

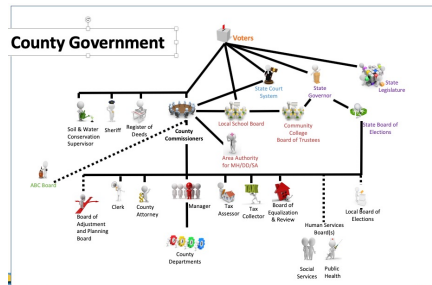
Oversight & Internal Controls

Kara Millonzi, Robert W. Bradshaw Distinguished Professor of Public Law and Government, UNC Chapel Hill School of Government

ESSENTIALS OF COUNTY GOVERNMENT



1



2

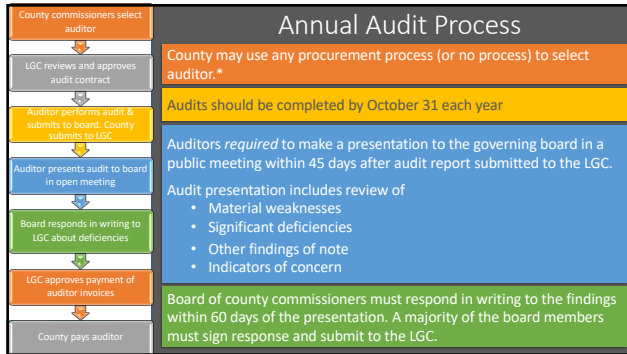
Accountability & Oversight

Audits	Local Government Commission	Internal Controls	Other
Annual independent financial audit (G.S. 159-34)	Approves audit contracts Reviews audits	Governing board fiduciary duty	Statutory remedies
Yellow book audit (if expend over \$100,000 combined state and federal \$'s)	Issues regulations governing financial management Provides assistance in financial management	Statutory roles and responsibilities	Whistleblowers Citizen suits
Single audit (if expend over \$750,000 federal \$'s)	Approves bonds (debt) and other financing agreements (including leases) Sells bonds May require finance officers and/or managers to participate in financial training Takes over financial management in extreme circumstances	Internal processes and procedures	State Auditor Granting entities Media scrutiny

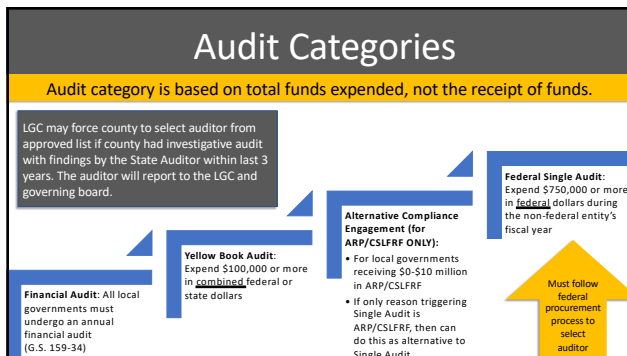
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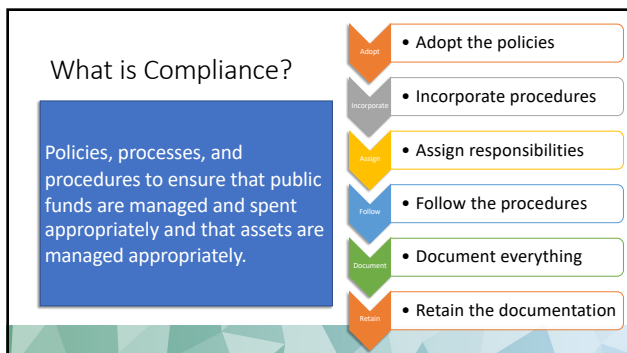
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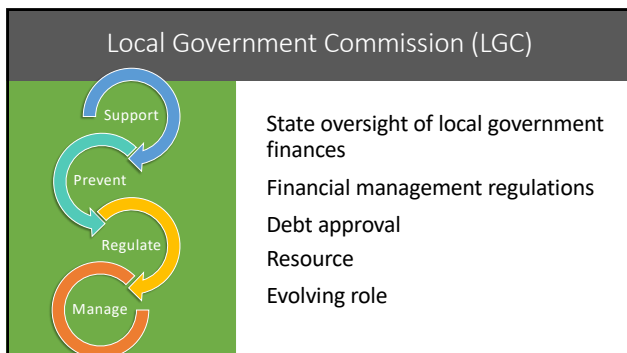
6

