

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



Dale R. Folwell, CPA
STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION

LGC UPDATE

Treasurer's Conference
June 20, 2023
Sharon Edmundson

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Agenda

- News from SLGFD
- Unit Assistance List
- Audit Review Update
- Alternative Reporting Project



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LGC NEWS

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News from SLGFD

Arrivals and Job Changes FMS:

- Kendra Boyle has been named the Interim Director of Fiscal Management
- Shanell McBride has joined us as an Accounting and Financial Management Specialist

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News from SLGFD

- Arrivals and Job Changes DMS:
 - Melissa Dearman and Kelsey Carmichael have joined us as Debt Analysts
 - Tony Blalock has been promoted to Assistant Director in DMS
- Arrivals in State Debt Management:
 - Carolyn Heden has joined us as a financial analyst in the State Debt Management section

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UNIT ASSISTANCE LIST



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Unit Assistance List (UAL)

- What it is and what it isn't
- How is it created?
- How does a unit get removed from the UAL?
- What does it mean to be on the UAL?

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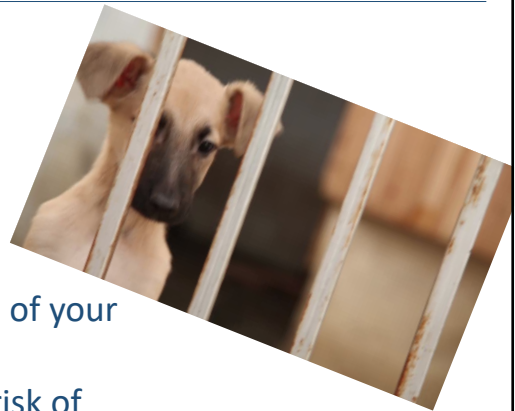
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Unit Assistance List (UAL)

What it is and what it isn't

- It is not a “naughty” list
- It is not a “we are about to assume control of your finances” list
- It is a list of units that we feel are most at risk of having financial and/or operations struggles
- It is a list that helps our Coach Team focus its work



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Unit Assistance List (UAL)

How is it created?

- In all prior years, it was a very manual process – data analyzed from all audits for municipalities, counties, and utility districts, usually in April, based on the prior FYE audited data
- Units were identified based on three primary areas of review:
 - General Fund fiscal health (FBA)
 - Utility Fund(s) fiscal health (liquidity, income, and cash flow)
 - Internal Control weaknesses (number, severity, and recurring)
 - Other matters known to LGC staff
 - Units whose audits had not come in were automatically “on the list”

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Unit Assistance List (UAL)

How is it created? (cont.)

- Units are notified via email and US Mail using contact information we have on file
- List is now available on our website (new this year)

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Unit Assistance List (UAL)

How is it created? (cont.)

- List is periodically updated to account for reports that have been submitted
 - Those are evaluated based on the data in the report, and prior years, to determine if unit stays on the UAL.
 - If late audit is not the norm, and unit is in good shape overall, will come off the UAL at that time
 - Unit will be notified by email and US Mail that it is no longer on UAL
- Important to recognize that most units on the UAL have exhibited trends of poor financial performance/internal controls

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Unit Assistance List (UAL)

How does a unit get removed from the UAL?

- If an error was made in data entry that, once corrected, positively changes the evaluation of the fiscal health of either or both the General Fund or Utility Funds of a unit, we will remove the unit from the UAL.
- As previously discussed, late audits don't always stay on the UAL.
- Otherwise, unit is on the UAL until the next audit comes in and the cycle starts over. All units will be re-evaluated based on their new audited data

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Unit Assistance List (UAL)

What does it mean to be on the UAL?

- If unit needs to borrow money, will face increased scrutiny from LGC and will need a very thorough FPIC response
- Lowered borrowing caps, as Jennifer reviewed earlier
- Manager must take 6 hours of training (see [SL 2021-124](#))
- May be asked to sign a Fiscal Accountability Agreement, which requires unit to send in interim financial information on a periodic basis, and that a draft of the coming year's budget be sent to LGC staff to review before it is adopted

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Unit Assistance List (UAL)

Coming soon!

- Automated UAL
 - In final testing stages
 - Hope to have by June 30
- Will be much easier and faster to update
- Plan to update every 2 months
- Management still has option to override inclusion or exclusion based on other facts known

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AUDIT STATUS UPDATE AND OTHER AUDIT-RELATED NEWS

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Audit Review Update:

- As of June 19, 2023, we are still missing the following
 - 9 counties (plus still have 1 outstanding for 2021)
 - 78 municipalities (approximately 86% submitted), with several outstanding for 2020 and 2021.
- 76 units lost their auditors between 2021 and 2022 when **nine** CPA firms got out of the governmental auditing business in NC.
- We anticipated increased delays in 2022 audits.

