



#### STATE AND LOCAL GOVERNMENT FINANCE DIVISION

## 2024 Common Audit Review Issues

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### Agenda: Common Audit Review Issues

- Audit Contracts
- Invoices for Audit Work
- Financial Performance Indicators of Concern (FPICs)
- Response to Auditor's Findings & FPICs
- Audited Financial Statements: Common Issues
- Audit Document Submissions
- Applicable General Statutes and Administrative Code

### **Audit Contracts**

- LGC-205 Rev. 11/2024 Contract to Audit Accounts and LGC-205 Rev. 11/2023 Amendment to Contract to Audit Accounts will be accepted for the 2025 fiscal year end audits.
- Do not email or mail audit documents or invoices to our office.
- Contracts and audit related documents are to be uploaded to the LGC Portal so they will be date- and time-stamped:
   Standard and Amended Audit Contracts | LGC File Transfer Portal
- Engagement letters are agreements between unit and auditor only.
  - If there are conflicts between the terms of the engagement letter and the terms of the audit contract, the terms of the audit contract shall take precedence. (LGC-205)



## **Audit Contracts**

- LGC staff must have reviewed the prior year audit, and all prior year invoices must be received and stamped as approved before the next fiscal year audit can be processed.
- The audit contract is not valid until it is approved by the Secretary of the LGC.
- Contracts must include:
  - The "Date the Audit Will Be Submitted to the LGC"
  - If the unit is behind:
    - The "Date the Audit Will Be Submitted to the LGC" should list the actual date not the past due date.
    - Include a high-level explanation of why the audit is late

Fiscal Year-End	Audit on time if received by	Audit is late if it is received on or after (Amended Contract Required)	
30-Jun	31-Dec	1-Jan	
31-Mar	30-Sept	1-Oct	



### **Invoices for Audit Work**

- All bills or claims for audit fees and audit-related costs shall be submitted in PDF format to the Secretary of the LGC for approval. Fee categories are noted on the LGC-205 contract.
- The Secretary may approve interim billings for services rendered under the audit contract up to a maximum of 75% of the billings for the unit's last annual audit submitted to the Secretary.
- Only invoices for fees related to the audit work are to be sent to and approved by the Secretary. Fees not related to the scope of annual audit work should be agreed to and billed separately / directly with the unit.
- Only invoices for audit work as specified in the audit contract that have been marked with LGC approval are to be paid by the unit. This is required by G.S. 159-34 and Administrative Code 20 NCAC 03 .0505 Audit Billings.



## Financial Performance Indicators of Concern (FPICs) 20 NCAC 03 .0502

- Financial Performance Indicators were developed to improve reporting and analysis of a given unit's financial performance.
- FPICs are performance indicator values that highlight any potential inadequate financial conditions to be brought to the attention of fiscal management.
- FPICs are required to be presented by the auditor to the unit's governing board within 45 days of submission of audit report to LGC Secretary.
  - > FPICs should be available for finance officer review before the auditor's presentation to clarify any questions of the auditor and prepare a response.
- Units must begin corrective action to address FPICs as soon as possible.



## Response to Auditor's Findings & FPICs 20 NCAC 03 .0508

- Due within 60 days of auditor's presentation to governing board
  - Must be signed by majority of board members
- Detailed response specifying the actions taken by the unit to fully address all audit findings & FPIC issues
  - Especially important if unit plans to come before the LGC for debt approval.
- Guidance on <u>Financial Performance Indicators and Responses to the LGC</u>
  - Elements of Responses to FPICs
  - Sample responses
  - Upload to Portal <u>FPIC Response | LGC File Transfer Portal</u>
    - Do not mail or email the response
- Memo 2023-04 How to Respond to Financial Performance Indicators of Concern

- G.S. 159-29. Fidelity bonds Amount of the bond may not be less than the greater of either:
  - ○\$50,000

- Equal to 10% of ALL the unit's annually budgeted funds (ex: General Fund and Enterprise Funds), up to \$1 million
- Example:

Enterprise Fund	• • •
Total – Annually Budgeted Funds	

In this example, the Finance Officer Bond should be no less than \$317,917



Issue: Risk Management note in the "Notes to the Financial Statements" was not updated to indicate the correct amount of the finance officer bond.

• Please confirm both the finance officer bond amount is in compliance with NC General Statutes <u>and</u> that the Risk Management note is correct.

