


LGC Update - NCGFOA Spring Conference

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March 2, 2017

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AGENDA

- Administrative Items
- Changes at SLGFD
- What we are seeing as a result of the work of the COACH Team and from our other unit visits
- Common reporting issues from 2016 audits
- GASB 73 – LEOSSA
- GASB 74/75 – Update on where we are

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ADMINISTRATIVE ANNOUNCEMENTS

- Auditor Training Class is June 22, 2017 at SOG
- 2017 Audit Contract Template is available
 - Requires engagement letter to be attached
- December 31, 2013s are past due – use bank balances
- AFIRs – a number of these still not in
 - Use for reports to General Assembly

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CHANGES AT SLGFD

- Retirements/Departures
 - Robin Hammond, Gordon Johnson retired
 - Steven Holmberg, Jim Agar have left
 - Paru Patel and Darrus Cofield moved to Debt Management
- New employees
 - Jeremy Mebane – Fiscal
 - Tony Blalock - Debt
- COACH Team in place
 - David Erwin and Ann Cutler working since July, 2016 across the State



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Pension Attests for 2017

- Units selected, along with auditors of record, were notified last week
- OSA memo and additional instructions were sent out
- Will publish sample population on website
- Units – if you change auditors, please make sure you share with new auditor
- Auditors – if you pick up new clients, ask if they are in the testing sample for 2017
- Attests due by October 13, 2017

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Fiscal Website

- Changes to Pensions Webpage
 - Added separate page for GASB 73
 - GASB 68 – separate page for items you need to do financials
 - Firefighters and Rescue Squad workers on-behalf contributions and actuarially derived pension expense number will be published on the website and notice sent via listserv when it is available

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Community College Training Class

- Set to kick off next week at Beaufort County Community College and throughout the month of March at remaining three locations
 - Asheville Buncombe Technical College
 - Johnston Community College
 - Rowan-Cabarrus Community College
- Agenda available on our website as is contact information for each campus
- Hope to expand to other campuses in summer and fall of 2017
- Intended for staff new to governmental and/or staff that does not have formal accounting or finance training
- Eventually hope to expand to a curriculum course and possibly part of a government finance certificate or degree program

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County Audits and Compliance Work for 2017

- Firm due date for County Audits will be December 1, 2017
 - State Auditor relies on county audits as part of the group audit of federal and state money
- Interim populations will be available by March 31 unless there is a change in what data is being pulled
- Final populations by August 1, again unless there is a change in data being pulled
- Compliance supplements are due by May 1
 - Training held to better guide DHHS on writing supplement

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Debt Guidance

- If you are considering issuing debt for capital projects or to refinance existing debt:
- Please pick up the phone and talk to an analyst on our debt staff about your plans.
- Sooner is always better than later and prevents going down the wrong path.
- G.S. 159-123 (e) requires LGC approval of a unit of governments' selection of financial consultants, underwriters, and bond attorneys.

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Secondary Market Filings

- We had 100% compliance this year with units filing by the January 31 deadline
- We still need some documentation from some units
 - EMMA Confirmations
 - Material Events Certification signed
 - If there are any material events disclosed, be sure to list on certificate
 - We file in a central location here so Debt Management staff can access as needed
- If you filed draft information on EMMA be sure to follow up promptly after audited financials are complete

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Actuarial Reports for OPEB

- Units with no assets in trust will still need valid actuarial report for GASB 45 reporting at June 30, 2017
- Will also need appropriate and valid reports for GASB 75 as of June 30, 2018
- Cavanaugh McDonald, used by many local units, has proposed changing the report dates to June 30, 2016 rather than December 31, 2016, to facilitate using the data for both
- Still need two reports, issued in separate fiscal years, but only one set of data;

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Actuarial Reports for OPEB

- Not all units will need a 2016 GASB 45 valuation report. Only units (1) whose last GASB 45 valuation report was prepared as of 12/31/2014 (or 12/31/2013 for units with less than 200 participants) or (2) who have had a significant change to their plan or covered population since their most recent GASB 45 valuation report will need a new GASB 45 valuation report for 2016.
- Many units will only need an update to the Net OPEB Obligation (NOO).

