

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

2021 Audit Process

Changes to the Audit Process for 2021

- 1) Audit reports, data input workbooks, and auditor communications will be submitted using the new LGC File Transfer Portal.
- 2) LGC Staff will no longer issue unit letters. Instead, changes under North Carolina Administrative Code will require governing bodies to submit responses to the LGC if it has been determined that there are areas of financial concern.



Changes to the Audit Process for 2021

NEW File Transfer Portal



Changes to the Audit Process for 2021

New File Transfer Portal

LGCPortal.nctreasurer.com

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

Home | Audits | Contracts | Invoices | Other

Audits
Audit Reports
Auditor Communication
Data Input Worksheet

**Dale R. Folwell, CPA
welcomes you to the new
LGC File Transfer Portal**

The LGC File Transfer Portal is a safe and secure way to submit Audits, Contracts and Invoices to the State and Local Government Division at the Department of State Treasurer. This new portal will reduce the time and effort required by our staff for faster processing and reporting. [Learn more](#)



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division

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

Changes to the Audit Process for 2021

New File Transfer Portal

LGCPortal.nctreasurer.com

Audit Reports

NOTE: Only valid Adobe PDF files (.pdf) are accepted with the form below. Thank you.
A confirmation email will be sent to all email addresses reported on this form.

Fiscal Year *
2021

Unit Name Lookup *

Does the Audit include a DPCU of the primary unit? *
 Yes No

Name of DPCU Included with Primary Unit
Please indicate only those DPCU units that are units of local government or public authorities subject to LGC oversight.

Audit Type *
 Annual Audit Pension Special

Is this a Resubmission? *
 Yes No

Unit Staff Name *

Unit Staff Email Address

Auditor Information

Auditor *
If your audit firm is not included on the list below, please contact SLGFD@nctreasurer.com or 919-814-4299.

Auditor Email Address *

Auditor Phone Number
Provide a telephone number

Sender Information (Optional)

Sender Name (optional)
If different than above:

Sender Email Address (optional)
If different than above:

Upload File

Attach a file *
[Choose File] No file chosen

Submit

Changes to the Audit Process for 2021

Elimination of Unit Letters



Identification of Financial Concerns (and associated reporting requirements)



Elimination of Unit Letters



STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

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

May 6, 2021

Honorable Mayor
City of Dogwood
PO Box 999
Dogwood, North Carolina 29999

Dear Mayor:

The State and Local Government Finance Division in its role as staff to the Local Government Commission has analyzed the audited financial statements of the City of Dogwood for the fiscal year ended June 30, 2020. During our review we noted that the City has corrected many of the internal control issues identified in the June 30, 2019 audit. The amount of fund balance available for appropriation has increased from the previous year as well. We commend the management, staff and citizens for these improvements. But the results of the analysis revealed some areas of concern regarding the City's financial operations. The purpose of this letter is to convey those concerns to you and the Board. We request that you respond to this letter, addressing each concern we have raised.

Each concern is addressed in the following attachment. Please respond in writing within the next 45 days to those concerns. Responses should be on the unit's letterhead, signed by all board members, and emailed to unitletter@NCTreasurer.com; if, however, email is not a feasible option for you, you may mail your response. If you are planning to issue debt that requires the approval of the Local Government Commission, we must have a complete and thorough response to this letter on file prior to the Commission's consideration of your debt application.

We are available to assist you in addressing these matters.

Sincerely,

LGC Staff

LGC Staff will no longer issue Unit Letters

3200 Atlantic Avenue • Raleigh, North Carolina 27604
Courier #56-20-45
Telephone: (919) 814-4300 • Fax: (919) 855-5812
www.NCTreasurer.com



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division

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

Elimination of Unit Letters

Instead, financial concerns will be identified through indicators displayed in the Data Input Workbook

The screenshot shows a spreadsheet with the following content:

