

North Carolina Office of the State Controller

Dr. Linda Combs

What's Happening Out There? June 5, 2019

Jerry E. Durham, CPA, CGFM, CFE

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Jerry E. Durham, CPA, CGFM, CFE

- Jerry is an Assistant Director for the State of Tennessee, Comptroller of the Treasury, Division of Local Government Audit. The division has statutory responsibility for audits of approximately 1600 local governments and related organizations in Tennessee. Many of these governments are subject to the Single Audit Act and OMB's Uniform Guidance.
- A 35-year veteran of the division, Jerry has served as an auditor, audit supervisor, training instructor, technical manager, and assistant director. Jerry is a Certified Public Accountant (CPA), Certified Government Financial Manager (CGFM), and a Certified Fraud Examiner (CFE). In his role as assistant director, he is responsible for developing professional compliance procedures and monitoring the division's quality performance under GASB, AICPA, OMB, and GAO accounting and auditing standards. Jerry also has responsibility for supervising the contract review process within the division. Most recently, Jerry assisted the division in implementing GASB Statements 67 and 68 and 74 and 75. In addition, Jerry teaches training classes for the Tennessee Department of Audit (Yellow Book and Audit Findings). Jerry has been selected as Department of Audit Instructor of the Year four times. Jerry was also awarded the AGA National Educator Award.
- Jerry has made training presentations for several other professional organizations including the Tennessee Society of Certified Public Accountants; Mississippi Society of Certified Public Accountants, Missouri Society of Certified Public Accountants, Alabama Society of Certified Public Accountants, Tennessee Government Finance Officers Association; National Association of State Auditors, Comptrollers and Treasurers; Association of Government Accountants; County Technical Assistance Service; Southeastern Intergovernmental Audit Forums; Nashville Chapter of the Association of Certified Fraud Examiners; and various county official's associations. Jerry currently serves on GFOA's CAAFR Committee, NASACT's Financial Management and Intergovernmental Affairs Committee, and NSAA's Audit Standards and Reporting Committee and Single Audit Committee. He has served the National State Auditors Association External Peer Review program as a reviewer, team leader, and concurring reviewer and serves on the Special Review Committee for GFOA's Certificate of Achievement for Excellence in Financial Reporting program. Jerry has also provided training for the New York City Comptroller's Office and state auditors and administrative offices in Arkansas, Idaho, Kentucky, Minnesota, Mississippi, North Dakota, Montana, West Virginia, and North Carolina. In addition to these duties, Jerry currently serves on the state's Interagency Cash Flow Committee which operates under the authority of the Tennessee State Funding Board.
- Jerry was a partner in the accounting firm of Crosthwaite Durham and Associates. He also served as controller for Rural Healthcare of America, Inc., and taught accounting as a member of the adjunct faculty for Columbia State Community College and Austin Peay State University.
- Jerry received his accounting degree from the University of Tennessee at Martin. He is a member of the American Institute of Certified Public Accountants (AICPA); the Association of Government Accountants (AGA) and the Nashville Chapter where he served as chair of the CGFM committee; the Government Finance Officer's Association (GFOA) and the Tennessee Government Finance Officers Association (TGFOA) where he serves as state liaison to the Board of Directors; the Association of Certified Fraud Examiners (ACFE) and the Nashville Chapter of ACFE. Jerry is also a graduate from the Tennessee Government Executive Institute (TGEI) which is a training program for government leaders through the University of Tennessee.
- Jerry is married and has three children and four grandchildren.

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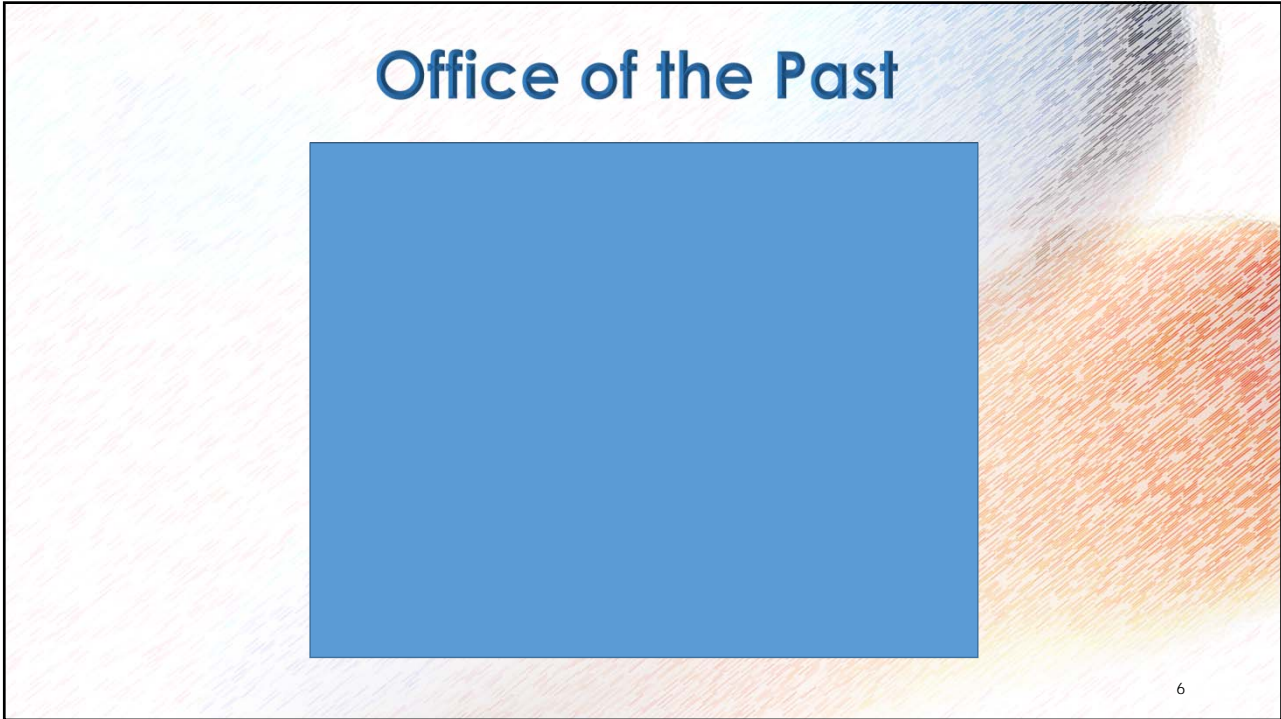
The Opinions expressed during this presentation are my own. They do not necessarily represent the views of the Tennessee Comptroller of the Treasury, his representatives, or the Tennessee Department of Audit.