Important while planning for the future fiscal year: Finance officer bond amount may be sufficient for current fiscal year but may not be for the following fiscal year with rising costs.

• Finance officer bond amounts should be reviewed when new fiscal year annual budgets are approved by the governing board, so the finance officer bond remains in compliance with G.S 159-29.



#### Notes to the Financial Statements –

- Long term debt note Revenue Bond Debt disclosures required by GASBS 48 and Item 11 of the <u>LGC-205 Standard Audit Contract</u>
  - Note disclosures required: pledged revenues, calculation demonstrating compliance with rate covenant and any other covenants required by bond documents
    - Revenue Bond disclosures not required for legally separate entities that report as standalone business-type activities whose operations are financed primarily by a single major revenue source (Ex: hospitals)
  - See <u>Illustrative Financial Statements for the City of Dogwood, NC</u> for sample Revenue Bond disclosures.



Did the audit disclose any budget violations at the <u>adopted ordinance</u> level? (Yes or No)

G.S. 159-13. The budget ordinance; form, adoption, limitations, tax levy, filing. "....budget appropriations are to be made by department, function, or project and show revenues by major source."

- Debt service and/or transfers between funds:
  - If all debt service (principal and interest) and all transfers are not budgeted, a statutory violation finding and/or Stewardship note must be noted.
  - Confirm the transfer notes in the audited financial statements agree with what is reported in the financial statements.



## Audited financial Statements: Common Issues Pre-Audit Requirement

• G.S. 159-28. Budgetary accounting for appropriations. Includes requirement for Pre-Audit of obligations and disbursements.

..Incurring Obligations. – No <u>obligation may be incurred</u> in a program, function, or activity accounted for in a fund included in the budget ordinance <u>unless the budget ordinance includes an appropriation</u> <u>authorizing the obligation</u> 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....

➤ Budget amendments must be made BEFORE the obligation is incurred, not after the budget is already over-expended.

### **Audit Document Submissions**

- Audit reports cannot be reviewed without completion of the Data Input Workbook. NEW: Data Input is now in the LOGOS system.
- LOGOS data submission
  - Ensure the correct unit's name is selected
  - Provide correct unit and auditor contact names and email addresses
    - Please make sure that the CURRENT finance officer's name and email are CORRECT.
    - Emails from LGC staff sent to units/auditors do not reach intended recipients if email addresses are not correct. Subsequently, you will not be aware of audit status.



## Applicable NC General Statutes and NC Administrative Code

#### NC General Statute

- G.S. 159-13. The budget ordinance; form, adoption, limitations, tax levy, filing. (b)(1)
- G.S. 159-28. Budgetary accounting for appropriations.
- G.S. 159-29. Fidelity bonds
- G.S. 159-34. Annual independent audit; rules and regulations.

#### NC Administrative Code

- 20 NCAC 03 .0502 Audit Contracts
- 20 NCAC 03 .0505 Audit Billings
- 20 NCAC 03 .0508 Response to the Independent Auditor's Findings, Recommendations, and Fiscal Matters



#### STATE AND LOCAL GOVERNMENT FINANCE DIVISION

## LOGOS Audit Module

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### **LOGOS Audit Module – Features Available 2025**

- Replacement of the DIW worksheet with an automated interface
- Improved quality of data through data validation
- Will only display the questions applicable to the unit
- Any corrections needed will be communicated through the audit module instead of with an audit report communication (ARC). The auditor will only need to touch the data points that need correction.
- Auditor communication letters will be submitted through the LOGOS module.
- The audited financial statements will still need to be submitted through the LGC File Transfer Portal, the same as in prior years.



## Getting your LOGOS account set up

- The LGC will send a link to a digital form to initiate the LOGOS account creation process.
- Municipalities and counties should already be familiar with LOGOS account creation due to filing the semi-annual LGC-203/COLL-91 report.
- The unit or the audit firm can initiate the process.
- In 2025, the unit will send the LGC confirmation that the firm needs access, after the initial step.
- In future years, this will be part of the audit contract process.
- Now that you know this is coming, be prepared, and the process will be quick and painless.

## **Sample Screenshots**

- The following slides will have sample screenshots from the LOGOS module.
- You will see the questions are mostly the same as the Data Input Workbook questions.

