



Virginia Resources Authority

2019 Governor's Infrastructure Financing Conference

---

Laurie Hicks and Rachel Reamy

Auditor of Public Accounts

# Who We Are – Laurie Hicks, Audit Director

---

- Local Government and Judicial Systems Audit Director
- Oversee audits of local courts and constitutional officers and tasks related to APA oversight and monitoring of Virginia's local governments
- B. S. in Accounting and Criminal Justice
- CPA and CFE
- Over 18 years of experience



# Who We Are – Rachel Reamy, Audit Manager

---

- Local Government and Judicial Systems specialty team
- Local Government Manager, primarily responsible for tasks related to APA oversight and monitoring of Virginia's local governments
- Started with the APA in 2008, left in 2011, returned in 2013
- B. S. in Accounting and Criminal Justice – Old Dominion University, and Masters of Accountancy – Liberty University
- Certified Government Financial Manager (CGFM)



# Outline of Today's Discussion

---

- General Overview of APA Oversight for Local Governments
  - Code of Virginia reporting requirements
  - Comparative Report on Local Government
  - Uniform Financial Reporting Manual
  - Annual Audit Specifications
  - Other Governmental Entities
  - Local Quality Control Reviews
- Local Fiscal Distress Analysis and Monitoring Process

---

# **GENERAL OVERSIGHT FOR LOCAL GOVERNMENTS**

# Locality Reporting Requirements

---

- Code of Virginia § 15.2-2510 and § 15.2-2511
- Cities, Counties, and Towns having a separate school system or over 3,500 population
- Locality contracts with a CPA firm for audit by April 1
- Locality submits audited annual financial report (CAFR) and Comparative Report Transmittal data to APA by November 30
- New requirement from HB1866 for locality to publish a statement if audit is delayed (effective July 1, 2019)
- CPA firm presents audit to local governing body by December 31 and local officials sends notarized statement to APA that this was done

# Comparative Report of Local Government Revenues and Expenditures

---

- § 15.2-2510 requires APA to publish Comparative Report of Local Government by January 31
- Present uniform financial data on Virginia counties, cities, and towns in understandable and useful manner
- Currently only reliable and consistent source of data/information about local governments
- Reporting structure based on Uniform Financial Reporting Manual
  - General Government, Capital Projects, Debt Service, and Enterprise Activity

# Uniform Financial Reporting Manual

---

- Includes required uniform chart of accounts for APA's comparative report process and transmittal preparation
- APA annually reviews the UFRM for any needed updates, such as changes in accounting standards or locality requirements
- Available on APA Local Government website page—Annual Guidelines, Manuals, and Other Procedural Documents

[http://www.apa.virginia.gov/APA\\_Reports/guidelines.aspx](http://www.apa.virginia.gov/APA_Reports/guidelines.aspx)

# Annual Audit Specifications

---

- *Specifications for Audits of Counties, Cities & Towns*
- *Specifications for Audits of Authorities, Boards, and Commissions*
- Designed to ensure the quality of governmental audits and compliance with material and significant state laws and regulations
- CPA firms must follow during annual audits of applicable localities and local entities

# APA Annual Quality Control Reviews

---

- Periodic quality control reviews of CPA firms auditing VA localities
- Chapter 4 of the *Specifications for Audits of Counties, Cities & Towns* describes this process
- Copy of the final review report is sent to the audit firm, applicable locality, the Board of Accountancy, and VSCPA
- Reports located on APA's website  
[www.apa.virginia.gov](http://www.apa.virginia.gov)> Local Government page> [Quality Control Review Reports](#)

# Other Governmental Entities

---

- Authorities, Boards, Commissions (ABCs) and other Political Subdivisions
  - Code of Virginia § 30-140
  - Audit and Oversight Provisions
  - Requirement to follow APA Audit Specifications and submit audit report to APA 90 days after fiscal year end
  - Now including audited financial reports submitted to APA on Local Government Reports website

