

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
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STATE AND LOCAL GOVERNMENT FINANCE DIVISION

# LGC & GASB UPDATE

NCGFOA 2023 Summer Conference

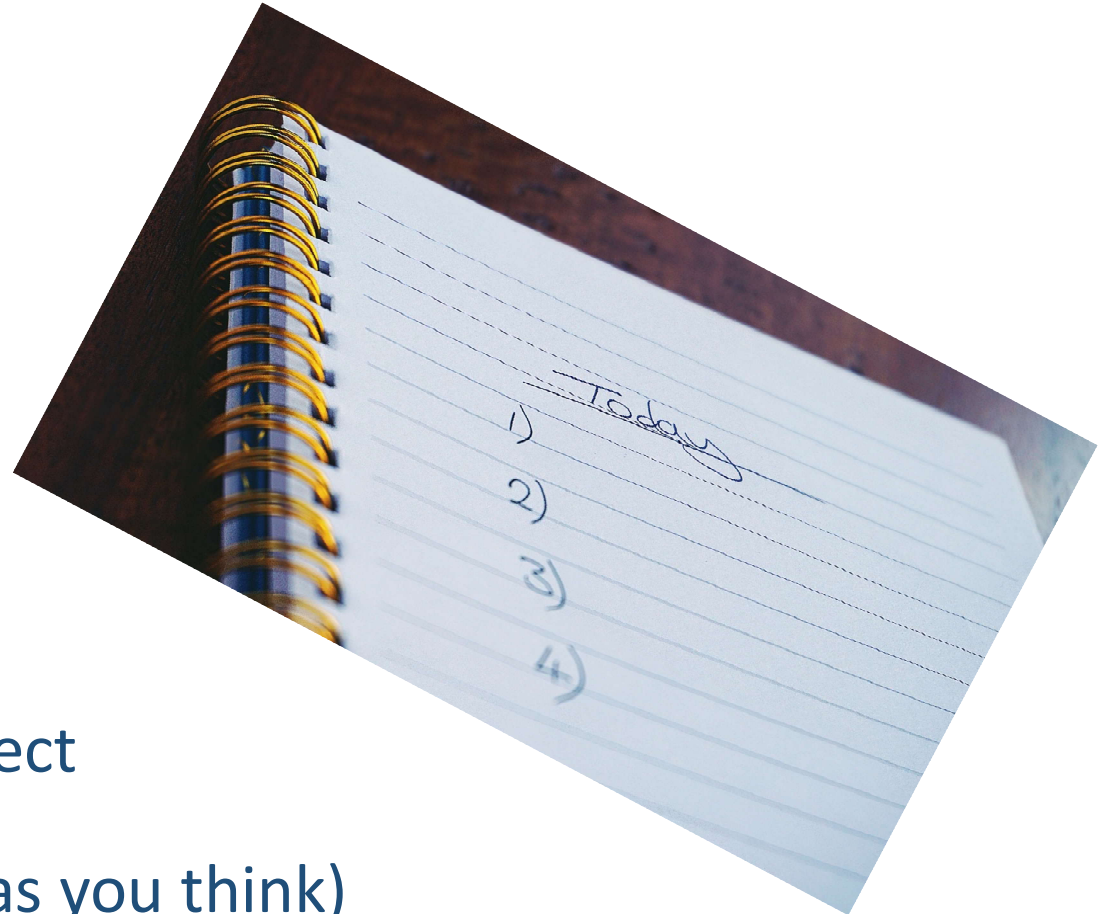
July 18, 2023

Sharon Edmundson



# Agenda

- News from SLGFD
- Unit Assistance List
- Sales tax law
- Audit Review Update
- Alternative Reporting Project
- GASB Update (not as bad as you think)





