



STATE AND LOCAL GOVERNMENT FINANCE DIVISION

2024 Financial Statement Audit Review Communications

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Agenda Financial Statement Audit Review - Communications

- Audit Contracts
- Invoices for Audit work
- Financial Performance Indicators of Concern (FPICs)
- Response to Auditor's Findings & FPICs
- Audited Financial Statements: Common Issues
- Data Input: Common Errors
- Audit Document Submissions: LOGOS
- 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.
- Upload contracts and audit related documents 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 approved before the next fiscal year audit can be processed.
- Your 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
 - 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 20 NCAC 03 .0505 Audit Billings

- 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 auditor may submit interim invoices for approval for services rendered under this contract to the Secretary of the LGC, not to exceed 75% of the billings for the unit's last annual audit that was submitted to the Secretary of the LGC.
- Only fees related to the audit work are to be approved by LGC. Fees not related to the scope of annual audit work should be agreed to and billed separately / directly with the unit.
- Please do not send an invoice to the unit for payment unless it is stamped with LGC approval as required by <u>G.S. 159-34</u> and Administrative Code



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 fully addressing all audit findings & FPIC issues
 - Especially important if unit plans to come before the LGC for debt approval.
- Guidance on Financial Performance Indicators and Responses to the LGC
 - 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



Audited Financial Statements: Common Issues

- 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 Units annually budgeted funds (ex: General Fund and Enterprise Funds), up to \$1 million
- Example:

General Fund Enterprise Fund	• • •
Total – Annually Budgeted Funds	

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



Audited Financial Statements: Common Issues

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.

Please advise units to plan for the future! Finance officer bond amount may be sufficient for current fiscal year but may not be for the following fiscal year with rising costs.

 Bond amounts should be reviewed when new fiscal year annual budgets are approved by the governing board.



Audited Financial Statements: Common Issues

Notes to the Financial Statements –

- Long term debt note Revenue Bond Debt disclosures required by GASB 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 for sample Revenue Bond disclosures.</u>



Audited financial statements: Common Issues

Did the audit disclose any budget violations at the adopted ordinance 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:
 - When debt and/or transfers are not budgeted, please consider noting as a finding and/or noting this in the Stewardship notes.
 - Be sure that the transfer notes in the audited financial statements agree with what is reported in the financial statements.
- <u>G.S. 159-28</u>. <u>Budgetary accounting for appropriations</u>. Includes requirement for Pre-Audit of obligations and disbursements.



Data Input: Common Errors

- If you appropriated General Fund Balance in your 2024 budget and your "change in fund balance" is negative, please indicate if this was caused by either "operations" or "capital", whichever best describes what the fund balance was used for.
 - If fund balance was used to cover capital, this will not create an FPIC.
 - If fund balance was used to cover <u>operations</u>, this <u>will create an FPIC</u> and will require a response.
 - If appropriated fund balance was included in the 2024 budget and does not create a negative change in fund balance, N/A is the appropriate response.



Data Input: Common Errors

- Current liabilities payable from restricted assets vs. unearned revenues:
 - Liabilities payable from restricted assets are liabilities that are specifically expected to be paid using cash restricted for that purpose, i.e. customer deposits.
 - Unearned revenues represent amounts received for goods or services that have not yet been provided. They are a liability until the goods or services are delivered. Grants can be considered unearned revenue.
- On the General Fund Balance sheet please review and understand the difference between:
 - Nonspendable

- Restricted
- Committed

Assigned

- Unassigned
- Memo #2010-35 (Revised) GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions – Part 2 - Components of Fund Balance



Audit Document Submissions

- Audit reports cannot be reviewed without completion of the Data Input Workbook: new LOGOS
- LOGOS data submission
 - Ensure the correct unit name is selected
 - Provide correct unit and auditor contact names and email addresses
 - Double check 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 General Statutes and Administrative Code

NC General Statute

- G.S. 159-34. Annual independent audit; rules and regulations.
- 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

Administrative Code

- 20 NCAC 03 .0502 Audit Contracts
- <u>20 NCAC 03 .0505</u> 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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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.



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.
- Clients or the audit firm can initiate the process.
- In 2025, the client 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.
- Please let your clients know this is coming so they are prepared, and the process will be quick and painless.
- Clients should already be familiar with LOGOS account creation due to filing the semi-annual LGC-203/COLL-91 report.



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.