- 1** Introduction to the New Combined Unit Data from Audit Worksheet with Performance Indicator Tab and Transmittal Document
- 2** The Transmittal Document (TD) has been combined with the Unit Data from Audit Worksheet (Data Input Worksheet). The TD tabs will come first and are completed by the Auditor followed by the Data Input Worksheet tabs. This was necessary as data from both documents populate the Performance Indicator Tab.
- 3** **Unit Data from Audit Worksheet** - The *self-reported* data provided in this worksheet is used by staff as the primary tool to determine a unit of government's fiscal health as well as providing information to the North Carolina Legislature, North Carolina Budget and the Governor's Office and other state agencies. The North Carolina League of Municipalities and North Carolina Association of County Commissioners also use this information to advocate before the Executive, Legislative and Judicial branches of State Government on behalf of local governments. [Accuracy in completion of data is important for your local government.](#)
- 4** **Performance Indicators** - The *self-reported* financial data populates the Performance Indicators Tab. These performance indicators are key ratios and trends the Fiscal Management Division of the State Treasurer's Office has monitored for decades. We have created this Performance Indicator Tab to make these fiscal measures available to Auditors and Local Governments at the time of the conduct of the audit. If the Unit of Government crosses a certain threshold the performance indicator result will turn red and the Governing Board will have to prepare a "Response to the Auditor's Findings, Recommendations, and Fiscal Matter uses" that address each of the Performance Indicator indicated to be of concern by their red color. Your Auditor will provide you a copy of these performance indicators when the audit is presented to the Governing Board.
- 5** **Important Notes to the Preparer**
- 6** All information provided is *self-reported* by the units of local government. The staff of the State and Local Government Fiscal Management Section does NOT recalculate and is not responsible for incorrectly reported amounts.
- 7** The Unit Data from Audit Worksheet contains edits that will display error messages if these edit tests are not passed. Please make sure that your worksheet is error free. The worksheet may be returned to the unit to correct any errors that have not been resolved.
- 8**
- 9**
- 10** **New for Fiscal 2020**
- 11**
- 12** Data documenting the unit's compliance with General Statute 159-25 is captured in account numbers 947, 948, 949, 950, 952, 954, 956, and 958.
- 13**
- 14** The data provided in the Unit Data from Audit Worksheet now requires a certification by the Finance Officer that is located at the end of the worksheet in account numbers 960, 962, 964, 966, and 968.
- 15**
- 16**

The spreadsheet footer shows tabs for: Instructions, Unit Data from Audit Worksheet, TD Info Completed by Auditor, Performance Indicators Print, RSS, Electric trans, 2020 Data(H), and a plus sign for additional tabs.



Identifying Financial Concerns

As in previous years, units or their auditors will complete a “Unit Data From Audit Worksheet” tab in a Data Input Workbook

1 Introduction to the New Combined Unit Data from Audit Worksheet with Performance Indicator Tab and Transmittal Document

2

3 The Transmittal Document (TD) has been combined with the Unit Data from Audit Worksheet (Data Input Worksheet). The TD tabs will come first and are completed by the Auditor followed by the Data Input Worksheet tabs. This was necessary as data from both documents populate the Performance Indicator Tab.

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6 **Important Notes to the Preparer**

7 All information provided is self-reported by the units of local government. The staff of the State and Local Government Fiscal Management Section does NOT recalculate and is not responsible for incorrectly reported amounts.

8

9 The Unit Data from Audit Worksheet contains edit tests that will display error messages if these edit tests are not passed. Please make sure that your worksheet is error free. The worksheet may be returned to you to correct any errors that have not been resolved.

10

11

12 **New for Fiscal 2020**

13

14 Data documenting the unit's compliance with General Statute 159-25 is captured in account numbers 947, 948, 949, 950, 952, 954, 956, and 958.

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16 The data provided in the Unit Data from Audit Worksheet now requires a certification by the Finance Officer that is located at the end of the worksheet in account numbers 960, 962, 964, 966, and 968.

Instructions Unit Data from Audit Worksheet TD Info Completed by Auditor Performance Indicators Print RSS Electric trans 2020 Data(H)



Identifying Financial Concerns

NEW in the Data Input
Workbook for 2021 –

TD Info Completed by
Auditor tab

Performance Indicators
Print tab

1 Introduction to the New Combined Unit Data from Audit Worksheet with Performance Indicator Tab and Transmittal Document

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6 **Important Notes to the Auditor**

7 All information provided is **self-reported** by the units of local government. The staff of the State Treasurer's Office, Local Government Fiscal Management Section does NOT recalculate and is not responsible for incorrectly reported amounts.

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10

11

12 **New for Fiscal Year 2021**

13

14 Data documenting the unit's compliance with General Statutes 170-207, 170-208, 170-209, 170-210, 170-211, 170-212, 170-213, 170-214, 170-215, 170-216, 170-217, 170-218, 170-219, 170-220, 170-221, 170-222, 170-223, 170-224, 170-225, 170-226, 170-227, 170-228, 170-229, 170-230, 170-231, 170-232, 170-233, 170-234, 170-235, 170-236, 170-237, 170-238, 170-239, 170-240, 170-241, 170-242, 170-243, 170-244, 170-245, 170-246, 170-247, 170-248, 170-249, 170-250, 170-251, 170-252, 170-253, 170-254, 170-255, 170-256, and 170-258.