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# LGC NEWS



## News from SLGFD

### Arrivals and Job Changes FMS:

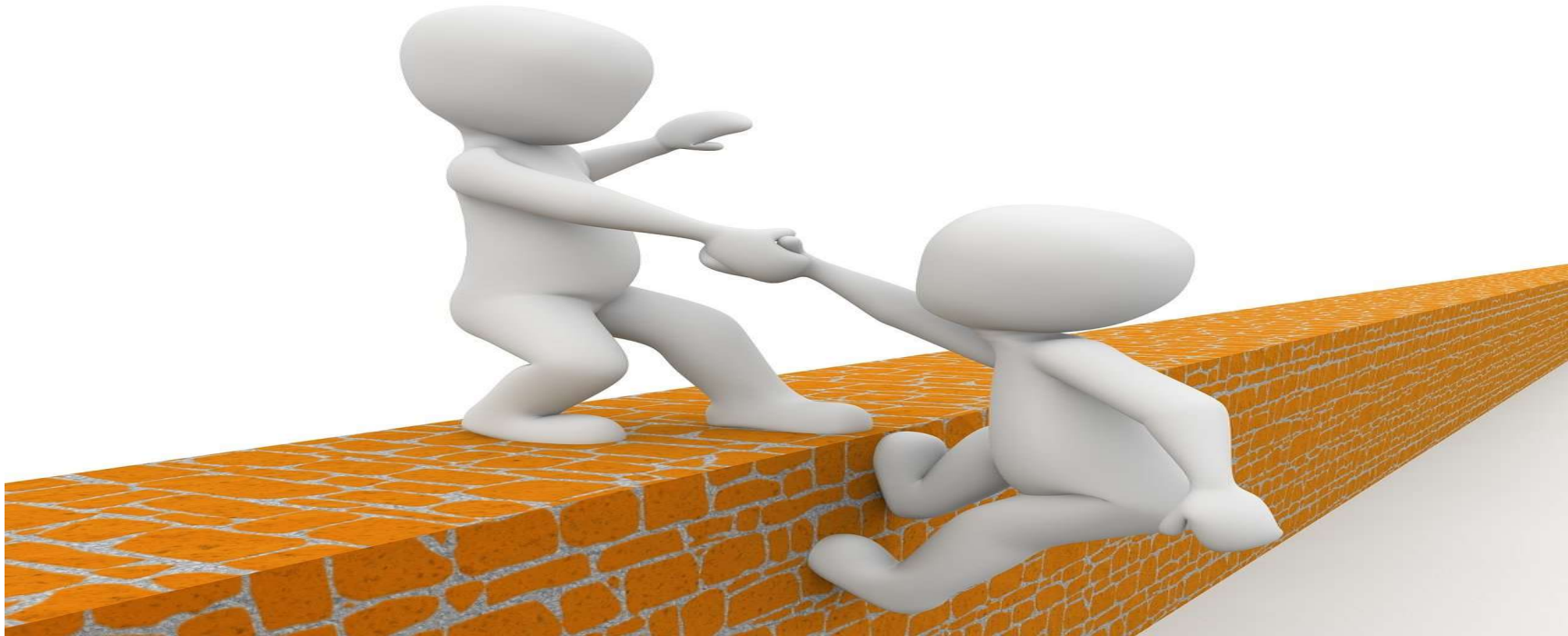
- Kendra Boyle has been named the Interim Director of Fiscal Management
- Shanell McBride has joined us as an Accounting and Financial Management Specialist
- Multiple staff accountant positions open



## News from SLGFD

- Arrivals and Job Changes DMS:
  - Melissa Dearman and Kelsey Carmichael have joined us as Debt Analysts
  - Tony Blalock has been promoted to Assistant Director in DMS
  - Two Financial Analyst positions open – will accept entry level candidates
- Arrivals in State Debt Management:
  - Carolyn Heden has joined us as a financial analyst in the State Debt Management section

# UNIT ASSISTANCE LIST



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# Unit Assistance List (UAL)

- What it is and what it isn't
- How is it created?
- How does a unit get removed from the UAL?
- What does it mean to be on the UAL?



