

Conference for Rhode Island Public Leaders
- Joint Presentation by the Office of the Auditor
General and the Division of Municipal Finance
January 4, 2019



Presentation Overview



- Highlights of the State's oversight role with municipalities
- Municipal Transparency Portal
- Financial reporting requirements
- Laws governing municipal deficits
- Laws governing school deficits
- Property Tax Cap Report
- Key data sources that are available to guide decision-making
- What to look for in your municipality's annual audit reporting
- Resources

Highlights of the State's oversight role with municipalities



Two state agencies have oversight responsibilities:

- Division of Municipal Finance – Department of Revenue
- Office of the Auditor General

Oversight areas include:

- Property Tax Levy and Property Tax Cap compliance
- Budget to actual reporting and monitoring
- Deficit reduction plans and monitoring
- Annual audit monitoring
 - Approval of auditor selection
 - Receipt and review of audit reports and related communications
- Municipal Transparency Portal submissions
- Pension and OPEB plan funding and contributions
- Technical assistance

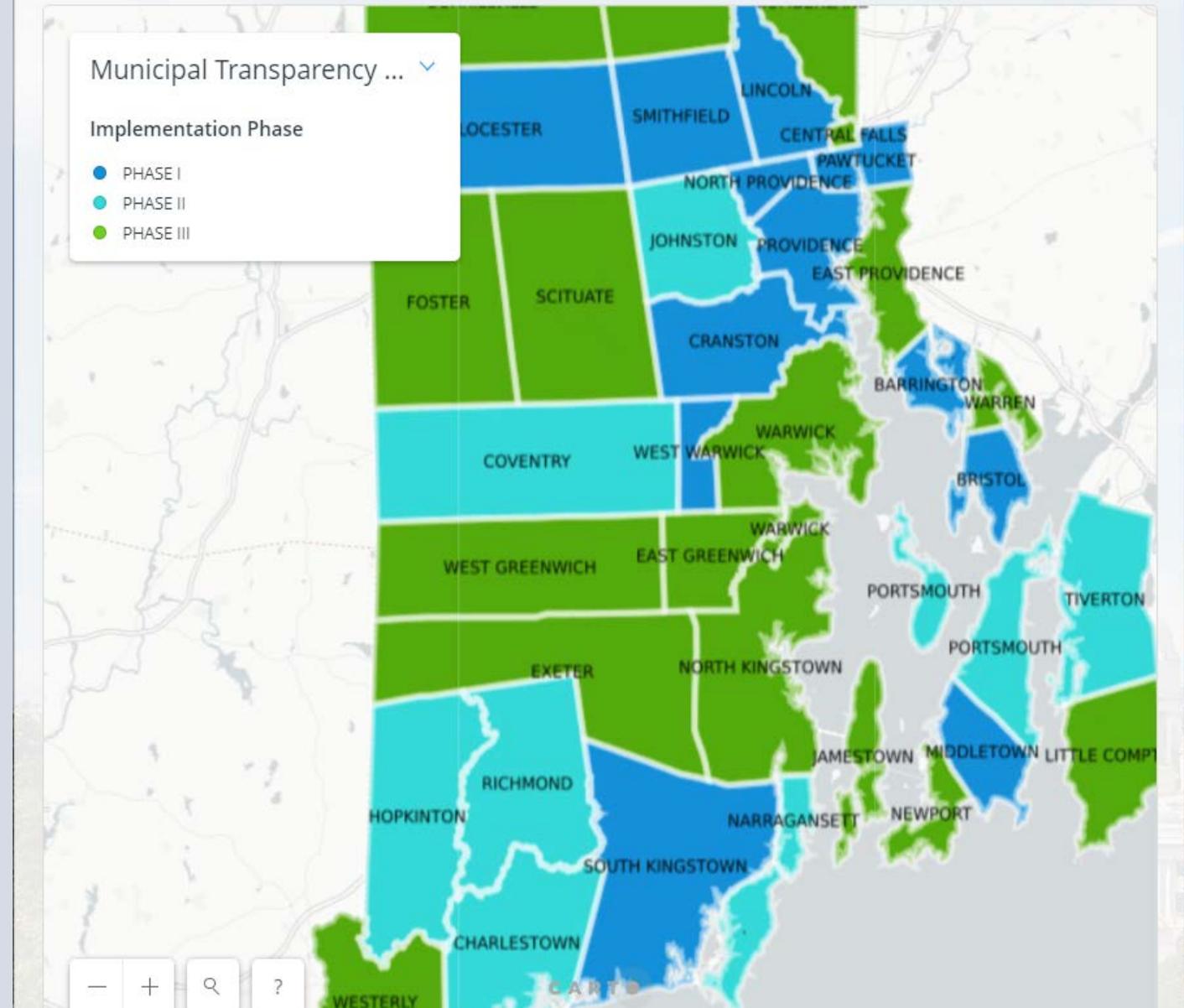
Municipal Transparency Portal



- Objectives:
 - Improve reporting and formats
 - Unify required financial reports
 - Streamline process
 - Meaningful comparisons
 - Central data location
 - Online availability

Municipal Transparency Portal Phase Map

Municipal Transparency Portal



Municipal Transparency Portal



Fiscal Year	Reports											
	Adopted budget survey (44-35-10(b))			5-year forecast (44-35-10(c))			Budget-to-actual (45-12-22.2(b))			Municipal Data Report (45-12-22.2(c))		
	Phase I	Phase II	Phase III	Phase I	Phase II	Phase III	Phase I	Phase II	Phase III	Phase I	Phase II	Phase III
2016	Old ¹	Old	Old	Old	Old	Old	Old	Old	Old	New²	Old	Old
2017	Old	Old	Old	Old	Old	Old	Old	Old	Old	New	New	Old
2018	New	Old	Old	New	Old	Old	New	Old	Old	New	New	New
2019	New	New	Old	New	New	Old	New	New	Old	New	New	New
2020	New	New	New	New	New	New	New	New	New	New	New	New

¹ "Old" format reporting is utilized by all municipalities until they are fully phased into the "new" format of reporting. The "old" format of reporting is only available in PDF and is not presented with a searchable dataset.

