

Response to Local Fiscal Stress



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Current requirements

- Locality contracts for audit by April 1
- Locality submits audited CAFR and Comparative Report Transmittal form by November 30
- CPA firm presents audit to local governing body by December 31
- APA publishes Comparative Report of Local Government by January 31

FY 2016 – additional procedures

- APA calculates 10 ratios using information in the CAFR
- APA ranks each locality's performance by ratio and converts into percentile rankings
- APA uses average of the percentile rankings to determine a Financial Assessment Model (FAM) score
- APA use the FAM score to determine need for follow-up

Ratios Used – from Governmental Activities and Business Type Activities Funds Statements of Net Position and Net Activities

- Compare unrestricted reserves net of current liabilities to normal revenues - ability to make up revenue shortfalls
- Compare unrestricted reserves to current liabilities - ability to pay current liabilities without need for additional revenue
- Compare unrestricted reserves to total liabilities -ability to pay total liabilities without need for additional revenue
- Compare revenues plus unrestricted reserves to expenses plus liabilities – ability to meet future obligations
- Compare unrestricted net position to total expenses – ability to fund expenses in event of revenue shortfall
- Compare total assets to total liabilities – measures the degree to which the assets are being financed with debt

Ratios used – from General Fund Balance Sheet and Income Statement

- Compare liquid assets to total liabilities – ability to pay liabilities without needing additional revenues
- Compare total expenditures to total liabilities – measure how well locality is paying its general fund bills
- Compare unassigned fund balance to total expenditures – measures ability to fund expenditures from reserves in event of a revenue shortfall
- Compare total fund balance to total revenues – measures sufficiency of reserves relative to revenue

Grading Scale

- Ratios are accumulated for each locality and FAM score calculated
- Will build a database over time that will have several years worth of data
- Will set a cutoff point to perform follow up procedures
- In Louisiana, the FAM scale is:
 - Below 15% - critical
 - 15% - 30% - warning
 - 30% - 40% - caution

Notification to Locality

- For localities that have a FAM score that causes concern, notification letter sent to
 - Governing body
 - Management
- Explain the analytical process and the cause for concern
- Explain the follow up process that will be followed
- Explain potential assistance available

Follow up Questions to Localities – Budget Process

- Structurally balanced budget?
- Use of transfers between funds to balance budget?
- Frequent amendments to budget?
- Budget monitoring process
 - Periodic discussions by the governing body

Follow up Questions to Localities – Debt and Borrowing

- Delinquent with any debt service payments to Authorities?
- Compliance with debt covenants?
- Significant interfund borrowings between General fund and other funds?
 - If so, plans for repayment
- Any Tax or Revenue Anticipation Notes?
 - If so, sufficiency of revenues to repay
- Other short-term financing during the year?

Follow up Questions to Localities – Expenses and Payables

- Any payments in arrears to vendors or Authorities?
- Age of payables – prompt pay being met?
 - Discussion of age of payables with governing body?
- Delinquent in paying wages or payroll taxes?
- Delinquent in paying VRS, worker's compensation or health care premiums?

Follow up Questions to Localities – Revenue and Receivables

- Major one-time revenue items
- Any difficulties in collecting receivables?
- Age of accounts receivable, monitoring process
 - Discussion of delinquencies with governing body?
- Any significant revenue shortfalls?
 - Plans by governing body to address

Follow up Questions to Localities – Other Areas

- Vacancies in key positions?
- New systems or technology issues?
- Timely annual audit?
- Audit results
 - Unmodified opinion?
 - Material weaknesses or significant deficiencies?
 - Other matters in a management letter?
 - Emphasis of a matter paragraph/ Going Concern related to potential fiscal stress?

APA actions

- Dashboard on website with fiscal stress scoring
- Summary report of localities experiencing fiscal stress

QUESTIONS