

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



Dale R. Folwell, CPA
STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION

LGC UPDATE

2024 State Treasurers Conference
Kendra Boyle

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Agenda

- News from FMS
- Audit Review Update
- FPICs Discussion
- Unit Assistance List

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News from FMS

2023 Audits

- Total of 938 submitted as of June 18, 2024
 - 91 counties (91%)
 - 467 municipalities (84.6%)
 - 380 other types of units

2022 Audits

- Still missing
 - 1 county
 - 30 municipalities

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News from FMS

2024 Audit Contract Forms are on the website

- Not to exceed amount required
- Pre-audit amount should be at least the contract amount
- A submission date after **October 31** is not an “extension” of the due date...there are no “extensions”
- 52% of municipalities and 83% of counties have submitted contracts for FY 2024

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Audit Review Update

Audit Submission

- Audit Report and Compliance Reports
- Data Input Workbook (DIW)
 - Data provided in the submission process populates the “Performance Indicators Print” (FPIC) and is the basis of calculations and analysis of
 - Unit’s fiscal health
 - Unit’s ability to pay back debt
 - Units most in need of assistance
 - Units for inclusion on the UAL
- We rely on units and their auditors to provide correct data on the DIW
- Providing data that does not agree with the audited financial statements or not answering the DIW questions can cause a misstatement of a unit’s financial condition, affect their need to respond to FPICs, and affect staff analysis of the unit’s ability to take on debt



Interim Invoices - Progress Billings

- Invoices for services rendered under these contracts **shall not be paid** by the Governmental Unit(s) until the invoice has been approved by the Secretary of the LGC.
- This includes any progress billings [[§ 159-34.](#) and [§ 115C-447](#)]. All invoices for audit work shall be submitted in PDF format to the Secretary of the LGC for approval. An invoice marked 'approved' with an approval date shall be returned to the auditor to present to the governmental unit(s) for payment.
- 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.

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Final Invoices

[20 NCAC 03 .0505.pdf \(state.nc.us\) Audit Billings](#)

- All bills or claims for audit fees and audit related costs are required to be sent to the LGC for approval.
- Fee categories are noted on the LGC-205 Contract
 - Audit Fee (financial and compliance if applicable)
 - Fee per Major Program -please note the name of each major program on the invoice
 - Financial Statement Preparation
 - All Other Non-Attest Services
 - Total Amount Not to Exceed
- Submitted invoices – charges noted must indicate the category for charges.
 - 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 directly with the unit, ex: Annual Financial Information Report (AFIR), tax preparation documents, unemployment reports
 - “It shall be unlawful for any unit of local government or public authority to pay or permit the payment of such bills or claims without the LGC approval” NC G.S. 159-34
 - **Do not pay an audit-related invoice sent to the unit for payment unless it is stamped with LGC approval**

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Financial Performance Indicators of Concern

Financial Performance Indicators of Concern

- Required by NC Administrative Code [20 NCAC 03 .0502.pdf \(state.nc.us\)](#) (c)(5) and Audit contract
 - *The auditor shall present the audited financial statements including any compliance reports to the government unit's governing body or audit committee in an official meeting in open session as soon as the audited financial statements are available but **not later than 45 days** after the submission of the audit report to the Secretary*



Financial Performance Indicators of Concern

- NC Administrative Code [20 NCAC 03 .0508.pdf \(state.nc.us\)](#) (a)
 - *If the governing body of a government unit is notified by its independent auditor that the audited financial statements presented to the governing body included one or more significant deficiencies, material weaknesses, other findings or if the auditor determined that Financial Performance Indicators of Concern were identified based on information presented in the audited financial statements, then the governing body shall develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters" ("Response"), pursuant to this Rule, signed by a majority of the members of the governing body. The governing body shall submit the Response to the Secretary within 60 days of the auditor's presentation.*


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Financial Performance Indicators of Concern

- Finance Officers should be sure auditors have clearly explained all Financial Performance Indicators of Concern (FPICs)
- FPICs must be presented to the governing board
- Of course, well before presentation all FPIC should be reviewed with both the manager and the finance officer so any errors can be corrected and so staff can immediately begin crafting and implementing the corrective action required
- Finance officers and management should not be surprised at a board meeting by an FPIC.
- FPICs are identified on the FPIC report. All items highlighted in red require a response addressing how the concern will be corrected.
- Not all FPIC are Findings and not all Findings are FPICs

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Financial Performance Indicators of Concern

- Units need to understand all FPICs identified when developing both their corrective action plans and their response to the LGC
- Prompt corrective action is required to prevent repetition of an FPIC
- One significant problem with “late audits” is that it inhibits prompt corrective action
- Guidance on [Financial Performance Indicators and Responses to the LGC | NC Treasurer](#)
 - Elements of Responses to Financial Performance Indicators of Concern
 - Sample responses
 - How to submit your response – do not mail or email FPIC response.
 - Upload to Portal - [FPIC Response · LGC File Transfer Portal \(nctreasurer.com\)](#)
 - Memo 2023-04 [How to Respond to Financial Performance Indicators of Concern \(FPICs\)](#)

