

Financial Reporting and LGC Updates

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LGC Update

□ 2008 Audits

- SAS No. 112 - *Communicating Internal Control Related Matters Identified in an Audit*
 - FY 2007 was first year standard was effective
 - **Reports coming in late should have at least a significant deficiency for accounting records**



LGC Update

- 2008 Audits (cont'd)
 - Expect small governments to have findings
 - Expect tighter scrutiny of internal control reports in this year
 - Levels of interpretation have varied

SAS No. 112

- Most common misunderstanding is that the auditor's drafting of the LEA's financial statements automatically results in a material weakness.
- Asking the auditor to draft the financial statements does not cause a control deficiency; however, it may be the result of a control deficiency.

SAS No. 112

- **A control deficiency exists if the LEA does not have controls over the preparation of the financial statements, including the footnote disclosures, which would prevent or detect a misstatement in the financial statements.**
- The auditor cannot be part of a LEA's internal control. Doing so impairs the auditor's independence.

SAS No. 112

- What the auditor does is independent of the LEA's internal control over financial reporting. Therefore, the auditor cannot be a compensating control for the LEA.
- LEA's designation of an individual who possesses suitable skill, knowledge or experience to oversee a service performed by the CPA is not a control and does not mean that the LEA does not have a control deficiency.
- A system of internal control over financial reporting does not stop at the general ledger; rather it must include controls over the preparation of the financial statements, i.e. the worksheets from www.nctreasurer.com, etc.

LGC Update

- New Auditing Standards for 2008
 - SAS No. 104 through No. 111 - “Risk Suite”
 - SAS 102, 103 and 112 dealt with changes in reporting
 - Risk Suite relates primarily to changes in audit approach and procedures
 - More tests of monitoring controls and systems

“Risk Suite”

- Eight Statements on Auditing Standards (SAS) relating to the assessment of risk in an audit of financial statements:
 - SAS No. 104, *Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures (“Due Professional Care in the Performance of Work”)*
 - SAS No. 105, *Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards*



“Risk Suite” (continued)

- SAS No. 106, *Audit Evidence*
- SAS No. 107, *Audit Risk and Materiality in Conducting an Audit*

“Risk Suite” (continued)

- Statements on Auditing Standards relating to the assessment of risk:
 - SAS No. 108, *Planning and Supervision*
 - SAS No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

“Risk Suite” (continued)

- More Statements on Auditing Standards relating to the assessment of risk:
 - SAS No. 110, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*
 - SAS No. 111, *Amendment to Statement on Auditing Standards No. 39, Audit Sampling*

“Risk Suite” (continued)

- The primary objective of this is to enhance the application of the audit risk model in practice by providing for:
 - More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
 - More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.
 - *Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks.*

“Risk Suite” (continued)

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LGC Update

- Impact of Risk Suite standards for 2008
 - More documenting of these systems
 - Less substantive tests after year end
 - Audit work may start earlier in the year
 - At least initially, audit work may take longer to complete
 - Talk with clients and plan accordingly
 - Fee increases

LGC Update

□ 2008 Illustrative Statements

■ School financial statement changes

- Various corrections and updates to illustrative statements.
- Reflect significant changes to Chart of Accounts.
- Each LEA should now be allocating salary and benefits to specific functions. Therefore, benefits allocation worksheets are no longer necessary.
- Other worksheet updates. (Coming soon)

LGC Update

□ 2008 Illustrative Statements

■ School financial statement changes

- Other **Post** Employment Benefits (“**OPEB**”) Disclosure (Coming Soon)
 - Healthcare benefits during retirement
 - Long-term disability income plan
- Will be similar to Pension Plan disclosure
 - Multiple-employer cost-sharing plan
- OPEB disclosure should not be combined with Other Employment Benefits disclosure for
 - Short-term disability income plan
 - Death benefit plan



LGC's Financial Statement Review

- Serves two purposes
 - To evaluate the financial condition of the LEA.
 - To evaluate the compliance with financial reporting standards.

