



# Making \$en\$e of the Annual Audit

**NCACC Annual Conference**

August 12, 2022

# What do these numbers represent?

**120**

**168**

**204**

**158**

**165**

**120**

**132**

**185**

# The number of pages in the financial statements for these counties

120 – Burke

168 – Macon

204 – Cabarrus

158 – McDowell

165 – Edgecombe

120 – Tyrrell

132 – Hyde

185 – Wake

# Goals for the Session



Understand the Board of Commissioners responsibilities related to the annual audit

Of the 100+ pages in the financial statements, highlight where you should focus

Make sense of the fund balance section

Understand the importance of a timely audit

Know what the auditors are required to tell you and why you should care

# Presentation Approach: The Technical & The Practical

## The Technical

**The theory and rules behind the practical – background material**

*A **resource** to take home*

## The Practical

**What you, as an elected official, “need” to know and apply**

*The **key takeaways** to prepare you for the upcoming audit*

# The Technical:

## What is an annual audit?

---

An independent review by an **external auditor** of the County's financial statements (*the County is responsible for the financial statements regardless of who prepares them*)

---

External Auditor's Report of **Internal Controls** over the Financial Statements, **Federal** and **State** awards to determine compliance with laws and regulations (Social Services, ARPA, other grants)

---

Report on Financial Performance Indicators of Concern (**FPICs**) required by **State Treasurer** (replaces "Unit Letters" previously issued by LGC)

# The Practical: What is an annual audit?

---

A report card on the County's financial condition

---

A report card on the administration's performance in handling the finances of the county in compliance with all applicable rules and regulations

---

A requirement of the state - monitored by the Local Government Commission (LGC) Division of the State Treasurer's Office



# Do You Know...



Who reviews and uses the annual audit?



# Users of the Audit



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER

***Taxpayers / Bondholders***

**County Manager and  
Finance Staff**

**Federal and State  
Granting Agencies**

**Fitch**Ratings

**S&P Global**  
Ratings

**MOODY's**

# Who sets the requirements for the audit?

NC Local Government Budget and Fiscal Control Act (NCGS 159)

Governmental Accounting Standards Board (GASB)

# What standards must be followed?

Generally Accepted Accounting Principles

Government Auditing Standards (Issued by Comptroller General of the US)

Government Finance Officers Association (GFOA) Best Practices

# The Practical:

Who has ultimate responsibility for results of the audit?

**Answer: The Board of Commissioners, who should expect.....**



Regular (monthly) reporting on County finances



Timely Audit Completion



Appropriate Corrective Action Plan to address any findings



# Do You Know...



When the audit is due to the Local Government Commission (LGC)?

# The Practical:

## Audit Timing

### Key dates and actions

June 30

End of Fiscal year (Finance begins year-end close out processes)

October 31

Deadline for Submission of Audit to LGC (may be extended by LGC)

