources

- UNC School of Government
  - NC Finance Connect
  - Finance Calendar of Duties
  - NC Local Government Finance 101
- NC League of Municipalities
- North Carolina Association of County Commissioners
- Government Finance Officers Association - Best Practices & Resources

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Quiz: Module 8

1. Chapter 160A of North Carolina law requires all locally elected officials to receive a minimum of two hours of ethics training within how many months of being elected or reelected?
2. What is a situation called in which a person stands to receive a personal benefit from actions or decisions they make in an official capacity?
3. What kind of information should public officials avoid using for their own financial gain?