Letters Resulting Financial Condition Review

- Two most frequent concerns:
 - Expenditures and transfers are greater than appropriations; and
 - Financial statements are late.
- Other concerns include:
 - Appropriated Fund Balance exceeds Fund Balance Available for Appropriation;
 - Low or deficit Fund Balances;
 - Other budget issues; and
 - Internal control weaknesses.

Financials Received after Due Date

- Audit reports are due to the LGC no later than four months after Year End:
 - **October 31st for June 30 year end.**

- Financials Statements received after the due date require an amended contract and letter of explanation.
 - If you know in advance audit call the LGC
 - Having a expected due date will reduce the number of late letters sent.



How to Avoid Being Late

- Give the Auditor enough time
 - Sign and send contract to LGC for approval as soon as practical
 - Auditors can not begin field work prior to the LGC approving the contract
 - Depending on unit size and other obligations the auditor can need between 4-6 months
 - New Standards and Requirements may extend fieldwork

Preparing for an Audit

- Auditors must be Independent
 - Cannot audit their own work
 - Cannot write unit's MD&A
- Unit can hire other firms to provide bookkeeping services and draft financial statements
- The Finance Officer is responsible for making sure all needed materials are available to the auditor in a timely manner



Audit Fees

- Audit Invoices must be approved by the LGC prior to payment
- Only 75% of the total audit fee can be paid prior to Audit approval
- New standards may result in higher Audit fees



Internal Control Weaknesses

- Bank reconciliations are not promptly or properly prepared.
- Not all moneys received and expended are included in the budget as required by GS 115C-441.
 - Budget amendments are required by Federal programs if the LEA has exceeded the cumulative budgeted line item by more than 10%
- Budget was not adopted on a timely basis.

Financial Statement - Review

Suggestions

- The first rule is that the financial statements are your financial statements, not the auditors!
- The next rule in reviewing your financial statements is to be curious.
 - Don't be hesitant to ask the auditors questions.
 - If it doesn't look right, it probably isn't.
 - Try to think what questions your Board will ask you or your boss.

Financial Statement - Review

Suggestions

- Review the report of consistency, for example
 - Do the tables in the Managements' Discussion and Analysis agree to the information presented in the Basic Financial Statements? Are conclusion consistent?
 - Often when they don't agree, it indicates that there were last-minute revisions to the BFS and the revisions not carried through to all the appropriate places.
 - Revisions can also effect the Reserved by State Statute, Notes to the Financial Statements, etc.
 - Comparative date should be presented in the MD&A.

Financial Statement Review

Suggestions

- Review the report for consistency, more examples
 - The total principal payments in the Long-Term Liabilities table should equal the total long-term liabilities presented in the Statement of Net Assets.
 - Reconciliation of the government-wide statements to the fund statements.
 - Capital asset note should agree to the government-wide statements.
 - Interfund balances and transfers note should include description of the nature of these transactions.

Financial Statement - Review

Suggestions

- Review the Deposits and Investments notes
 - Total Deposits and Investments on the government-wide statements plus any Deposits and Investments in fiduciary funds should equal the amounts presented in the Deposits and Investments notes.
 - CDs are Deposits, not Investments.
 - If there is a policy on custodial credit risk, it should be described, or if not, it should be indicated that there is no policy on custodial credit risk.

Financial Statement - Review

Suggestions

- If the stewardship note describes any violations of law, e.g. expenditures exceeding appropriations, deficit fund balances, etc., a description of the corrective action plan should be presented.
- The risk management note should include:
 - Describe the flood insurance coverage or an indication that there is none and explain why.
 - Indicate the amount of the fidelity bond coverage on the Finance Officer. (GS 115C-442 has been revised!)

Bonding

- ❑ Minimum bond for the Finance Officer permitted by law is \$50,000
- ❑ Other employees who have custody of public school money should also be bonded
- ❑ All other employees may be covered under a blanket bond.