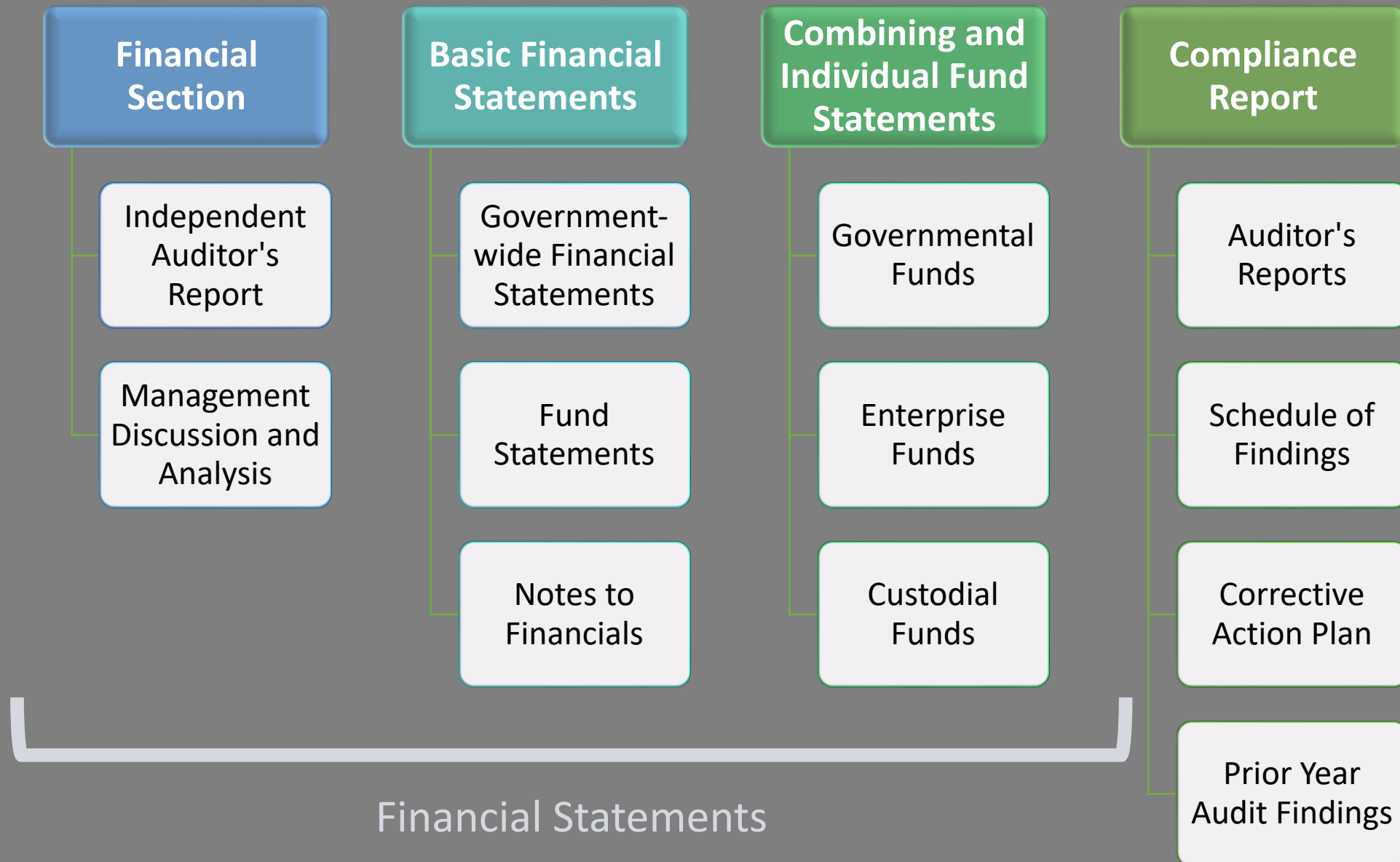
Within 45 days of LGC Submission

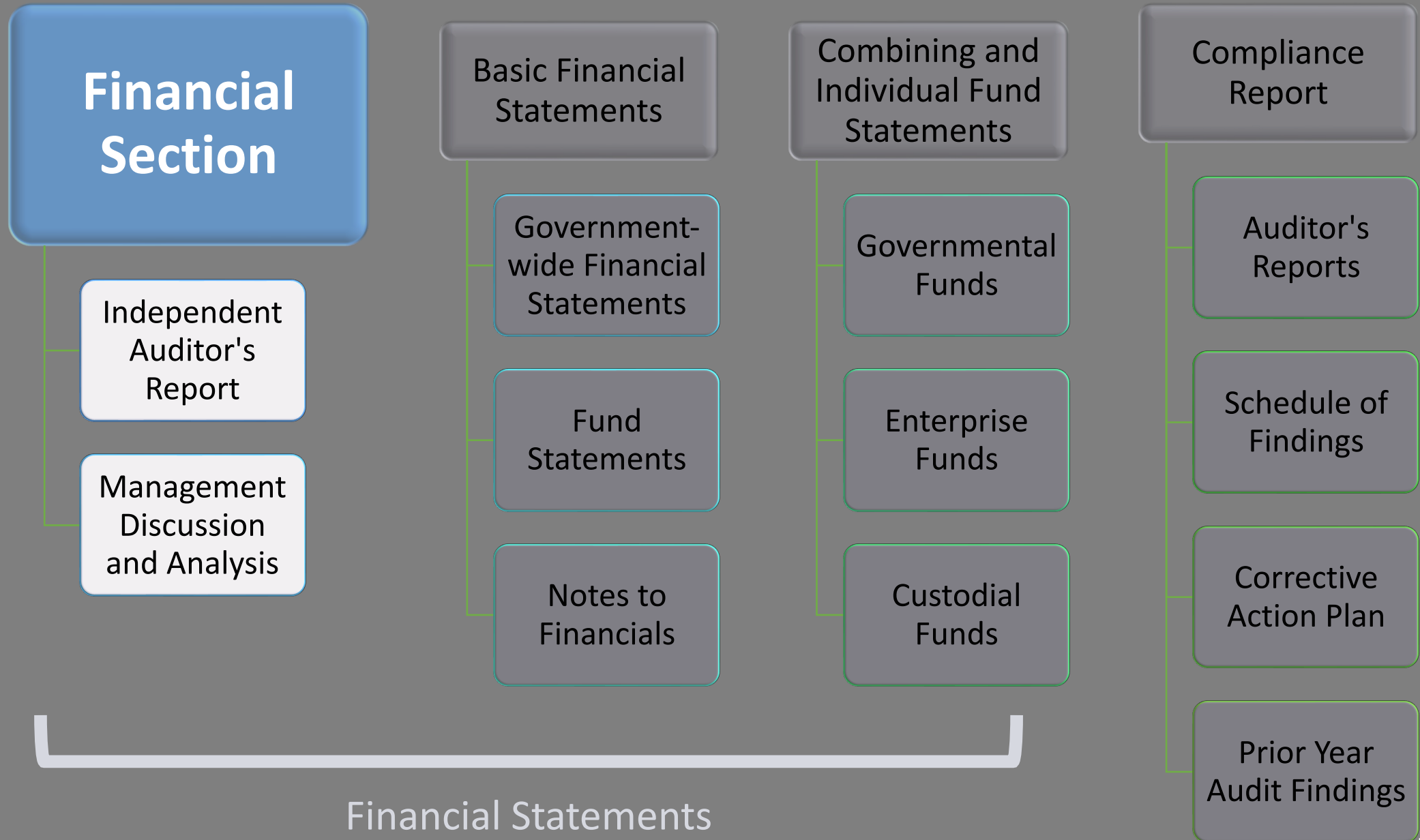
Auditors present results of audit to BOC, including FPICS, in open, public meeting

