



Presentation to Senate Finance Committee

September 22, 2016

Martha S. Mavredes CPA

Auditor of Public Accounts

CURRENT REQUIREMENTS

Annual Financial Statement Audits

- 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

- 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

- 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

POTENTIAL FUTURE REQUIREMENTS

Example Monitoring Processes Used in Other States

- 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

- 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

- 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

- 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

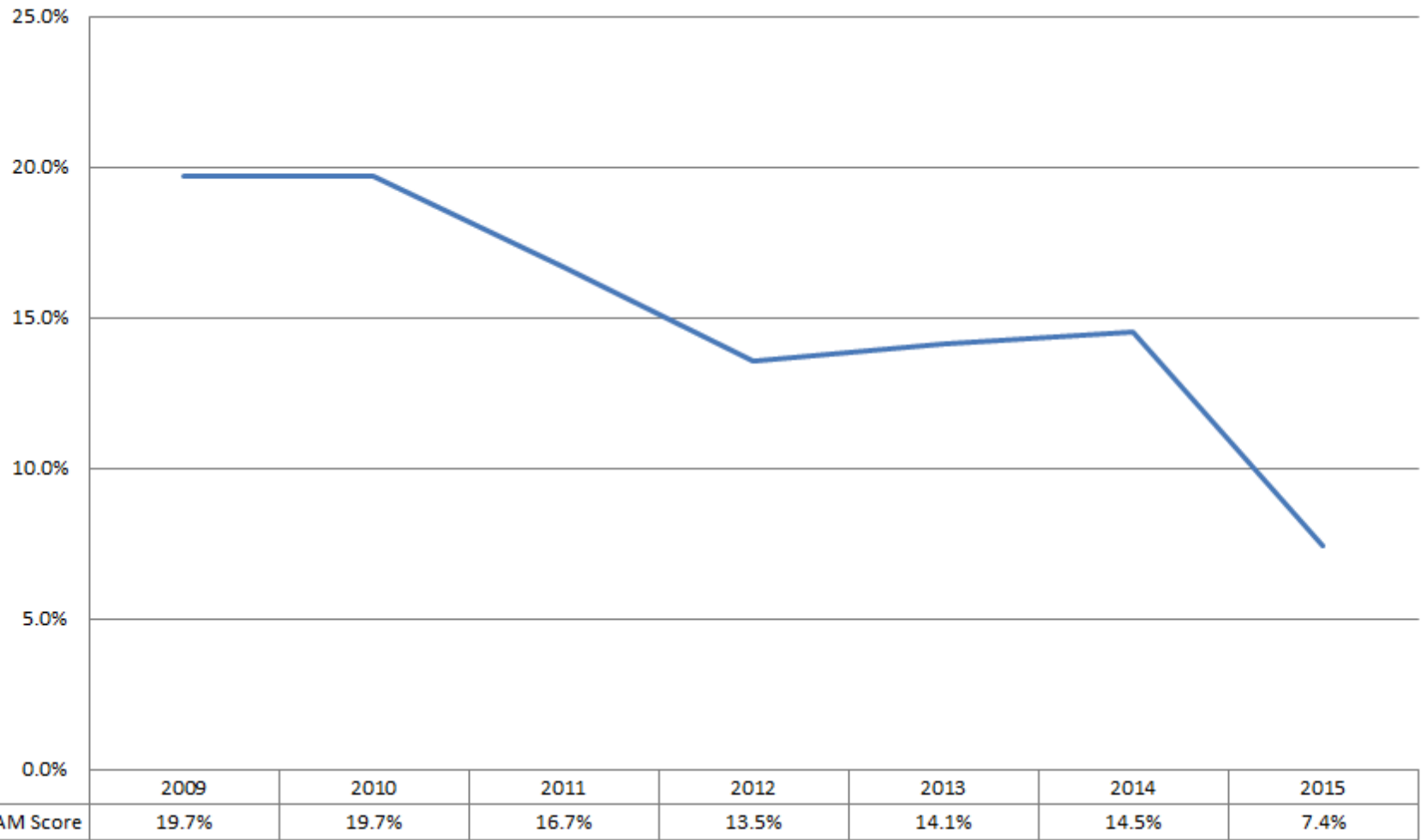
ACT FAST - Avoid Crisis Tomorrow with Fiscal Awareness Strategies for Today

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

Financial Assessment Model (FAM) Scoring

- 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



State Oversight Commission

- 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

- 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

- 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

- **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)

- **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)

- **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)

- **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

- 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

QUESTIONS