With All Deliberate Speed: Practical Tips for Speeding Up the Year-End Closing Process and the Financial Statement Audit

**Tuesday, June 2, 2015**  
2:00 – 3:15  
1.5 CPE

**Moderator:** James Golden, Director of Finance  
City of Longmont, Colorado

**Speakers:**  
Stephen W. Blann, CPA, CGFM, CGMA  
Director of Governmental Audit Quality, Rehmann

Jonathon C. Munch, CPA, Director of Finance,  
Fauquier County Government & Public Schools
The Problem:

One of the most common complaints about state and local government financial reports (AFRs) is that they are not issued soon enough after the close of the fiscal year to meet the needs of financial statement users.

A recent study by the GASB has shown that while 72% of state and local governments issued AFRs within six months of the end of the previous fiscal year, 28% issued reports past that benchmark date.
### The Numbers:

GASB Research Brief, “The Timeliness Of Financial Reporting By State And Local Governments Compared With The Needs Of Users”

#### Percentage of Total AFRs (Larger Governments)

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The Numbers:
GASB Research Brief, “The Timeliness Of Financial Reporting By State And Local Governments Compared With The Needs Of Users”

Percentage of Total AFRs (Smaller Governments)

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GFOA Data:

GFOA Certificate Program
CAFRs Received - FY2013

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GFOA Recommendation:

Based upon this experience with the Certificate Program, GFOA feels that the six-month deadline is predominantly viewed as the “standard” for timely reporting.

GFOA prefers that governments not view it this way and issue reports earlier.
Accelerating the AFR (CAFR)

Jonathon C. Munch, CPA
Director of Finance, Fauquier County Government & Public Schools
What Are the Causes of Delays?

- Delays Related to Component Units
- Procuring Data from Overlapping Governments
- Gathering Complex Data from Consultants
- Action Required by Governing Body
- New/Complex GASB Standards
- Internal Breakdown in Communication
- Turnover of Key Staff
- Manual CAFR Production
- Last-Minute Changes or Adjustments
Component Unit Delays

- Separate year-end closing process and timeline;
- Different auditors and audit schedule;
- Different ideas as to what constitutes “timely financial reporting”.

2015 ANNUAL CONFERENCE
Overlapping Governments

- Many of the same issues related to component units apply to overlapping governments;
- Working relationship may not be as strong as with component units – can lead to additional issues.
Consultant Data

- Actuarial valuations;
- Inventories;
- Pension plan data;

Data expected from consultants does not always arrive in a timely manner to allow for continued progress on financial reporting.
Governing Body Action

- Year-end budget adjustments;
- Carry-over adjustments;
- Commitment/assignment of fund balance(s).
GASB Standards

- New standards may be complex, and take time and effort to implement;
- There may be disagreement or debate with auditors about how to implement;
- Could require data from other entities which puts more required elements of the CAFR in the hands of an outside entity.
Internal Communication

- Larger staffs working in “silos” without constant communication of delays or other issues – not knowing the impact on the rest of the process;
- Smaller staffs coordinating major components of CAFR – not in constant communication with management.
Turnover of Key Staff

- Personnel responsible for completing significant portions of the CAFR separate close to year-end:
  - Loss of institutional knowledge;
  - Additional time required to recruit, hire, and train new personnel.
Manual CAFR Production

- Production of CAFR in Excel/Word can lead to numerous issues:
  - Late identification of major funds;
  - Late identification of other issues;
  - Footing and rounding problems;
  - Statements, notes, tables and other parts of the CAFR which may not reconcile;
Last-Minute Changes

- Audit adjustments;
- Subsequent disbursements testing;
- Changes requested at various levels of review;
Year-End Planning

- “Debriefing” from prior year – what went well vs. what went wrong;
- Focus initially on the “big picture”, then work down to the granular details;
- Begin by establishing an achievable goal for completion, and work backwards;
- Identify key milestones, with necessary completion dates to stay on schedule;
- Involve all parties who play a significant role (auditors, component unit management, etc.).
Working with Outside Entities

- Involve management personnel of component units in the initial planning phases;
- Have clear understanding and agreement about expectations for component unit staff, and how their completion dates fit into the overall timeliness of the CAFR.
Working with Outside Entities

- Develop an inventory listing of all items needed from overlapping governments, and the personnel responsible for providing it;
- Send letters requesting information well before the deadline;
- When possible, gather schedules that will provide information into the future (e.g. amortization schedules related to overlapping debt);
- Monitor activities of overlapping governments and record key events (e.g. adoption of tax rates).
Working with Outside Entities

