



## Presentation to House Appropriations Committee

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# **CURRENT REQUIREMENTS**

## Annual Financial Statement Audits

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- Code of Virginia § 15.2-2511. Audit of local government records, etc.; Auditor of Public Accounts; audit of shortages
  - Requires annual audit of localities in accordance with Specifications written by APA
  - Requires localities to contract for an annual audit no later than April 1 of each fiscal year
  - Requires presentation of audit results by the CPA firm to the local governing body at a public session no later than December 31

## Comparative Report

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- Code of Virginia § 15.2-2510. Comparative report of local government revenues and expenditures
  - Annual filing required by November 30:
    - Locality's audited financial statements
    - Comparative report transmittal forms
  - If not filed, APA has authority to do the audit or hire a CPA firm (to be paid by the locality) to do the audit
  - APA annually publishes Comparative Report by January 31

## Commonwealth Data Point

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- Pursuant to Code of Virginia § 30-133 H. 1. the APA maintains Commonwealth Data Point on our website located at <http://datapoint.apa.virginia.gov/>
  - Includes local government revenue and expenditure data extracted from the Comparative Report
    - Both general government and enterprise activities
  - Includes a comparison tool so the user can compare two localities for a selected fiscal year

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# POTENTIAL FUTURE REQUIREMENTS

## Example Monitoring Processes Used in Other States

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- Locality Prepared Ratios
- State Maintained Benchmarking Tools
- State Fiscal Stress Monitoring System
  - ACT FAST
- Financial Assessment Model (FAM) Scoring
  - FAM Example
- State Oversight Commission
- Independent Fiscal Administrator
- Emergency Manager

## Locality Prepared Ratios

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- State provides a Fiscal Health Ratio template and a guide to understanding and using the ratios
- Localities responsible for performing the calculations and monitoring their own fiscal health

## State Maintained Benchmarking Tools

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- Allows local governments to benchmark key statistics against their peers using data taken from the localities' audited financial statements
- Database is maintained at the state level including the calculation of key ratios
- In some states, local officials and the public can pull reports to see trends and comparisons between localities

# State Fiscal Stress Monitoring System

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- Uses information that local governments already submit or report – no new reporting requirements
- Indicators are assigned points and then weighted to arrive at a composite score
- Locality graded based on the composite score
  - Significant, Moderate, Susceptible, No Designation (did not meet threshold for stress indicators)
- Dashboard maintained at state level
- Self-assessment tool available that locality can use for planning/projections