---

# **OVERVIEW OF LOCAL FISCAL DISTRESS ANNUAL MONITORING**

# Background

---

- APA worked with the General Assembly to review locality requirements and determine how best to expand locality oversight to address fiscal stress indicators and implement a monitoring process
- New locality fiscal distress analysis and monitoring language created in 2017 budget session
- Requirements initially established under Chapter 836 of 2017 Acts of Assembly, § 4-8.03

# APA Requirements – Appropriation Act, § 4-8.03

## Identifying Potential Fiscal Distress

---

- Establish workgroup to develop criteria for a **preliminary determination** to identify potential fiscal distress
- Establish a prioritized early warning system
- APA to notify localities where we make a preliminary determination of fiscal distress for further review
- **Based on request of local governing body or CEO**, APA may conduct a review and request additional information to determine extent of fiscal distress, if any
- APA notifies the Governor and chairs of the money committees if we are of the opinion that state assistance, oversight or targeted intervention may be needed to assist a locality, based on results of our additional follow up

## Requirements – Appropriation Act, § 4-8.03 State Assistance, Oversight, or Intervention

---

- After receipt of notification by APA indicating fiscal distress in a particular locality, Governor's office consults with Chairmen of money committees to make the decision if state assistance, oversight, or intervention will be made prior to any expenditure of funds
- Develop a plan to specify the purpose of assistance
  - Further assess, help stabilize, or remediate the situation
  - Estimated duration, and anticipated resource needs (dollars and personnel)

# 2017 Local Fiscal Distress Monitoring Process

---

- During 2017 we used the Financial Assessment Model (FAM) to calculate 10 ratios using audited data from the localities' FY14-FY16 CAFRs
- Ratio model calculated an overall “FAM score” for each locality
- Used the FY16 FAM score results and qualitative factors to determine need for additional follow up with 8 localities

# Localities Identified for Follow Up in 2017

---

- Based on CAFR ratios and trends
  - Cities of Bristol and Richmond
  - Counties of Giles, Northumberland, Page, and Richmond
- Based on incomplete FY16 & FY17 CAFRs
  - City of Hopewell
  - City of Manassas Park

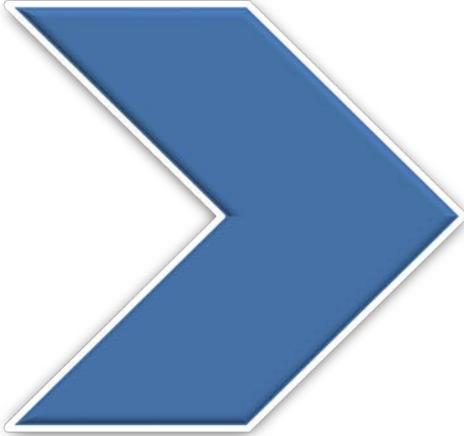
## Local Fiscal Distress – Follow Up Process

---

- Performed follow up through use of our Financial Assessment Questionnaire for localities that chose to respond
- Scheduled meetings with locality officials to discuss responses and additional information
- Made a determination of whether there is a need to report to the Governor and Chairs of the money committees that the locality needs assistance
- Letter sent to each locality to summarize the results of our follow up

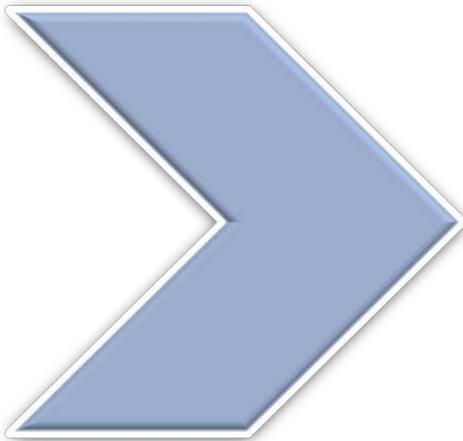
# Focus of Fiscal Distress versus Fiscal Health

---



## Fiscal Distress

- Generally based on cash flow and immediate short term issues
- Often evaluated using ratios focused on cash and fund balance/reserves



## Fiscal Health

- Based on long-term sustainability of a local government's finances and operations
- Measured in terms of assets; revenue and spending per capita; ability to provide services; and structural deficit or surplus