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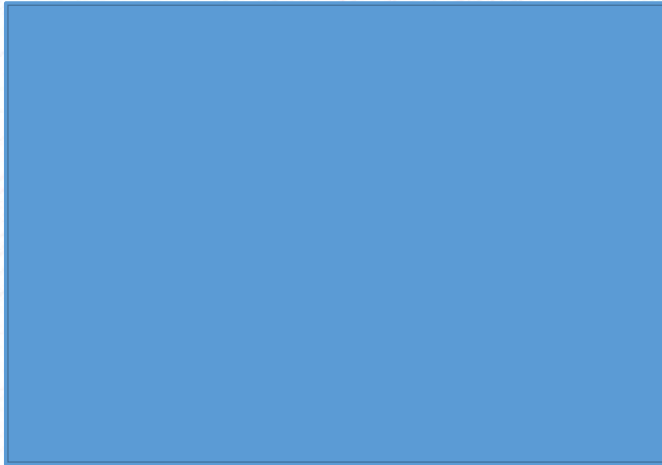


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Cyborg Employees Stockholm



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If Workers Slack Off, the Wristband Will Know. (And Amazon Has a Patent for It.)

By CEYLAN YEGINSU FEB. 1, 2018

LONDON — What if your employer made you wear a wristband that tracked your every move, and that even nudged you via vibrations when it judged that you were doing something wrong?

What if your supervisor could identify every time you paused to scratch or fidget, and for how long you took a bathroom break?

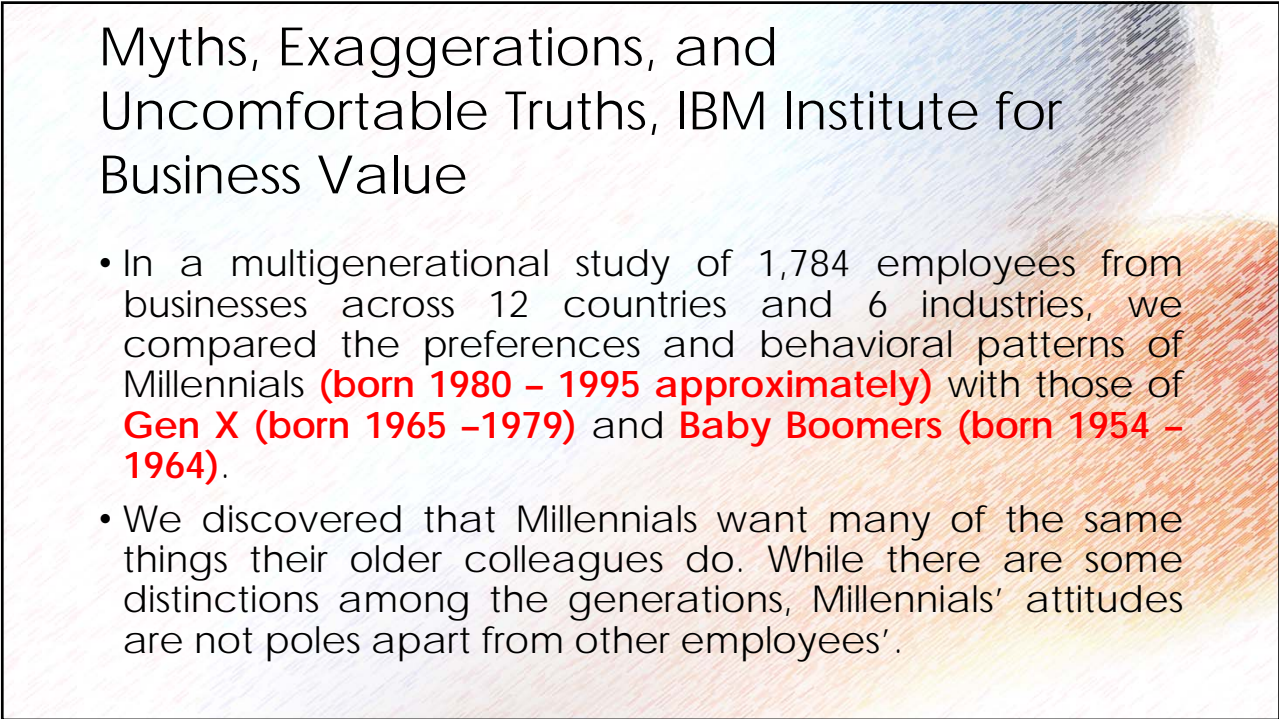
What may sound like dystopian fiction could become a reality for Amazon warehouse workers around the world. The company has won two patents for such a wristband, though it was unclear if Amazon planned to actually manufacture the tracking device and have employees wear it.

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Millennials

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Myths, Exaggerations, and Uncomfortable Truths, IBM Institute for Business Value




- In a multigenerational study of 1,784 employees from businesses across 12 countries and 6 industries, we compared the preferences and behavioral patterns of Millennials (**born 1980 – 1995 approximately**) with those of **Gen X (born 1965 –1979)** and **Baby Boomers (born 1954 – 1964)**.
- We discovered that Millennials want many of the same things their older colleagues do. While there are some distinctions among the generations, Millennials' attitudes are not poles apart from other employees'.

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Myth 1: Millennials' career goals and expectations are different from those of older generations.

Figure 1

Millennials place much the same weight on many of the same career goals as older employees do

Top career goals	 Millennials	 Gen X	 Baby Boomers
Make a positive impact on my organization	25%	21%	23%
Help solve social and/or environmental challenges	22%	20%	24%
Work with a diverse group of people	22%	22%	21%
Work for an organization among the best in my industry	21%	25%	23%
Do work I am passionate about	20%	21%	23%
Become an expert in my field	20%	20%	15%
Manage my work/life balance	18%	22%	21%
Become a senior leader	18%	18%	18%
Achieve financial security	17%	16%	18%
Start my own business	17%	12%	15%




Source: IBM Institute for Business Value Millennial Survey 2014, Millennials n=1,153, Gen X n=353, Baby Boomers n=278. Q15: Select the 2 long-term career goals that are most important to you.

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Myth 2: Millennials want constant acclaim and think everyone on the team should get a trophy.