² "New" format of reporting utilizes the data collection form MTP-1 and data is available for all reports in both a pdf and a searchable dataset.

Financial Reporting Requirements



- Budget-to-Actual Reports, RIGL 45-12-22.2
 - Due 25th day after the end of each quarter
 - No reporting requirement for the first quarter
 - Available on the online Municipal Transparency Portal and the municipality's website
- Adopted Budget Survey, RIGL 44-35-10(b)
 - Due 30th day after the annual budget has been adopted
 - Available on the online Municipal Transparency Portal and the municipality's website
- Five-Year Forecast, RIGL 44-35-10(c)
 - Due within 30 days of final action
 - Available on the online Municipal Transparency Portal and the municipality's website
- Municipal Data Report, RIGL 45-12-22.2(c)
 - Part of the municipalities' annual audited financial statements
 - To ensure timely audit submission, Municipal Data Report to be submitted by November 30th for most municipalities
 - Available on the online Municipal Transparency Portal, municipality's website, and final audit for municipality



Occurrence of Deficits - Municipal

Projected Current Year Deficits

- ***Budget to Actual Report, RIGL 45-12-22.2 (e)***
 - If deficit occurs “on or before the last day of the month succeeding the close of the fiscal quarter in which budget-to-actual financial information is required”:
 - Prepared by CFO and submitted to DMF
 - Corrective Action Plan will be signed and submitted by CEO to DMF, OAG and RIDE, inclusive of legal opinion and does not exempt the municipality from following § 16-2-11
 - If Corrective Action Plan is found to be insufficient and/or fails to address the financial condition of the municipality, DMF can elect to pursue remedies outlined in § 45-12-22.7

Occurrence of Deficits - Municipal



Year End Deficits, RIGL 45-12-22.3 (a)

- If it is likely that deficit occurs at the end of any fiscal year, the municipality must notify OAG and DMF within 30 days of discovery
 - Once deficit is discovered OAG and DMF must be notified
 - Deficit Reduction Plan is prepared by the CFO and submitted to OAG
 - Plan to eliminate deficit amortized over no more than 5 years
 - Must be approved by OAG
 - If OAG finds deficit reduction plan insufficient, it can pursue remedies under § 45-12-22.7