## 2017 Results of Follow Up

---

- Follow up review concluded 4 localities did not appear to be in a situation of fiscal distress that warrants further Commonwealth assistance
  - City of Richmond
  - Counties of Giles, Northumberland & Richmond
- One locality declined to participate – Page County
- Deferred follow up – Manassas Park and Hopewell
  - Stressed more important to finalize FY16 and FY17 CAFRs than to respond to our questionnaire

## 2017 Results of Follow Up – City of Bristol

---

- APA sent letter to the Governor, Secretary of Finance, and Chairs of money committees recommending Commonwealth assistance
- Primary issues identified in APA analysis and follow up discussions with Bristol
  - Issues specific to solid waste disposal fund
  - Debt and future revenues related to The Falls commercial development project
- State approved up to \$100K funding to reimburse costs for the City to hire outside consultants to address these issues

# 2018 Updates to Model

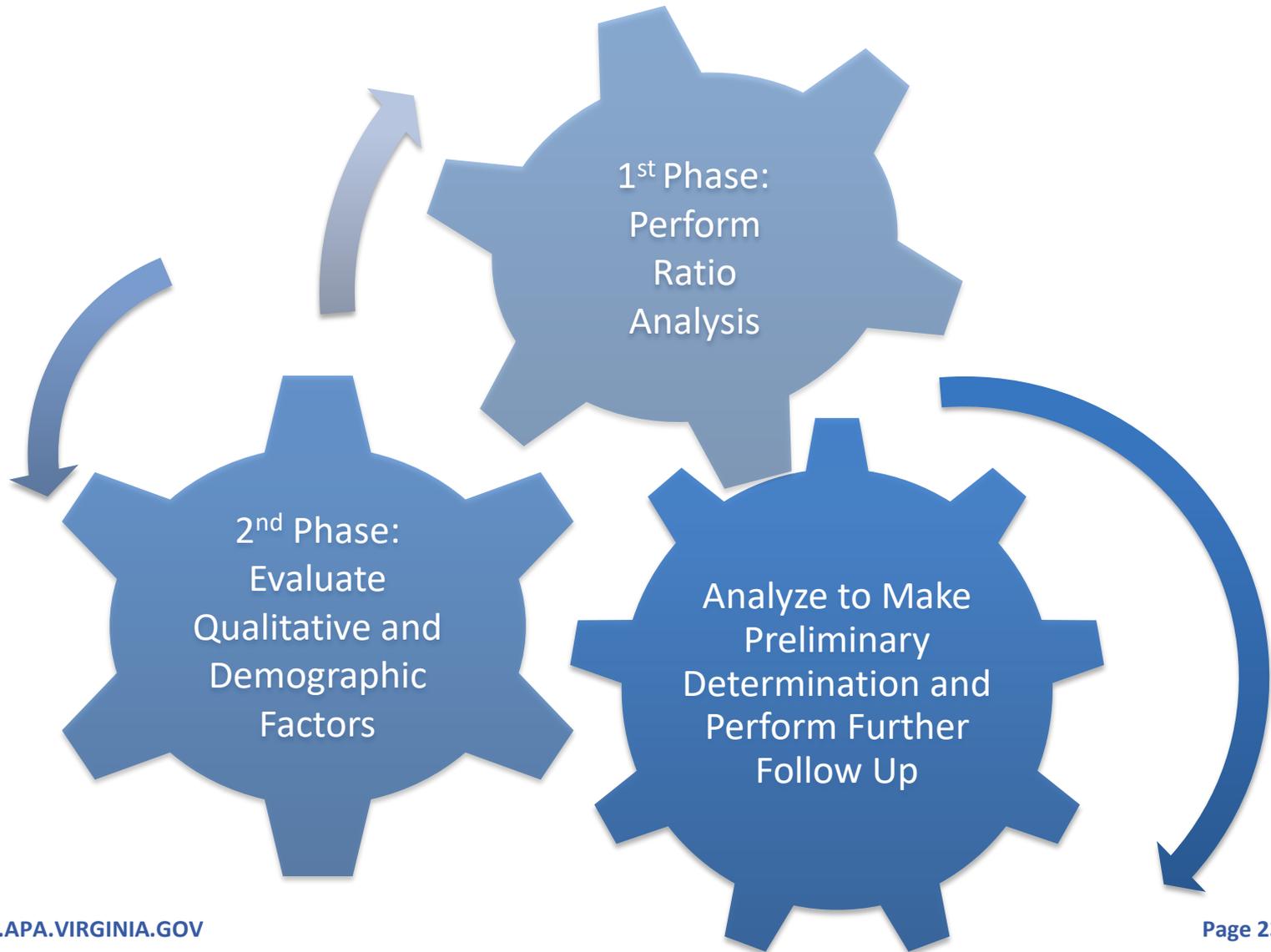
---

- 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
- Overview document summarizing 2018 updates is available on APA’s website