Figure 3

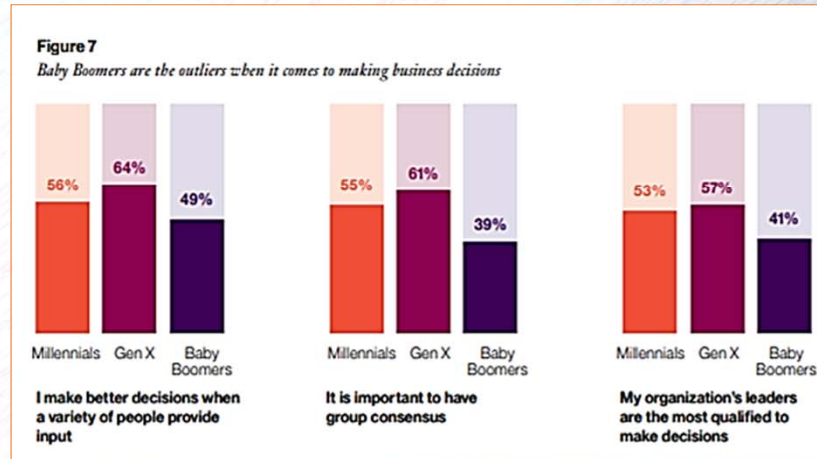
Millennials appreciate ethics and transparency above all other leadership traits

Attributes of the perfect boss	 Millennials	 Gen X	 Baby Boomers
Ethical and fair	35%	37%	35%
Transparent and readily shares information	35%	42%	27%
Dependable and consistent	32%	27%	35%
Is open to new ways of doing things	31%	36%	34%
Clearly defines goals and expectations	31%	42%	30%
Recognizes my accomplishments	29%	26%	23%
Provides hands-on guidance and feedback	29%	24%	28%
Is interested in my professional development	28%	23%	31%
Lets me work without much supervision	27%	21%	31%
Asks for my input	24%	23%	26%

Source: IBM Institute for Business Value Millennial Survey 2014, Millennials n=1,153, Gen X n=353, Baby Boomers n=278. Q19: What attributes would your perfect boss have? Rank your top 3 in order of importance, with 1 as the most important.

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Myth 4: Millennials, unlike their older colleagues, can't make a decision without first inviting everyone to weigh in.



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Burnout

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- Employee Burnout, Part 1: The 5 Main Causes
- Organizations are facing an employee burnout crisis. A recent Gallup study of nearly 7,500 full-time employees found that 23% of employees reported feeling burned out at work very often or always, while an additional 44% reported feeling burned out sometimes. That means about two-thirds of full-time workers experience burnout on the job.

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The Effects of Employee Burnout

Employees who say they very often or always experience burnout at work are:

63% more likely to take a sick day

Half as likely to discuss how to approach performance goals with their manager

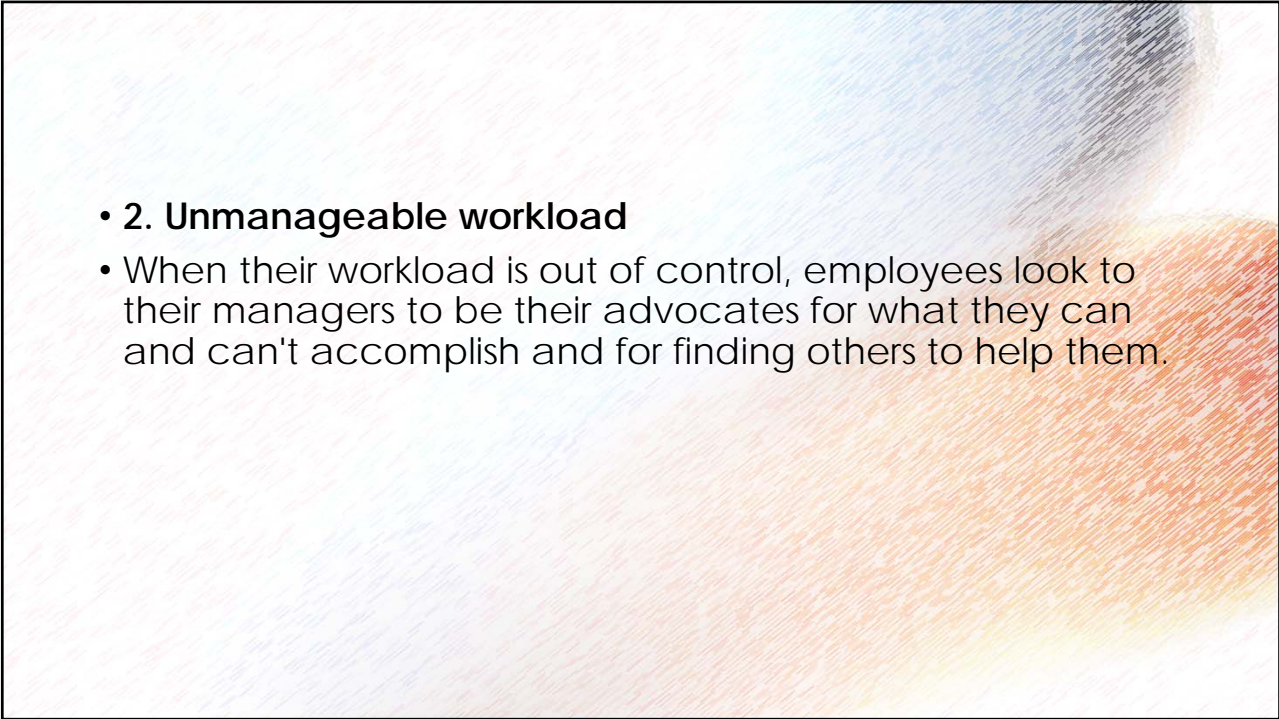
23% more likely to visit the emergency room

2.6 times as likely to leave their current employer

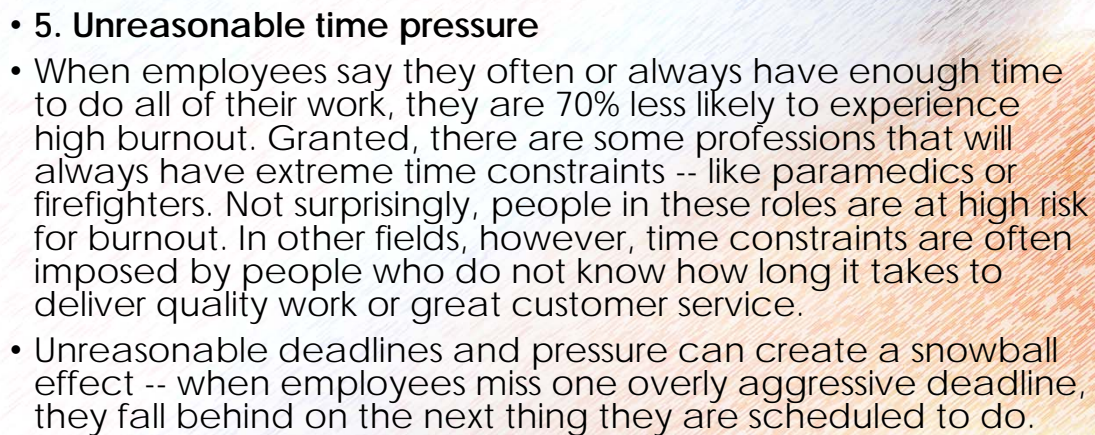
13% less confident in their performance

GALLUP

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- **2. Unmanageable workload**
 - When their workload is out of control, employees look to their managers to be their advocates for what they can and can't accomplish and for finding others to help them.