- Establish key deadlines as part of contracts with consultants;
- Ensure that engagements begin early enough that deliverables can be obtained on a timely basis;
- For larger engagements, have a planning meeting prior to fieldwork to ensure that enough time is being provided to allow for completion of deliverables by deadlines.
Project Management

- Create task lists in Excel with assignments and deadlines (use filters to create status reports);
- Consider use of a Gantt chart to assist in visualizing task dependencies and the impact of slippage.
- Schedule regular status meetings for the sole purpose of updating the team on project status.
Automating the CAFR

- “External Data Connection” – importing directly from financial accounting system;
- Data sheet(s);
External Data Connection

Work with your IT Department or Financial System Administrator to set up a data connection to the accounting system within Microsoft Excel.

This will allow Excel to connect directly with the accounting system to download and refresh data.
Data Sheets

- If a data connection to the accounting system within Microsoft Excel is not feasible, consider writing a report within the accounting system that returns the raw data necessary to “query” the results into the CAFR exhibits and schedules.
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Excel Query Functions

- Use query functions to organize raw data into CAFR exhibits and schedules;
  - =DSUM
  - =VLOOKUP / =HLOOKUP
  - =SUMIF
Excel Query Functions

- Use logical functions to automate captions such as “Fund balance/(deficit)”;
  - =IF
  - =AND
  - =OR
Excel Query Functions

Use data filters in conjunction with logical functions to automate the display / hiding of rows based on data.
Excel Query Functions

Use non-printing area to allow for rounding and other types of adjustments that are not made in the accounting system.
More Excel Uses

- Create worksheets for information that goes elsewhere in the CAFR:
  - MD&A tables and graphs;
  - Tables for footnote disclosures;
  - Major fund determination worksheet;
  - Others.

- Conditional formatting can be used to highlight troublesome data (e.g. budget overages which need correction, reversed balances, etc.)
Other Strategies

- Debt – in many cases, debt can be done early in the process. If so, complete all debt-related schedules as soon as the final debt service payment for the fiscal year is made.
Other Strategies

- Turnover of Key Staff
  - Cross-training;
  - Staff rotation;
  - Thorough documentation of procedures;
Accelerating the Annual Audit

Stephen W. Blann, CPA, CGFM, CGMA
Director of Governmental Audit Quality, Rehmann
Benefits of Being Prepared

- Reduce time / cost of audit
- More timely financial information for the public/governing body
- Audit comments/recommendations can be implemented early in the next fiscal year
- Auditors leave sooner
General Considerations

- Be realistic in scheduling audit fieldwork
- Ask the auditors to provide a list of items to be prepared
- Determine the preferred file format of audit documents (electronic vs. paper, originals vs. copies)
General Considerations

- For longer audits, consider periodic status meetings
- Request that the auditors keep an “open items” list and update / distribute periodically
Clarify Expectations

- Agree to a timeline upfront (fieldwork, draft reports, audit issuance, formal presentations)
- Do the auditors want anything prepared and sent in advance of fieldwork?
Clarify Expectations

- Should specific questions be directed to department heads/responsible employees or all start with the Finance Director?
- Are supporting documents provided by management originals or copies?
Clarify Expectations

- Can the auditors work on-site after normal business hours?
- Can audit files and equipment be left in the audit room overnight?
Design an Audit Preparation Process

- Make specific assignments to employees/departments, and include due dates
- Organize files (paper support in binders or folders; electronic support in folders on a flash drive or shared network)
Design an Audit Preparation Process

- Work to make year end just another month end
- Identify those tasks that only occur at year end and plan ahead
Design an Audit Preparation Process

- Consider changes to your chart of accounts:
  - Capital outlay (over/under thresholds)
  - Deferred revenue (unearned/unavailable)
  - Interfund revenue/expense (identify separately by fund for ISF look-back)
Design an Audit Preparation Process

- Balance sheet accounts should be supported by a subledger
- Perform high-level comparison of current year balances to prior year balances to identify irregularities
- Look for balance sheet accounts with no activity... still valid items?
Hierarchy of Audit Evidence

- **Good**
  - Inquiry

- **Better**
  - Observation
  - Analytical Procedures
  - Internal Documentation

- **Best**
  - Physical Examination
  - Confirmation
  - External Documentation
Cash and Investments

- Bank confirmations – address to specific individuals when possible
- Statements, reconciliations, outstanding check lists, subsequent statements
- GASB 40 disclosures (credit risk ratings)
- Accrual for interest income (investments, certificates of deposit)
Receivables