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Observations from COACH Team and Other Unit Visits

- Pre-audit misconceptions and misunderstandings
 - Cannot effectively pre-audit without some type of encumbrance system
 - System should be set up to put a hard stop on anything being entered that is over budget
 - Over-riding budget renders pre-audit useless
 - Pre-audit comes before obligation is entered into
 - Contracts should be pre-audited before being sent to board for approval
 - If board approval not required, pre-audit should be completed prior to contract being signed
 - Make sure language is still on your checks
 - Number 1 issue we see with units across the board

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Proposed Rules re: Pre-Audit

- Still in the process of adopting new rules
 - On LGC agenda for March for LGC approval of revised language
 - Once approved, will be posted for public comment and we schedule public hearing (at least 60 days).
 - When complete, LGC can adopt the rules and submit to Rules Review Committee for approval.
 - If there are no objections or the RRC does not request substantial change to the rules, the rules will be entered into the Code
- Changes related to change in GS 159 that was adopted in 2015 regarding pre-audit

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Proposed Rules re: Pre-Audit

- Exemption from **requirement for pre-audit certificate** on electronic transactions
 - Board adopted policy allowing unit to enter in to electronic transactions
 - Policy adopted by board or by finance officer (if given that authority by board) regarding the pre-audit of electronic transactions that
 - There is budget authorizing the expenditure
 - Sufficient budget remains to cover the expenditure
 - The transaction is encumbered
 - Unit shall provide training to appropriate staff

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Proposed Rules re: Pre-Audit

- Unit shall report quarterly at a minimum to board including a year-to-date budget to actual report including encumbrances and remaining budget
- Unit must have an encumbrance system either electronic or manual
- Adherence to these rules **exempts unit from affixing the pre-audit certificate** to transactions made with
 - Credit cards
 - P-cards
 - Fuel cards
- Does **Not** exempt unit from performing the pre-audit

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Observations from COACH Team and Other Unit Visits

- One signature on check must be a finance officer or duly appointed deputy finance officer
 - Not enough to just have two signatures; one must be a finance officer or deputy
 - Can appoint a deputy and limit authority to just signing checks in finance officer's absence – can also include pre-audit in authority
 - Deputy needs to understand s/he is likely signing the pre-audit in addition to the check and what that means

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Other Observations

- Errors in audit reports; not understanding findings in audit reports
 - We had an unusually high number of issues this year with:
 - units that disagreed with what the final audit reported
 - unit staff did not understand the findings that were reported
 - Strongly encourage units to require auditors to make a draft report available with time given for unit to review and ask questions
 - Reports submitted to us are considered final and we review them and issue unit letters as such
 - In order to accomplish this, units will have to be ready for audits in accordance with auditors' schedules

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Other Observations

- Late audits and AFIRs
 - Becoming more of an issue
 - Serious consequences of late audit
 - Can affect State's Single Audit opinion
 - Inability to get debt approved
 - State grant and loan program applications can be delayed
 - EMMA filings
 - Likely extra cost to unit
 - Less time to address findings and more likely they will reappear in next year's audit
 - Late AFIR is another consequence of late audit
 - AFIR is used to populate many of our web-based databases
 - General Assembly, Fiscal Research rely on this information

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Other Observations

- Late Audits (continued)
 - Sending two surveys – one to units that submit after Oct 31 and one to units that submit on or before Oct 31
 - After October 31
 - What resources do you need to submit audit on time?
 - What are causes of late audit?
 - Who writes your financials?
 - Multiple questions about accounting system needs
 - On or before October 31
 - To what do you attribute your ability to complete your audit on time?
 - What components, if any, of your accounting system help you complete audit on time?
 - Do you write your own financials?

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Common Reporting Issues

- Obsolete terminology – still seeing reserved and unreserved fund balance and net assets
- Incomplete notes on purposes of transfers and interfund borrowings
- Inconsistencies between current and non-current designations on interfund borrowings
- Not fully complying with GASB 72 Fair Market Value disclosure requirements

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Common Reporting Issues

- Failure to show the amount for covered payroll on the schedule of the proportionate share of the net pension liability as the prior year and the amount on the schedule of contributions as the current fiscal year
- Pension expense – some units are using what the actuaries have allocated as the total pension expense in the notes. They are not including any adjustments based on ORBIT discrepancies in that disclosure.
- RSI for Pensions not including the correct number of years and also, the Schedule of proportionate share of net pension cost and Schedule of Contributions report the same amount for each year for covered employee payroll.