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- **5. Unreasonable time pressure**
 - When employees say they often or always have enough time to do all of their work, they are 70% less likely to experience high burnout. Granted, there are some professions that will always have extreme time constraints -- like paramedics or firefighters. Not surprisingly, people in these roles are at high risk for burnout. In other fields, however, time constraints are often imposed by people who do not know how long it takes to deliver quality work or great customer service.
 - Unreasonable deadlines and pressure can create a snowball effect -- when employees miss one overly aggressive deadline, they fall behind on the next thing they are scheduled to do.

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How long is your Workday?

Can a shorter workday work?

WORKPLACE 19 Apr 2018



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How long is your Workday?

The initiative was proposed by Jonathan Elliot, who was wondering how he was going to support his wife through cancer treatment and help with the care of his children, while also fulfilling his role as managing director of Collins SBA.

A book, *The Five Hour Workday*, by **Tower Paddle Boards** founder and CEO, Stephan Aarstol, had piqued his interest, as had accounts of Swedish companies introducing a **six-hour working day**. Elliot was already learning how much he could achieve in compressed hours, but could he make it work for the firm?

Elliot loved the idea of generating a mind-shift that would make people ask: is there a better way to do my work? At the same time, he says he knew that if staff output dropped as much as their time – 33 per cent – it would “blow up the

”

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How long is your Workday?

What are the rules of engagement?

- Start work anywhere between 8am and 9am, work five hours without a break, then if you have your work done, go home between 1pm and 2pm.
- Core hours are between 9am and 1pm when everyone is expected to be in the office, to allow communication and collaboration.
- Working five hours is the minimum requirement; use common sense to meet client needs.
- Treat the five-hour day as a reward, not a right.

“You can’t do a five-hour day unless you change your work habits, so at the beginning we had to be really strict about the rules, including start times, social chit-chat and breaks,” says Parsons.

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How long is your Workday?

The downsides of a shorter workday

The trial flushed out several challenges.

Five hours straight is an intense way of working that can leave staff mentally zapped. With no lunch until 1pm or later, hunger can be a problem, so the firm now supplies healthy snacks.

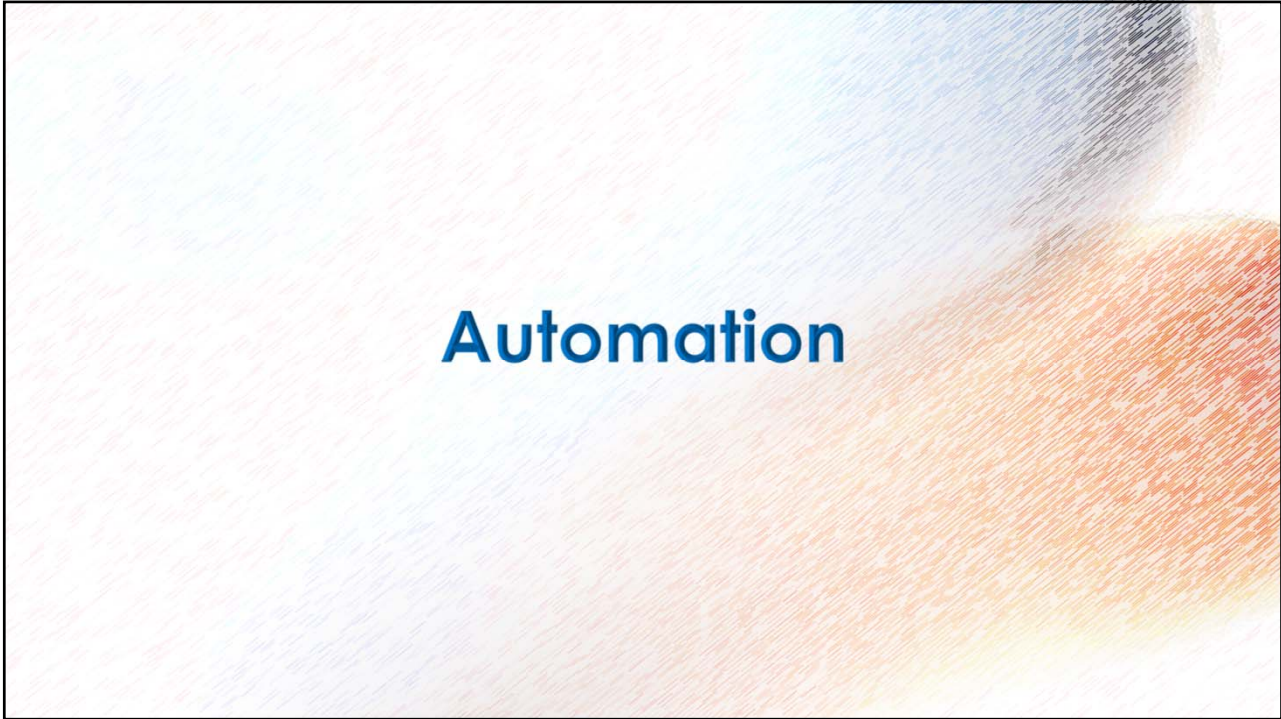
Stress levels increased for people who felt they had failed if they couldn’t complete work in five hours.

“We work with them to see if they can refine work practices, or if we need to adjust their workload,” says Parsons.

Others missed the social aspect of personal conversations at work. To compensate, everyone has to attend a regular social occasion every second month.

“It’s not perfect and it’s not for everyone, but in my 25 years of working, this is the most powerful workplace initiative I’ve ever been involved in,” says Parsons.