# Unit Assistance List (UAL)

What it is and what it isn't

- It is not a “naughty” list
- It is not a “we are about to assume control of your finances” list
- It is a list of units that we feel are most at risk of having financial and/or operations struggles
- It is a list that helps our Coach Team focus its work





# Unit Assistance List (UAL)

## How is it created?

- In all prior years, it was a very manual process – data analyzed from all audits for municipalities, counties, and utility districts, usually in April, based on the prior FYE audited data
- Units were identified based on three primary areas of review:
  - General Fund fiscal health (FBA)
  - Utility Fund(s) fiscal health (liquidity, income, and cash flow)
  - Internal Control weaknesses (number, severity, and recurring)
  - Other matters known to LGC staff
  - Units whose audits had not come in were automatically “on the list”



# Unit Assistance List (UAL)

## How is it created? (cont.)

- Units are notified via email and US Mail using contact information we have on file
- List is now available on our website (new this year)



# Unit Assistance List (UAL)

## How is it created? (cont.)

- List is periodically updated to account for reports that have been submitted
  - Those are evaluated based on the data in the report, and prior years, to determine if unit stays on the UAL.
  - If late audit is not the norm, and unit is in good shape overall, will come off the UAL at that time
  - Unit will be notified by email and US Mail that it is no longer on UAL
- Important to recognize that most units on the UAL have exhibited trends of poor financial performance/internal controls



# Unit Assistance List (UAL)

How does a unit get removed from the UAL?

- If an error was made in data entry that, once corrected, positively changes the evaluation of the fiscal health of either or both the General Fund or Utility Funds of a unit, we will remove the unit from the UAL.
- As previously discussed, late audits don't always stay on the UAL.
- Otherwise, unit is on the UAL until the next audit comes in and the cycle starts over. All units will be re-evaluated based on their new audited data



## Unit Assistance List (UAL)

What does it mean to be on the UAL?

- If unit needs to borrow money, will face increased scrutiny from LGC and will need a very thorough FPIC response
- Lowered borrowing caps ([S.L. 2022-53](#))
- Manager must take 6 hours of training (see [SL 2021-124](#))
- May be asked to sign a Fiscal Accountability Agreement, which requires unit to send in interim financial information on a periodic basis, and that a draft of the coming year's budget be sent to LGC staff to review before it is adopted



# Unit Assistance List (UAL)

Coming soon!

- Automated UAL
  - In final testing stages
- Will be much easier and faster to update
- Plan to update every 2 months
- Management still has option to override inclusion or exclusion based on other facts known



## SL 2023-59

- **Requires** the LGC to provide a notice of noncompliance to all counties and municipalities only that have not submitted an audit report within 9 months of fiscal year end. (G.S. 159-34(e))
- **Allows** the LGC to provide notice to the Department of Revenue to withhold a portion of a county or municipality's sales tax distribution if the entity has not submitted an audit report within 12 months of fiscal year end and either the action was not appealed by the local government, or the appeal was not successful. (G.S. 159-34(f) and (g))
- **Allows** counties and municipalities to appeal the LGC action to withhold a portion of sales tax distribution if the audit is not submitted within 12 months of fiscal year end. (G.S. 159-34(f))
- **Requires** the LGC to establish and make available guidelines outlining specific criteria and circumstances that would warrant a successful appeal. (G.S. 159-34(f))
- **Requires** a local government appealing an LGC action to appear before the LGC. The LGC must delay withholding if it determines the local government has provided sufficient evidence that the failure to submit an audit report is due to circumstances within the established guidelines. (G.S. 159-34(f))



## SL 2023-59

- It is not mandatory that the LGC request that DOR withhold funds
- Notices to units whose audits have not been received by April 1 will go out within 30 days of that date, via email and USPS
- Will post status of audits online promptly
- Will develop a user-friendly interface for units to submit appeals
- Will develop guidelines on what specific criteria and circumstances constitute a successful appeal; guidelines will be presented to LGC at September 12, 2023, meeting





## SL 2023-59

(g) A county or municipality that fails to file a copy of its annual audit report with the secretary within 12 months of its fiscal year end may have a portion of its sales tax distributions withheld. The total cumulative amount that may be withheld is an amount equal to one hundred fifty percent (150%) of the cost of the required annual audit as indicated in the audit contract between the county or municipality and its external auditor for the audit report, if such a contract has been executed, or one hundred fifty percent (150%) of the actual fee for the most recently filed audit report if a contract has not been executed for the current year audit.



