

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



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STATE AND LOCAL GOVERNMENT FINANCE DIVISION

# Myth Busters

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# Introduction

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# Agenda (Myths to be Busted)

- Myth: The LGC approves audits.
- Myth: The LGC approves auditors.
- Myth: There is a December 1 grace period for the submission of audit reports.
- Myth: The cap on interim invoices is based on the contract amount.
- Myth: The state/the law/the LGC requires an 8% fund balance.
- Myth: An unmodified opinion means that the unit is in good fiscal health and has no significant fiscal operational issues.
- Myth: If a unit is on the Unit Assistance List, the LGC is about to take control of its finances.
- Myth: LGC staff have secret meetings to plot ways to make processes more difficult.
- Myth: Local governments shouldn't contact LGC staff unless there is a major issue or concern.



# The Myth of LGC Approval of Audits



**Myth:** The LGC approves audits.

**Facts:**

✓ N.C.G.S. 159-34 requires that

**Audits are filed** with the Secretary of the LGC.

**Contracts are approved** by the Secretary of the LGC (with regard to the contract's form, terms, conditions, and compliance with the rules of the Commission).

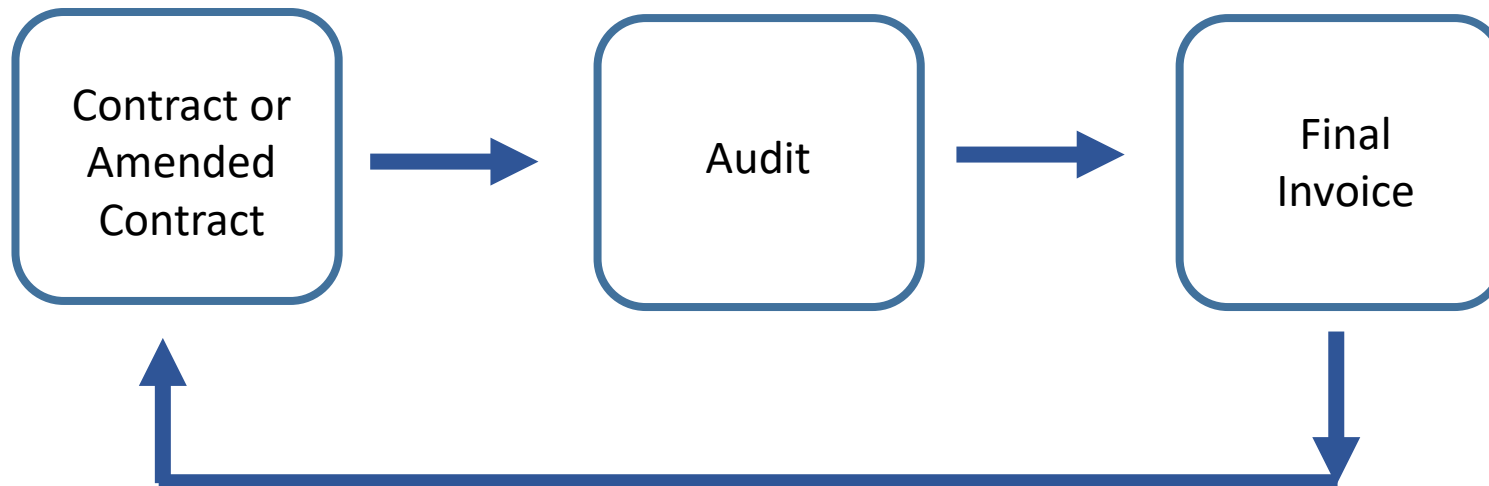
**Invoices are approved** by the Secretary of the LGC (after determining that the audit and audit report substantially conform to the requirements of statutes).