[http://www.apa.virginia.gov/data/download/local\\_government/guidelines/2018\\_APA\\_Fiscal\\_Distress\\_Model\\_Overview.pdf](http://www.apa.virginia.gov/data/download/local_government/guidelines/2018_APA_Fiscal_Distress_Model_Overview.pdf)

# Primary Components of Updated Fiscal Distress Monitoring Model

---



# 2018 Updates to Model, continued

---

- 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
  - Higher number of points indicates locality showing weak/undesirable performance in ratios
  - Threshold for total ratio points used to direct further analysis using demographic and qualitative factors

## 2018 Updates to Model, continued

---

- Account for how locality issues debt on behalf of its school system to finance school capital assets
- Re-examined prior financial ratios and added new ratios (12 ratios total in updated model)
- Model includes assessment phase of demographic, qualitative, and external factors
  - Unemployment rate, poverty rate, population growth or decline, etc.
  - Commission on Local Government's fiscal stress rankings on locality revenue capacity and effort
  - Virginia Department of Education RLE/RLM calculations

## 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

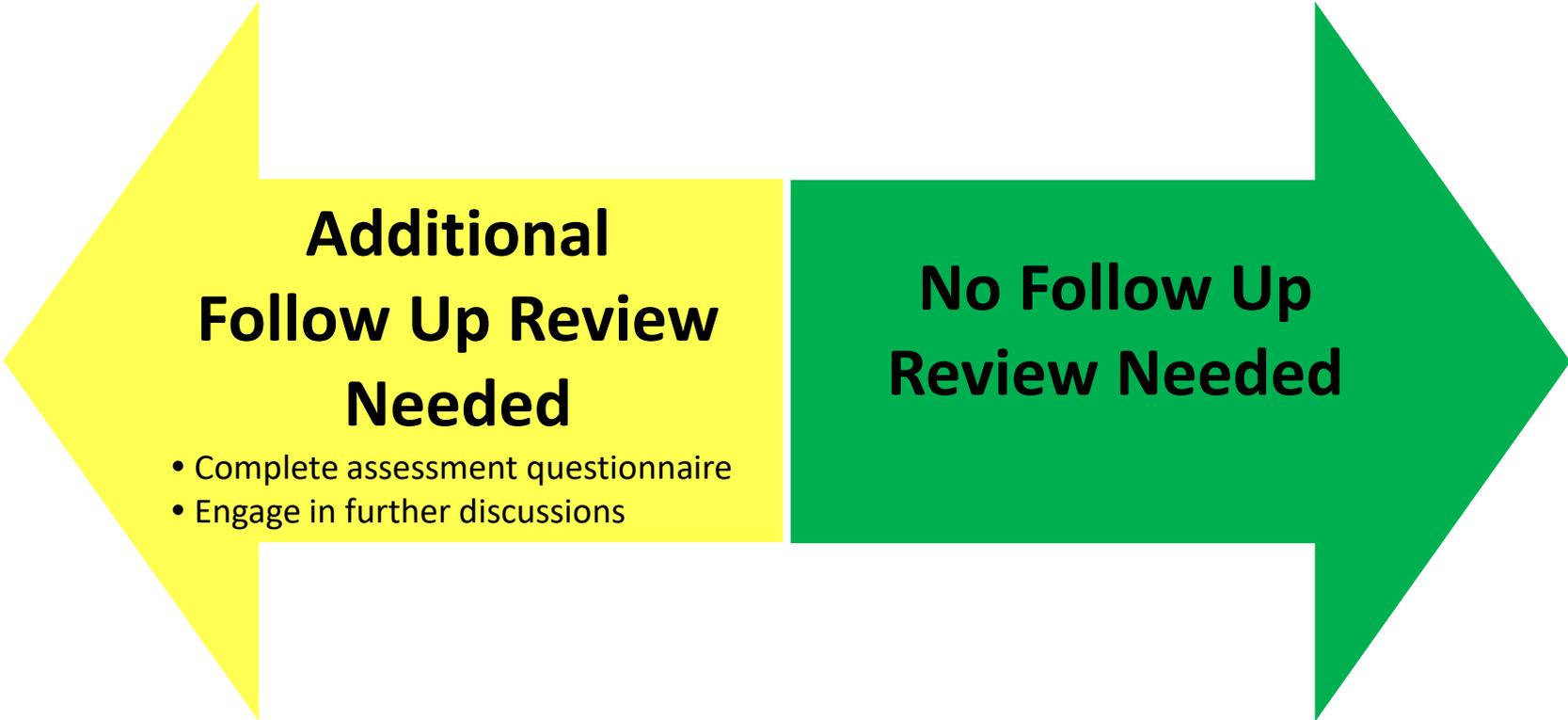
- Measures whether fund balance has increased or declined from the prior year