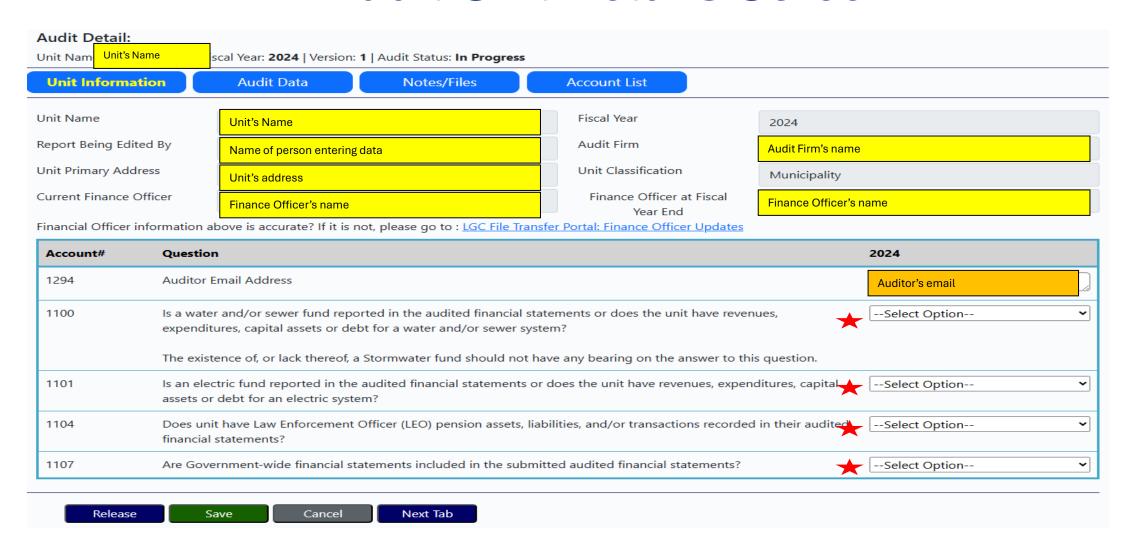
Unit Questions Will Drive the Display/Suppression of Data Fields

• 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.

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Audit Unit Details Screen



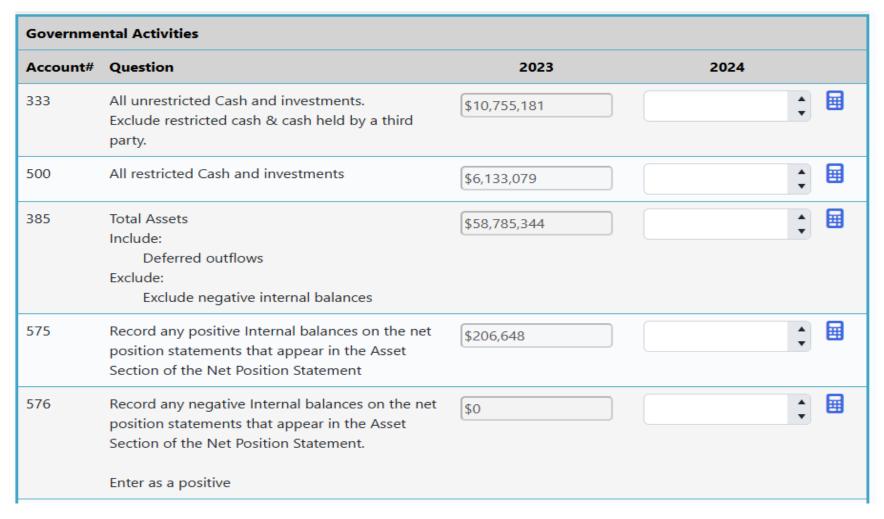
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Data Validation Will Be Performed We believe this will reduce the number of corrections required for unanswered questions.

• Please correct the validation end	ors before continuing	9.				
Unit Name		Alamance	Fiscal Year	2024		
Report Being Edited By		ITBPDataEntry Test	Audit Firm	Cobb, Ezekiel, Loy & Co. Grahan	n	
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	s accurate? If it is no	pt, please go to : <u>LGC File Transfer Portal</u> : <u>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	j
					*Field is required	
1294	Auditor Email Add	dress				
					*Field is required	
1100	Is a water and/or s	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?			•
	The existence of, o	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?			•
					*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	٦
					riela is requirea	



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 Save Cancel	Next Tab		

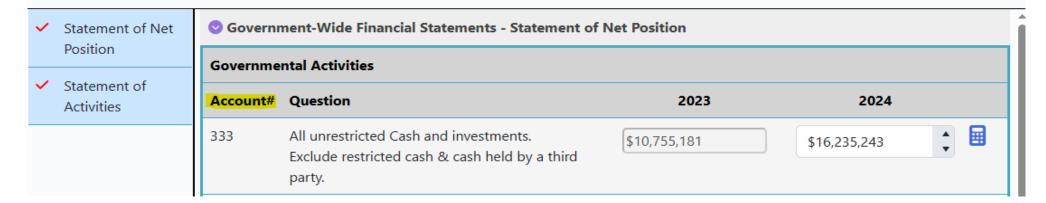


We have added an error detection feature.

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 time and allowing staff to complete our reviews more quickly.

