

Preparation and Review of the ACFR



**PRESENTED BY: DONNA COLLINS
MILESTONE PROFESSIONAL SERVICES**

Preparation of the ACFR



PRACTICAL TIPS

General Observations



- Approach to preparation of the ACFR will depend on source files. This includes access to multiple staff working on the ACFR at one time, input/upload method, the conversion to entity-wide statements and assembly of the final PDF document.
 - Excel and Word files
 - GL software reporting options
 - Outside software

General Observations



- Make sure you do not include pennies.
- Using the Round function in excel still creates problems.
 - In statements
 - In footnotes
 - MD&A
 - Specifically watch out for linked data

General Observations



- Make sure you address prior year GFOA comments if you participate in the Certificate for Excellence in Financial Reporting program (the Certificate program).
- Make sure you implement all new GASB statements.
 - Plan for implementation with all parties from whom information will need to be gathered.
 - Make sure timelines are communicated clearly.
 - Plan early!
 - Seven GASB statement applicable to FY22 (GASB 87, 89, 91, 92, 93, 97 and 98)

General Observations



- Utilize an assignment list with deadlines for ACFR pieces. Know who is preparing each section and make sure the team understands the flow of this process.
 - Some tasks impact the timing of other tasks (certain notes cannot be prepared until the statements are done, etc.)
 - Remember that the timely receipt of constitutional officer statements and component unit statements is critical.
 - Accounts for which valuation reports (pensions/OPEB) or engineering reports (landfill, etc.) are needed can hold up the entire process if not received timely.

General Observations



- Link all sections when possible.
 - Application of this principal may look different depending on the source files.
 - ✦ Excel/Word – most statements can be linked from combining forward to major fund statements and conversion tab for preparing entity-wide statements.
 - ✦ GL software reporting options – these links will be automatic but it is important to know what statements are linked.
 - ✦ Outside software – these links will be automatic but it is important to know what statements are linked.

Statements in Excel/Word



- Many governments prepare their ACFR using a combination of excel and Word.
- Linking can be done from budgetary statements to the statement of revenues and expenditures.
- The Statement of Cash Flow can be created within the excel file so that current year balances link directly to the worksheet creating this statement.

Statements Prepared using GL software



- Many governments are able to utilize their GL software package to create the ACFR.
- It is important to understand which statements are linked within the software.
- You should determine whether the footnotes be linked to the TB or other tables within the notes.
- Are the Statistical tables linked to basic statements?

Statements using Outside Software



- Many governments are now utilizing an outside software to prepare their ACFR.
- It is important to understand which statements are linked.
- Determine if formulas can be set up to allow footnotes to be created automatically.

Review of the ACFR



OVERVIEW

General Observations



- There are many ways to review the ACFR.
- Depends on time and staff available.
- Best practice allows someone independent of its preparation to perform a “cold” review.
- Make sure you have a process for review comments to be addressed and proper documentation to be maintained. For comments on which you pass (due to immateriality or because you plan to make the change in some future year) make sure to save these for future consideration.

General Observations



- Check for format issues.
 - Underlines or double underlines where applicable.
 - Statements or tables that fall off the page.
 - \$ missing or where they should not be included.
 - Dates are updated appropriately.
- Remember: They are your statements. Just because the auditors make a suggestion, you do NOT have to make the change unless it would alter their opinion on the financial statements.

Review Process-statement articulation



- Start with comparing the statements for articulation.
 - Make sure that ending net position agrees between the Statement of Net Position and the Statement of Activities for both governmental and business-type activities.
 - Perform a similar check for the fund level statements (governmental FB agreement and Proprietary NP agreement).
 - Make sure that fund level statements in the Other Supplementary Information section of the ACFR agree with the appropriate column (generally non-major Gov/Ent) in the Basic Statement section of the ACFR.