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Financial Management Magazine



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Financial Management Magazine

- Automation promises to bring efficiencies never seen before to the world's markets and industries.
- But it will also make entire professions a thing of the past, a displacement that will weigh heavily on future economies and governments.
- A recent [PwC report](#) on automation's effects on youth population, which is expected to be hardest hit by automation, **estimated that 30% of today's jobs will be gone by the 2030s.**
- Countries that stand to minimize the labor market effects of automation are those that are already gearing their youth towards highly skilled jobs and professions, according to the detailed PwC analysis.
- For countries with high levels of youth not in training, education, or employment (referred to as NEET in the report), the effects of automation could compound an already troubling situation **once robots begin serving fast-food customers and ringing up retail customers.**
- In the UK, an estimated 28% of jobs held primarily by younger workers (ages 16–24) are at risk of automation by the 2030s, according to the study.

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McDonald's Example

- Order:
 - By App
 - By Drive-through outside speaker box
 - By Kiosk inside the store
 - By speaking to a friendly and courteous real human person inside the store

- How long before a robot will be preparing your food and serving it to you?

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Robot Technology Post Script.....

- Bill Gates, says
 - "If a robot comes in to do the same thing, you'd think that we'd tax the robot at a similar level"

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CPE

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How the CPA continuing education game is changing

By Ken Tysiac

May 20, 2019 Journal of Accountancy

- A recent experiment with advisory services personnel of a top-20 CPA firm provided a glimpse of what continuing professional development might look like in the not-too-distant future.
- A course on complex problem-solving, managing change, and soft skills was delivered via virtual reality (VR). Instead of learning through a classroom lecture or a webcast, professionals wore VR headsets for a completely different educational experience.
- Clar Rosso, the executive vice president of Engagement & Learning Innovation for the Association of International Certified Professional Accountants, said the VR experience was well received by the learners, providing hope that CPAs will learn in a different way in the future.
- “While we haven’t figured out how to make VR learning experiences mainstream yet due to the large, somewhat pricey headsets, I believe in the next five years, VR experiences will be a mainstream CPD offering,” she said in an interview last week.

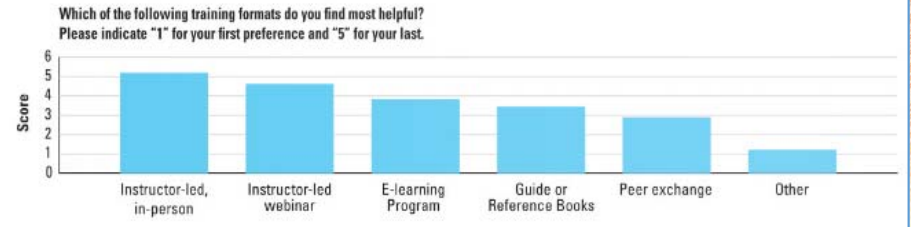
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AGA 2018 Uniform Guidance Survey

Survey Results

The majority of respondents (65 percent) said they would like to receive formal, in-person, instructor-led classroom training. The next most popular preferences include instructor-led webinars and e-learning. These findings concur with our workgroup's anecdotal experience, which shows the importance of peer exchange in formal classroom training and live interaction with subject matter expert instructors. The modality of such training is important as well. Classes often include role playing, which helps to imprint concepts being taught. **Figure 10** below provides respondent answers to the question about training format preferences.

Figure 10. Training Format Preferences



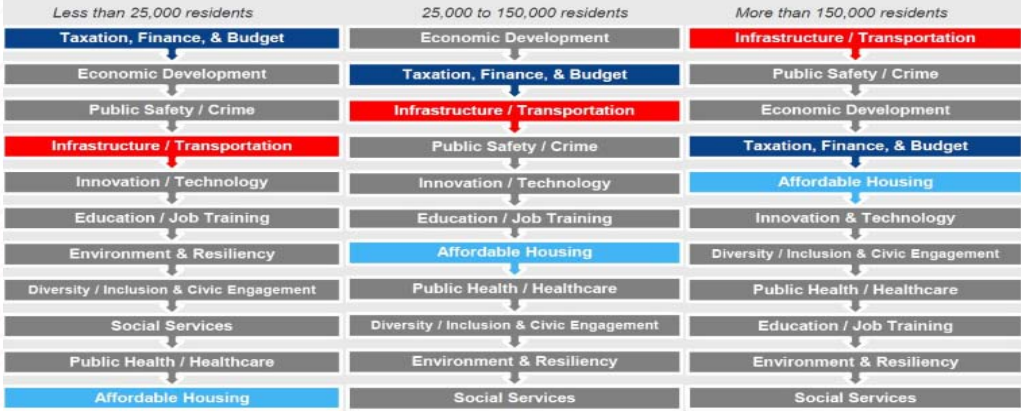
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Government Priorities

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Government Leader's Top Priorities

Which of the following represent the most and least important issues your city/county must prioritize to be successful in the future?