Governing Board Action on Audit	
Low fund balance	<div>If a county is notified by its independent auditor that the unit's audited financial statements include one or more</div> <ul style="list-style-type: none">• significant deficiencies,• material weaknesses,• other findings, or <div>financial performance indicators of concern</div> <div>the board of commissioners must develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters" signed by a majority of the commissioners and submitted to the LGC within 60 days of the auditor's presentation.</div>
Uncollected tax levy	
Late audit submission	
Transfers from enterprise fund to general fund	
Operating net income loss in enterprise fund	
Quick ratio below 1 in enterprise fund	
Budget violations	
Other statutory violations	

7

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Single audit (if expend over \$750,000 federal \$'s)	Issues regulations governing financial management	Internal processes and procedures	State Auditor
	Provides assistance in financial management		Granting entities
	Approves bonds (debt) and other financing agreements (including leases)		Media scrutiny
	Sells bonds		
	May require finance officers and/or managers to participate in financial training		
	Takes over financial management in extreme circumstances		
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8



9

Unit Assistance List

<p>The UAL identifies units with concerns related to units' general fund, water/sewer quick ratio, income, and cash flow, and internal controls, or that have not yet submitted their audited financial statements (due four months following fiscal year end).</p> <p style="text-align: center;"><u>July 2022 UAL</u></p>	<p>LGC may mandate</p> <ul style="list-style-type: none"> • Finance staff and manager training • Modifications to internal controls • Contract with outside finance professionals <p>LGC approval required of more leases, vehicle financings, and other contracts.</p>
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10

LGC Takeover

<p>The LGC may impound the books and records of a county and assume full control of all its financial affairs:</p> <ul style="list-style-type: none"> • when the county defaults on any debt service payment or, in the opinion of the LGC will default on a future debt service payment if the financial policies and practices of the county are not improved, or • when the county persists, after notice and warning from the LGC, in willfully or negligently failing or refusing to comply with the provisions of GS. Ch. 159. <p>The LGC also may impound the books and records and assume full control of county water and/or sewer system, if certain criteria are met.</p>	<p>The LGC is vested with all the powers of the governing board as to the levy of taxes, expenditure of money, adoption of budgets, and all other financial powers conferred upon the governing board by law.</p>
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11

Local Government Commission Dissolves Troubled Town of East Laurinburg

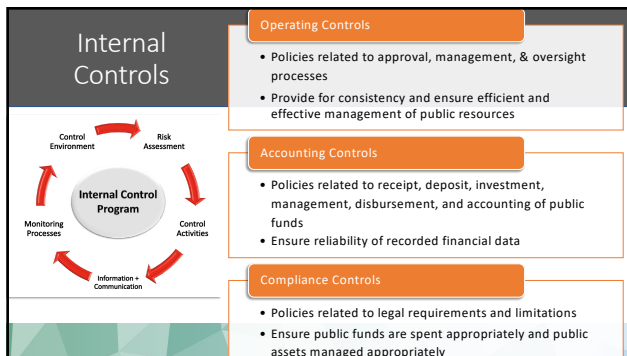
It is the First Time LGC Has Exercised Power Over Failing Local Government