**Myth:** The LGC approves audits (continued).

**Facts:**

LGC Staff Will Accept A(n)	If We Have A(n)
Contract	Prior Year Final Invoice
Final Invoice	Audit
Audit	Contract or Amended Contract





**Myth:** The LGC approves audits (continued).

**Facts:**

- ✓ New business processes allow LGC staff to more quickly receive, process, review, and approve (where applicable):

Audits ([LGCAuditReview@nctreasurer.com](mailto:LGCAuditReview@nctreasurer.com))

Contracts ([LGContract@nctreasurer.com](mailto:LGContract@nctreasurer.com))

Invoices ([LGInvoice@nctreasurer.com](mailto:LGInvoice@nctreasurer.com))

Through the [LGC File Transfer Portal](https://lgcportal.nctreasurer.com/) (<https://lgcportal.nctreasurer.com/>)



**Myth:** The LGC approves audits (continued).

**Facts:**

- ✓ LGC staff reviewer may require corrections if there are significant presentation issues with the financial statements and/or the compliance reports.
- ✓ Auditor will be notified of changes needed through an Audit Report Communication (ARC).





**Myth:** The LGC approves audits.

**BUSTED**



# The Myth of LGC Approval of Auditors



**Myth:** An auditor must be on an LGC-approved list in order to be selected by a local government to perform an audit.

**Facts:**

- ✓ LGC staff maintains a list of firms offering audit and non-audit services to local governments in North Carolina.
- ✓ List is available on our "[Audit Resources](#)" webpage.
- ✓ Information on the list is submitted by firms.
- ✓ Neither the LGC nor its staff recommend, endorse, or approve firms.
- ✓ If a firm would like to be included, email [SLGFD@nctreasurer.com](mailto:SLGFD@nctreasurer.com).



## Accounting Firms Catalog

Displaying 1 - 10 of 73

Types of Services Firm Provide

- Any -

Search

Apply

Contacts	Service Provided	Area Firm Serve
<b>Anderson Smith and Wike, PLLC</b> <a href="tel:(828)234-1811">(828) 234-1811</a> <a href="mailto:adeal@asw-cpa.com">adeal@asw-cpa.com</a> <b>Address:</b> Huntersville, NC United States	<ul style="list-style-type: none"><li>• Annual Financial Audit</li><li>• Single Audit and/or Yellow Book Audit</li><li>• Annual Financial Statement Preparation</li><li>• Monthly Bookkeeping and Interim Financial Reports</li><li>• Year-End Bookkeeping/Audit Preparation</li><li>• Pension Agreed Upon Procedures</li></ul>	<ul style="list-style-type: none"><li>• Western NC</li><li>• Northern Mountains</li><li>• Central NC</li><li>• Central and Northern Coast</li><li>• Southeast NC</li></ul>



**Myth:** An auditor must be on an LGC-approved list in order to be selected by a local government to perform an audit.

**BUSTED**



# The Myth of the Grace Period



**Myth:** There is a December 1 grace period for the submission of audit reports.

**Facts:**

- ✓ Audit reports are due four months after FYE (other than housing authorities; for most units, the due date is October 31).
- ✓ The LGC does not grant extensions of due dates.
- ✓ Amended contracts are not extension requests – they are modifications to the original contracts in which the date to be submitted was documented as four months after FYE.
- ✓ The December 1 date applies to the need for an amended contract – if an audit will be submitted late (after October 31) but before December 1, an amended contract is not required by the LGC.



**Myth:** There is a December 1 grace period for the submission of audit reports.

**BUSTED**





# The Myth of the Interim Invoice Cap



**Myth:** The cap on interim invoices is determined based on the contract amount.

**Facts:**

- ✓ The cap on the limit of invoices that may approved by the LGC prior to the submission of an audit is based on allowances made in North Carolina Administrative Code:

*“...the Secretary may approve interim billings up to a maximum of 75 percent of the billings for the last annual audit of the subject unit submitted to the Secretary. ([20 NCAC 03 .0505](#))*



**Myth:** The cap on interim invoices is determined based on the contract amount (continued).

**Facts:**

- ✓ The cap is calculated as 75% of the billings for the last annual audit submitted to the Secretary
- ✓ Invoices not submitted to the LGC aren't (can't be) included in the cap calculation
- ✓ The cap is NOT calculated as
  - 75% of the current year contract
  - 75% of the prior year contract



**Myth:** The cap on interim invoices is determined based on the contract amount (continued).

**Facts:**

- ✓ Audit fees are published to the LGC website on our Audit Resources page which is updated nightly with any invoices approved that day.