## SL 2023-59

- Amount withheld monthly is 5% of 1/12<sup>th</sup> of the General Fund budget as it stood at the beginning of the fiscal year
- This continues until the 150% cap is met or the late audits have been completed, whichever comes first
- If the missing audit is submitted and accepted within 2 years, the withheld funds related to that audit are released to the unit upon request of the LGC Secretary
- If after two years the audits are not completed, the withheld funds are returned to the unit



# AUDIT STATUS UPDATE AND OTHER AUDIT-RELATED NEWS



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## Audit Review Update:

- As of July 10, 2023, we are still missing the following
  - 9 counties (plus still have 1 outstanding for 2021)
  - 70 municipalities have not been received, with several outstanding for 2020 and 2021.
- 76 units lost their auditors between 2021 and 2022 when **nine** CPA firms got out of the governmental auditing business in NC.
- We anticipated increased delays in 2022 audits.

# Financial Performance Indicators of Concern (FPICs)

Your auditors should REVIEW potential FPICs with manager and finance officer sufficiently before presentation to governing board so that

- Manager and finance officer understand and are prepared to discuss with board
- Any incorrect FPICs are corrected or removed

Your auditors should ADVISE the governing board and management

- To respond to **all** FPICs
- Of the deadline for their response – 60 days after presentation or earlier
- Of the signatures needed – majority of the board plus manager and finance officer
- To devote special attention to any repeated FPICs – Why are they not corrected?

Your auditors should ENCOURAGE prompt implementation of corrective actions identified

Your auditors should ALERT the board and staff that a carefully considered response addressing all FPIC is expected. It is very important if an application for approval of debt is anticipated!





## FPIC Response

- See [20 NCAC 03 .0508](#) for requirements
- Must reasonably address **all** FPICs
  - And be even better if going to LGC for debt approval
  - See [FPICs and Responses](#) on our website for sample responses and guidance on how to submit your response.
  - See [Memorandum #2023-04](#) for additional guidance.
- **Must** be signed by majority of governing board
- We request also signed by manager and by finance officer
- Submit through the [LGC File Transfer Portal](#) within **60 days** after presentation by auditor
  - Do not mail or email response
  - **Earlier response and implementation of corrective action encouraged!**



## Email Notifications Regarding the FPIC Response

- Notifications are to unit and to auditor
- “Response Acceptable” – may require amendment if subsequently request LGC approval of a transaction
- Reminders – several levels of reminders including “Past Due”
- Signature Required – sent when additional signatures needed.
  - Required signatures of majority of governing board (by NCAC) and by manager and finance officer by policy
- “SOD” – only FPIC segregation of duties – no response required but a link included to Memorandum #2015-15 – Internal Controls for a Small Unit of Government



## Data Input Worksheet – the “DIW”

- Two Excel tabs of most interest
  - **Performance Indicators Print** tab
    - Answers automatically generated from various data sources (If questions, call us! Don’t change formula.)
    - Indicators requiring a response highlighted in **Red**
    - May reference the audited financial statements
      - Stewardship, Compliance and Accountability note
      - Compliance reports





## Data Input Worksheet – the “DIW”

- **TD Information Completed by Auditor tab**
  - Several interesting questions, for example
    - 906 – opinion unmodified?
    - 1055 – bank and other reconciliations timely?
    - 953 – going concern finding in report?
    - 1059 – no board-appointed finance officer finding?
  - Please answer carefully



## Data Input Worksheet – the “DIW”

- Other tabs explain calculations
  - Performance Indicator FBA %
  - RSS (Restricted by State Statute)
  - Electric Transfers compliance
- Certain tabs are for data entry





# Completing the DIW

Accuracy is very important!