15

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Instructions | Unit Data from Audit Worksheet | TD Info Completed by Auditor | Performance Indicators Print | RSS | Electric trans | 2020 Data(H) |



Identifying Financial Concerns

“TD” or “Transmittal Document” data now provided in a tab in the Data Input Workbook

1 Introduction to the New Combined Unit Data from Audit Worksheet with Performance Indicator Tab and Transmittal Document

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12

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14 Data documenting the unit's General Statute 159-25 is captured in account numbers 947, 948, 949, 950, 952, 954, 956, and 958.

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Instructions | Unit Data from Audit Worksheet | TD Info Completed by Auditor | Performance Indicators Print | RSS | Electric trans | 2020 Data(H) |



Identifying Financial Concerns

No changes to TD data, just the way TD data is submitted

NC DEPARTMENT OF STATE TREASURER- STATE AND LOCAL GOVERNMENT FINANCE DIVISION
TD Info Completed by Auditor

Please see the **INSTRUCTIONS** worksheet before completing this form

Please have the completed audit report available to complete this form. ALL questions must be answered before submitting to the portal

Section 1: Data Collection NOTE: the data submitted below may be used in various published reports

906 Is the Independent Auditor's Report Opinion Unmodified?	<input type="text"/>	This Question must be answered before uploading, the report will not be processed if left blank
907 Is there a finding for lack of segregation of duties at this unit?	<input type="text"/>	This Question must be answered before uploading, the report will not be processed if left blank
951 Is there a finding for lack of technical skills, knowledge and experience (SKE) at this unit?	<input type="text"/>	This Question must be answered before uploading, the report will not be processed if left blank
953 Is there is a going concern finding noted in the audit report?	<input type="text"/>	This Question must be answered before uploading, the report will not be processed if left blank
955 Number of significant deficiency findings (other than in Questions 15-18)	<input type="text"/>	This Question must be answered before uploading, the report will not be processed if left blank
957 Number of material weaknesses findings (other than in Questions 15-18)	<input type="text"/>	This Question must be answered before uploading, the report will not be processed if left blank
959 Did the Unit have debt service payments deferred or restructured in this fiscal year? (does not include refinancings designed to take advantage of lower interest rates) Select Yes, No, or NA	<input type="text"/>	This Question must be answered before uploading, the report will not be processed if left blank
973 The above questions account for significant and material findings. Were there any issues or other matters presented to the Governing Board regarding internal controls (additional issues or other matters that were not listed as a material weakness or significant deficiency), that the Governing Board was instructed to include in the unit's "Response to the Auditor's Findings, Recommendations, and Fiscal Matters" Please indicate the number of other issues presented to the board.	<input type="text"/>	This Question must be answered before uploading, the report will not be processed if left blank
974 Did the Unit have any of the following occur: 1. Bond covenants were not met 2. Debt service payments made late? Deferred payments authorized by LGC or other state agencies should not be counted as late for purposes of this question.	<input type="text"/>	This Question must be answered before uploading, the report will not be processed if left blank

Q 955 & 957 Exclude Federal and State compliance findings from this number

Please select Yes or No from the drop down list

Instructions Unit Data from Audit Worksheet **TD Info Completed by Auditor** Performance Indicators Print RSS Electric trans

Identifying Financial Concerns

Performance Indicators Print tab

1 Introduction to the New Combined Unit Data from Audit Worksheet with Performance Indicator Tab and Transmittal Document

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6 **Important Notes for Preparer**

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Instructions Unit Data from Audit Worksheet TD Info Completed by Auditor Performance Indicators Print RSS Electric trans 2020 Data(H)



Identifying Financial Concerns

Financial Performance Indicators

Defined in North Carolina Administrative Code 20 NCAC 03 .0502(d)(1):

"Financial Performance Indicators" are values derived from information included in the audited financial statements that assist the Secretary in improving the comparability of reporting a given government unit's financial condition and financial performance. These criteria include adequacy of a government unit's fund balance; liquidity or the ability to meet short-term obligations; solvency or the ability to meet long-term obligations; debt service coverage; leverage; and such other indicators of financial condition and financial performance as the Secretary may establish.

Identifying Financial Concerns

Financial Performance Indicators

Defined in North Carolina Administrative Code 20 NCAC 03 .0502(d)(2):

"Financial Performance Indicators of Concern" are Financial Performance Indicators with values which may indicate inadequate financial conditions or fiscal management concerns within the government unit.