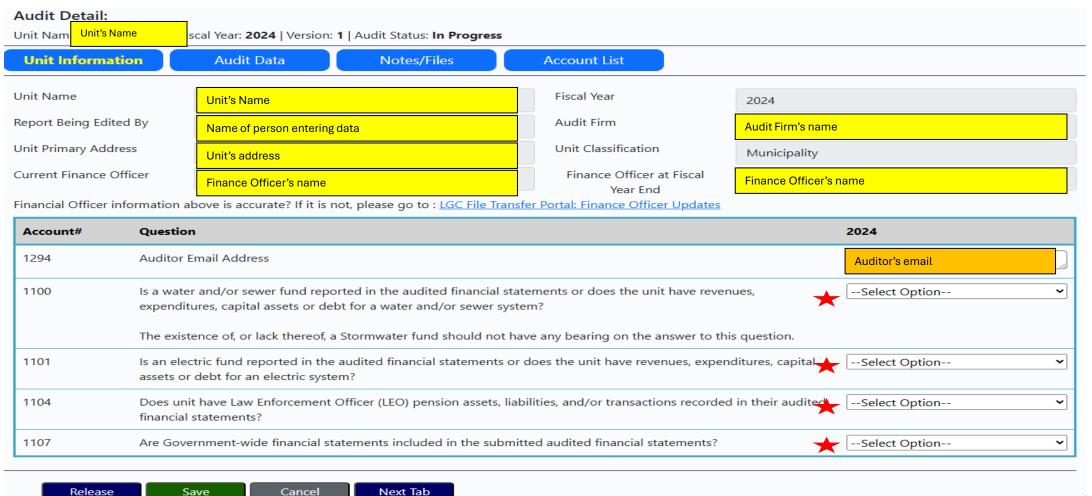
## Unit Questions Will Drive the Display/Suppression of Data Fields

• The questions with the red stars on the next slide will impact what questions there are on the following pages.

 This will save time for the user. For example, the user will no longer need to answer water/sewer questions if they do not have a water/sewer fund.



### **Audit Unit Details Screen**





### **Audit Module – Available for Fiscal Year 2025 Audits**

LOGOS (Local Government System) is the system we are developing to help automate and streamline the submission and review of documents and information.

LOGOS currently consists of the LGC-203/COLL-91 module.

The DIW module will have the same look and feel as the LGC-203/COLL-91 module.

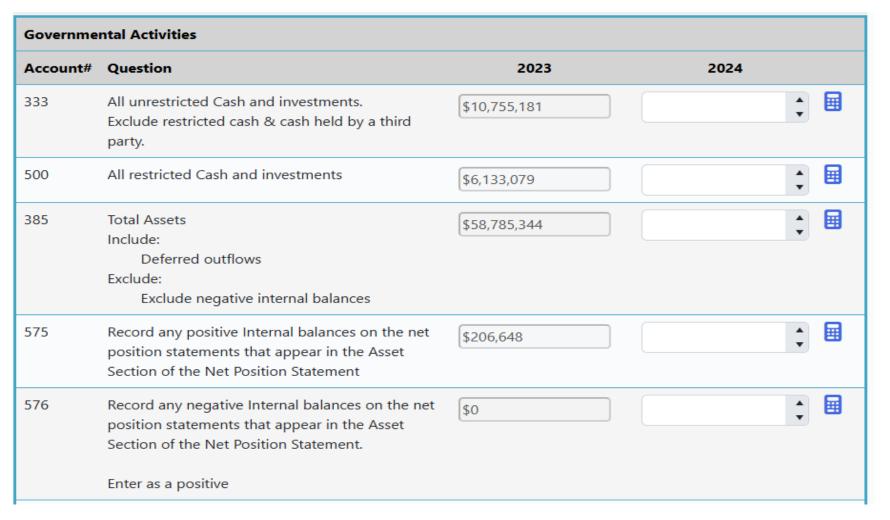


# Data Validation Will Be Performed We believe this will reduce the number of corrections required for unanswered questions.