- Subledger or detail of what makes up the balance
- Grants or reimbursed costs – subsequent receipt or copy of invoice
- Utilities – consider the need to record estimate for unbilled portion
Special assessments

- Roll by parcel
- Defer balances not collected within period of availability in governmental funds (recognize in government-wide statements)
Other Assets

- Inventory
  - Detail of balance (item, unit cost, quantity, extended costs)
  - Explain large fluctuations from prior year

- Prepaid items
  - Support for large prepaid items (invoice with period of service and date paid)
  - Watch for items in prepaids and payables
Other Assets

- Land held for resale
  - Report separately from capital assets
  - Evidence that government is actively seeking purchaser
Capital Assets

- Prepare a roll-forward from prior year balances
- Detail schedules to calculate depreciation
- Watch for over-depreciated assets with negative NBV
Capital Assets

- Governmental funds:
  - Allocate depreciation by function
  - Allocate capital asset additions by function
  - Compare additions to capital outlay expense for reasonableness
Capital Assets

- Proprietary funds:
  - Review balances of capital outlay and repair and maintenance accounts for reasonableness

- Construction in progress:
  - Disclose balance remaining on contracts
Payables

- Detail of composition of each payable account
  - In recording accruals, don’t forget to review ACH transfers
  - Don’t forget retainage payable on construction contracts
- Auditors will perform a search for missed accruals by reviewing large disbursements after year-end
Accrued Liabilities

- Self-insurance programs – IBNR accrual
- Payroll accrual:
  - Easiest method = multiply first payroll in new year by # of days in old year
  - Include fringe benefits (payroll taxes, retirement, etc.)
  - Consider any special year-end payments (unused sick or vacation payouts, longevity, insurance opt-out, etc.)
Accrued Liabilities

- Sick and vacation liability (compensated absences)
  - Reported as component of long-term debt
  - Must report in roll-forward format in the notes
  - Ensure that liability is calculated based on board-approval policies
  - Record current portion
Bonds and Notes Payable

- Long-term debt includes: bonds, notes, installment purchase agreements, early retirement incentives
- Auditors will request information on any new debt or bond refundings:
  - Payment schedule (principal and interest)
  - Sources and uses statement (refundings)
  - Cash savings and economic gain (refundings)
Bonds and Notes Payable

- Provide support for payments made outside of the payment schedule
- Accrual for interest payable
- Amortize bond premiums/discounts and gain/loss on refunding
Fund Balance / Net Position

- Governmental funds – classification of fund balances by type:
  - Nonspendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned
Net position – classification of balances by type (net investment in capital assets, restricted, unrestricted)

- Reconcile to restricted fund balance
- Unspent bond proceeds should be excluded from calculation of net investment in capital assets
Pension / OPEB Plans

- Most recent actuarial valuation
- Coordination with Plan
- Determine how recorded liabilities will be spread in the F/S
Federal Grants

- Use separate revenue and expenditure accounts to track grant activity (department, program code, etc.)
- Federal revenue should generally equal federal expenditures... if not, an accrual may be needed
Federal Grants

► Schedule of expenditures of federal awards (SEFA):
  ► Client prepared document
  ► Grant name, CFDA#, federal agency, pass-through agency (if applicable), grantor/pass-through grantor number, federal expenditures
  ► Consider non-cash assistance
Other Typical Audit Requests

- Access to board minutes
- Review of attorney invoices and/or direct inquiry of the government’s legal counsel
- Material subsequent events must be disclosed in the audit (issuance of debt, large capital purchases or agreements, etc.)
Case Studies in Streamlining

- Washtenaw County, Michigan
- Kent County, Michigan
- Nottawaseppi Huron Band of the Potawatomi
Conclusion

- The audit process can be streamlined by clarifying expectations up front.
- Most audit requests will be consistent from year-to-year.
  - However, auditors are also required to perform some “unpredictable” procedures.
Multi-year audit contracts make it advantageous to learn from the first year with an audit firm and work to improve the process.

Consult with your auditor during the year for guidance on new/unusual circumstances.
Conclusion

The Department of Economic Management Urges You To PLAN AHEAD.
Questions?

- Thank you for your attention!
Please provide feedback on the session

○ Quick Text Feedback
  1. *Step 1* - Text “GFOA” to 22333
  2. *Step 2* - Did the session meet your expectations for being high quality and relevant to your job?
     • Exceeded Expectations – Text “T7EXC”
     • Met Expectations – Text “T7MET”
     • Did Not Meet – “T7NOT”

○ To provide more detailed evaluation on the session or full conference go to www.gfoa.org/evals