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Common Reporting Issues

- Cash and cash equivalents on financial statements not matching deposits note
- Incomplete revenue bond disclosures
- MD&A – not including all components
 - Economic factors
 - Next year's budget information
- MD&A – not updating information in next year's budget information about tax or rate increases

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Common Reporting Issues

- **Compliance auditing:**
 - Loan and loan guarantee reporting: loan and loan guarantees should be reported on both the Schedule of Expenditures of Federal and State Awards (SEFSA) and as a footnote to the SEFSA.
 - Correct reporting of clusters of programs: some SEFSAs incorrectly include programs as part of clusters. For example, Social Service Block Grant (93.667) is incorrectly reported as part of the Aging Cluster.
 - Subrecipients are incorrectly reported in the notes and not on the SEFSA. AICPA guidance states that a column showing what was passed to subrecipients should be included on the SEFSA.

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GASB 73 - LEOSSA

- Statement 73 – Pension reporting for pensions not accounted for in a trust that meets GASB requirements for Statement 68
- Units with qualified law enforcement officers will have to comply for LEOSSA unless accounted for in a trust as defined in Statement 68
- Must have an actuarial study done that meets the requirements of the standard unless you get specific exemption from Fiscal Management
- Study can have an “as of” date no earlier than 30 months prior to FYE for which it is used, and must be rolled forward to a measurement date no earlier than 12 months prior to FYE for which it is used. For June 30, 2017 this means
 - As of date no earlier than December 31, 2014
 - Measurement date no earlier than June 30, 2016

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GASB STATEMENTS 74/75

OPEB Standards

- Implement regardless of existence of GASB defined trust and regardless of funding status
- Actuarial study required at least biennially (annual encouraged)
 - Can be no more than 30 months and 1 day prior to FYE
 - Measurement date no more than 1 year prior to FYE
 - Alternative method still an option for units with less than 100 members (not retirees) *
 - If unit pays for any part of the benefit, actuarial study will be required
 - Will need beginning balances

*If implicit rate subsidy is only benefit offered, alternative measurement method can be used – SLGFD will not be providing support

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GASB STATEMENTS 74/75

OPEB Standards

- If unit is paying a stipend to retirees with no accountability required, account for as a pension – GASB 73
- Implementation date – GASB 74: June 30, 2017
- Implementation date – GASB 75: June 30, 2018
 - If have assets in GASB defined trust, will implement 74 and 75
 - If no assets, or have assets not in GASB defined trust, will implement only 75

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GASB STATEMENTS 74/75

- Discount rate for plans with no assets set aside in GASB defined trust will be 20 year tax-exempt GO municipal bond with average AA/Aa rating or higher
- Liability will be booked on full accrual statements – government-wide and proprietary funds
- Fully note disclosed, RSI
- Plan documentation is a concern
 - GFOA Best Practice
 - <http://gfoa.org/opeb-governance-and-administration>
- Making changes to your plan? – Public Employment Law Bulletin #30 by Diane Juffras, SOG
 - <https://www.sog.unc.edu/publications/bulletins/when-can-public-employer-reduce-employee-benefits>

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GASB STATEMENTS 74/75

- Will be some cost-sharing multi-employer plans
 - State Health Plan – any local entity with **retiree** (not active) health care through SHP – schools, charters, a few cities and/or counties
 - ~~Death Benefit – Both TSERS and LGERS members~~
 - LEO Separate Insurance Benefit Plan
- Information will be provided by State similar to LGERS, etc.

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QUESTIONS?



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Questions and Contact Info

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A collage of five images: a lighthouse, a modern glass skyscraper, a city street with a fountain, a city skyline, and a 3D bar chart with an upward-pointing arrow.

Thank You!

Together we can build and maintain a fiscally strong and prosperous North Carolina.

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The logo for the North Carolina Department of State Treasurer, featuring a stylized blue outline of the state of North Carolina.

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