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Financial Strategies to Avoid the Unit Assistance List

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Introduction

The Local Government Commission (LGC), established by G.S. 159-3, provides financial management oversight of local governments in North Carolina. Its responsibilities include approving most forms of debt issuances for local governments, regulating financial management procedures and internal controls (G.S. 159-25), issuing instructional memoranda and warning letters, and taking over the financial management policies and procedures of local governments in severe financial trouble. Local governments must have their annual financial statements audited by an independent auditor at the close of each fiscal year (G.S. 159-34) before sending them to the LGC for review and approval. This process ensures that annual financial statements are prepared in accordance with generally accepted accounting principles (GAAP), as required by G.S. 159-26, and allows the LGC to monitor the financial condition of local governments in North Carolina.

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The LGC created the Unit Assistance List (UAL) in 2015 as a tool to monitor and improve financial management policies and procedures at the local level in North Carolina. The primary purpose of the list is to identify local units facing financial management challenges. Common issues include the cash position of water and sewer funds, internal control problems identified by independent auditors, the absence of one or more audit submissions to the LGC, and the cash position of the general fund. In addition, the UAL helps the LGC prioritize staff resources to assist these local units in overcoming their financial challenges, with the ultimate goal of removing them from the list. As of the fiscal year-end 2021 audit results, there were 150 local units on the UAL, consisting of 138 municipalities and 12 counties.[1]

The purpose of this bulletin is to provide local governments with specific strategies for avoiding placement on the UAL (or for removing themselves from the list). We focus on three key areas identified by the LGC: the annual budget process, financial management practices, and the annual audit process. We begin with the annual budget process, emphasizing the importance of avoiding interfund transfers to ensure that each fund remains self-supporting. Next, we highlight the top financial management practices that promote reliable financial reporting and compliance with governing laws. We then address the annual audit process, underscoring the significance of using audited financial statements to assess a unit's financial condition. Finally, we conclude with the organizational capacity needed to ensure long-term financial sustainability in local government.

Annual Budget Process

The local government budget process in North Carolina consists of three parts: budget development, budget monitoring, and budget evaluation. While most attention is focused on budget development, which requires the adoption of an annual balanced budget ordinance before the start of each fiscal year (G.S. 159-8), understanding the intricacies of each part helps local units avoid being placed on the UAL. The budget ordinance provides the legal authority to acquire resources for the respective county or municipality and to allocate them within the appropriation limits for service delivery and infrastructure. Therefore, adopting a realistic budget ordinance is crucial for advancing community and organizational goals and avoiding budget violations at the end of the fiscal year.

Realistic Budget Ordinance

G.S. 159-8(a) requires the adoption of an annual budget ordinance and states that a budget ordinance is balanced when the sum of estimated net revenues and appropriated fund balance equals appropriations. The first part of this equation requires realistic revenue estimates for the upcoming fiscal year, reflecting what the local unit expects to collect and deposit as revenue. This is why local units are not permitted to balance their budgets with the total tax levy. As required by G.S. 159-13(b)(6), the budgeted amount for property taxes cannot be greater than the percentage of the levy realized in cash as of June 30 during the preceding fiscal year. Most local units accurately forecast their revenues due to their reliance on property tax and the inelastic nature of this crucial revenue source.

1. The LGC publishes a new UAL on a periodic basis.

The next part of the equation involves appropriated fund balance, which is optional for local units unless there is an unwillingness to raise revenue estimates or reduce appropriations. G.S. 159-8(a) requires that the fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year preceding the budget year. An important strategy for local units is to adopt a fund balance policy that identifies a percentage threshold. For example, the policy may require a fund balance of greater than 30 percent of expenditures (plus transfers out). When a local unit's fund balance exceeds this threshold, it opens the door for investing the excess in one-time capital outlays or for other purposes.

The final part of the equation is appropriations, which give the local unit the legal authority to spend resources for providing services and acquiring capital assets (G.S. 159-8(a)). The appropriations in the budget ordinance, however, cannot be aggregated by the respective fund. They must be shown at least by the department, function, or project level (G.S. 159-13(a)). This layout requires the budget officer, who serves at the will of the governing board (G.S. 159-9), to obtain board approval before making a budget amendment from one line-item appropriation to another in the budget ordinance. In addition to adhering to the law, local units should adopt realistic appropriations to ensure that the necessary resources are available to support service delivery for a fiscal year beginning July 1 and ending June 30 (G.S. 159-8(b)).