Within 60 days of Auditor's Presentation

BOC must submit a response to the auditor's findings to the LGC

# The Technical: Audit Components





# The Technical:

## The audit report opinion types



**Unmodified** - “clean” opinion – “present fairly”



**Modified** – Unable to opine on some portions of the finances due to insufficient information or lack of appropriate internal controls

### *Opinions*

In our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund

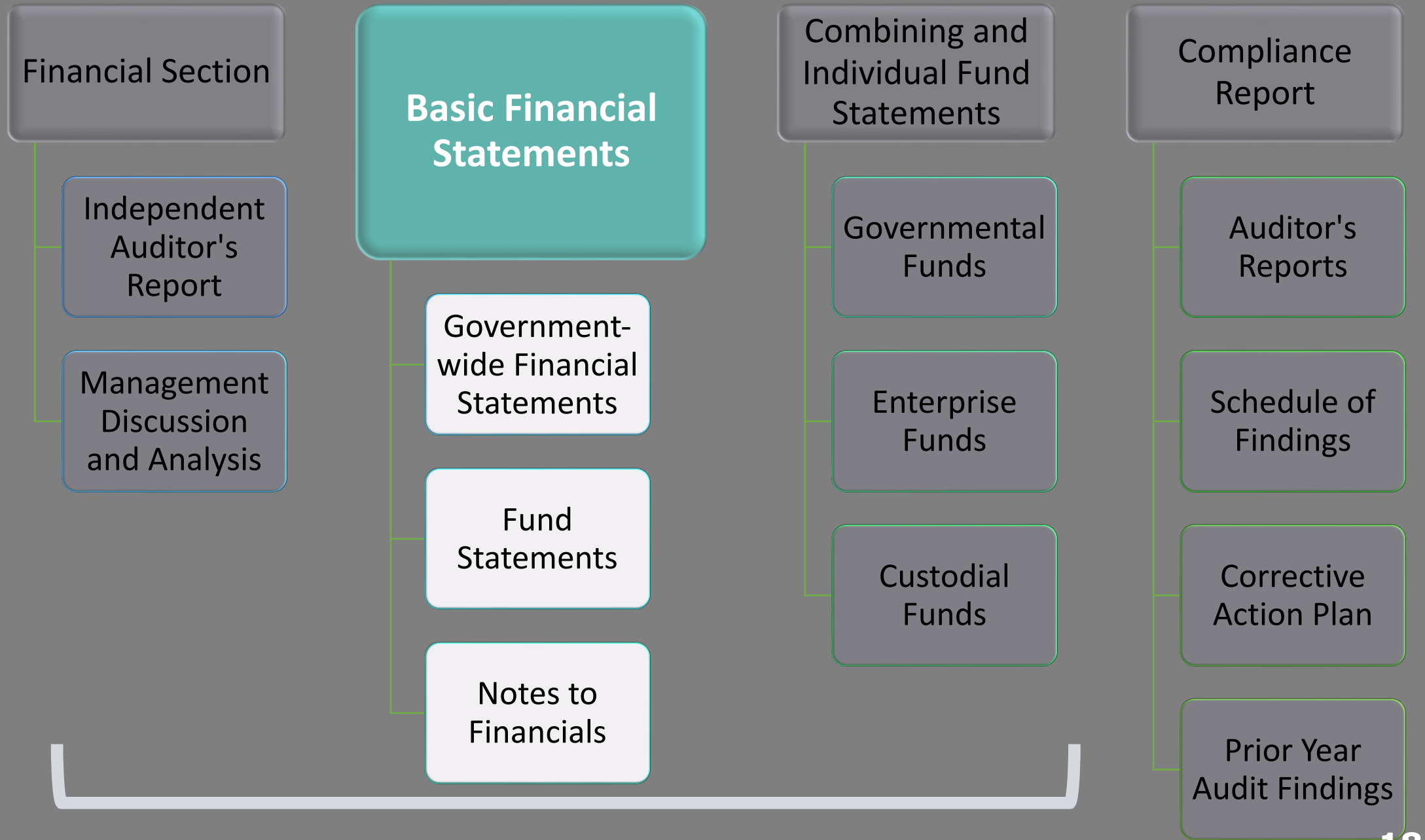


# The Practical:

If you don't read anything else in the financial statements, **read the Management Discussion and Analysis**

Management Discussion and Analysis (MD&A) is the **Executive Summary** of the Financial Statements

The MD&A tells the story of the County's financial condition for the prior fiscal year



# Practical & Technical

**Financial activities are accounted for in self-balancing sets of accounts called “funds”**

**BALANCE SHEET:** Accounts measured at a single point in time (June 30)

**Assets** – things *owned*

**Liabilities** – things *owed*

**Fund Balance / Net Position** – cumulative excess of revenues over expenditures

**INCOME STATEMENT:** Accounts showing activity for the year (July 1 to June 30)

**Revenues** – amounts collected or received from others

**Expenditures/Expenses** – amounts paid to others



# Do You Know...



1. What the primary operating fund for a government is called?
2. How much of the annual budget process is spent discussing #1?