Financial Statement - Review

Suggestions

- Transfers Out are not permitted from the State Public School Fund.
 - If the State Public School Fund reimburses other funds for expenses incurred on its behalf, the expense is shown if the State Public School Fund.
- Capital assets should be presented with a subtotal for non-depreciable assets and depreciable assets.

Financial Statement-Review

Suggestions

- Accounts receivable, accounts payable notes
 - Should show breakdown of these amounts unless on the face of the statements

- Interfund Balances
 - Notes should explain

Financial Statement - Review

Suggestions

- Pension and Other Post-Employment Benefits
 - New disclosure example will be available for OPEB

- Other Employment Benefits includes
 - Death Benefit
 - Disability Benefit

Financial Statement - Review

Suggestions

- All budgets should be balanced budgets
 - Often unbalanced budgets in financial statements are typographical errors.
 - If not, there should be a stewardship note mentioning the adoption of an unbalanced budget.
- Budget to actual comparisons are presented at legal level of control
 - “legal level of control” is lowest level at which a LEA’s management may not assign resources without Board approval.
 - i.e. if the budget is adopted at the function level, the comparison must be at the function level, etc.

Financial Statement - Review

Suggestions

- If you acquired school buses during the year, be sure the appropriate entries and disclosures are included.
 - These are easy to overlook since the cash does not pass directly through the LEA.

Financial Statement - Review

Suggestions

- Look over the Statement of Cash Flows
 - Changes in “due to” and “due from” balances represent Noncapital Financing Sources and Uses, and should not affect the Cash Flows from Operations section of the statement.



Budget Review - Suggestions

- After you receive your final 2008 financial statements, you should calculate the Fund Balance Available for Appropriation and compare the calculated amount to the 2009 budget to be certain that the Fund Balance has not been over-appropriated in any fund.
 - A worksheet is available at www.nctreasurer.com to assist in the calculation.
- Be sure there are no “unbalanced budgets”.



LGC 203 Form

- A semi-annual report of cash and investments required from all units
- Submitted to the LGC on January 1 and July 1
- Items reported on form
 - Amounts of funds in custody
 - Amounts of deposits of such funds & time deposits
 - List of all investment securities

LGC 203 Form

- The reports are reviewed to determine
 - All deposits are in authorized depositories and properly collateralized
 - All investments are permitted by General Statute
 - The average maturity of investments are appropriate for the unit
 - Make the worksheet you use to prepare the LGC 203 something that is useful to the auditor

LGC 203

- Signature page is not required as a supplement to emailed copies
- Can be submitted via email, mail or fax
- 203 Form for June 20, 2008 are due no later than July 25, 2008



Interim Financials

- The finance officer is responsible for preparing financial reports to the board.

- Types of Reports
 - Budget to Actual
 - Balance Sheet

**Auditing and Reporting Resources****GASB 34 Resources****Fiscal and Debt Management Information****State Treasurer's Financial Awards For Excellence****County and Municipal Information****Debt Affordability Studies**

Interim Financial Reporting Templates

The Interim Financial Reports are a combination of five reports for the use of local government units and public authorities. These reports are for informational purposes only but can be very helpful in communicating financial information to the governing board or writing the MD&A. The Local Government Commission staff hopes that the easy to read instructions and frequently asked questions will assist in the use of these reports.

File	Description
Budget to Actual.xls	Budget to Actual Worksheet - Example/FAQ & Blank Form
Cash Flow.xls	Cash Flow Analysis Worksheet - Example/FAQ & Blank Form
NeutralPropertyTaxes.xls	Neutral Property Tax Worksheet - Example/FAQ & Blank Form
RSS_FBA.xls	Reserve by State Statute & Fund Balance Available Calculation Worksheets & User Tips
Working Capital.xls	Working Capital Analysis Worksheet & User Tips

[Also see GASB 34 Tools.](#)

Feedback, requests, comments and suggestions can be directed to:

[Sharon Edmundson](#)

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 - Roll mouse over “State and Local Government” from bar across the top of the page where divisions are listed
 - Drop down list will appear for LGC list
- At the bottom of the page there are menu picks offering direct links to various areas of interest



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How to Reach Us

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