Please correct the validation error	ors before continuing	g.				
Unit Name		Alamance	Fiscal Year	2024		
Report Being Edited By		ITBPDataEntry Test	Audit Firm	Cobb, Ezekiel, Loy & Co. Grahar	m	
Unit Primary Address		PO BOX 96 Alamance NC 27201	Unit Classification	Municipality		
Current Finance Officer		Gayle Andrews	Finance Officer at Fiscal Year End	Gayle Andrews		
Financial Officer information above i	is accurate? If it is no	ot, please go to : <u>LGC File Transfer Portal: Finance Officer Updates</u>				
Account#	Question				2024	
1296	Data entered into	the application must be derived from the finalized audited financial statements. Have the audited financial st	atements have been finalized?		Select Option	~
	*Field is required					
1294	94 Auditor Email Address					
					*Field is required	
4400						
1100	Is a water and/or sewer fund reported in the audited financial statements or does the unit have revenues, expenditures, capital assets or debt for a water and/or sewer system? Select Option					
	The existence of, or lack thereof, a Stormwater fund should not have any bearing on the answer to this question.  *Field is required					
1101	Is an electric fund	reported in the audited financial statements or does the unit have revenues, expenditures, capital assets or d	ebt for an electric system?		Select Option	•
					*Field is required	
1104	Does unit have La	w Enforcement Officer (LEO) pension assets, liabilities, and/or transactions recorded in their audited financial	statements?		Select Option	•
					*Field is required	
1107	Are Government-v	wide financial statements included in the submitted audited financial statements?			Select Option	~
					*Field is required	22



## The data input screens will be in the same order and have the same account numbers as the prior year DIWs, with minor exceptions.





To prevent data loss and to allow frequent saving of your work, multiple save options have been provided both at the section level and tab level.

We have a calculator available next to the input area for your convenience.

597	Amount of interest income and investment income recognized as revenue in your audit report for all governmental and proprietary funds.  In the past we have asked you to adjust this number, but this year we would like the number as it appears on your Statement of Activities without adjustment.  \$1,095,490  \$2,095,704
	Save & Continue Cancel
	Previous Tab Cancel Next Tab

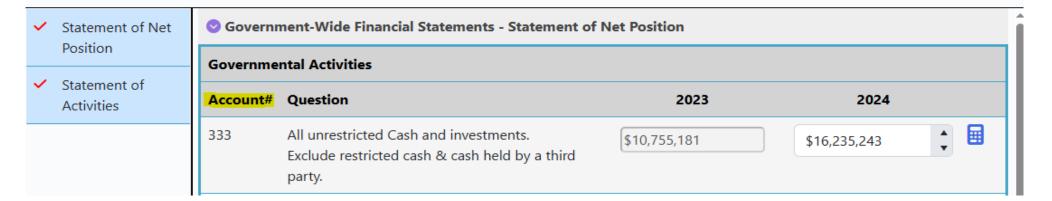


We have added an error detection feature.

If an error is detected, such as beginning balances not tying to prior year ending balances, an error message will appear.

We believe this will reduce the number of corrections requested by LGC staff, saving the auditor and unit time and allowing staff to complete our reviews more quickly.

- Error: Total assets and deferred outflows less total liabilities and deferred inflows do not equal total net position. Account numbers 385-338-252-253 must = 254
- Error: Beginning Balance does not agree with our records. Account numbers 252+253+254-255-376-(Prior Year 252+253+254) must = 0
- Please note that not all account numbers are applicable for all unit types. Account number(s) shown in formula(s) that are not available for data entry are not applicable for your unit type.

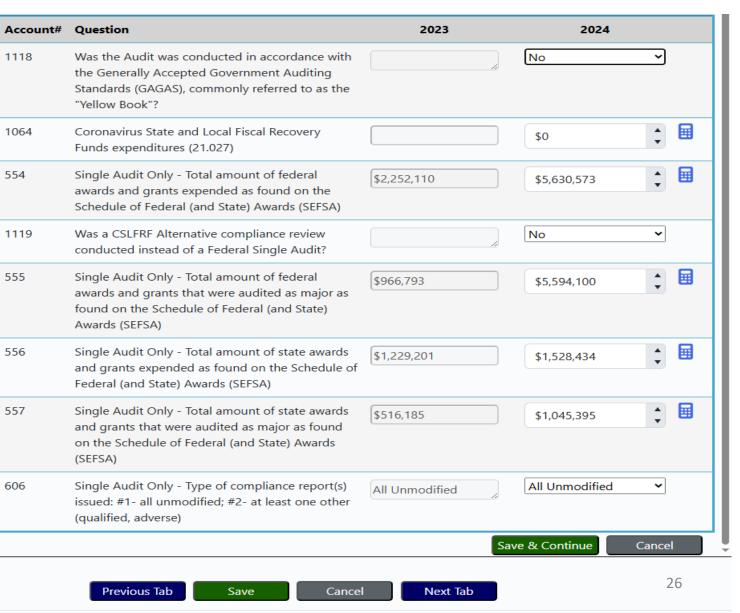




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#### **New: Compliance questions**

The user will need to answer these questions to determine the level of compliance review needed, if any. This is new for 2025.