- Data from DIW is used to determine if a unit is on the UAL
- Data from DIW is used for reports that go to the General Assembly
- Data from DIW is used to populate databases that units can use to compare themselves to their peers, and that others use for research
- Recent internal audit of DIWs found an error rate of over 70%



# Financial Reporting Tools

- Illustrative financials for [Dogwood and Carolina County](#) by the end of the month at the latest
- GASB 87 Workbook for Leases Year Two updates are complete and are published [here](#)
- GASB 96 Workbook for SBITA is on the website and can be accessed [here](#).
- GASB 67/68 Pension [tables/workbooks](#) are complete and are published [here](#).

# ALTERNATIVE REPORTING PROJECT



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# Review of Annual Reporting Requirements

1

Improve readability of  
Statements for Citizens  
and local governments

- Simplify financial statements
- Simplify accounting basis

2

Increase Internal  
Control work done in  
units

3

Improve timeliness of  
audits

4

Increase interest in the  
CPA community to  
perform local  
government work



# Overview of Annual Reporting Project

- Multi-year project
- Will require legislative approval



# Overview of Annual Reporting Project - Research Phase

|  |   |
|--|---|
|  | ✓ |
| Other States with emphasis on AAA States – surveys, meetings, official statements, State agencies in other states, municipal organizations in other states | ✓ |
| Bond Counsels ✓  | ✓ |
| Major underwriters in State – how do they use the current statements   | ✓ |
| Federal & State agencies – How they use current statements   | ✓ |
| NC State Board of CPA Examiners  | ✓ |
| NC League of Municipalities and County Commissioners Association   | ✓ |
| NCACPA   | ✓ |
| Other Experts in this area (Lee Carter and Greg Allison)   | ✓ |
| Finance Officers from local governments  | ✓ |

✓ Indicates that we are in discussions with these organizations





# Overview of Annual Reporting Project

- The output from the research phase was presented to the State Treasurer and State Auditor and they have asked us to continue into the next phase of research.
- We will develop with input from the previous mentioned organizations.
  - Annual reporting options
  - Who will be eligible for this option
- We also are working with a task force of local government finance officers and with the NCACPA Government Resource Group to get input from auditors.



# GASB UPDATE

- GASB 87 – Leases
  - Spreadsheets have been updated
  - <https://www.nctreasurer.com/divisions/state-and-local-government-finance/lgc/gasb-87-and-gasb-96-guidance>
- GASB 96 – SBITAs
  - Memorandum and spreadsheets are available at website linked above
- GASB has released Implementation Guide 2023-1 – find it [here](#)
  - New and revised questions all on leases and SBITAs



# GASB UPDATE

## GASB Statement 100 – Accounting Changes and Error Corrections

- Accounting Changes
  - Change in accounting principle – single retroactive entry of cumulative effect to beginning equity
  - Change in accounting estimate – accounted for prospectively
  - Change to or within the financial reporting entity – adjust current year equity
- Error Corrections – all applied retroactively to beginning equity
  - Mathematical mistake
  - Error in application of accounting standard
  - Oversight or misuse of facts that existed at the time the financial statements were issued
- Effective for fiscal years beginning after June 15, 2023



# GASB UPDATE

## GASB Statement 101 – Compensated Absences

- What is a compensated absence according to GASB?
  - Time off for which you are paid (vacation, sick, PTO, etc.)
  - Leave for which you are paid upon termination
  - Noncash settlements, such as receiving service credit in LGERS or TSERS for your unused sick leave
- Parental leave, military leave, and jury duty leave are not recognized until paid



# GASB UPDATE

## GASB Statement 101 – Compensated Absences

- In addition to meeting the criteria on previous slide, leave also must have the following attributes
  - Is attributable to services already rendered
  - Accumulates
  - Is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means
- Start preparing—how much of



# GASB UPDATE

What does this mean???

- Sick leave that rolls to service credit is accounted for through the pension plans ✓
- You will need to determine, of the total accumulated sick leave at fiscal year end, how much are employees more likely than not to use as opposed to letting it roll to service credit or expire
- Same issue with vacation – will need to determine how much will be taken vs. how much will roll to sick leave or expire



## GASB UPDATE

Also need to accrue any related payments to time off payouts and/or use of the time

- Payments that are directly or incrementally related (payroll taxes)
- Contributions to a defined contribution plan (not so for DB plans)

What pay rate do you use?