# ACT FAST - Avoid Crisis Tomorrow with Fiscal Awareness Strategies for Today

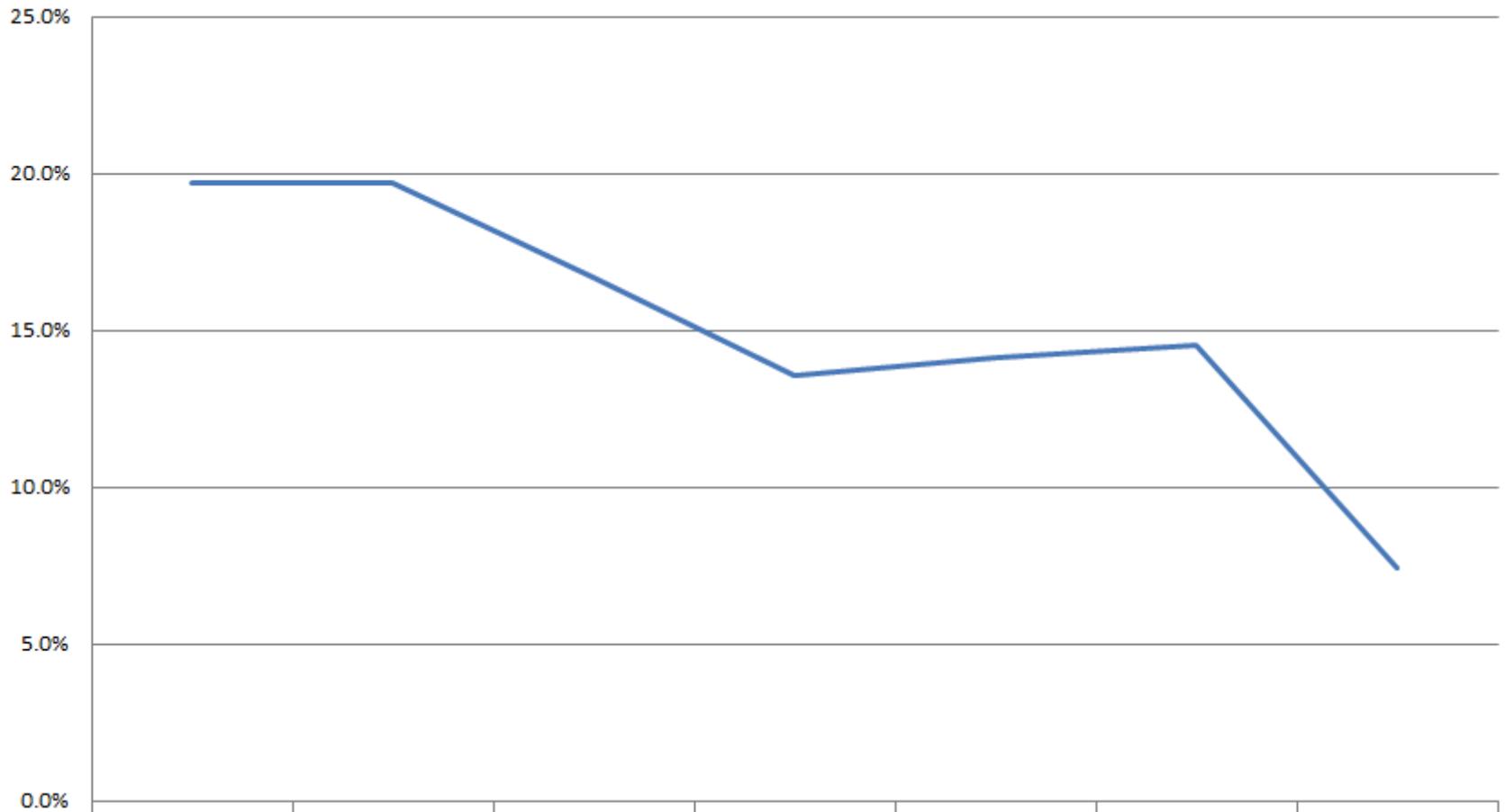
		Fiscal Scores <sup>?</sup>				
County <sup>↕</sup>	Stress Designation <sup>↕</sup>	Current Year <sup>↕</sup>	1 Year Prior <sup>↕</sup>	2 Years Prior <sup>↕</sup>	Environmental Score <sup>?</sup> <sup>↕</sup>	Region <sup>↕</sup>
<input type="text"/>	<input type="text" value="v"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text" value="v"/>
Herkimer	No Designation	<a href="#">6.7%</a>	<a href="#">15.0%</a>	<a href="#">28.3%</a>	6.7%	Mohawk Valley
Jefferson	No Designation	<a href="#">12.5%</a>	<a href="#">12.5%</a>	<a href="#">17.5%</a>	31.7%	North Country
Onondaga	No Designation	<a href="#">18.3%</a>	<a href="#">21.7%</a>	<a href="#">15.0%</a>	0.0%	Central New York
Suffolk	No Designation	<a href="#">40.8%</a>	<a href="#">55.8%</a>	<a href="#">59.2%</a>	15%	Long Island
Rockland	No Designation	<a href="#">18.8%</a>	<a href="#">34.6%</a>	<a href="#">41.3%</a>	20%	Mid-Hudson
Nassau	Susceptible	<a href="#">26.7%</a>	<a href="#">18.3%</a>	<a href="#">8.3%</a>	30.0%	Long Island
Monroe	No Designation	<a href="#">6.7%</a>	<a href="#">6.7%</a>	<a href="#">13.3%</a>	0.0%	Finger Lakes
Suffolk	Susceptible	<a href="#">31.7%</a>	<a href="#">43.3%</a>	<a href="#">56.7%</a>	43.3%	Long Island
Erie	Significant	<a href="#">73.3%</a>	<a href="#">71.7%</a>	<a href="#">73.3%</a>	0.0%	Western New York
Cattaraugus	No Designation	<a href="#">6.7%</a>	<a href="#">6.7%</a>	<a href="#">0.0%</a>	20.0%	Western New York
Herkimer	Not filed	-	-	-	-	Mohawk Valley
Nassau	No Designation	<a href="#">0.0%</a>	<a href="#">0.0%</a>	<a href="#">0.0%</a>	60.0%	Long Island