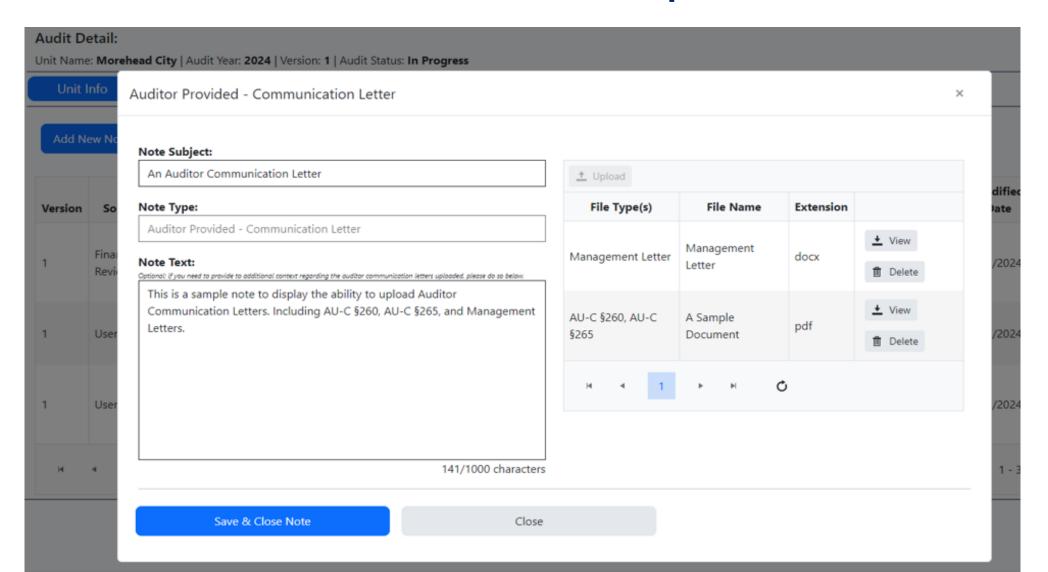


- Financial Performance Indicators will populate on their own tab.
- A printable PDF of the performance indicators, including FPICs if applicable, will be produced for the auditor to provide to the board during the audit presentation.
- Make sure you request this from your auditor.





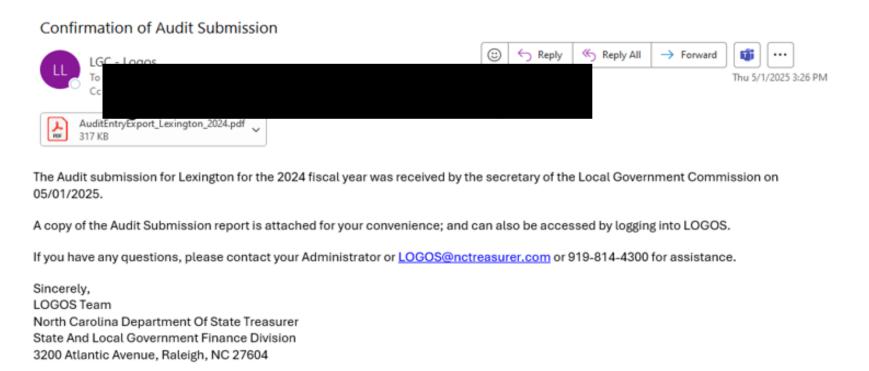
#### **Auditor Communications Will Now Be Uploaded in the Module**





## After submitting the audit, the auditor and finance officer will receive a confirmation of audit submission.

At this point, LGC staff will begin the audit review.





## **Training opportunities**

We plan to offer data entry training for audit firms before the system goes live. However, if a municipality or county would like to attend, they are welcome to.

Please let us know if you are interested in the training. Email <u>Eric.Faust@nctreasurer.com</u> if you would like to attend.

Feedback? Suggestions? Have additional features you'd like to see? Let us know! <a href="mailto:SLGFD@nctreasurer.com">SLGFD@nctreasurer.com</a>