





NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division

STATE TREASURER OF NORTH CAROLINA
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AGENDA

- Announcements
- Eligibility testing
- Tales from the Road
- 2018 Audits
- Preparing for 2019 and Beyond



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ANNOUNCEMENTS



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ANNOUNCEMENTS

- Staff changes:
 - In Fiscal Management
 - Kelley May, Debbie Clayton, Kathy Howell, and Donny Nobles joined staff
 - Manasa Cooper has rejoined Fiscal staff
 - Ryan Chapman has left DST
 - In Debt Management
 - Alzada Smith joined administrative staff – debt bookkeeping



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ANNOUNCEMENTS

- Annual Treasurer's Conference
 - Thursday, June 27, School of Government
- Registration now open!
- David Bean from GASB will be our featured speaker
- Will have video available after the fact for training purposes but not eligible for CPE credit



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ANNOUNCEMENTS

- 203s and AFIRs are past due – auditors please note failure to submit as a statutory violation if unit is habitual non-filer
- We have discontinued the publication of our annual Water and Sewer statistical report
 - Data will be available on the EFC Dashboard – more efficient to have all information in one place
 - <https://efc.sog.unc.edu/resource/north-carolina-water-and-wastewater-rates-dashboard>



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ANNOUNCEMENTS

ACC 3240 Local Government Finance course

- CPCC is offering a 100% online version this summer starting May 16 and will finish up on July 11 – course is full at this time but will run again in the fall
- Likely be asking more campuses to run 100% online version
- Feedback has been very good for this course – encourage your clients that are struggling with bank recons, pre-audit, basic budgeting issues, etc. to consider taking course



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ANNOUNCEMENTS

Continuing Disclosure

- If your clients did not have final financials at January 31, remind them to file finals as soon as they are available
- Failure to file final statements is likely a material event that must be disclosed



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ANNOUNCEMENTS

- Preparing to Request Approval for Debt Issuance
 - If your clients are planning on requesting approval for a debt issuance in the next 12-24 months or so, and they have financial challenges and/or audit findings
 - Audit findings – clients may request meetings with auditor and/or our staff to determine what needs to change in order to eliminate the finding if possible or mitigate if it cannot be eliminated
 - Financial challenges – units need to determine why (i.e. rates too low, collection percentage too low, etc.) and start making changes to address; several resources available if they need help with rate setting for utility funds



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ANNOUNCEMENTS

- Pension attest sample for 2019 is on our website
- Units and auditors of record have been notified via email
- Auditors should check the list for new clients that may have been selected
- Due date is October 1



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ANNOUNCEMENTS

- Units wanting to be on the LGC agenda for November 5, 2019 or later will need a final 2019 audited financial report
- Report must be submitted by due dates set by SLGFD staff in order to be eligible to be on the next month's agenda
- Allows time for issuance of unit letter, receipt of sufficient response, and a unit visit if necessary



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ELIGIBILITY TESTING



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2019 ELIGIBILITY TESTING FOR MEDICAID AND TANF

- Office of State Auditor has elected to hire a subject matter expert to perform the testing of eligibility determinations for both Medicaid and TANF for the State's Single Audit for FY2019. As a result, the AUP previously discussed will not be necessary for state fiscal year 2019
- If you submitted an AUP engagement letter for 2019 it is void by default



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2019 ELIGIBILITY TESTING FOR MEDICAID AND TANF

- As a reminder, the responsibility to determine direct and material compliance requirements for all programs that are determined major for your county lies with the auditor of that county. That includes the determination of whether eligibility is a direct and material compliance requirement for the major program.
 - Per OMB Compliance Supplement, Part 3, “The responsibility of the auditor of the State for auditing eligibility does not relieve the auditor of the other entity (e.g., local government) from responsibility for meeting those internal control and compliance audit objectives for eligibility that apply to the other entity’s responsibilities.”
 - Based on conversations with the Office of Inspector General of US DHHS, the expectation is that eligibility will be tested at the county for split-eligible programs determined major under the Single Audit.



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2019 ELIGIBILITY TESTING FOR MEDICAID AND TANF

- OMB Compliance Supplement Part 4 for Medicaid states “the auditor should consider that the Department of Health and Human Services has identified the Medical Assistance Program (Medicaid) as a program of higher risk.”
- For 2019, NC OSA will be working closely with NC DHHS to ensure that population reports are available for split-eligible programs.



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Tales from the Road

What do we review during a unit visit and what are we learning?



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Tales from the Road

- We use a multi-page questionnaire/checklist to guide visits
- Generally try to engage units in conversation
- Try to make it a positive experience, intent is to help units and provide them a resource
- Also share a list of resources available to units



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Tales from the Road

- Cover who does what, what services does the unit provide, what software do they use, how many bank accounts do they have, etc.
- Looking for areas where additional training could be useful to unit staff
- Looking for areas where unit is not following GS 159
- Review current and proposed budget, if applicable, to see if compliance with GS 159 and if unit is addressing financial issues



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Tales from the Road

- Spring Blitz 2019
 - Goal is to visit all units on the Unit Assistance List plus those that staff identified as needing a visit but are not on the UAL by June 30; paying extra attention to budgets to make sure unit has time to correct issues with 19 budget and proposed 2020 budgets
 - Some units determined to not need a visit, had to prioritize others
 - All staff, not just COACH team



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2018 AUDITS

**In your opinion what is the most significant factor
contributing to the increase in late audits?**

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Late Audits 2018

We have been expecting a larger number of audit reports to be late than we've seen in past years

