



## Presentation to Joint Subcommittee on Local Government Fiscal Stress

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# Objectives

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- Overview of current fiscal stress activity
  - Results from first year (2016)
  - Refinements to the Model for 2017
- How to address fiscal stress in smaller localities (< 3,500 population)
- Update on Petersburg
  - 2018 performance follow up by Robert Bobb

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# **OVERVIEW OF CURRENT FISCAL STRESS ACTIVITY**

# Locality Submissions

CAFRs	Filed by 11/30	Filed by 2/1	Filed after 2/1
2017	114	38	17
2016	85	64	20
2015	40	86 <sup>a</sup>	45 <sup>a</sup>

Transmittals	Filed by 11/30	Filed by 2/1	Filed after 2/1
2017	156	9	4
2016	150	15	4
2015	150	15	6

\* Hopewell and Manassas Park still have not submitted for 2016 and 2017.

<sup>a</sup> 78 localities submitted a “draft” CAFR by 11/30/15. Effective starting with the 2016 reporting, the APA only accepts submission of the final audited CAFR.

# Localities Identified for Follow Up Last Year

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- Based on CAFR ratios and trends
  - Cities of Bristol and Richmond
  - Counties of Giles, Northumberland, Page, and Richmond
- Based on no CAFR available
  - City of Hopewell
  - City of Manassas Park

## Results of Follow Up

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- Stressed it was more important to finalize 2017 (and prior) CAFRs than to respond to our questionnaire
- One locality declined to participate - Page
- For four localities, the process indicated they did not currently need Commonwealth assistance
  - City of Richmond, Counties of Giles, Northumberland and Richmond

## Results of Follow-up, continued

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- For Bristol, we sent a letter to the Governor, Secretary of Finance, and the Chairs of HAC and SFC recommending Commonwealth assistance
  - Issues specific to operational sustainability and long-term debt of its solid waste disposal fund
  - Debt and future revenues related to The Falls commercial development project

## Updates to Model using 2017 Data

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- No longer using overall “FAM score” percentage from prior Financial Assessment Model (FAM) as the threshold used to determine need for additional follow up with a locality
- No longer applying the FAM ranking or comparison methodology when evaluating localities’ financial ratio results

# Updates to Model using 2017 Data, continued

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- Focus of new methodology
  - Individually analyze each locality's ratio results
  - Assign quantifiable evaluation using a points-based scale based on performance results of each ratio
  - Weighted points allocated for each ratio based on
    - Common industry/professional benchmarks
    - APA's professional judgment after review of ratios
  - Higher number of points will indicate locality showing weak/undesirable performance in ratios
  - Set threshold of total sum of ratio points to direct further analysis using demographic and qualitative factors

## Updates to Model using 2017 Data, continued

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- Account for how locality issues debt on behalf of its school system to finance school owned capital assets
- Re-examined prior financial ratios, and added new ratios (total of 12 ratios in updated model)
- Include assessment of demographic, qualitative, and other external factors
  - Unemployment rate, poverty rate, and population growth or decline
  - Commission on Local Government's fiscal stress rankings on locality revenue capacity and effort

## Updated Ratios—Governmental Activities and Business Type Activity Funds Government Wide Statements

Unrestricted reserves net of current liabilities compared to normal revenues

- Measures ability to make up revenue shortfalls

Unrestricted reserves compared to current liabilities

- Measures ability to pay current liabilities without need for additional revenue

Unrestricted net position compared to total expenses

- Measures ability to fund expenses in event of revenue shortfall

Change in net position

- Measures how financial position has improved or deteriorated as a result of resource flow

Total Debt vs. Total Valuation

- Measures total outstanding tax supported debt as a percentage of total tax valuation of real estate and personal property

Business Type/Enterprise Activity self-sufficiency

- Measures whether enterprise funds are self supporting, recovering full costs through charges for services or other revenues

## Updated Ratios—General Fund Balance Sheet/Income Statement

Unassigned plus other  
“available” fund balance  
reserves compared to total  
expenditures

- Measures ability to fund expenditures from reserves in event of a revenue shortfall

Total fund balance compared  
to total revenues

- Measures sufficiency of reserves relative to revenue in the event of unforeseen event or revenue shortfall

Total revenues compared to  
total expenditures

- Measures whether annual revenues were sufficient to pay for operations

Debt service principle and  
interest compared to total  
revenues

- Identifies the percent of the budget that is used or needed for repayment of debt

Change in unassigned fund  
balance

- Measures whether fund balance has increased or declined from the prior year

Intergovernmental revenues  
compared to total operating  
revenues

- Measures reliance on state and federal revenues

# Components of New Model for Early Warning System

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# Qualitative Measure for Identifying Preliminary Determination

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## Follow Up Review Needed

- Complete assessment questionnaire
- Engage in further discussions

## No Follow Up Needed

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# **LOCALITIES WITH POPULATIONS UNDER 3,500**