Contingency Appropriations

Local units are also encouraged to use contingency appropriations, which cannot exceed five percent of the total of all other appropriations in the same fund (G.S. 159-13(b)(3)). The importance of using contingency appropriations for both the general fund and the water and sewer fund to avoid the UAL should not be overlooked, as they are part of adopting a realistic budget ordinance for a local unit. When contingency appropriations are not needed during the fiscal year, they increase the likelihood of fund surpluses at the year's end, when actual revenues exceed actual expenditures. Surpluses help improve the cash position of funds, addressing one of the primary reasons local units are placed on the UAL. This is especially true for water and sewer funds, which often face challenges of liquidity.

Interfund Transfers

Local units in North Carolina must follow generally accepted accounting principles (GAAP) as set forth in G.S. 159-26. Conformity with GAAP requires local units to use fund accounting, with the types of funds found in G.S. 159-26(b). A fund is a separate fiscal and accounting entity with its own revenues, expenditures, assets, liabilities, and fund balance, accounting for specific activities to isolate information for legal and management purposes.[2] Funds are also designed to be self-sufficient for financing the specific activities accounted for within them. Except for G.S. 159-13(b)(14), which states that no appropriation may be made from an enterprise fund to any other fund unless all other appropriations exceed the amount needed for operating expenses, capital outlay, and debt service, interfund transfers are legal.

The LGC encourages local units, however, to avoid interfund transfers when creating realistic budget ordinances, interpreting them as "red flags" for financial sustainability. Therefore, the property tax rate should be set to raise the necessary revenue, along with other sources,

2. Gregory S. Allison, "Accounting, Financial Reporting, and the Annual Audit," in *Introduction to Local Government Finance* (UNC School of Government, 2023), 266–76.

to finance the activities accounted for in the general fund, while customer fees should be established to fund activities within the water and sewer fund. When a water and sewer fund has a transfer-in that exceeds 3 percent of total expenses, the LGC requires local units to discuss its purpose and provide a plan for moving forward when submitting their audited financial statements.

Budget Violations

G.S. 159-13 states that the budget ordinance may be in any form that the board considers most efficient for making fiscal policy decisions. However, G.S. 159-13 requires the board to make appropriations by department, function, or project and to show revenues by major source. Local units are then required by GAAP to publish budget and actual financial statements as part of their annual financial report, comparing the original and final appropriations with the corresponding expenditures charged to the respective line-item appropriation authority.

A budget violation occurs when expenditures exceed the respective appropriation authority contained in the budget ordinance even if total expenditures for a given fund are less than total appropriations. These violations are noted by the LGC, indicating a lack of financial control to ensure that expenditures remain within the respective appropriation authority. The purpose of the preaudit process, discussed in the following section, is to prevent budget violations from occurring.

Financial Management Practices

Local governments have a responsibility to manage public resources effectively and efficiently. To achieve this, units must establish and operationalize financial management practices that promote increased efficiency, accurate financial reporting, and compliance with governing laws and policies. While there is no one-size-fits-all approach to financial management, several key internal control activities, when effectively implemented, will undoubtedly lead to a stronger financial management system. These controls include policies and procedures, segregation of incompatible duties, the preaudit process, and a month-end review process that incorporates bank reconciliations and budget-to-actual reports.

Policies and Procedures

Local units need to have policies and procedures that describe the objectives and process requirements for performing all major financial functions (e.g., cash management, fund balance, procurement, preaudit, disbursements, accounts payable, accounts receivable, investments, etc.). Policies and procedures provide consistency and standardization, establish workflow processes, set clear expectations for staff, and help local units comply with governing law. It is not sufficient, however, simply to adopt financial policies and procedures; they must be reviewed regularly and periodically updated to reflect changes to existing business processes and be readily accessible to staff. When this is done, units will find that the updated policies and procedures make excellent training tools for new employees and, in some cases, even newly elected board members.

Segregation of Incompatible Duties

Segregation of incompatible duties is a key internal control activity often described as implementing a system of checks and balances within the organization. The idea is to divide responsibilities among several individuals to prevent any one person from having complete control over any financial process. Proper segregation of duties helps ensure the timely detection of errors and mistakes, reduces opportunities for fraud, and increases accountability and oversight in financial operations.