## Audit Fees by Unit

The table below provides a summary of the invoices for annual audit work that have been received and approved by the LGC to date pursuant to North Carolina General Statute [159-34](#) and North Carolina Administrative Code [20 NCAC 03 .0505](#). This report includes invoice data for audits performed for fiscal years 2021 and later and is updated daily to reflect the latest totals. Please note that these totals do not necessarily represent all fees that a unit has paid or will pay for its annual audit, the contracted amount of the audit, or any invoices received but not yet reviewed and approved by the LGC. Note that if a unit is not included in the table, no invoices have yet been received and approved by the staff of the LGC for that unit as of the last page update.

If you have questions on the contents of this list, please contact [SLGFD@nctreasurer.com](mailto:SLGFD@nctreasurer.com).

[Export to Excel](#)

Fiscal Year	Unit Name ↑	Invoice Total	Audit Firm
2021	Aberdeen	43,100.00	Dixon Hughes Goodman LLP High Point
2022	Aberdeen	32,325.00	FORVIS, LLP High Point
2021	Aeronautics Auth. of The City of Henderson	4,500.00	May & Place, P.A. Louisburg
2022	Aeronautics Authority of The City of Henderson	4,000.00	May & Place, P.A. Louisburg



**Myth:** The cap on interim invoices is determined based on the contract amount.

**BUSTED**



# The Myth of 8%



**Myth:** The state/the law/the LGC requires a local government to maintain an 8% fund balance.

**Facts:**

- ✓ There is no statute or LGC policy that sets a required 8% (or any amount) fund balance.
- ✓ North Carolina General Statute [159-8\(a\)](#) defines and limits the maximum amount of fund balance that may be appropriated in an annually budgeted fund, but there is no statutory minimum requirement for fund balance available.





**Myth:** The state/the law/the LGC requires a local government to maintain an 8% fund balance (continued).

**Facts:**

- ✓ A unit may have an FPIC (Financial Performance Indicator of Concern) if its fund balance falls below a defined threshold based on unit type (county or municipality) and general fund expenditures.

Municipalities			
General Fund Expenditures below:	Median FBA as % of Expenditures without Powell Bill	Minimum Thresholds FBA as % of Expenditures	# of Months FBA using Annualized Expenditures
\$100,000	260%	100%	12.00
\$100,000 to \$999,999	132%	71%	8.52
\$1,000,000 to \$9,999,999	63%	34%	4.08
Above \$10,000,000	46%	25%	3.00
Counties			
General Fund Expenditures below:	Median FBA as % of Expenditures without Powell Bill	Minimum Thresholds FBA as % of Expenditures	# of Months FBA using Annualized Expenditures
Below \$100,000,000	39%	20%	2.40
\$100,000,000 and above	32%	16%	1.92



**Myth:** The state/the law/the LGC requires a local government to maintain an 8% fund balance (continued)

**Facts:**

- ✓ Fund balance available is just one of many factors that can be used to determine a unit's fiscal health.
- ✓ The "Management of Cash and Taxes and Fund Balance Available for Counties and Municipalities" is now available on the report server available from our [Financial Analysis Tools and Reports](#) webpage.
- ✓ A more detailed explanation/debunking of "The Myth of 8%" is available in this blog post – [LGC Staff Guidance on Fund Balance Available](#). You can [sign up](#) to receive alerts whenever a new blog is posted or browse and search previous posts at the [LGC Staff Blog](#) webpage.



**Myth:** The state/the law/the LGC requires a local government to maintain an 8% fund balance.

**BUSTED**



# The Myth of an Unmodified Opinion



**Myth:** An unmodified (“clean”) opinion on a unit’s financial statements means that the unit is in good fiscal health and has no significant fiscal operational issues.

**Facts:**

- ✓ The [AICPA](#) defines an unmodified opinion as “the opinion expressed by the auditor when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.”



**Myth:** An unmodified (“clean”) opinion on a unit’s financial statements means that the unit is in good fiscal health and has no significant fiscal operational issues (continued).

**Facts:**

- ✓ In other words, an unmodified opinion means that the reader should be able to determine the financial condition of the entity from the financial statements. An entity can be in horrible financial condition but if the statements correctly reflect that, the opinion will be unmodified.