# The The Technical: Fund Examples and Fund Types

Fund Type	Individual Fund Examples
General	General (may also include Debt Service) – general county operations
Special Revenue (Restricted Revenues)	Fire Tax Districts, E911 Fees, Representative Payee, Fines and Forfeitures, Deed of Trust Expenditures
Enterprise (Business –type)	Water and Sewer, Solid Waste Operations
Custodial (Assets of Others)	Municipal Property Tax Distributions, Jail Inmate Trust Funds, Cooperative Extension
Capital Projects (Purchase & Construction of Assets)	County CIP

# The Practical:

## Focus on the audit where you spend the most time during budget

Fund	Actions by <i>Board</i> / <i>Importance</i>
General Fund and Debt Service	Establishes tax rates, sets spending priorities, authorizes debt / <i>Majority of county operations and commitments</i>
Special Revenue Funds	Appropriates funds / <i>Majority of funds are for special purposes with limited influence by the Board</i>
Enterprise: Water & Sewer, Solid Waste	Establishes rates and fees to cover operations and infrastructure investment, authorizes debt / <i>Critical service to community</i>
Custodial (Assets of Others)	Sets the budget / <i>Board has little influence</i>
Capital Projects	Appropriates funds / <i>Indicates if external funds (grants, partner dollars) reimbursements occur timely</i>

# The Practical:

## What are the most important sections to review for the Governmental Funds?

Balance Sheet

Emphasis on Fund Balance  
(Governmental Funds)

Schedule of  
Revenues,  
Expenditures and  
Changes in Fund  
Balance – Budget  
versus Actual

The annual budget is one of the most important actions by a Board. This statement is the report card on the prior year's budget

# The Technical: What is the Schedule of Revenues, Expenditures and Changes in Fund Balance

Summary by major  
revenue type and  
expenditure  
functions

Compares Actual to  
Final Budget

(Original Budget Adopted  
by BOC plus all Budget  
Amendments)

***Combining and Individual Fund  
Statements provide a greater level of  
detail for revenues and expenditures***

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
<b>Revenues</b>				
Ad valorem taxes	\$ 30,795,000	\$ 30,795,000	\$ 34,225,039	\$ 3,430,039
Local option sales taxes	5,905,000	5,905,000	9,271,734	3,366,734
Other taxes and licenses	147,000	147,000	136,304	(10,696)
Unrestricted intergovernmental	295,000	295,000	863,987	568,987
Restricted intergovernmental	13,274,023	19,546,499	16,411,272	(3,135,227)
Permits and fees	662,000	799,440	1,109,003	309,563
Sales and services	1,427,212	2,730,012	3,772,098	1,042,086
Investment earnings	30,000	30,000	3,880	(26,120)
Miscellaneous	96,100	194,324	612,431	418,107
Total revenues	52,631,335	60,442,275	66,405,748	5,963,473
<b>Expenditures</b>				
Current:				
General government	7,035,151	8,384,571	7,350,436	1,034,135
Public safety	13,887,675	18,838,710	17,200,048	1,638,662
Transportation	62,066	62,066	62,066	-
Economic and physical development	1,361,621	1,818,351	1,275,696	542,655
Human services	20,379,582	23,216,336	17,383,550	5,832,786
Cultural and recreational	650,393	675,322	642,107	33,215
Environmental protection	30,000	40,000	52,851	(12,851)
Intergovernmental:				
Education	13,936,441	13,609,992	13,699,989	(89,997)
Debt service				
Principal retirement	2,594,345	3,154,595	3,371,868	(217,273)
Interest and other charges	898,016	898,016	975,552	(77,536)
Total expenditures	60,835,290	70,697,959	62,014,163	8,683,796
Revenues over (under) expenditures	(8,203,955)	(10,255,684)	4,391,585	14,647,269



# The Technical: Changes in Fund Balance

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues over (under) expenditures	(8,203,955)	(10,255,684)	4,391,585	14,647,269
Other financing sources (uses)				
Proceeds of long-term debt	-	422,310	450,000	27,690
Capital lease obligations issued	-	-	336,258	336,258
Proceeds from sale of capital assets	10,000	10,000	57,000	47,000
Transfer from other funds	6,828,733	6,714,382	6,787,680	73,298
Transfers to other funds	(7,420,661)	(7,420,661)	(7,420,661)	-
Total other financing uses	(581,928)	(273,969)	210,277	484,246
Appropriated fund balance	8,785,883	10,529,653	-	(10,529,653)
Net change in fund balance	\$ -	\$ -	4,601,862	\$ 4,601,862

Net Change in Fund Balance Equals:

- Actual Revenues
- Actual Expenditures
- +/- Actual Other financing sources (uses)

## The Practical:

### What you should know (*or ask*) about General Fund Budget versus Actual Schedule



Are there significant variances between budget and actual - revenues and expenditures?  
And Why?



What was the net change in fund balance? Did it increase or decrease?  
And Why?



How does the use of Fund Balance compare to what was budgeted?  
What caused any significant difference (positive or negative).

# The Technical: Fund Balance Defined



## What Fund Balance Is

The cumulative amount of revenues over expenditures

A measure of the County's fiscal health

Source of cash flow to fund expenditures in advance of property tax collections

An "emergency" fund



## What Fund Balance Isn't

It is NOT a source of revenue for RECURRING funds as it is a one-time source – once it's used, it's gone

# The Technical:

## A look at fund balance categories

### Non-spendable

Inventories, Prepaid Expenses, Non-current receivables

### Restricted

Restricted by external rules and regulations

Most common is amounts for sales tax and property taxes received after June 30

### Committed

Requires an actions by the governing body

Most common is amounts set aside for property tax reappraisal

### Assigned

A function of accounting rules

Most common is fund balance appropriated in the next budget

### Unassigned

What's left and possibly available for spending depending on county policy

# The Practical:

## What you should know (or ask) about Fund Balance



Did the total increase or decrease? And Why?  
(This information comes from the Statement of Revenues and Expenses)



Are any of the fund balances "negative" - a fund deficit?  
Why are they negative and what is the plan to create a positive fund balance?