Review Process-statement articulation



- Start with comparing the statements for articulation.
 - Ensure that actual amounts in the budgetary statements/schedules agree with the corresponding Statement of Revenues, Expenditures/Expenses and Changes in Fund Balance/Net Position.

Review Process-footnotes



- Compare footnote amounts to statement amounts.
- Sometime this is straight-forward and the amounts tie directly from the note to the statement (capital assets).
- Sometimes calculations are needed to tie back to the statements (long-term liabilities).

Review Process-footnotes



- Some more common tie out issues not readily evident on the face of the statements.
 - Issuance of debt on fund level statements should equal increases in the long-term liability footnote.
 - Claims payable in the Risk Management note should tie to the long-term liability note and the face of the ISF statements.
 - Many balances in the long-term liability note also should tie to other notes (OPEB, Landfill closure, NPL, Risk Management)
 - Cash and Investment balances in the cash note should tie to the combining statements of single employer pensions (police and fire) in the pension footnote.

Review Process-footnotes



- Keep in mind that some notes tie to the entity-wide statements (capital assets) and some tie to the fund level statements (transfers in/out).
- Certain pieces tie to both when the ACFR has Enterprise Fund statements.
- The basic goal of this first review pass is primarily to make sure amounts agree.

Review Process-RSI



- Compare RSI schedules to data in the notes or statements.
- RSI generally includes pension and OPEB schedules which tie to the respective valuation.
- Budgets for the General Fund and major special revenue funds also can be found here.

Review Process-Stats



- The first several statistical schedules should tie to the statements.
- Using GL software package or outside software may allow articulation to be “automatic”. Be mindful of changes in the current year (new accounts, etc.) that may affect this process.
- Statements prepared in excel will allow these schedules to be linked to the respective statements. New financial statement lines may affect this so make sure to tie these schedules to the statements.

Review Process-Stats



- The source of all non-accounting data should be presented on each applicable statistical schedule.
- The ratio of debt service to noncapital expenditures is being calculated properly.
 - Debt Service expenditures should include principal and interest.
 - Noncapital Expenditures should be the difference between total expenditures and capitalized capital outlay expenditures. This should be the same as the reconciling item for capital outlay in the Reconciliation Statement between EW SA and Stmt of Rev/Exp and changes in FB.

Review Process-MD&A



- The MD&A amounts should tie to the statements and the footnotes.
- If your ACFR process provides for formulas to populate the MD&A, take the time to utilize this function fully.
- It may make sense to wait to review the MD&A until needed changes from review of the statements are made.
- This review can be done just checking amount tie out or as part of the read through process.

Review Process-Letter of Transmittal



- The Letter of Transmittal amounts should tie to the statements and the footnotes.
- If your ACFR process provides for formulas to populate the TL, take the time to utilize this function fully.
- It may make sense to wait to review the TL until needed changes from review of the statements are made.
- This review can be done just checking amount tie out or as part of the read through process.

Review Process-GAAP Checklist



- Utilize a disclosure checklist to ensure GAAP was followed.
- If applying for the Certificate of Achievement for Excellence in Financial Reporting (the Certificate program) consider using the GFOA checklist.
- Perform a complete read through of the document including footnotes, section dividers, etc. as part of this process.

Review of the ACFR



COMMON DEFICIENCIES

General Observations



- Lack of Articulation between statements/footnotes
 - Combining Statements that don't flow forward properly
 - Footnote disclosures that do not agree with the face of the statements
 - Lack of agreement of amounts within footnotes
 - Amounts do not foot or crossfoot
- Incorrect Major Fund determination
 - Calculation not done each year
 - DIR and DOR excluded from the calculation
 - Calculation done prior to final adjustments to CAFR

General Observations



- Incorrect formatting and terminology.
 - Net pension/OPEB liability versus Net Pension/OPEB obligation.
 - Net Assets rather than Net Position.
 - Incorrect references to “As of September 30, xxx” and “ For the Fiscal Year Ending September 30, XXX”

Letter of Transmittal



- For some governments, the Letter of Transmittal duplicates information already in the MD&A rather than referring the reader to the MD&A.
- Other issues include:
 - Dating the Letter of Transmittal before the auditor's report.
 - Not including a profile of the government in the Letter of Transmittal.
 - Failure to discuss which governmental funds are appropriated (Certificate Program).