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Financial Performance Indicators of Concern (FPICs)

Your auditors should REVIEW potential FPICs with manager and finance officer sufficiently before presentation to governing board so that

- Manager and finance officer understand and are prepared to discuss with board
- Any incorrect FPICs are corrected or removed

Your auditors should ADVISE the governing board and management

- To respond to all FPICs
- Of the deadline for their response – 60 days after presentation or earlier
- Of the signatures needed – majority of the board plus manager and finance officer
- To devote special attention to any repeated FPICs – Why are they not corrected?

Your auditors should ENCOURAGE prompt implementation of corrective actions identified

Your auditors should ALERT the board and staff that a carefully considered response addressing all FPIC is expected. It is very important if an application for approval of debt is anticipated!



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FPIC Response

- See [20 NCAC 03 .0508](#) for requirements
- Must reasonably address all FPICs
 - And be even better if going to LGC for debt approval
 - See [FPICs and Responses](#) on our website for sample responses and guidance on how to submit your response.
 - See [Memorandum #2023-04](#) for additional guidance.
- Must be signed by majority of governing board
- We request also signed by manager and by finance officer
- Submit through the [LGC File Transfer Portal](#) within 60 days after presentation by auditor
 - Do not mail or email response
 - **Earlier response and implementation of corrective action encouraged!**

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Data Input Worksheet – the “DIW”

- Two Excel tabs of most interest
 - **Performance Indicators Print** tab
 - Answers automatically generated from various data sources (If questions, call us! Don’t change formula.)
 - Indicators requiring a response highlighted in **Red**
 - May reference the audited financial statements
 - Stewardship, Compliance and Accountability note
 - Compliance reports

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Email Notifications Regarding the FPIC Response

- Notifications are to unit and to auditor
- “Response Acceptable” – may require amendment if subsequently request LGC approval of a transaction
- Reminders – several levels of reminders including “Past Due”
- Signature Required – sent when additional signatures needed.
 - Required signatures of majority of governing board (by NCAC) and by manager and finance officer by policy
- “SOD” – only FPIC segregation of duties – no response required but a link included to Memorandum #2015-15 – Internal Controls for a Small Unit of Government

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Data Input Worksheet – the “DIW”

• **TD Information Completed by Auditor tab**

- Several interesting questions, for example
 - 906 – opinion unmodified?
 - 1055 – bank and other reconciliations timely?
 - 953 – going concern finding in report?
 - 1059 – no board-appointed finance officer finding?
- Please answer carefully

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Data Input Worksheet – the “DIW”

- Other tabs explain calculations
 - Performance Indicator FBA %
 - RSS (Restricted by State Statute)
 - Electric Transfers compliance
- Certain tabs are for data entry



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Completing the DIW

Accuracy is very important!

- Data from DIW is used to determine if a unit is on the UAL
- Data from DIW is used for reports that go to the General Assembly
- Data from DIW is used to populate databases that units can use to compare themselves to their peers, and that others use for research
- Recent internal audit of DIWs found an error rate of over 70%

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Financial Reporting Tools

- Illustrative financials for [Dogwood and Carolina County](#) will be ready by mid-July
- GASB 87 Workbook for Leases Year Two updates are being reviewed and will be published [here](#) by the end of June.
- GASB 96 Workbook for SBITA is on the website and can be accessed [here](#).
- GASB 67/68 Pension [tables/workbooks](#) are complete and should be on our website by the end of the week.

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ALTERNATIVE REPORTING PROJECT



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Review of Annual Reporting Requirements

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Improve readability of
Statements for Citizens
and local governments

- Simplify financial statements
- Simplify accounting basis

2

Increase Internal
Control work done in
units

3

Improve timeliness of
audits

4

Increase interest in the
CPA community to
perform local
government work

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Overview of Annual Reporting Project

- Multi-year project
- Will require legislative approval

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Overview of Annual Reporting Project - Research Phase

	✓
Other States with emphasis on AAA States – surveys, meetings, official statements, State agencies in other states, municipal organizations in other states	✓
Bond Counsels ✓	✓
Major underwriters in State – how do they use the current statements	✓
Federal & State agencies – How they use current statements	✓
NC State Board of CPA Examiners	✓
NC League of Municipalities and County Commissioners Association	✓
NCACPA	✓
Other Experts in this area (Lee Carter and Greg Allison)	✓
Finance Officers from local governments	✓

✓ Indicates that we are in discussions with these organizations

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Overview of Annual Reporting Project

- The output from the research phase was presented to the State Treasurer and State Auditor and they have asked us to continue into the next phase of research.
- We will develop with input from the previous mentioned organizations.
 - Annual reporting options
 - Who will be eligible for this option
- We also are working with a task force of local government finance officers and with the NCACPA Government Resource Group to get input from auditors.

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Contact Information

Sharon Edmundson	Sharon.Edmundson@nctreasurer.com 919-814-4289
Main Phone #	919-814-4300
Main Email	slgfd@nctreasurer.com

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