How does the Total and Unassigned Fund Balance compare to the County's Fund Balance Policy?  
What is the plan to achieve policy targets in the future?

# The Practical:

## What are the most important sections to review in the Proprietary Funds?

Statement of Net  
Position

Emphasis on Change in and  
Ending Net Position Section  
(similar to fund balance)

Schedule of  
Revenues and  
Expenses and  
Change in Net  
Position

Summary of operations and  
“profitability” for business type  
activities

# The Practical:

## What you should know *(or ask)* about Net Position



Are rates sufficient to cover operations and infrastructure investments?

(This information comes from the Statement of Revenues and Expenses)

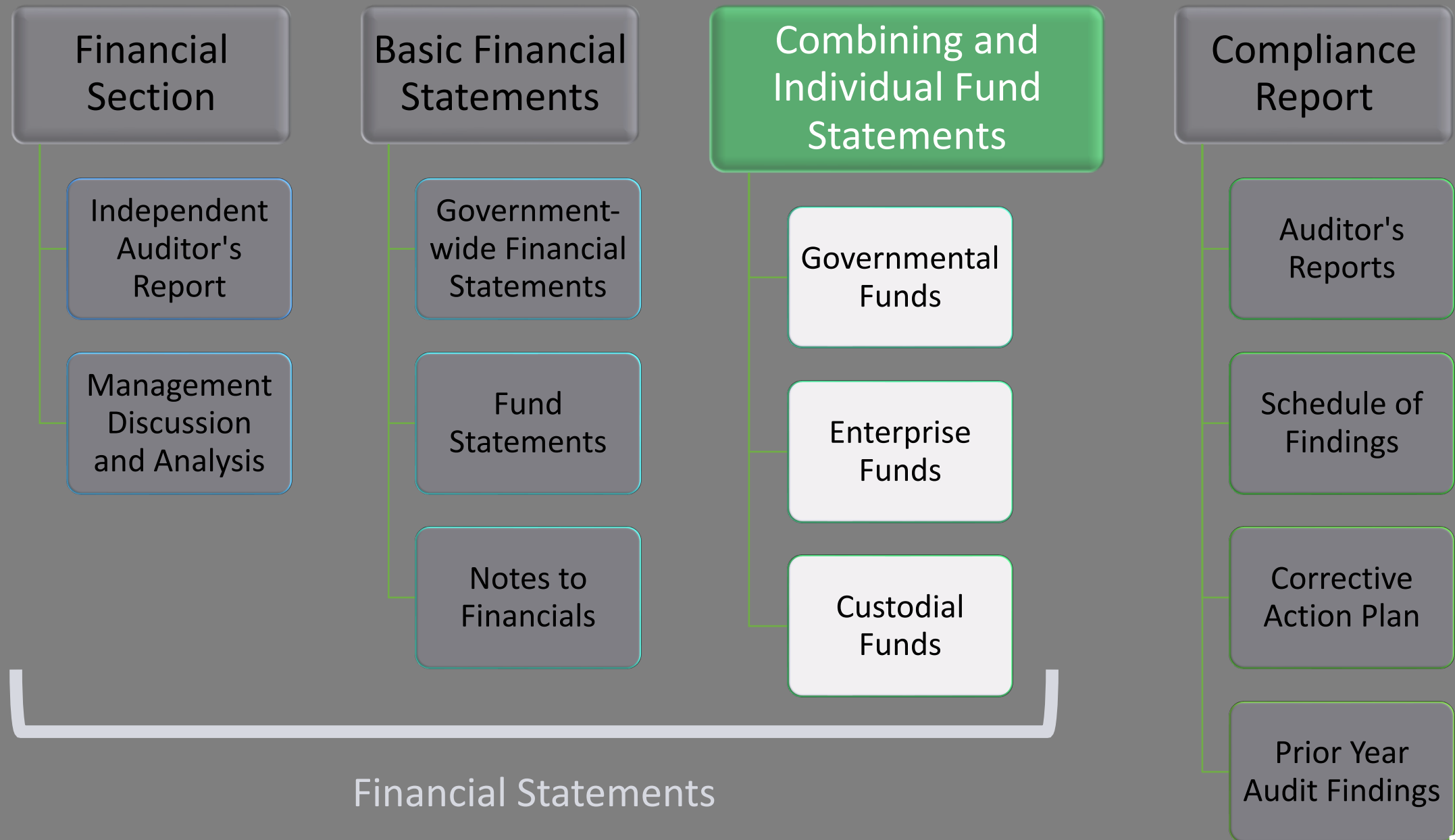


Is the Unrestricted Net Position positive or negative?

If negative, why?