## Audit Provisions

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- Code of Virginia § 15.2-2511 *Audit of local government records* only requires audits of towns having a population of 3,500 or greater or towns with a separate school division regardless of population
  - Of 191 towns, 38 required to report to APA
  - Of remaining, based on VML survey from several years ago, 102 receive an annual audit
  - Another 15 told us they have an audit in our survey

## Concerns – Fiscal Stress

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- News reports about fiscal stress of small towns
  - Difficulty in paying off lines of credit
  - Requests submitted to our office by town officials and citizens to do audits due to concerns about lack of funds
  - Towns in arrears on debt related to water/wastewater systems
  - Towns in arrears for bills received from water/wastewater authority

## Concerns - Irregularities

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- News reports about irregularities in small towns
  - Amounts for payments presented to town council for approval differed from the amount of the actual check that was cashed
  - Town manager applying for and receiving credit cards in the town's name, using it for personal cash advances and purchases
  - Towns where audits were begun and CPA pulled out due to irregularities that were found
  - Towns where citizens contact APA requesting an audit because of suspected irregularities

## Audit Alternatives - Review

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- Town accounting personnel prepare financial statements
- CPA performs inquiries and analytical procedures to identify unusual matters
- Negative assurance in the report – the CPA asserts they are not aware of any material modifications necessary for GAAP

## Audit Alternatives - Compilation

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- CPA gains an understanding of the town's transactions, accounting records, and qualifications of the accounting personnel
- CPA assists in preparation of the financial statements or schedules
- Report states explicitly that an audit was not performed and an opinion is not expressed

## Audit Alternatives – Regulatory Audit

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- Summary statement of regulatory basis receipts, expenditures, and cash balances with an auditor's report
- Would require APA or other state entity to establish the requirements for the regulatory basis
  - Show compliance with the cash basis and budget laws of the Commonwealth
  - Could include budget to actual schedules for the funds with budgets

## Audit Alternatives – Agreed-Upon Procedures

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- CPA performs certain procedures set forth by APA
  - Procedures could cover cash receipts, cash disbursements, payroll, comparison with prior year, review of bank reconciliations, and compliance with key Code of Virginia statutes (ex. Security for Public Deposits Act)
- CPA follows standards for attestation engagements

## Audit Alternatives – Other Considerations

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- Consider the frequency of the audit/or other review - biennial instead of annual
- Require town to submit its approved budget to APA annually
- Require town to submit self prepared budget vs. actual to APA annually
- Use dollar thresholds instead of population
  - Several states use \$250,000 of disbursements
  - Ohio allows AUP if disbursements under \$5 million and a limited review if under \$100,000
- Use lower population threshold
  - At least one state uses 2,500 as the cutoff

## Suggested Actions

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- Mandate Submission of All Audits
  - For towns that receive an annual audit, require that they submit it to the APA
    - Post to APA website for transparency for citizens
    - APA would use the information in additional analysis
  - For towns that do not receive an annual audit, require that they submit their annual approved budget to APA

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# UPDATE ON CITY OF PETERSBURG

# The Robert Bobb Group (RBG) Performance Review

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- April 2018 review of the City's financial and operational restructuring activities since the RBG's departure from the City, focused on:
  - City-wide Operational Issues
    - Personnel changes; major changes proposed in FY18 budget
  - Finance and Budget
    - Implementation and monitoring of FY18 budget to actual
    - Balancing of proposed FY19 budget
    - Assess level of school funding and capital improvement plan
    - Corrective action for audit findings
  - Billing and Collections
    - Improvements to collection activities and utility billing processes

# The Robert Bobb Group (RBG) Performance Review

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- Positive improvements noted:
  - Key management positions filled and Finance Department fully staffed
  - FY18 budget analysis and multiple reviews performed and presented to City Council
  - Development of operating and financial procedures
  - Timely completion and submission of FY17 CAFR
  - Implementing sound financial Accounts Payable practices
  - City is current in its contributions to the VRS
  - FY19 proposed budget balanced and moving in the right direction

# The Robert Bobb Group (RBG) Performance Review

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- RBG identified areas of significant risks that management should immediately address:
  - No periodic cash flow review
  - FY18 approved budget had significant overspending during the transition and one time revenues not put toward fund balance reserves
  - FY19 proposed budget did not develop a capital improvement plan with the operating budget, as Council's adopted policy requires
  - Lack of plan to address the Utility Fund's significant capital needs and financial impact related to VRA bond covenants and repayment of bonds

# The Robert Bobb Group (RBG) Performance Review

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- Areas of significant risks continued:
  - Continued concerns and risks with Billings and Collections activity (i.e.: taxes and utility billings)
  - Transition audit for former City Treasurer and new Collector of Taxes was not completed by external audit firm due to lack of follow up from City
  - Treasurer's Office not depositing customer payments in a timely fashion and significant risk and liability with how cash is handled by the City
  - City leadership had not placed significance on addressing the high priority items from RBG's final report and recommendations

# APA Local Government Contact Information

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# Questions

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