In general, the primary duties that must be segregated include:

- *Authorization*: Approving purchases or other transactions (e.g., signing checks, approving purchase orders).
- *Record-keeping*: Maintaining financial records of transactions (e.g., journal entries, updating ledger accounts, or keeping inventory logs).
- *Custody*: Physical control over assets (e.g., handling cash or controlling inventory).
- *Reconciliation*: Reviewing and confirming the accuracy of records (e.g., bank reconciliations or reconciling subsidiary ledgers).

A local unit should strive to involve three to four employees in most financial processes. At a minimum, the record-keeping and reconciliation functions must always be segregated. For example, if a unit wants to purchase ten laptops, a procurement officer could authorize the purchase order (after the preaudit is performed), the clerk could verify receipt of the laptops, an accounting technician could make the journal entry and update the ledger, and the finance officer could perform the bank reconciliation at the end of the reporting period. It would also be permissible for the accounting technician to take custody of the laptops and make the journal entry. Each unit must tailor the separation of duties to the specific processes and risks within its organization.

In small units with only one or two finance staff, full segregation of duties is impractical. In such cases, units should strive to involve at least two employees in any transactional process, ensuring that the same person does not perform both the recordkeeping and reconciliation functions. If necessary, the unit can adopt "compensating" internal controls, whereby someone outside the finance department is asked to perform a function not traditionally within that person's scope of work. The most common compensating control is to involve a governing board member in the reconciliation process. The board member can either perform the monthly bank reconciliation (discussed in detail below) or review and sign off on the reconciliation.

Preaudit

The preaudit requirement acts as a statutory internal control that is fundamental to preventing budget violations and improving cash reserves. The preaudit statute, G.S. 159-28, stipulates that no obligation may be incurred in a fund included in the annual budget ordinance or in a project ordinance unless (1) the ordinance contains an appropriation authorizing the obligation, and (2) sufficient funds remain in the appropriation to cover the amount obligated. It also requires the unit to affix a preaudit certificate to the face of any document that obligates the unit to expend money (e.g., a contract or purchase order). Accordingly, whenever a unit commits itself to pay money— whether by executing a contract, purchase order, other written agreement, or through an electronic transaction—an obligation is incurred, and the preaudit process is required.

A local government's finance officer is responsible for establishing procedures to ensure compliance with the preaudit requirement. Each unit's preaudit process will vary depending on its size, the capabilities of its electronic accounting system, and the type of obligation to be preaudited (i.e., obligations evidenced in writing or electronic transactions). However, for all units, the preaudit must be performed *before* funds are obligated (i.e., before goods are ordered or contracts are executed). In addition, only the finance officer or a duly appointed deputy finance officer may perform the preaudit. Governing boards should therefore consider appointing one or more department heads (or other department employees) as deputy finance officers so they can perform the preaudit process for their respective departments.

Preaudit Process for Purchase Orders, Contracts, and Other Written Agreements

The preaudit process varies slightly depending on whether the obligation to expend public money is in writing, such as a contract, purchase order, email, or other type of written agreement, or whether an expenditure will be made via an electronic transaction. When preauditing a written agreement, the finance officer or a duly appointed deputy finance officer must take the following steps in the preaudit process:

1. *Ensure that there is a budget or a project ordinance appropriation authorizing the obligation.* The annual budget ordinance is adopted at a very general level of legal control and makes appropriations only by department, function, or project; therefore, it is generally not difficult to meet this requirement. A preaudit is not typically performed on the appropriations in the unit's working budget.
2. *Verify that sufficient funds remain in the appropriation to cover the amount expected to come due.* If the obligation is accounted for in the annual budget ordinance, the appropriation needs to cover only the amount expected to come due in the current fiscal year.[3] However, if the obligation is accounted for in a project ordinance, the preaudit amount must be for the full amount expected to come due under the contract because project ordinances remain valid for the life of the project.
3. *Affix a preaudit certificate to any obligation reduced to writing.* The contract, purchase order, or other written agreement must include a preaudit certificate that is printed or stamped on the face of the document. The certificate must be signed by the finance officer or deputy finance officer and should read substantially as follows: "This instrument has been preaudited in the manner required by the Local Government Budget and Fiscal Control Act."

Preaudit Process for Electronic Transactions

Recognizing the difficulty of preauditing electronic transactions, such as those made by charge card, credit card, debit card, gas card, or procurement card, the Local Government Commission authorized an exemption from the requirement to affix a preaudit certificate to the face of the writing (the receipt in the case of electronic transactions). Put another way, step 3 in the preaudit process outlined above does not apply to electronic transactions. Importantly, the finance officer must still perform steps 1 and 2 of the preaudit process by checking for a budget appropriation and verifying that sufficient funds remain in the appropriation to cover the amount expected to come due—electronic transactions are not exempt from the preaudit process overall.