Statement of Net Position  
Proprietary Funds  
June 30, 2021

	Major		Total
	Water and Sewer Operations	Solid Waste Fund	
Net Position			
Net investment in capital assets	37,349,100	4,542,088	41,891,188
Unrestricted	1,881,093	(3,778,533)	(1,897,440)
Total net position	\$ 39,230,193	\$ 763,555	\$ 39,993,748

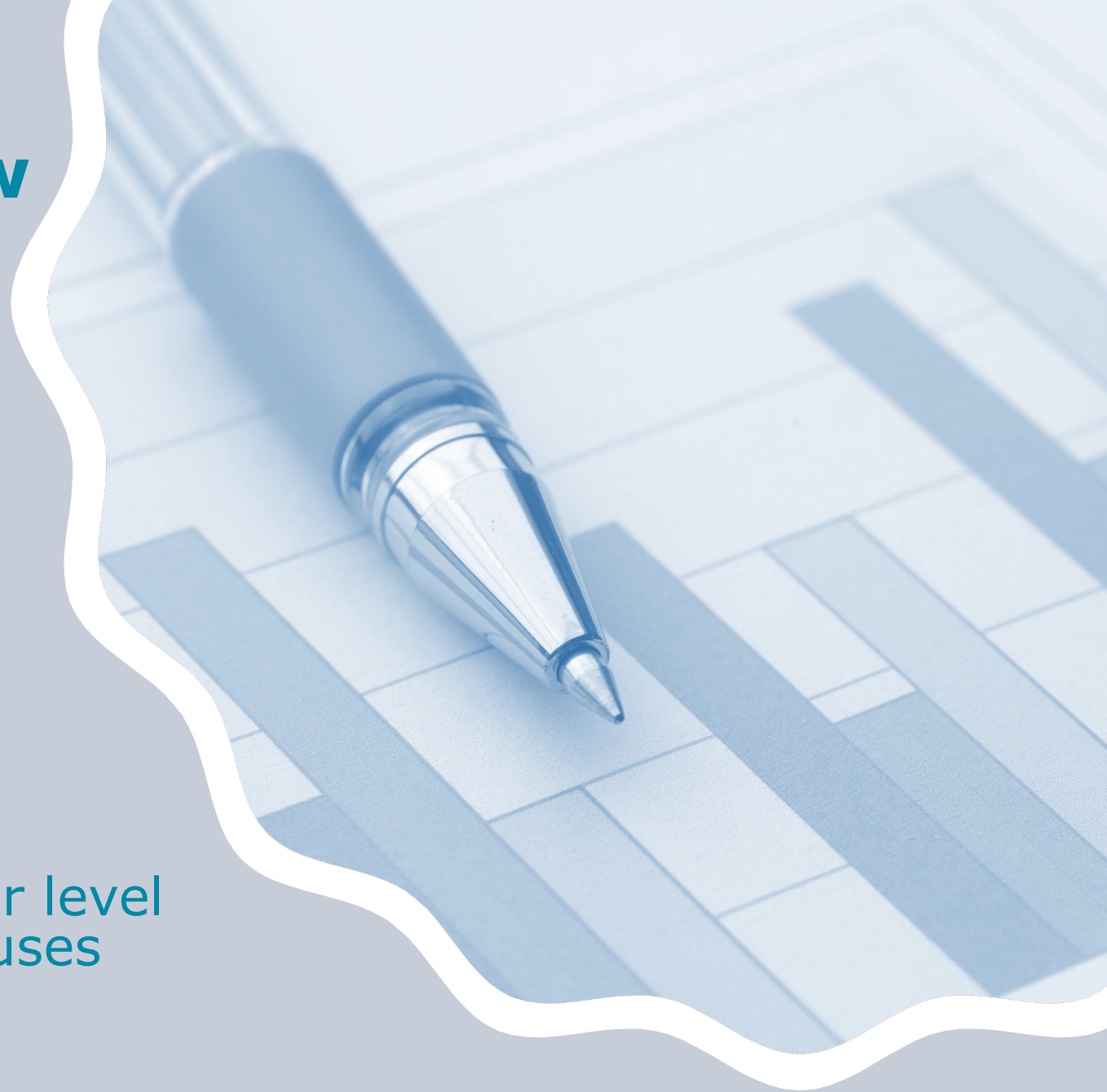


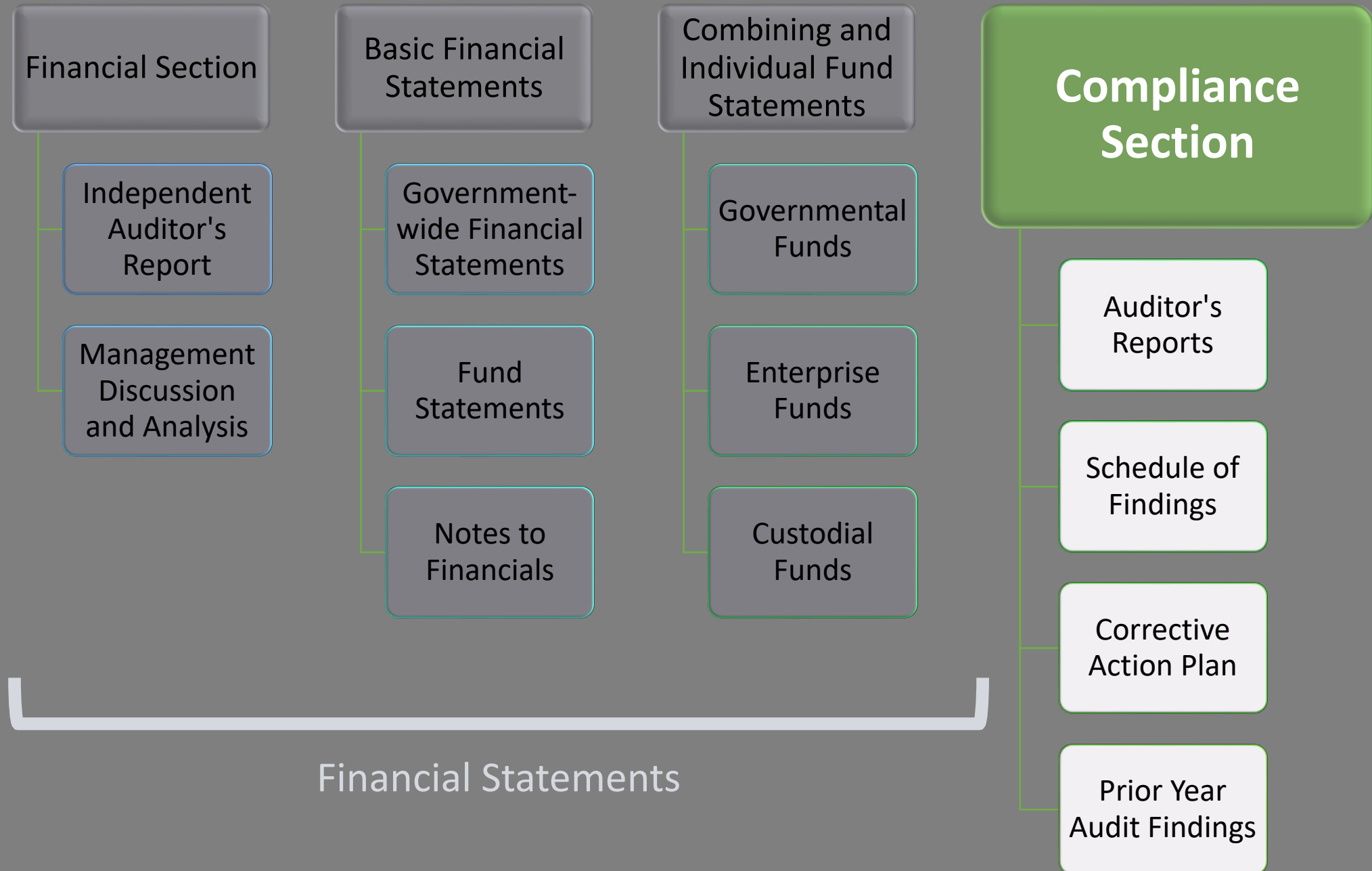


# **The Practical: What should you review in the Combining and Individual Fund Statements?**

**Anything that  
interests you!**

These statements provide a greater level of detail for each fund the county uses and are supplemental to the Basic Financial Statements





# The Technical:

## Auditor Issues Three Compliance Reports

(Almost all counties will now have #2 due to ARPA Funds)

1

Report on Internal Control Over **Financial Reporting** And On Compliance and Other Matters Based On An Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

2

Report on Compliance with Requirements Applicable To **Each Major Federal Program** And Internal Control Over **Compliance In Accordance with OMB Uniform Guidance** and the State Single Audit Implementation Act

3

Report on Compliance with Requirements Applicable To **Each Major State Program** And Internal Control Over **Compliance In Accordance with OMB Uniform Guidance** and the State Single Audit Implementation Act

# The Technical: Types of Findings

## Material Weakness

A deficiency that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, detected or corrected on a timely basis

## Significant Deficiency

A deficiency that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

## Statutory Violation

A failure to follow a statutory requirement in administration of a state or federal program

**Deficiency Defined:** Design or operation of internal control that does not allow prevention or detection or correction of misstatements in a timely manner during normal course of operations