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Financial Performance Indicators of Concern

- Fund Balance Available: dollar amount, as a percentage of expenditures, fund balance appropriated for operations
- Water, Sewer, and Electric Funds: Quick Ratio
- Water, Sewer, and Electric Funds: Operating Net Income
- Water, Sewer, and Electric Funds: Unrestricted Cash
- Water and Sewer Fund: Transfers
- Water and Sewer Fund: Capital Asset Condition Ratio
- Audit Not Submitted on Time – for FPIC purposes this means the audit is submitted on or after December 1

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Financial Performance Indicators of Concern

- Uncollected Tax Levy
- Decrease in Property Tax Value
- Budget Violations and Preaudit Process Compliance
- Inclusion on the Unit Assistance List
- Material Weaknesses, Significant Deficiencies or Statutory Violations
- Absence of a Board Appointed Finance Officer
- Debt Service Payments missed or made late
- Electric Transfers Out > GS 159-39 or your unit's transfer policy

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Financial Performance Indicators of Concern

- FPIC frequently includes more concerns than the items reported in Compliance Reports.
- Responding by providing only a copy of the Corrective Action Plan may not include responses to all FPICs.
- When we receive responses that send only the Corrective Action Plan and do not address the other items presented as FPICs, the response may be rejected by our staff.
- FPIC Responses require signatures of the majority of the governing board and, we recommend, the manager and finance officer.
- FPICs repeated from the current fiscal year should require special attention as to why the unit was unable to correct the performance indicator.


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Unit Assistance List

Unit Assistance List (UAL)

- Units coming off the UAL based on their fiscal year 2023 financials have been notified
- An audit received on or after April 1 is considered delinquent for UAL purposes
- A UAL based on June 30, 2023, audited financial statement data submitted prior to April 1, 2024, has been compiled
- Units that did not submit FY 23 audited financial statements by April 1, 2024, but do submit before July 1, 2024, will be analyzed for financial condition and internal control compliance and evaluated for inclusion on the UAL to be published in August 2024.
- If your audit is submitted during this period, it may be removed from/added to the UAL, dependent upon an analysis of the audited financial statement data and other information related to the unit's financial health and fiscal management practices.



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Unit Assistance List (UAL)

- Please note that under recent changes to North Carolina statutes, units on the most recently compiled Unit Assistance List have specific statutory obligations. Details on these additional requirements can be found on our website at [Unit Assistance List | NC Treasurer](#)
 - UAL units must obtain LGC approval of financing contracts for the purchase, lease, or lease with an option to purchase motor vehicles where the contract amount equals or exceeds \$50,000. [See G.S 159-148.](#)
 - UAL units must obtain LGC approval of financing contracts relating to the lease, acquisition, or construction of capital assets, with terms that exceed 3 years and \$50,000 (and meet other criteria). [See G.S 159-148.](#)
 - City and county managers of UAL units must complete a minimum of six clock hours of education including fiscal management and the requirements of Chapter 159 of the General Statutes (the Local Government Finance Management still has the option to override to include or exclude based on other facts known)



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Unit Assistance List (UAL)

What units can be on the UAL?
Municipalities, Counties, Utilities

What is analyzed?
Available information related to the unit's financial health and fiscal management practices

The Analysis:
Using data submitted based on the audited financial statements, LGC staff reviews the following ratios, amounts, and trends:

- **Fund Balance Available:**
 - One Year Fund Balance Available Percentage Compared to Peers
 - Use of Fund Balance for Operations - Last 5 Years
 - Fund Balance Available Percent – 3-Year Trend
 - Total Fund Balance

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Unit Assistance List (UAL)

The Analysis (continued):

- **Water and Sewer Fund:**
 - Operating Net Income/Loss
 - Quick Ratio
 - Unrestricted Cash Ratio
 - Transfers
 - Capital Asset Condition Ratio
- **Internal Controls:**
 - **Late Audit** – Last 5 Years: *for UAL purposes this means the audit is submitted on or after April 1*
 - Reconciliations Not Timely – Last 2 Years
 - Records Not Timely – Last 2 Years
 - Budget Violations– Last 2 Years
 - Statutory Violations – Last 2 Years
 - Absence of a board-appointed Finance Officer - G.S. 159-24

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Contact Information

Debbie Tomasko Debbie.Tomasko@NCTreasurer.com (919) 814-4296	Jennifer Wimmer Jennifer.Wimmer@NCTreasurer.com (919) 814-4285	Kendra Boyle Kendra.Boyle@NCTreasurer.com (919) 814-4297
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Main Phone # 919-814-4300

Main Email slgfd@nctreasurer.com

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