Identifying Financial Concerns

As data is entered in the “Unit Data from Audit Worksheet” tab, financial performance indicators will be automatically calculated and displayed in the “Financial Performance Indicators” print tab

PERFORMANCE INDICATOR CONCERN						
The self-reported information for your unit's audit reports was used to generate the following trends and performance indicators. We created this Performance Indicator Tab to make these indicators available to Auditors and other interested parties. If any Units Results in Column F are shaded red then the unit must submit a response to the Auditor's Findings, Recommendations, and Fiscal Matters" within 60 days from the presentation. The Response must address all performance indicators shaded in red.						
Performance Indicator Worksheet						
Unit Name:	City of Dogwood		Fiscal Year 2021		Explanation of Performance Indicator	
Unit Number:	50xxx		Minimum Threshold	Unit Results		
GENERAL FUND:						
			34% - Average of similar units is 63%	24.45%	Fund balance available for appropriation is an important reserve for local provide cash flow during periods of declining revenues and to be used for unforeseen expenditures. Column F to the left indicates the amount of a hand. You will also see the average for units of your size. Note that 8.33% fund balance to cover one month of expenditures. Normally, a unit has to revenues or decrease expenditures to increase fund balance available.	
WATER SEWER FUND:						
			Equal or greater than 1	0.84	A Quick Ratio less than 1 indicates that unit owes more for its current bill on hand in unrestricted cash and investments plus what is owed from current bills. If this ratio is less than 1, it indicates that the fund may have difficulty paying its current bills. If this is the case, the water and/or sewer system may not be sustainable.	
	2019	2020	2021			
Operating Net Income (loss) excluding depreciation+debt service principal	\$ 2,402,473	\$ 1,926,800	\$ 1,926,800	Greater than zero	\$ 1,926,800	This calculation subtracts operating expenses (which also includes depreciation) from operating revenues. A negative balance in this indicator indicates that the unit is not covering its operating expenses.
Unrestricted cash / Total expenses less depreciation+debt service principal	107.23%	89.38%	89.38%	Greater than 16% (2 months)	89.38%	This indicator calculates how many month's worth of expenses (including depreciation) a unit can pay based on the amount of unrestricted cash on hand. A typical billing cycle is one month (8.33%) and one extra month usually give government enough cash to handle unusual monthly expenses (16.66%). The bare minimum necessary to keep the fund from experiencing cash flow problems is 2 months.
It appears your Water Sewer fund(s) have transfers-in for the support of operations. Please discuss the purpose of such transfers-in and if you plan to continue these transfers-in.			N/A, operating transfers are less than 3% of the total of operating and non-operating expenses		\$ 5,000	The rate structure of the Water Sewer fund should support the expenses of operating subsidies or transfers from other funds.

Identifying Financial Concerns

Both the threshold value and the unit's value for each Financial Performance Indicator is automatically displayed.

Financial Performance Indicators of Concern will be flagged in red.

Performance Indicator Worksheet										
Unit Name:	City of Dogwood									
Unit Number:	50xxx									
	Minimum Threshold	Unit Results								
GENERAL FUND:										
<table border="1"> <caption>Fund Balance Available</caption> <thead> <tr> <th>Year</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>29.82%</td> </tr> <tr> <td>2020</td> <td>24.45%</td> </tr> <tr> <td>2021</td> <td>24.45%</td> </tr> </tbody> </table>		Year	Value	2019	29.82%	2020	24.45%	2021	24.45%	34% – Average of similar units is 63%
Year	Value									
2019	29.82%									
2020	24.45%									
2021	24.45%									
		24.45%								
WATER SEWER FUND:										
<table border="1"> <caption>Quick Ratio-Water and Sewer</caption> <thead> <tr> <th>Year</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>7.36</td> </tr> <tr> <td>2020</td> <td>6.99</td> </tr> <tr> <td>2021</td> <td>0.84</td> </tr> </tbody> </table>		Year	Value	2019	7.36	2020	6.99	2021	0.84	Equal or greater than 1
Year	Value									
2019	7.36									
2020	6.99									
2021	0.84									
		0.84								



Identifying Financial Concerns

Why are Financial Performance Indicators Important?

New requirements under North Carolina Administrative Code for auditors to:

- Report Financial Performance Indicators to the governing body
- Notify the governing body of their requirement to submit a response to the LGC if there are Financial Performance Indicators of Concern Financial performance Indicators of Concern or if the audited financial statements included one or more significant deficiencies, material weaknesses, other findings

New requirement under North Carolina Administrative Code for governing bodies to:

- Submit a response to the LGC if there are Financial Performance Indicators of Concern Financial performance Indicators of Concern or if the audited financial statements included one or more significant deficiencies, material weaknesses, other findings



Identifying Financial Concerns

Reporting Financial Performance Indicators to the Governing Body

Under [20 NCAC 03 .0502](#), the auditor must present the audited financial statements to the 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 LGC.