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3. If a preaudit is required for a multiyear contract appropriated in the annual budget ordinance, the finance officer or deputy finance officer of a local unit will only attest that there is a budget appropriation for the amount expected to come due in the current fiscal year. The unit is not required to re-preaudit the contract in future fiscal years. However, G.S. 159-13 generally requires a governing board to appropriate sufficient funds each fiscal year to cover the amounts due that year under continuing contracts.

The exemption from the preaudit certificate requirement is not automatic. The LGC requires units that wish to take advantage of this exemption to follow these steps: (1) the governing board must adopt a resolution authorizing the unit to engage in electronic transactions; (2) the unit must implement an encumbrance system to facilitate tracking expenditures against budget appropriations; (3) the governing board or finance officer must adopt a written policy outlining the unit's procedures for electronic transactions; (4) the unit must train personnel on the policies and procedures to be followed when engaging in electronic transactions; and (5) finance staff must prepare and present a budget-to-actual statement by fund to the governing board at least quarterly.[4]

When it comes to budgeting and accounting for moneys to be paid out via electronic transaction, the finance officer must create a system for encumbering funds to avoid budget violations. This can be accomplished by encumbering funds each month within a specific departmental budget appropriation. For example, funds could be encumbered in the police department's annual budget to cover fuel costs for police cruisers. As fuel is purchased, the departmental budget should be updated to show a reduction in encumbrances and an increase in expenditures. A unit also may choose to encumber funds and issue blanket purchase orders to vendors for a predetermined amount over a specified period.

Automated Accounting System for Preaudits

A local government may perform its preaudit process using an automated accounting system if the system meets the functionality requirements described in G.S. 159-28(a3), including:

1. functionality that determines whether there is an appropriation for the department, function code, or project relevant to the transaction;
2. functionality that ensures unencumbered funds remain in the appropriation to cover any amounts expected to come due during the budgeting period; and
3. real-time visibility into budget compliance, including alert threshold notifications and rules-based compliance measures and enforcement.

If a local unit's accounting system satisfies these functionality requirements, the unit is exempt from having to include a signed preaudit certificate on any contract, agreement, purchase order, or other document evidencing a transaction subject to the preaudit requirement. The finance officer of a local unit must certify to the LGC that the unit's accounting system meets all the requirements outlined in G.S. 159-28(a3) within thirty days of the start of each fiscal year.

Failure to Comply with the Preaudit Requirement

Complying with the preaudit requirement is not merely a best practice—it is required by law and there can be significant negative consequences for noncompliance. Specifically, the failure to perform the preaudit renders the contract, agreement, or purchase order void and unenforceable.[5] In addition, if "an officer or employee incurs an obligation or pays out or causes to be paid out any funds in violation of [the preaudit statute], he [or she] and the sureties on his

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4. Title 20, Chapter 3, Section .0409 of the North Carolina Administrative Code; *see also* Kara Millonzi, "Preauditing Electronic Transactions Just Got (A Little) Easier," *Coates' Canons: NC Local Government Law* blog (March 23, 2018), https://canons.sog.unc.edu/2018/03/preauditing-electronic-transactions-just-got-little-easier/.

5. G.S. 159-28(a)(2).

[or her] official bond are liable for any sums so committed or disbursed."[6] This means that any employee or officer who commits funds to be paid out or disburses moneys in violation of the preaudit requirement could be held personally liable by the governing board for the amounts obligated, even if the expense is never actually incurred. Finally, if a finance officer or deputy finance officer issues a false preaudit certificate or approves any bill knowing it to be fraudulent, he or she may be liable for the sums illegally committed or disbursed and may be found guilty of a Class 3 misdemeanor. If found guilty, the finance officer must forfeit his or her office and may incur a fine of up to $1,000.[7]

Month-End Review Process

A month-end review is a structured process in which records are updated and financial data are analyzed, summarized, and reported. Units that adopt a recurring month-end review process increase the effectiveness and efficiency of their financial operations. To streamline this process, some units have adopted a month-end checklist that assigns responsibility for completing required tasks to certain employees. Once an assigned task is completed, the responsible employee initials and dates the checklists to verify completion. This use of a checklist creates accountability and helps ensure that various month-end requirements are met.