# The Technical and Practical: Corrective Action Plan Requirements

## Audit Findings Elements

Criteria

Condition

Questioned Costs

Context

Effect

Cause

Recommendation

## County Response

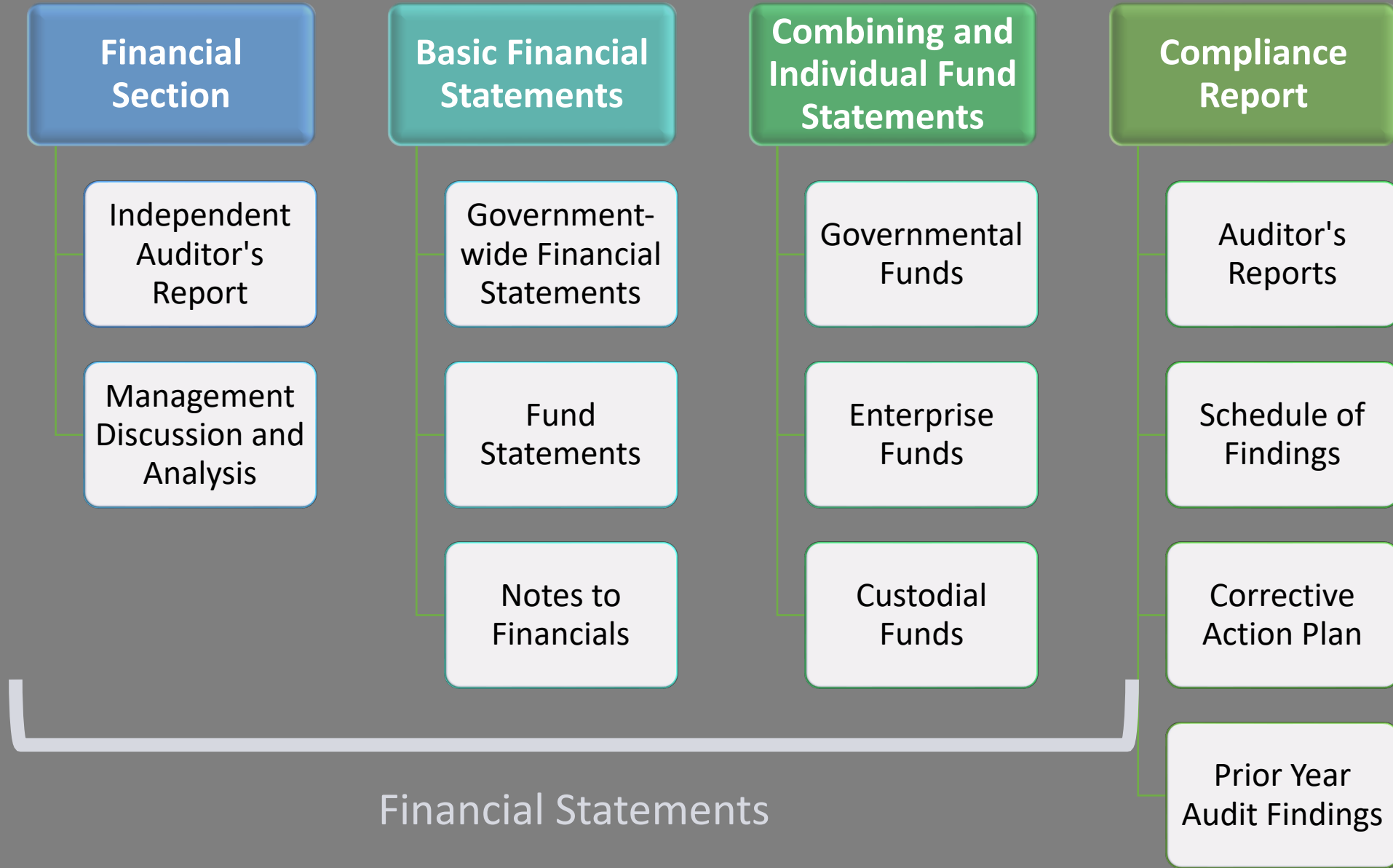
### Corrective Action Plan

Specific steps county staff will take to follow the recommendation of the auditor and address the effect outlined in the finding

### Proposed Completion Date

Specific time for completing the tasks necessary to resolve the finding

# Audit Components



# The Practical: Audit Timing

## Key dates and actions

June 30

End of Fiscal year (Finance begins year-end close out processes)

October 31

Deadline for Submission of Audit to LGC (may be extended by LGC)

Within 45 days  
of LGC  
Submission

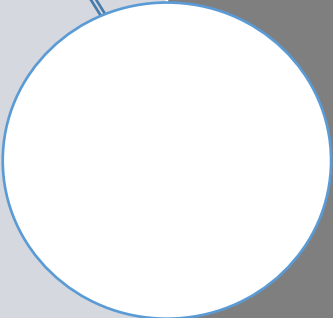
Auditors present results of audit to BOC, including FPICS, in open, public meeting

Within 60 days  
of Auditor's  
Presentation

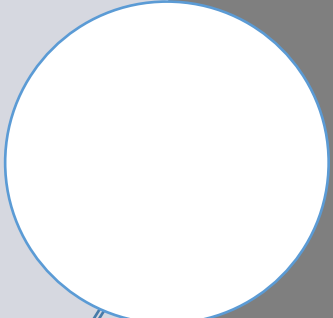
BOC must submit a response to the auditor's findings to the LGC

# The Technical:

## What is the auditor expected to tell the Board in an open meeting?



Summary of current year findings (material weaknesses or significant deficiencies or statutory violations) and status of prior year findings (*found in Compliance Section*)



Values of Financial Performance Indicators of Concern (FPICS) and notification if a response by the BOC is needed to address the concerns and by when the response is needed



# The Practical:

## Why should the Board pay close attention to the auditor's comments?



The **findings** are the **red flags** to which the board should be paying attention and expect the administration to address



The BOC is responsible for the response to the LGC on any FPICS

# The Practical: Risk Factors Evaluated by Treasurer's Office

## Internal Control Issues

(Financial, Federal  
and State Awards –  
Findings in each of  
this area will likely put  
the county at High  
Risk)

## Financial Issues – General Fund

(Fund Balance Health)

## Financial Issues – Water & Sewer Funds

(Net Position,  
Compliance with Debt  
Covenants)

**Timeliness of Audit Completion**

# The Practical: Why does timely completion of the audit matter?

*(And quite simply,  
it's required)*

Prior Year Actuals Inform Current  
Year Projections



Current Year Projections Inform the  
Next Year's Budget



The Next Year's Budget Should be  
Built on Realistic Forecasts  
Informed by the Most Up to Date  
Information

# Key Takeaways



The Governing Body has ultimate responsibility for the audit

No need to be overwhelmed by the financial statements, a few key sections provide what's most important

Completing the annual audit within required timelines is critical

The auditor's work should be seen as "value added" toward improving the county's financial operations

# Resources:

## **LGC Website**

<https://www.nctreasurer.com/divisions/state-and-local-government-finance/local-government-commission>

## **School of Government Website**

<https://www.sog.unc.edu>

## **GFOA Website**

<https://www.gfoa.org/best-practices/budgeting>

# QUESTIONS?

Johnna Sharpe, County Operations Consultant

[johnna.sharpe@ncacc.org](mailto:johnna.sharpe@ncacc.org)

919-719-1105