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**STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION**

SHARON EDMUNDSON
DEPUTY TREASURER

Memorandum #2023-04

TO: Independent Auditors, North Carolina Local Governments and Public Authorities, Interested Parties

FROM: Susan McCullen, Director, Fiscal Management Section

SUBJECT: How to Respond to Financial Performance Indicators of Concern (FPICs)

DATE: August 24, 2022

Changes in North Carolina Administrative Code, effective for all annual audits with fiscal year ends June 30, 2021 and later, require that:

- The auditor include, in the presentation to the governing board, the values of Financial Performance Indicators, and notification if any were identified as Financial performance Indicators of Concern (FPICs) requiring a response to the Secretary of the LGC ([20 NCAC 03 .0502](#)); and
- The unit of local government respond to the Secretary of the LGC within 60 days of the presentation to the governing board, with a plan for addressing each FPIC ([20 NCAC 03 .0508](#)).

LGC staff developed processes in 2021 to manage these new requirements, and we continue to build on those improvements. Information on the changes implemented in 2021 is available [here](#); information and resources on the audit process may be found [here](#) and includes information on FPICs and responses to the LGC. Sample responses are also provided.

If an application for the approval of debt is anticipated, the requirements and deadlines for receipt of the application, for the audited financial statements and for an acceptable FPIC response are found [here](#).

Some FPICs will be straightforward and relatively simple to correct. We expect units to address these FPICs immediately. Other FPICs may be complicated and difficult to correct. Regardless, we expect units to develop a plan with a specific timeline to resolve these FPICs.

A FPIC may be an amount or a ratio, such as a low Fund Balance Available or low Quick Ratio, or may be a "Yes" or "No" answer to a question, such as "Did your audit disclose as a finding any budget violations?" All FPICs require a response and are presented in red text and the cell is shaded in red. If the page is not printed in color, be sure to review the Financial Performance Indicators online and identify all items requiring a response.

Suggestions for a successful response include the following:

- The potential FPICs should be reviewed by the auditor with the County or Town Administrator or Manager and the Finance Officer sufficiently in advance of presentation to the governing board

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to ensure that any errors can be corrected before presentation. This initial review may prevent any misunderstandings of the policies and procedures of the unit and allow the unit's management to be better prepared at the governing board meeting.

- All FPICs identified should be addressed in the response – not just the easy ones. If it is unclear exactly what concern a particular FPIC describes, discuss it with the auditor well before presentation to the governing board. Understanding the condition the FPICs describes is the key both to identifying the proper action and to drafting a successful response.
- Responses deserve careful consideration but delaying the response and, more importantly, delaying the implementation of the corrective action required, means the problem is continuing for longer than necessary.
- If a unit can't completely correct the problem in the subsequent year, describe what improvements can be made and present the proposed timeline to implement the planned improvements. Describe any compensating controls established.
- FPICs that are repeated from a prior audit deserve special attention. The response should clearly describe the reasons that the concern has not been successfully eliminated; provide details on the progress made to date; and present an updated plan to address the concern.
- Response to FPICs must be on the letterhead of the unit and signed by a majority of the governing board and by both the manager and the finance officer. The response must be submitted within sixty (60) days of the auditors' presentation to the governing board. Earlier submission is encouraged.
- Do not mail or email responses. Response to the FPICs must be submitted to the LGC as an Adobe PDF file through the [FPIC Response portal](#), which can also be accessed by visiting the [LGC File Transfer Portal](#) and selecting the "[FPIC Response](#)" option at the top under "Audits".

If you have questions or comments on this memorandum, please contact a staff member of the State and Local Government Finance Division at 919-814-4300 or SLGFD@nctreasurer.com.