<p>New Unsustainable Cities Law</p>	<p>Review, Rehabilitation, and/or Dissolution of Unsustainable Municipalities</p> <p>Establishes LGC-initiated and Municipal-initiated processes to do a thorough review of revenues and assets of a struggling municipality, formulate and implement an improvement plan (including partnering with county or other local governments), and, if it is not financially sustainable, a plan to dissolve the municipality</p> <p>Also allows for citizens to petition for referendum on dissolution</p> <p>Counties will likely take on more responsibilities for providing local government services</p>
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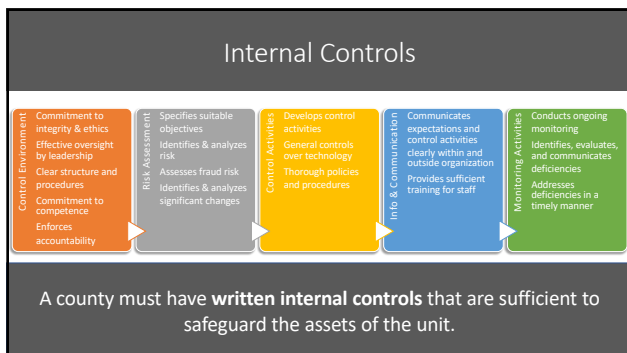
12

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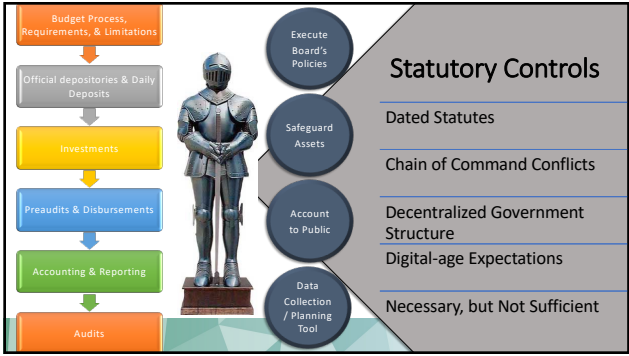
13



14



15



16

Who Does What?					
Governing Board	Finance Officer	Budget Officer	Tax Collector	Purchasing Officer	Auditor
<ul style="list-style-type: none">• Oversight / Fiduciary Duty• Adopts/amends budget(s)• Sets tax/fee rates• Appoints some finance personnel• Selects official depositories• Sets amount, pays for, and receives finance officer and tax collector bonds• Selects auditor• Receives and responds to audit report	<ul style="list-style-type: none">• Establishes and maintains accounting system• Controls expenditures and disbursements• Prepares and presents financial reports• Manages receipt and deposit of moneys• Manages debt service obligations• Supervises investments• Must be bonded	<ul style="list-style-type: none">• Prepares and submits annual budget and budget message to board• Executes budget(s)• In manager form of government, manager is the budget officer• In mayor/council form of government, board must appoint budget officer	<ul style="list-style-type: none">• Prepares tax bills• Collects taxes• Accounts for tax collections• Prepares and presents reports on tax collections• Must be bonded• For smaller units, may contract with county for tax collection	<ul style="list-style-type: none">• Negotiates / enters into contracts• Performs bidding/RFP processes• Ensures pre-audit performed• For smaller units, finance officer performs this function	<ul style="list-style-type: none">• Performs yearly independent audit

17

Beyond the Statutes

The board of county commissioners must oversee the development and implementation of sufficient controls.

- Credit / P-Card Policy
- Travel Policy
- Gift Card Policy
- Purchasing & Contracting Policy
- Disbursements & Petty Cash Policy
- Property Management Policy
- Etc.

Segregation of Duties

When work duties are divided or segregated among different people to reduce the risk of error or inappropriate actions.

Physical Controls

When equipment, inventories, securities, cash and other assets are secured physically. This can occur by using locks, safes, passwords, or other environmental controls. Access is restricted to those with authority to handle them.