- Pay rate at the end of reporting period UNLESS it is more likely it will be paid out at a different rate

Statement 101 is effective for fiscal years beginning after December 15, 2023



# GASB UPDATE

## Updates/Issuance of Implementation Guides

- **Updates to 2021-1 Implementation Guide (IG)**

- Questions 4.1–4.3, 4.23, and 5.2–5.4 and the supersession of Questions Z.51.4–Z.51.7 in Implementation Guide 2015-1 for reporting periods beginning after June 15, 2022
- Questions 4.4–4.21 for reporting periods beginning after June 15, 2022
- Question 4.22 for reporting periods beginning after June 15, 2021
- Question 5.1 for reporting periods beginning after June 15, 2023.





# GASB UPDATE

## Updates to 2021-1 IG (cont.)

**4.23. Q**—If a program that gives rise to a nonexchange transaction requires entering into one or more contractual agreements (for example, a grant agreement, a certification of acceptance, acceptance of terms and conditions, or project worksheets), can those agreements be considered nonsubstantive eligibility requirements such that revenue would be recognized before the agreement is executed if allowable costs are incurred?

**A**—No. Contractual agreements are not eligibility requirements. Rather, contractual agreements provide evidence of the resource recipient's acceptance of the terms and conditions of the provider's program, including eligibility requirements in that program. If an executed contractual agreement is required, the incurrence of allowable costs is not sufficient to fulfill recognition criteria in the absence of such executed agreement in accordance with the grantor's legal requirements. That is the case even if the contractual agreement includes provisions to reimburse allowable costs that are incurred prior to its execution

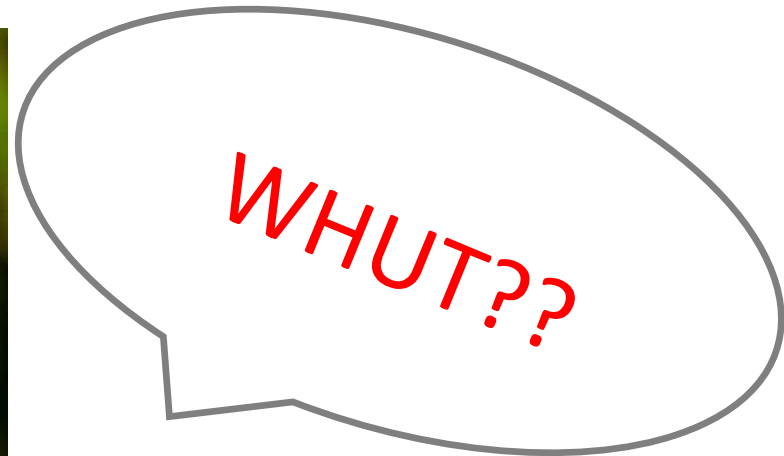


# GASB UPDATE

## 2023-1 Implementation Guide

- 6 new questions on leases, bringing total number of questions on leases to 114 (Stmt 87) Questions 4.1 – 4.6
- 3 new questions on SBITAs (Stmt 96) Questions 4.7 – 4.9
- 1 new question on Accounting Changes and Corrections (Stmt 100) Question 4.10
- 1 update to an existing question on leases (Question 5.1, updating Question 4.16 in IG 2019-3)
- Questions 4.1-4.9, and Question 5.1 are effective for fiscal years beginning after 6/15/2023
- Question 4.10 should be implemented with GASB Statement 100, which is effective for fiscal years beginning after June 15, 2023

# GOOD NEWS FROM GASB!!



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## GOOD NEWS FROM GASB!!

June 27, 2023, meeting of the GASB, they determined that they are not ready to move forward at this time with the governmental funds piece of the reporting model project

AND

They are not sure when they will be ready to move forward!

They will be moving forward on the less controversial parts of the project such as changes to the MD&A, change in budget presentation placement, etc.



## ON THAT HAPPY NOTE

Happy to  
attempt to  
answer any  
questions





## Contact Information

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