## Financial Assessment Model (FAM) Scoring

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- Locality's auditor submits data from the financial statements
- State Auditor's Office calculates 10 ratios
- State Auditor's Office ranks each locality's performance by ratio and converts into percentile rankings
- State Auditor's Office uses average of the percentile rankings to determine the FAM score
- Use FAM score to determine need for fiscal administrator (slide 15)

## Petersburg, Va. - FAM Scores



	2009	2010	2011	2012	2013	2014	2015
FAM Score	19.7%	19.7%	16.7%	13.5%	14.1%	14.5%	7.4%

# State Oversight Commission

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- 9 member commission – treasurer, auditor, finance secretary, secretary of state, 1 delegate, 1 senator, 3 governor appointed
  - Locality must seek approval before it can borrow money
  - Commission is responsible for issuing debt on the locality's behalf
  - Staff regulates annual financial reporting:
    - Oversight of the annual audits
    - Monitoring fiscal health of local governments
    - Offering broad assistance in financial administration

## Independent Fiscal Administrator

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- State auditor, attorney general, and state treasurer have authority to meet to review the financial stability of the locality
- By unanimous decision can require the attorney general to appoint a fiscal administrator
- All costs associated with the independent fiscal administration are borne by the locality

## Emergency Manager

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- Governor may appoint an emergency manager to address a financial emergency within a local government
- Emergency manager acts for and in the place and stead of the governing body and the chief administrative officer of the local government
- Salary of emergency manager paid by the state

## Examples of Ratios Used

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- **Liquidity** measures a government's ability to meet its short-term obligations
- **Solvency** measures a government's ability to meet long-term obligations
- **Leverage** measures the extent to which total assets are financed with long-term debt
- **Capital** is the condition of capital assets as defined by their remaining useful life

## Examples of Ratios Used (continued)

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- **Service obligation** measures whether or not a government's annual revenues were sufficient to pay for annual operations
- **Dependency** measures the extent to which a government relies on other governments for resources
- **Financing obligation** addresses service flexibility or the amount of expenditures committed to annual debt service

## Examples of Ratios Used (continued)

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- **Interperiod Equity** addresses whether or not a government lived within its financial means during the fiscal year
- **Financial Performance** shows how much a government's financial position improved or deteriorated as a result of resource flow
- **Self-sufficiency** addresses the extent to which charges for services covered total expenses

## Examples of Ratios Used (continued)

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- **Tax Revenue per Capita** shows the relationship between population growth and tax revenue growth
- **Expenditures per Capita** indicates changes in spending in comparison to changes in population

## Approaches to Consider

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- Build off of the information already reported to APA annually
- APA create a dashboard as part of Commonwealth Data Point to highlight key indicators by locality and to benchmark to other Commonwealth localities
- Include information about material weaknesses and significant deficiencies identified during audits in the dashboard
- APA prepare annual report of localities with ratios that indicate potential fiscal stress

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# QUESTIONS