Occurrence of Deficits - Schools

Projected Current Year Deficits

- **§ 16-2-9 (Powers of the School Committee)**
 - If projected current year deficit occurs, a written plan for corrective actions will be submitted in writing from the school committee to the town/city council and CEO within 5 working days of discovery outlining the shortfall.
 - Plan will also be submitted to DMF and OAG and approved by OAG
- **§ 16-2-11 (Powers of the School Superintendent)**
 - If projected current year deficit occurs, once known, a recommendation from the superintendent to the school committee and the shortfall report provided to the CEO with no approval required
- **§ 16-3-11 *Regional School Committees***
 - If deficit occurs, a written plan for corrective actions will be submitted in writing from the school committee to the town/city council and CEO within 5 working days of discovery outlining the shortfall.
 - Plan will also be submitted to DMF and OAG and approved by OAG

RI Property Tax Cap



- RIGL § 44-5-2 (Maximum Levy) provides for the statutory language governing calculation and reporting of the property tax cap
- Since FY2008 the tax cap maximum has steadily decreased by .25% per year to the current 4.00% maximum
 - FY2008: 5.25%
 - FY2009: 5.00%
 - FY2010: 4.75%
 - FY2011: 4.50%
 - FY2012: 4.25%
 - FY2013 – present 4.00%



RI Property Tax Cap Exemptions

- (1) The municipality forecasts or experiences a loss in total non-property tax revenue, which is certified by DOR
- (2) The municipality experiences or anticipates an emergency situation (certified by OAG), which causes the levy to exceed the cap. Examples include but are not limited to increases in:
 - health insurance costs
 - retirement contributions
 - utility costs
 - *These costs must exceed the previous fiscal year by a percentage greater than 3 times the percentage of the property tax cap*

RI Property Tax Cap Exemptions



- (3) The municipality forecasts or experiences an increase in debt service expenditures by an amount greater than a 4% increase as a result of bonded debt issued in a manner consistent with general law or a special act, which is certified by DOR
- (4) The municipality experiences a substantial growth in its tax base as a result of new construction which necessitates either significant infrastructure or school housing expenditures or a significant increase in the need for essential municipal services, which is certified by DOR
- Changes were enacted during the 2017 session
 - Motor vehicle levy no longer included for purposes of the levy cap calculation

Key data sources to guide decision-making



- *Budgets*

- Annual adopted operating budget
- Budget to actual comparison reports
 - Should be presented monthly to council or school committee
 - Submitted quarterly to the State
- Five-year budget projections (identify structural deficits)

- *Audits and related communications*

- Financial statements
- Independent Auditor's Report on the Financial Statements
- Internal Control and Compliance Findings
- "Single Audit" reporting on administration of federally funded programs
- Presentation to council or school committee at conclusion of audit

- *Data comparisons to other municipalities*

- Statewide data collection through Municipal Transparency Portal and UCOA (for school data)

- *Actuarial reports - pension and retiree health plans administered by the municipality*

Good budget development and monitoring practices



Budget preparation

- What activities are included/excluded from the budget?
- Is good comparative data available for prior periods to assess prior experience and trends?
- Are unusual increases/decreases sufficiently explained?
- Is the budget supported by spending down accumulated funds rather than revenues?
- Does the budget include sufficient resources to avoid deferred maintenance issues?
- Personnel costs (including benefits e.g., healthcare, pensions etc.) are typically the largest component of the budget – is there a personnel supplement that details salary and benefit costs by position?
- Does the budget include full funding of actuarially determined contributions to pension and retiree healthcare plans?

Budget monitoring

- Assess how the projections in budget to actual comparison reports are prepared
- Inquire when budget to actual comparison reports are not provided or available
- Review the budget to actual comparison schedule which is included in the annual audit report.