Intergovernmental revenues  
compared to total operating  
revenues

- Measures reliance on state and federal revenues

# Early Warning System Qualitative Measure for Making a Determination

---



**Additional  
Follow Up Review  
Needed**

- Complete assessment questionnaire
- Engage in further discussions

**No Follow Up  
Review Needed**

## Current Status of Monitoring Process

---

- Identified 14 localities in 2018 model based on FY2017 audited financial data and qualitative analysis
  - 4 Cities, 4 Counties, and 6 Towns
- Finalizing our review process over completed questionnaires and follow up discussions with identified localities
- Publish formal report to summarize updates to model and results of follow up with 14 localities

## Potential Future Updates to Monitoring Process

---

- 2019 legislative session (HB1866 and SB1312) amends Code § 15.2-2511
- Requires “Small Towns” (under population of 3,500) that voluntarily have an audit to submit the audit report to the APA
- Receipt of small town audits will assist APA’s review of town’s financial data and facilitate potential inclusion of small towns as part of the annual monitoring process

# Auditor of Public Accounts Website

Virginia.gov Online Services | Commonwealth Sites | Help | Governor Search Virginia.gov GO

 **APA** MARTHA S. MAVREDES, CPA  
AUDITOR OF PUBLIC ACCOUNTS  
COMMONWEALTH OF VIRGINIA

Search APA   Home Reports **Local Government** Careers Fraud Contact Us

**Local Government**

- › State Disbursement Reports
- › Comparative Reports
- › Comparative Report Transmittal Files
- › Annual Guidelines, Manuals, and Other Procedural Documents
- › Local Government Reports
- › APA Presentations
- › Pension and OPEB standards
- › Quality Control Review Reports
- › Local Government PPEA Documents



The APA prepares the annual Comparative Report of Local Government Revenues and Expenditures and oversees local government audits. To assist local governments and their independent auditors, we publish various manuals. These materials may be accessed by clicking on the links to your left.

Home | Reports | Local Government | Careers | Fraud | Contact Us | Employee Access  
©Auditor of Public Accounts, Commonwealth of Virginia

<http://www.apa.virginia.gov/Local Government.aspx>

# Stay In Touch With The APA

---

Laurie Hicks, Local Government & Judicial Systems  
Audit Director

[laurie.hicks@apa.virginia.gov](mailto:laurie.hicks@apa.virginia.gov)

Rachel Reamy, Local Government Manager

[rachel.reamy@apa.virginia.gov](mailto:rachel.reamy@apa.virginia.gov)

James Monroe Building  
101 N. 14<sup>th</sup> Street 8<sup>th</sup> Floor  
Richmond, VA 23219  
Phone: (804) 225-3350

 @Va\_APA



**ANY  
QUESTIONS?**