Reconciliations

Comparisons are made between similar records maintained by different people to verify transaction details are accurate and that all transactions are properly recorded. (Eg. *Performing a reconciliation from bank statements to check register/records; and Balancing/reconciling cash on hand to sales or transaction activity on the cash register totals.*)

Policies and Procedures

Established policies, procedures, and documentation that provide guidance and training to ensure consistent performance at a required level of quality. These should be available at all levels of the organization.

Transaction and Activity Reviews

Management reviews of transaction, operating, and summary reports help to monitor performance against goals and objectives, spot problems, identify trends, etc. (Eg. *Monthly review of budget statements to actual expenses; and Review of timecards and overtime hours by employees.*)

Information Processing Controls

When data is processed, a variety of internal controls are performed to check the accuracy, completeness and authorization of transactions. Data entered is subject to edit checks or matching to approved control files or totals. Numerical sequences of transactions are accounted for, and file totals are controlled and reconciled with prior balances and control accounts. Development of new systems and changes to existing ones are controlled, as is access to data, files, and processes.

18

Constitutional Limitations on Local Government

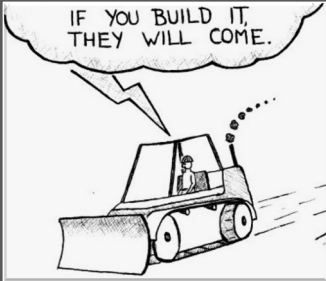
Public Purpose
"The power of taxation shall be exercised . . . for public purposes only . . ." N.C. Const. Art. V, Sect. 2(1)

You must have statutory authority to expend funds for any purpose
Public funds must be spent for the general benefit of your county's citizens

Exclusive Privileges & Emoluments
"No person or set of persons is entitled to exclusive or separate emoluments* or privileges from the community but in consideration of public services." N.C. Const. Art. I, Sect. 32

You may not provide direct benefit to private entities or individuals without receiving benefits in return


19



Lawful?

City asks county to fund half of a major road project. Although the road project is within the city, it is a necessary part of an economic deal the county is working on to locate a large industrial manufacturing facility to the un-incorporated part of the county, located just outside city limits.

20



Lawful?

A beloved city resident leaves his faucets running all day to accommodate his many cats. He has recently fallen behind on his rather high water bill. The department's normal procedure is to shut off the water and impose a penalty for the delinquency. The county manager feels sorry for the resident and requests that the county's governing board make an exception and waive his outstanding utility fees and late penalties. To a cheering crowd, the board votes unanimously to do so.

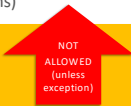

21



Lawful?

At budget time, a local nonprofit asks the county for a \$1,000 donation.

22

Support	vs.	Partnership
A local government generally DOES NOT have statutory authority to support a nonprofit's, community organization's, or other private entity's general operating or capital expenditures (but there are a few exceptions)		A local government may enter a partnership (contractual agreement) with any private entity to fund an activity, service, project, etc. that the local government has statutory authority to engage in.
		

23

Partnership
<p>§ 153A-449. Contracts with private entities</p> <p>(a) Authority. – A county may contract with and appropriate money to any person, association, or corporation, in order to carry out any public purpose that the county is authorized by law to engage in.</p>
<p>Identify project, service, or other activity that local government could undertake itself.</p> <p>Contract with private entity to undertake it on behalf of the local government.</p>
<p>A budget appropriation is never sufficient to provide funding to a private entity. A local government needs to have a contractual agreement that specifies the project, service, or activity the private entity will carry out in exchange for payment by the local government.</p>

24

Support

A local government generally **DOES NOT** have statutory authority to support a nonprofit's, community organization's, or other private entity's general operating or capital expenditures (but there are a few exceptions)

Even if exception applies, county still must have contract with private entity.

EXCEPTIONS

A county may contract with the following entities to support their general operating and/or capital expenditures:

- Volunteer fire departments and rescue squads
- Nonprofit museums or arts organizations
- Animal shelters
- Private hospitals
- Certain private entities serving developmentally disabled
- Certain historical organizations