Identifying Financial Concerns

Reporting Financial Performance Indicators to the Governing Body

The auditor's presentation to the governing body or audit committee must include:

- (A) the description of each finding, including all material weaknesses and significant deficiencies and any other issues related to the internal controls or fiscal health of the unit;
- (B) the status of the prior year audit findings;



Identifying Financial Concerns

Reporting Financial Performance Indicators to the Governing Body

(C) the values of Financial Performance Indicators based on information presented in the audited financial statements; and

(D) notification to the governing body that the governing body shall develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters," if Financial performance Indicators of Concern are identified or if the audited financial statements included one or more significant deficiencies, material weaknesses, other findings.

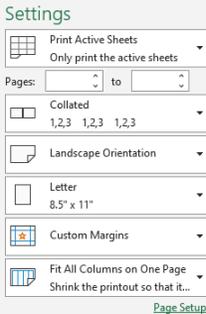


Identifying Financial Concerns

Reporting Financial Performance Indicators to the Governing Body

To obtain “(C) the values of Financial Performance Indicators based on information presented in the audited financial statements,” simply print the “Financial Indicators to Print” tab for easy presentation to the governing body

Print



PERFORMANCE INDICATORS OF CONCERN																							
<p>The self-reported information from your unit's audit report was used to generate the following trends and performance indicators. We have created this Performance Indicator Tab to make these indicators available to auditors and local governments when your audit is conducted. If any unit's results are shaded red then the unit must submit a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters" within 90 days from the auditor's board presentation. The response must address all performance indicators shaded in red.</p>																							
Performance Indicator Worksheet		Explanation of Performance Indicator																					
Unit Name:	Jacksonville	Fiscal Year 2021																					
Unit Number:	50193																						
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		FALSE	<p>Fund balance available for appropriation is an important reserve for local governments to provide cash flow during periods of declining revenues and to be used for emergencies and unforeseen expenditures. The information to the left indicates the amount of available cash on hand. You will also see the average for units of your size. Note that 8.33% represents enough fund balance to cover one month of expenditures. Normally, a unit has to either increase revenues or decrease expenditures to increase fund balance available.</p> <p>This calculation looks at fund balance available plus debt service fund balance (if applicable) less Powell Bill. This number is then divided by the total of total expenditures plus transfers out less bond proceeds.</p>																				



Identifying Financial Concerns

Response by the Governing Body

If a governing board is notified by its auditor that either:

- Financial performance Indicators of Concern were identified
or
- The audited financial statements included one or more significant deficiencies, material weaknesses, other findings

Then the governing body must develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters"



Identifying Financial Concerns

Response by the Governing Body

Under [20 NCAC 03 .0508](#), if a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters" is required, it must:

- Be signed by a majority of the members of the governing body
- Be submitted to the LGC within 60 days of the auditor's presentation
- Address each significant deficiency, material weakness and other audit finding
- Provide a plan to address each Financial Performance Indicator of Concern

Use the link above to read the full text of the rule in North Carolina Administrative Code and for the specific requirements of the governing body's response



Identifying Financial Concerns

Response by the Governing Body

LGC staff is developing a webpage to provide information and guidance regarding governing body responses.

The webpage will provide links to resources, sample response text, and other guidance that will be helpful to governing bodies in developing and submitting their responses.

Availability of the webpage will be announced via the [LGC Staff Blog](#). Please be sure to visit the blog and sign up to receive alerts whenever new information is posted.



Summary of Changes to the Audit Process for 2021

- 1) Audit reports, data input workbooks, and auditor communications will be submitted using the new LGC File Transfer Portal.
- 2) LGC Staff will no longer issue unit letters.
- 3) Financial concerns will be identified through Financial Performance Indicators, which auditors must report to the governing body.
- 4) If Financial Performance Indicators of Concern are identified, governing bodies must submit a response to the LGC.



For More Information

Contact us at (919) 814-4300 or SLGFD@nctreasurer.com

Visit the LGC website at [NC Treasurer: Local Government Commission](#)

Browse our blog and sign up for alerts at [NC Treasurer: The Balance Sheet](#)

Refer to [North Carolina Administrative Code](#) for the LGC and these specific rules: [20 NCAC 03 .0502](#) and [20 NCAC 03 .0508](#)