Resources for Data comparisons

- Municipal Transparency Portal (MTP) – all communities will have reported once the fiscal 2018 audits are complete
- Rhode Island Department of Education (RIDE) – Uniform Chart of Accounts Data (UCOA)
 - detailed financial data is collected from every school district and uploaded to RIDE and made available through a website to allow comparison among school districts
 - UCOA data is the base data used for the school portion of MTP

How to use your annual audit results



Quick overview of audit terminology:

- *GAAP – generally accepted accounting principles*
- *GASB – accounting standard setting body for governmental entities – defines GAAP*
- *“clean” or unmodified audit opinion*
- *Material weaknesses or significant deficiencies in internal control – required communications by the auditor of internal control issues*
- *Fund level financial statements vs. government-wide financial statements*
- *Management’s Discussion and Analysis – includes explanation of significant operating results and comparison to prior year*
- *Notes to the financial statements*

How to use your annual audit results



- Annual audits are required by state law and must meet certain requirements – qualifications of auditor and the presentation of the financial statements
- Required to be completed within 6 months of the fiscal year end
- Audit reports include important and relevant information but the volume and complexity of that information can be overwhelming
- However, the annual audit communications can be a very useful in providing independent information on financial condition and to prompt questions of management and the auditor

How to use your annual audit results



*Few will read the entire audit report – however, there is important information you can gather relatively quickly – **look at the** -*

- ***Independent Auditor's Report*** - “present fairly.... in accordance with GAAP” –
 - *Emphasis of matters par – the auditor is focusing attention – e.g., new accounting principle*
- ***Auditor's report on internal control and compliance*** – highlight internal control deficiencies and material noncompliance
- ***General fund statements*** – operating surplus or deficit for the year? – fund balance components – unassigned fund balance?

How to use your annual audit results



- Did the auditors issue a *management letter* which includes recommendations to enhance controls over improve financial reporting?
- If the *auditors make a presentation* to the council or school committee at the conclusion on the audit – ask what they think is significant/important etc. and potentially requires attention
- *Are required pension and OPEB contributions being made* - there are “required supplementary information” schedules included in the report that disclose the % of contributions actually made during the year

How to use your annual audit results



- Read management’s discussion and analysis –
provides a high level overview of significant operating results at both the fund level and government-wide level statements including summarized information on capital assets and debt management

Lastly – if you have questions you can reach out to us and we will help you identify the appropriate source of information if available.

Resources



- **Government Finance Officers Association (GFOA)**

gfoa.org

Series of publications for elected officials – good source of information on best practices and relevant guidance

- **Governmental Accounting Standards Board (GASB)**

gasb.org

Plain language articles can be helpful in understanding some of the newer standards particularly on pensions and OPEB accounting

DMF Website



The screenshot shows the top portion of the DMF website. On the left is the State of Rhode Island logo, featuring an anchor and the motto "HOPE". To its right, the text reads "State of Rhode Island", "Division of Municipal Finance", and "Department of Revenue". A search bar with a magnifying glass icon is located in the top right. Below the search bar is a blue button with a Wi-Fi icon and the text "RI JOBS". A dark blue navigation menu contains the following items: Home, Financial & Tax, Local Pensions & OPEB, State Aid, Contracts, Legislation, Resources, and About Us. Below the navigation menu is a white banner with three featured sections: "Municipal Audits" (with an image of a calculator and charts), "Directory of City & Town Officials" (with an image of the Rhode Island State House), and "Elderly Exemptions" (with an image of two elderly women).

www.municipalfinance.ri.gov

OAG website – oag.ri.gov



The screenshot shows the homepage of the Office of the Auditor General. At the top, there is a navigation bar with "RI.gov", "R.I. Government Agencies", "Privacy Policy", and a search box. Below this is a blue header with the "Auditor General" logo and the text "State of Rhode Island Office of the Auditor General". A left sidebar contains a menu of links: Home, Mission Statement, About The OAG, Audit Reports, Preparing For An Audit, Information For Municipalities, Muni-news, Information for Fire Districts, Quasi-Public Entity Audit Bid Specifications and Procedures, Access to Public Records, Quality Control/Peer Review, Training Opportunities and Registration, Directions, and Links. The main content area features a "Welcome to the Office of the Auditor General" heading, followed by a paragraph describing the OAG's role as the legislative audit agency. To the right of this text is a smaller version of the Auditor General logo and the motto: "Informing the public. Assisting agencies. Improving performance." Below the main text, it states "Site last updated 18 December 2018". The footer contains contact information: "33 Broad Street, Suite 201, Providence, Rhode Island 02903-4177", "Voice 401-222-2433 • Fax 401-222-2111 • Email ag@rioag.gov", "State of Rhode Island Web Site" with a small logo, and "Last modified 12/18/2018 11:57:12".

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