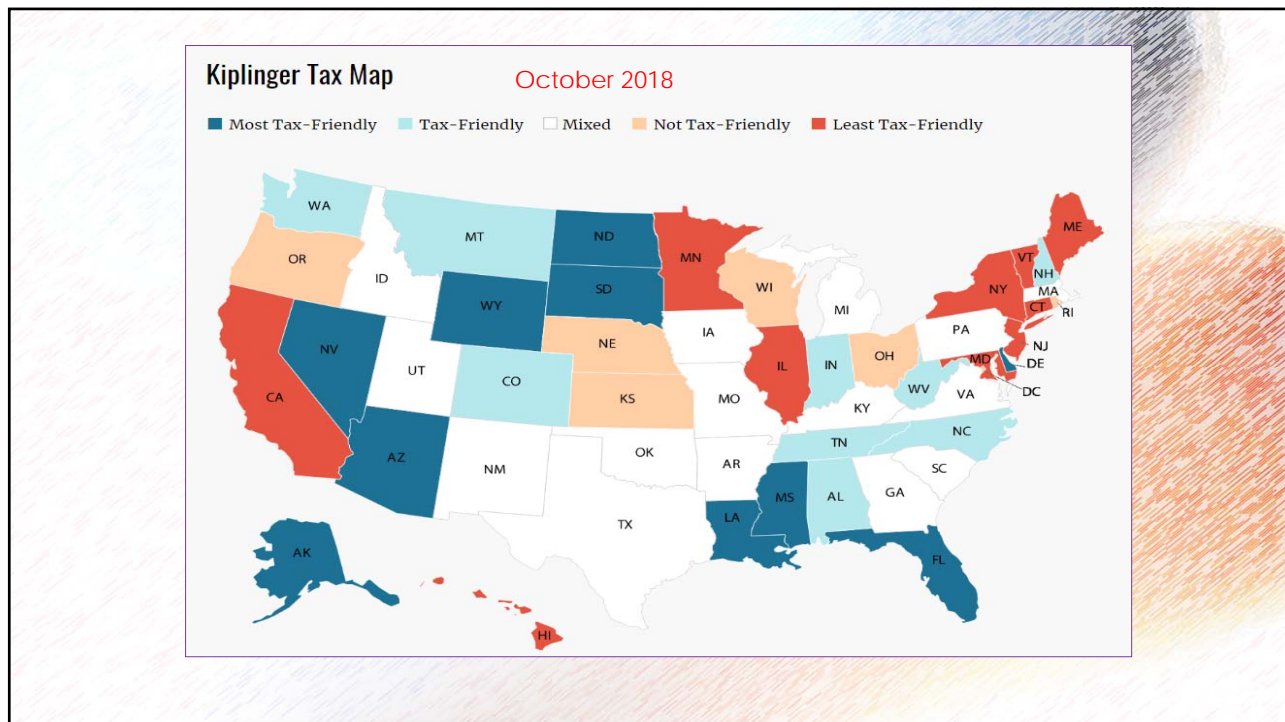


Response options listed in order of priority rank; top-listed option represents the most highly ranked issue and the bottom-listed option represents the least highly ranked issue; n=46 (Less than 25 residents), n=89 (25k to 150k residents), and n=45 (More than 150k residents)

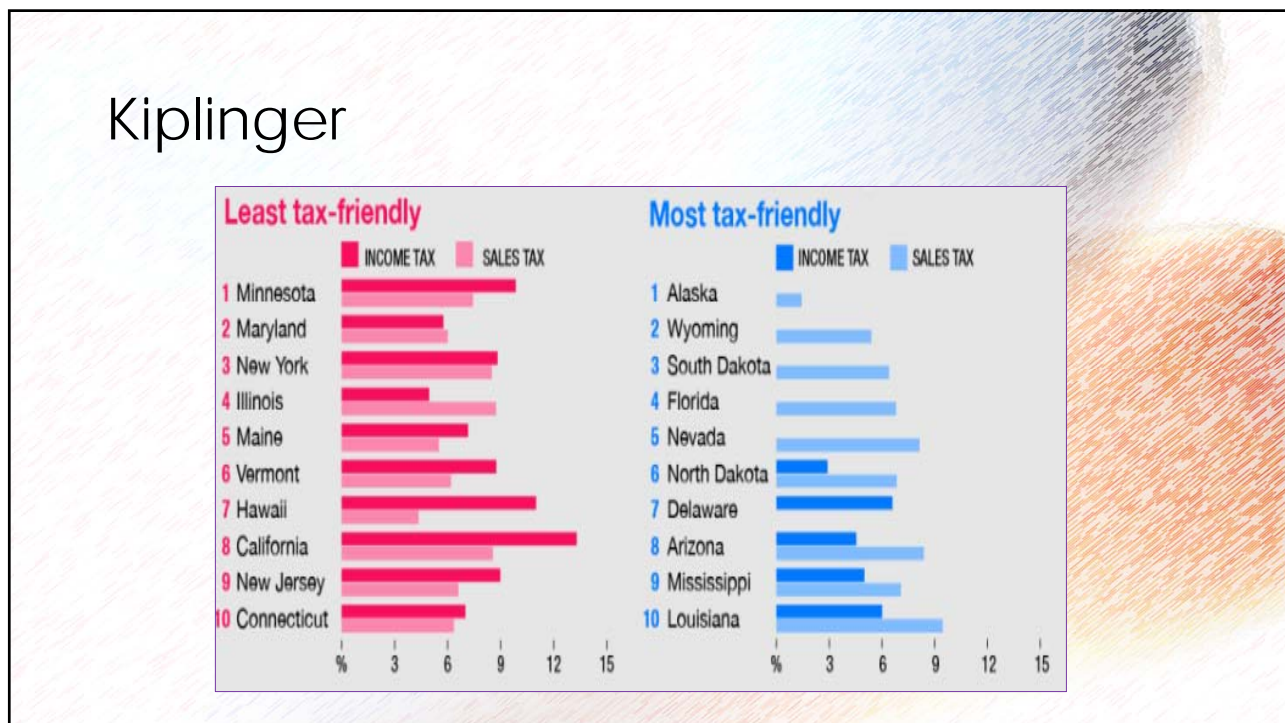
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Tax Friendly?

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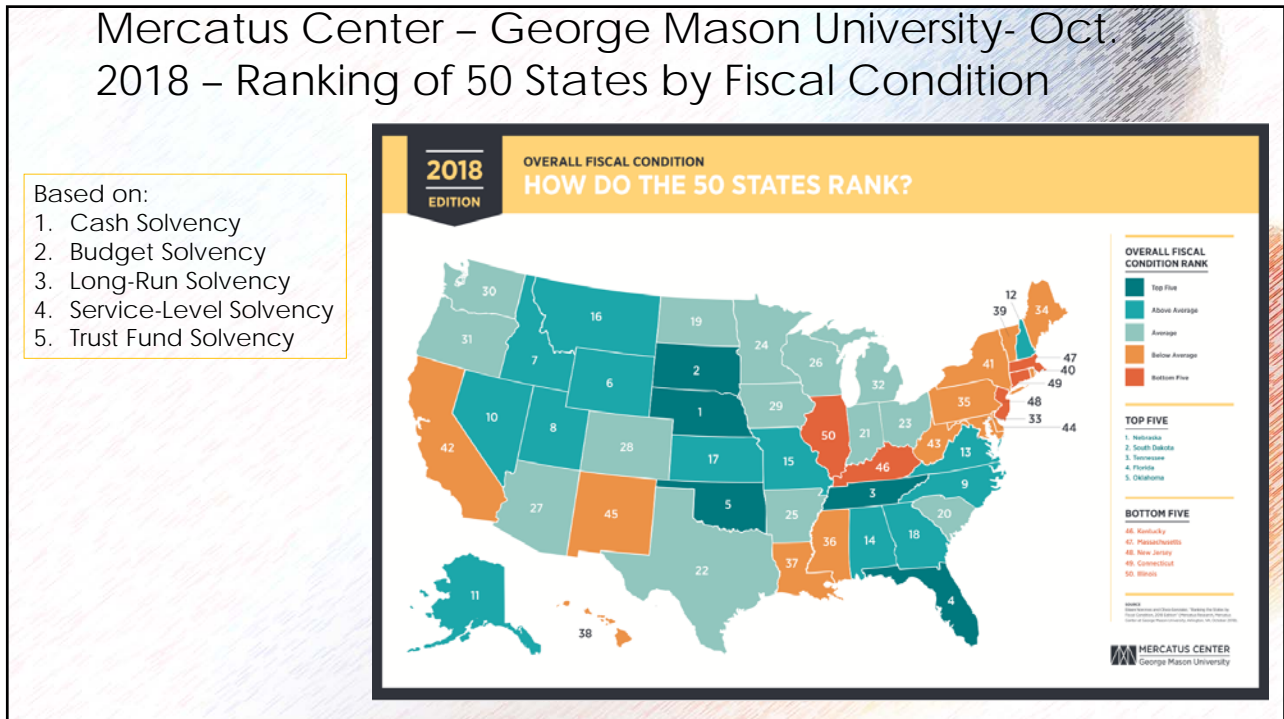
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Fiscal Condition

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Wealth

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Forbes Magazine – What does it cost to live like the richest people in the world – October 2018.