Florence/Michael

OPEB valuations

- primary government
- component units

Increased work at county level

Grace period through December 1, 2018



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Late Audits 2018

- As of May 2, 2019:
 - Missing for June 30, 2018 FYE:
 - 57 municipalities
 - 9 counties
 - 3 boards of education
 - 2 charter schools
 - 33 other units



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Late Audits 2018

- For any audit received after December 1, unit/auditor must submit an amended contract form
- Contracted due date is October 31
- Form must include a reasonable explanation why the audit is late
- If audit is late because books were not complete there must be a finding to that effect
- Not trying to be punitive; need to better understand what issues are that are preventing audits from being completed on time



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Late Audits 2018

- Amended contract does not automatically trigger a unit letter
- Reason(s) audit was late are important; may trigger concerns that staff will look into
- If unit is habitually late will get a unit letter – looking for trends
- If need to ask for debt approval, LGC will be looking for a detailed corrective action plan to address late audit issue IF you are habitually late



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Areas of Focus 2018 Audits

- Continued abbreviated GAAP reviews for 2018 with some notable exceptions:
 - GASB 74/75, GASB 73 to a lesser extent
 - Will always review opinions closely
 - Transfers, due tos/froms, interfund loans, any other interfund activity
 - Notes needs to explain
 - Area of interest at the GA
- Continue to check for notes that are consistent with circumstances
 - We expect to see finding if report is egregiously late due to issues with unit



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Areas of Focus 2018 Audits

Compliance Audits

- A **corrective action plan** for each audit finding should be prepared that includes
 - a contact person responsible for corrective action
 - anticipated completion date
 - Actual corrective action plan
 - Must be a separate document and on the unit's letterhead.
 - OMB believes that the letterhead indicates that the auditee is taking more of an ownership of the corrective action plan.



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Areas of Focus 2018 Audits

- If there was a finding in an audit in the previous year, there must be a **Summary Schedule of Prior Audit Findings**
 - Prepared by the unit, but does not have to be on letterhead.
 - Must indicate whether the prior year finding was “corrected” or “partially corrected”
 - If partially corrected, there must be an explanation for the findings reoccurrence and corrective action plan
 - We will accept as a status “repeat finding” if the finding is reported in current year report
 - A statement that the “finding is no longer valid” is allowed if the oversight agency is not following up on the finding
 - We have seen other reasons stated such as “no longer applicable.” The oversight agency has to approve statement before we can accept the audit



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Areas of Focus 2018 Audits

- Continue to hear from units that say they don’t understand or don’t agree with audit findings
 - Can be particularly problematic for units going before the LGC for debt approval
- Encourage auditors to meet with finance staff and management, especially in small units, and explain findings in detail
- Way to add value to audit engagement
- Work with units to help them understand statements are theirs

Do you review findings in detail with clients before submitting the report to the SLGFD?

Yes

No

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Preparing for 2019 and Beyond



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Preparing for 2019 and Beyond

- Confer with clients to see what needs to be done to prepare for 2019
 - New standards to implement
 - Actuarial studies coming due
 - Component units
 - Pension attestations
- Suggest they confer with their component units for reporting purposes and make sure they are prepared for coming year



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Preparing for 2019 and Beyond

- Allocating Pension and OPEB Liabilities and Expense/Service Cost
 - Benefits should be allocated to the fund in which they are earned
 - GASB guidance says to allocate but does not dictate methodology (CIG Q 4.173 and Q 4.353)
 - Liability is comprised of amounts for retirees and what current employees have earned up to measurement date
 - If don't allocate, putting the full cost on one activity
 - Concept of proprietary fund is to capture full cost of providing a service



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Preparing for 2019 and Beyond

- Allocating Pension and OPEB for DPCUs
 - If an employee is earning a benefit both as an employee of a PG and a DPCU then benefits should be allocated to both
 - Some units treat employee costs for DPCU as contracted services
 - Finance officer must be an employee of government being served
 - Other employees may not meet IRS requirements of being independent contractors



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Preparing for 2019 and Beyond

- Materiality of OPEB Liability
 - Our assumption is OPEB liability is material
 - If you believe liability is immaterial, you must contact us for a waiver for implementation
 - Easier to determine now that have a study
 - Unique circumstances under which it is possible for this liability to be immaterial
 - Document request in writing via email
 - We will respond likewise and document in our review files
 - Unit/auditor will be responsible for re-evaluating annually unless circumstances are such that liability will not increase



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Preparing for 2019 and Beyond

- Alternative Measurement Method
 - Standards allow units with less than 100 members in the plan to use the alternative measurement method
 - As under previous OPEB reporting standards, SLGF is only allowing the use of the alternative method by units that offer only implicit rate subsidy OPEB plans
 - SLGFD no longer has the alternative method worksheet available on the website; can hire firms to complete



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Preparing for 2019 and Beyond

- New requirement for reporting building inspection fees and related expenditures
- S.L. 2018-5, Section XXI, page 162
- Fee revenue and expenditures to be reported on AFIR beginning with June 30, 2019
- Fees are those allowed under 153A-354 for counties or G.S. 160A-414 for municipalities.
- The language in both of these bills restricts the expenditure of the allowed fees to those expenditures incurred "for support of the administration and activities of the inspection department and for no other purpose". (G.S. 160A-414, identical language included in G.S. 153A-354).



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Preparing for 2019 and Beyond

- Continuing Disclosure Changes
 - Beginning February 2019, a material event disclosure will have to be made for other debt types, including IPs, privately placed bonds, lease purchases, State revolving loans, others
 - Must be disclosed within the 10 day window for material events
 - Applies to material items
 - Not applied retroactively
 - Units should consult their bond counsel for more information

**Has your firm made changes or have plans to make changes
in the way you conduct audits as a result of the 2018
revisions to the Yellow Book?**

Yes

No

Unsure

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