At a minimum, there are two essential functions that every unit should perform at the end of each month. The first is the bank reconciliation, which involves reconciling the general ledger account with the bank statement. The second is the preparation of a budget-to-actual report, providing updates on the revenues collected and expenditures made during the reporting period.

Bank Reconciliation

A bank reconciliation is the process of comparing the activity listed in a local government's bank statement to the supporting transactions reflected in the general ledger. This reconciliation should be performed at regular intervals (at least monthly), and the person reconciling the accounts should not have record-keeping responsibilities, such as recording cash receipts, handling disbursements, or regularly making journal entries.

Each month a local unit should receive a bank statement that lists all transactions made during the statement period. These same transactions should also be posted to the general ledger. Therefore, in theory, the bank statement balance and general ledger balance should reflect the same ending balance for the same period. In practice, however, the accounts often require adjustments before the sums will match. Discrepancies in ending balances arise for several reasons, including:

- Deposits in transit that have not cleared before the bank statement is issued
- Outstanding checks
- Direct deposits not yet posted to the general ledger (e.g., a distribution of sales tax is deposited in the bank but not posted to the general ledger)
- Interest earned or fees charged by the bank but not posted to general ledger
- Posting or other mistakes (often transposition errors)

6. G.S. 159-28(e). The governing board must "determine, by resolution, if payment from the official bond shall be sought and if the governing body will seek a judgment from the finance officer or duly appointed deputy finance officer for any deficiencies in the amount." *Id.*

7. G.S. 159-181.

The bank reconciliation process can be approached through a series of steps, as follows:

1. Identify the unadjusted balance for both the bank statement and the general ledger (these are the sums reflected before adjustments are made).
2. Identify the "cleared" transactions—those accurately recorded in the bank statement and posted to the general ledger. (Some financial software automatically clears transactions.)
3. Adjust the bank statement balance by (1) adding deposits in transit and (2) deducting outstanding checks not cashed by contractors/vendors.
4. Adjust the general ledger balance by (1) adding direct deposits not reflected in the general ledger, (2) adding bank interest, (3) deducting bank fees, and (4) deducting bounced checks.
5. After performing steps 3 and 4, the ending balances should match, leaving an unreconciled amount of $0. If this is not the case, the person performing the reconciliation must determine the reason for the discrepancy. Transposition errors, where two numbers are reversed, are common. It is also helpful to check that every transaction appearing in the bank statement has been posted to the general ledger.
6. After the reconciliation has been completed, consider having a second person review and sign off on the reconciliation.

After adjustments are made, the bank and ledger balances should show an unreconciled amount of $0.00, meaning that all money has been fully accounted for. In some instances, the sums of the ending balances may not match exactly; however, this is acceptable provided all moneys have been accounted for and the person performing the reconciliation can explain the reason for the discrepancy.

Budget-to-Actual Reports

As part of any month-end review process, the finance officer, or the person to whom the finance officer has delegated the responsibility, should prepare a budget-to-actual report for the prior reporting period. Once compiled, these reports should be shared with governing board members at their next regular meeting. The reports provide essential data that can assist the governing board in making informed decisions about spending and resource allocation. In addition, the reports promote internal and external transparency and help avoid budget violations.

A budget-to-actual report should include both a revenue operating statement and an expenditure operating statement. At a minimum, the revenue operating statement lists each revenue source, its corresponding estimated amount, current period collections, year-to-date collections, and the percentage of revenue realized to date. The expenditure operating statement shows the annual budget appropriation for each budgeted item (by department, function, or activity), along with the amount of encumbrances and expenditures made to date, and the unencumbered fund balance remaining for each budgeted item. In addition, both the revenue and expenditure operating statements generally include prior year-to-date data for the same reporting period in the previous fiscal year. By comparing the prior-year and current-year collections and expenditures, units can more effectively identify changes or discrepancies that may otherwise have gone undetected.

Annual Audit Process

G.S. 159-34 requires local units to have their annual financial statements audited as soon as possible after the close of each fiscal year by a certified public accountant or an accountant certified by the LGC. While the preparation of the financial statements and their accompanying notes is the responsibility of management, G.S. 159-34 also requires that the auditor be selected by and report directly to the governing board. Best practice suggests that local units should issue a request for proposal for a new auditor every five years. If the same auditor is selected, it is highly recommended to have a different auditor from the same firm conduct the required annual audit.