Opera: Metropolitan Opera tickets for two, premium seats, for six Saturday-night shows (purchased in New York) **\$5,760** / 4.4%

Piano: Ebonized Model D concert-grand Steinway (New York) **\$171,100** / 4.3%

Motor Yacht: Viking Yacht 75 (New Jersey) **\$5.9 MIL** / NA

Sailing Yacht: Oyster 595 (U.K.) **\$2.5 MIL** / 8.7%

Sporting Shotguns: Pair of 12-gauge side-by-side from James Purdey & Sons (New Jersey) **\$318,353** / 3.6%

Thoroughbred: Average yearling, Keeneland September sale (Kentucky) **\$363,780** / N/A

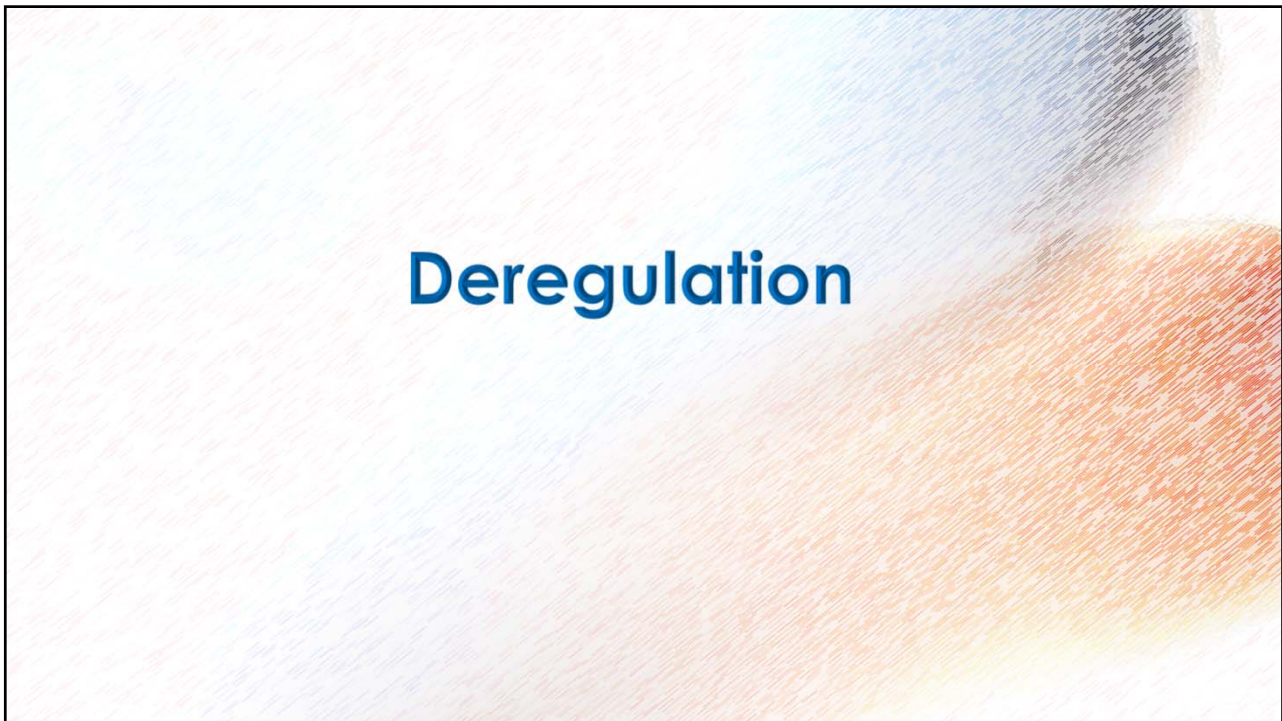
Train set: Thomas & Friends Lionel Christmas set with Bluetooth (North Carolina) **\$200** / N/A

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Legislative and Regulatory Issues

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Deregulation

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Journal of Accountancy

States' deregulatory push threatens CPA licensure

The CPA profession organizes resistance to legislative proposals that would reduce state licensing requirements.

By Sarah Ovaska-Few

September 7, 2018

CPAs around the United States are raising alarms about a recent wave of deregulatory legislative proposals that are endangering the profession. While these proposals haven't affected the profession yet, CPA profession leaders warn that the danger is far from over.

In Louisiana this year seven bills were introduced by state lawmakers — including one called the Right to Earn a Living Act — that would have negatively impacted established policies of multiple occupational licensing boards, including the State Board of Certified Public Accountants.

When Ron Gitz, CPA, CGMA, the executive director of the Society of Louisiana Certified Public Accountants (<https://www.lcpa.org/>), informed the LCPA's membership that the profession was at grave risk in the state, CPAs across the state jumped into action by emailing, calling, and visiting their lawmakers.

"Talk about loud voices," Gitz said about the uproar once CPAs realized what was happening.

Making the push more impressive is that several key points in the months-long fight fell in March and April, smack in the middle of the busy tax season.

Louisiana CPAs aren't alone in their struggle. Twenty-three other state legislative bodies considered similar deregulation efforts in 2018, said Skip Braziel, the AICPA's vice president—State Regulatory & Legislative Affairs.

It's not that CPAs are being singled out. Instead, they're being swept up in a larger political push to reduce state licensing requirements.

"The bills are written so broadly to bring us into the bills; that's why we've been engaged," Braziel said.

In Louisiana, the legislature eventually clocked out of its regular session in mid-May without taking action on the deregulation. The fight was exhausting, Gitz said, and it's likely to come back.

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CPA Evolution Project

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CPA Evolution Project

Journal of Accountancy

Working group considers changes to CPA licensing requirements

By Ken Tysiac
7 hours 1 minute ago

A working group formed by the National Association of State Boards of Accountancy (NASBA) and the AICPA is exploring possible changes to the CPA licensure requirements that would incorporate the skills and competencies in areas such as technology and data analytics that increasingly are needed in practice and business.