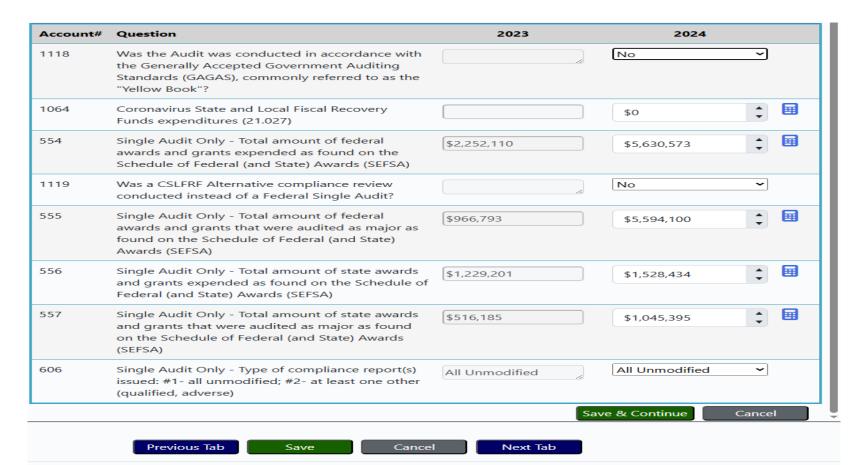
- Error: Total assets and deferred outflows less total liabilities and deferred inflows do not equal total net position. Account numbers 385-338-252-253 must = 254
- Error: Beginning Balance does not agree with our records. Account numbers 252+253+254-255-376-(Prior Year 252+253+254) must = 0
- Please 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.



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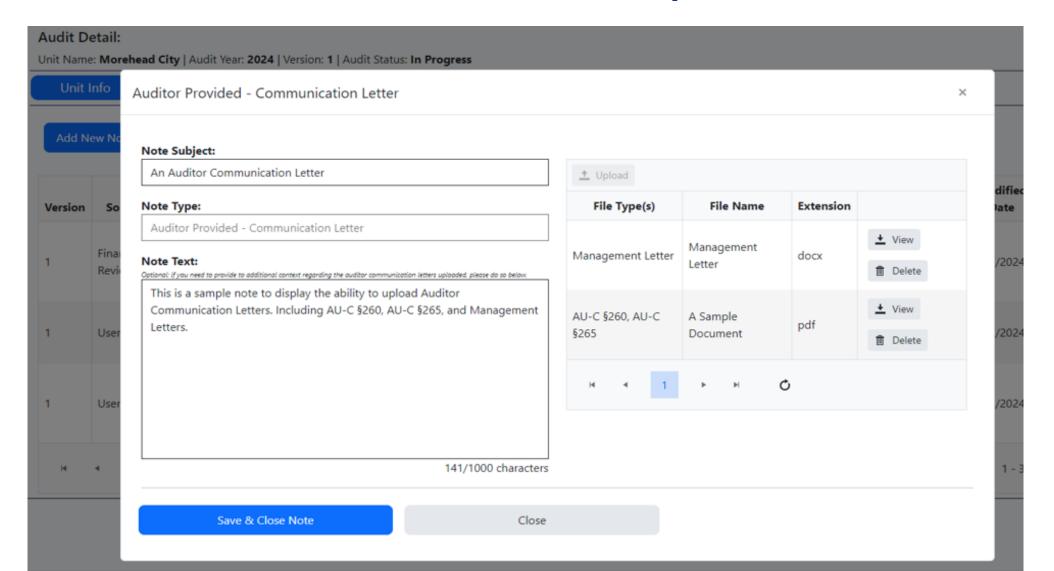
Financial Performance Indicators will populate on their own tab.

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.

Date the auditor presented or plans to present Financial Performance Indicators of Concern (FPIC) to the Governing Board.								
Q				Q. Searc	Search			
Performance Indicators								
Category	•	Name 7	Formula	2022	2023	2024	Fail Condition	2024 Status
Summary		Number of Financial Performance Indicators of Concern (FPICs)	Number of Financial Performance Indicators of Concern (FPICs) Unit has	2	3	3	Greater Than 0	Fail
General Fund		Fund Balance Available as Percent of Expenditures & Transfers Out Without Powell Bill	(506+536+647-11-4-6- 5)/(532+20+509-533-508- 1050)	29.17%	47.09%	53.46%	Less Than 25.00%	Pass
General Fund		Use of Fund Balance for Operations	23 < 0 & 590 = Operations	No	No	Yes	Equal Yes	Fail



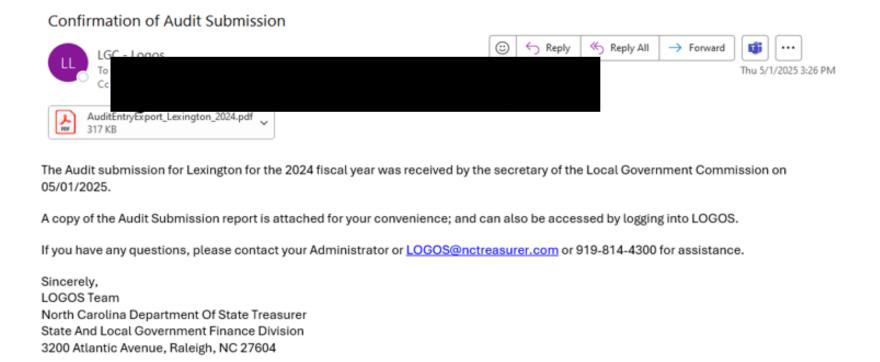
Auditor Communications Will Now Be Uploaded in the Module





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.

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! SLGFD@nctreasurer.com