Audit Purpose

The purpose of the audit is to ensure that the data contained within the report are materially accurate and that the financial statements were prepared in accordance with GAAP. Whether or not a local unit is on the UAL, the goal is to receive an unmodified audit opinion. This designation assures consumers of the statements, which include the LGC, that the audited financial statements accurately reflect the financial position of the local unit.

This designation, however, should not be interpreted as a guarantee of sound financial condition, which requires a different level of review. The auditor is required to make a presentation to the board within forty-five days after the audit is complete, as directed by the LGC. The purpose of this presentation is to discuss the contents of the management letter, including any financial indicators of concern. The local unit is then expected to develop a response to the auditor's presentation, signed by a majority of board members, and submit it to the LGC staff within sixty days of presentation.

Audit Submission

The deadline for submitting the audited financial statements to the LGC is the last day of October. When local units submit their audited financial statements on or after December 1, it does not automatically place them on the UAL. It does, however, signal a "red flag" for the LGC, indicating potential financial challenges within those local units. Local units that fail to submit their audited financial statements by the end of the current fiscal year are often placed on the UAL. When this occurs, they cannot produce the next round of audited financial statements until the previous reports are finalized.

Financial Condition

An unmodified audit opinion, as previously mentioned, does not indicate sound financial condition. Therefore, the LGC uses selected financial metrics for the general fund (governmental fund) and the water and sewer fund (priority fund) to assess the financial condition of the respective local unit, which may result in being placed on the UAL. It should be noted that no single metric can capture the complete financial condition of a given fund. Therefore, the LGC relies on metrics that are professionally recognized in local government, which can be found on the State Treasurer's website.

The primary metric for the general fund is fund balance as a percentage of expenditures, one of the most recognized financial metrics in local government. It is calculated by dividing the available fund balance, as defined by G.S. 159-8, by total expenditures plus transfers out. The LGC compares this metric against a benchmark of 50 percent or higher of the expenditure group average, which aligns with previously used group averages based on population. For example, if the expenditure group average is 60 percent, the benchmark would be 30 percent or higher. Strategies to improve this metric include: 1) adopting a fund balance policy, 2) forecasting realistic revenue estimates and maintaining high collection rates, and 3) exercising control over expenditures to remain within the respective line-item appropriations.

The primary metric for the water and sewer fund is the quick ratio, which reflects liquidity. This metric addresses the reality that local units often maintain appropriate cash reserves for the general fund while being cash "poor" in the water and sewer fund. It is calculated by dividing unrestricted cash plus accounts receivable by the sum of accounts payable, accrued liabilities, and the current portion of long-term debt. The LGC's benchmark for this ratio is 1.0 or higher. For example, if a local unit has a quick ratio of 3.0, it indicates that for every dollar of current liability, the unit has three dollars in cash or cash equivalents. Strategies to improve this metric include: 1) reviewing rates annually and adjusting them as necessary, 2) improving cash collections from customers and implementing a write-off policy for uncollectible accounts, and 3) exercising control over expenditures to stay within the respective line-item appropriations.

Conclusion

The purpose of this bulletin is to provide local governments with specific strategies to avoid the UAL in three key areas: the annual budget process, financial management practices, and the annual audit process. Three points deserve special emphasis. First, local units should avoid interfund transfers, as these can compromise the integrity of funds and the overall financial condition of the local unit. Second, it's crucial to adopt strong financial management practices, including adherence to the preaudit process required by G.S. 159-28, which is essential for preventing budget violations and improving cash reserves. Third, timely audit submission is necessary; local units must conduct audits after the close of each fiscal year, as required by G.S. 159-34, and submit their audited financial statements to the LGC by the last day of October.

G.S. 159-24 requires that each local unit appoint a finance officer who serves at the pleasure of the appointing governing board or official (e.g., city or county manager). G.S. 159-25 outlines the specific responsibilities of the finance officer, which include maintaining accounts in accordance with GAAP, disbursing funds in compliance with the preaudit process, overseeing proper internal controls, and keeping the board informed about the financial condition of the local unit. These responsibilities necessitate not only a qualified finance officer but also an overall organizational capacity to implement and manage them effectively. A key component of this capacity is the adoption of financial policies and procedures, along with annual training to integrate them into the organizational culture.

This cultural shift requires local leaders to intentionally refocus on the purposeful use of financial policies and procedures within their respective units. Such leadership must come from the governing board, the manager's office, and the finance director to ensure a holistic approach to long-term financial sustainability in local government.