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CPA Evolution Project

"Technological innovation and changing client demands are rapidly transforming the skills accountants need to thrive," Allen said. "We want to reimagine the CPA learning and licensure approach. Working group members recognize the critical role of technological and data analysis expertise needed in firms and businesses today. Our goal is to recommend a strategy that provides the guiding principles for how to build related knowledge and skills into accounting curricula and how to test for those proficiencies on the CPA Exam."

"Based on what we've heard, there is no question that the profession is ready to take action on the opportunities that technology presents to us," Coffey said. "That includes an evolution in our approach to licensure that embraces the changes and continues our public protection mandate. I'm looking forward to the working group's recommendations and engaging with the profession and our key stakeholders throughout 2019."

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Online Sales Tax

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South Dakota v. Wayfair

- U.S. Supreme Court agreed in January 2018 to decide this case
 - 1967 *National Bellas Hess v. Department of Revenue of Illinois*
 - 1992 *Quill v. North Dakota*
- South Dakota is asking the Court to rule that S&L governments may require retailers with no in-state presence to collect sales taxes
- Impact:
 - GAO [report](#) (December 2017) estimates that states lost \$8 billion to \$13 billion in sales tax revenue in 2017
 - eCommerce sales in 2005 were \$87 billion compared to \$225.5 billion in 2012 (Dept. of Commerce)
 - Estimated to be \$462 billion in 2018

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South Dakota v. Wayfair

- Outcome:
- The Court granted a [writ of certiorari](#) in January 2018, heard the case on April 17, 2018, and issued its decision on June 21, 2018. A five-justice majority overturned *Quill*, ruling that the physical presence rule decided from *Quill* was "unsound and incorrect" in the current age of Internet services.
- In *Wayfair*, the Supreme Court overruled the physical presence nexus standard of *Quill* and *National Bellas Hess* for state and local taxation of remote sales.
- As soon as the Supreme Court issued its decision in *Wayfair* (on June 21, 2018), various states began issuing statements or guidance, or introducing bills in response.

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Online Sales Tax

Current Status of State Actions

- 38 of 45 Sales Tax States have statutes or regulations in place to require remote sellers to collect and remit – with small-seller thresholds
 - Not Yet: AR*, FL*, ID*, KS*, MO*
 - * Legislation being considered
 - Illinois budgeted \$150M in FY 2019 budget
 - Many states updated FY 20 revenue estimates with the impact of online sales tax revenues. Averaged around 2% of sales tax totals.
- By July 2018: HI, OK, RI, PA, VT
 - Sept 2018: MS
 - Oct 2018: AL, IL, IN, KY, ME, MD, MA, MI, MN, NV, NJ, ND, WA, WI
 - Nov 2018: NC, SC, SD
 - Dec 2018: CO, CT
 - Jan 2019: GA, IA, LA, NE, UT, WV
 - Feb 2019: WY
 - Later 2019: CA, NM, NY, TX, VA, WV

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Sports Betting

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SPORTS BETTING

Current Status of State Actions

Murphy/Christie v. NCAA
US Supreme Court 6-3 decision
May 14, 2018

Held that the provisions of the Professional and Amateur Sports Protection Act that prohibits state authorization and licensing of sports gambling violates the Constitution's anticommandeering rule

Grandfathered in: Nevada, Delaware, Montana, Oregon – had legalized sports betting laws on the books of some type

7 States Already Betting: Delaware, Mississippi, Nevada, New Jersey, Pennsylvania, Rhode Island, West Virginia

2 Other States with Authority: Arkansas and New Mexico (tribal casino)

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SEC Amendments

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Municipal Disclosures – SEC Proposes and Finalizes Amendments to Rule 15c2-12

- Proposal issued on March 1, 2017
 - Improves investor protection and enhances transparency in municipal securities market
 - Addresses concern about private bank lending
- Adds **two** new event notices under continuing disclosure undertakings
 - Currently there are 14 listed events
 - Requires notice within 10 days of the occurrence
- Final Rule issued on August 31, 2018
- Dates
 - Effective Date: October 30, 2018
 - Compliance Date: February 27, 2019

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Municipal Disclosures –Amendments to Rule 15c2-12

- Two new events are:
 - Incurrence of a **financial obligation** of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation, any of which affect security holders, if material
 - Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the **financial obligation** of the issuer or obligated person, any of which reflect financial difficulties

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Municipal Disclosures –Amendments to Rule 15c2-12

- “Financial Obligation” is defined as:
 - A debt obligation (e.g., bank loans, capital leases)
 - Derivative instrument, or a
 - Guarantee of either of the above
- Final Rule does **not** include in the definition of “financial obligations”
 - Operating leases
 - Monetary obligation resulting from a judicial, administrative, or arbitration proceeding
- Materiality also not defined in the Final Rule

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Municipal Disclosures –Amendments to Rule 15c2-12

- What should be disclosed?
 - A description of the material terms of the financial obligation, including:
 - Date of incurrence
 - Principal amount
 - Maturity and amortization
 - Interest rate (or method of computation of the interest rate)
 - Default rates

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GASB Funding

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Economic Growth, Regulatory Relief, and Consumer Protection Act

- SB 2125
 - Signed into law by President on May 24, 2018
- Two key provisions:
 - Treats municipal securities as 2B liquid assets (the HOLA issue)
 - Maintains funding for GASB as provided in section 978 of Dodd-Frank Act

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XBRL

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XBRL Developments: State and Local Governments

- XBRL US has formed a state and local government workgroup
 - Developing a taxonomy for a CAFR
- Florida [HB 1073](#)
 - Authorizes the creation of Florida Open Financial Statement System
 - An interactive data repository for government financial statements
 - Requires the Florida CFO to determine whether a suitable XBRL taxonomy has been developed
 - Effective for FY ending on or after September 1, 2022
- California [SB 548](#)
 - Introduced in February 2019; has not passed Senate yet
 - Requires the state, counties, cities, school districts, special districts and pension funds submit financial statements in XBRL
- Will other states follow?

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Timeliness

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Timeliness of Audited Financial Statements

- SEC chair Jay Clayton calls for improved municipal market disclosure including timelier financial reporting
 - December 6, 2018, speech indicates SEC may be interested in taking additional regulatory action to improve municipal market disclosure
 - SEC's Office of Municipal Securities is working with MSRB to improve transparency and increase timeliness of issuer financial information.
- State and local government groups monitoring closely

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Questions?



Jerry E. Durham, CPA, CGFM, CFE