**Myth:** An unmodified (“clean”) opinion on a unit’s financial statements means that the unit is in good fiscal health and has no significant fiscal operational issues (continued).

**Facts:**

- ✓ An entity can have material internal control weaknesses and significant deficiencies and still get an unmodified opinion. The clean opinion doesn’t mean they shouldn’t address the deficiencies.



**Myth:** An unmodified (“clean”) opinion on a unit’s financial statements means that the unit is in good fiscal health and has no significant fiscal operational issues.

**BUSTED**





# The Myth of the Unit Assistance List



**Myth:** If a unit is on the Unit Assistance List, the LGC is about to take control of its finances.

**Facts:**

- ✓ The Unit Assistance List (UAL) is based on an assessment of units' financial data and information from audits.
- ✓ The list is used to identify which units are facing financial or fiscal management challenges.
- ✓ The list is used to allocate LGC staff resources to units needing assistance.



**Myth:** If a unit is on the Unit Assistance List, the LGC is about to take control of its finances (continued).

**Facts:**

- ✓ If a unit is on the on the Unit Assistance List:
  - ✓ The unit will be notified by email and written letter if they are included on the UAL.
  - ✓ The unit will be notified by email and written letter when they are removed from the UAL.
  - ✓ LGC staff's Coach Team will request the unit's proposed budget for review.
  - ✓ LGC staff's Coach Team will provide other assistance including resources, visits, and other reviews.



**Myth:** If a unit is on the Unit Assistance List, the LGC is about to take control of its finances (continued).

## Facts:

- ✓ If a unit is on the on the Unit Assistance List:
  - ✓ City and county managers of units on the UAL must complete a minimum of six clock hours of education. See [160A-148](#) for cities; [153A-82](#) for counties.
  - ✓ Units on the UAL have lower thresholds for financing contracts requiring LGC approval (3 years and \$50,000). See [G.S. 159-148\(a\)\(1\) and \(a\)\(3\)](#).
  - ✓ Units on the UAL must obtain LGC approval of financing contracts for the purchase, lease, or lease with option to purchase motor vehicles where the contract amount equals or exceeds \$50,000. See [G.S. 159-148 \(b\)\(4\)](#).



**Myth:** If a unit is on the Unit Assistance List, the LGC is about to take control of its finances (continued).

**Facts:**

- ✓ The process for developing the Unit Assistance List is being improved.
  - ✓ Units will continue to be scored on general fund, water/sewer fund, and internal controls but scores will be based on an expanded list of metrics.
  - ✓ A score will be included based on economic and demographic criteria but this score **will not** be used to determine a unit's inclusion on the Unit Assistance List.
  - ✓ Units will have greater insight into their score and the specific criteria that led to the score.



**Myth:** If a unit is on the Unit Assistance List, the LGC is about to take control of its finances.

**BUSTED**



# The Myth of Secret LGC Staff Meetings



**Myth:** LGC staff have secret meetings to plot ways to make processes more difficult.

**Facts:**

- ✓ It may seem like it.
- ✓ Our work and decisions are based in North Carolina statutes and Administrative Code.
- ✓ We are working to utilize technology to streamline our processes and make processes easier – for local governments, auditors, and our own staff.
- ✓ We welcome suggestions for improvement – email me!





**Myth:** LGC staff have secret meetings to plot ways to make processes more difficult.

**BUSTED**



# The Myth of Contacting LGC Staff



**Myth:** Local governments shouldn't contact LGC staff unless there is a major issue or concern.

**Facts:**

- ✓ We are here to help and happy to do so.
- ✓ To contact LGC staff:
  - ✓ Call: 919-814-4300
  - ✓ Email: [SLGFD@nctreasurer.com](mailto:SLGFD@nctreasurer.com)
  - ✓ Debt Inquiries: [Debt Inquiry Form](#)
- ✓ To stay up to date on LGC staff announcements and reminders:
  - ✓ Read and sign up to receive alerts for new posts on the [LGC Staff Blog](#)



**Myth:** Local governments shouldn't contact LGC staff unless there is a major issue or concern.

**BUSTED**



# QUESTIONS?

Feel free to contact us with any questions or concerns:

[SLGFD@nctreasurer.com](mailto:SLGFD@nctreasurer.com)