Letter of Transmittal



- For governments that discuss the auditor's opinion in the Letter of Transmittal, the appropriate term is “unmodified” rather than “unqualified”.

Management's Discussion and Analysis



- Combining elements in condensed statement of net position.
 - Some governments are including DOR with assets and DIR with liabilities in their condensed Statement of Net Position.
 - If your government has DOR or DIR, you should have a separate section for this financial statement element in your condensed financial tables within MD&A.

Management's Discussion and Analysis



- Missing analysis of individual funds.
 - Some governments are not providing any analysis of changes in fund balance or fund net position for individual funds.
 - MD&A should include analysis for individual funds, not just the general fund and not just governmental or enterprise funds in the aggregate.
 - As a general rule, each major fund should be discussed in the appropriate section – governmental funds or enterprise funds.
 - The Discussion needs to give the reason why a variance occurred, not just indicate the change in FB or NP. This discussion should include all financial statement elements (assets, liabilities, DOR and DIR).

Management's Discussion and Analysis



- Missing analysis of original and final budget.
 - Governments that amend their general fund budget are required to report the original and final amended budget in the budget to actual financial statement or the required supplementary information schedule.
 - Financial statement preparers are failing to include an analysis for the general fund related to any significant budgetary variances between the original and final budget.
 - Remember that the requirement is to provide analysis for both significant changes from original to final budget and then final budget as compared to actual amounts at year end.

Management's Discussion and Analysis



- Information is not updated or inappropriate language is used.
 - MD&A amounts do not tie to the final issued financial statements.
 - Amounts within the MD&A do not articulate such as the table for long-term liabilities and the capital asset table does not agree with narrative discussing the change in these balances.
 - Analysis for Entity-wide statements refers to “Expenditures” rather than “Expenses.”
 - Discussing future events throughout the MD&A.

Management's Discussion and Analysis



- Debt section does not address details of issuance of new debt or debt refundings.
- Capital asset section does not address significant capital asset events/purchases.
- Currently know facts, decisions and conditions significantly affecting the financial position or results of operation not discussed. Keep in mind that anything between FYE and the date of the auditor's opinion is fair game for this discussion.

Government-wide Statements



- Miscalculation of Net Investment in Capital Assets.
 - Failure to back out unspent proceeds from capital debt.
 - Failure to consider deferred outflows or inflows of resources arising from refundings of capital-related debt.
 - Failure to include retainage payable from capital-related debt.
 - Failure to include all capital assets – land and CIP.
- Lack of articulation between the SNP and SA.
- Long-term liability amounts do not tie back to the footnote.

Government-wide Statements



- Failure to reclassify deferred inflows of resources for unavailable revenue.
- Failure to correctly reflect balances as unearned revenue on the SNP.
- Inappropriate grouping of deferred items. Deferred outflows and inflows should contain sufficient detail in the title to identify the items included. This is a financial statement category and should not be reported as a single line.

Government-wide Statements



- Financial statement categories are not given appropriate consideration:
 - Current vs Long-term assets and liabilities not classified properly.
 - Unamortized premiums and discounts are a component of long-term debt and should not be presented as separate financial statement line in the EW statements.

Government-wide Statements



- Unspent debt proceeds should be included in the same component of net position as the asset relating to the unspent proceeds:
 - If the cash is included in unrestricted assets, then the unspent proceeds flow through to unrestricted net position.
 - If the cash is included in restricted assets, then the unspent proceeds flow through to restricted net position.
 - This is a common deficiencies in ACFR preparation.

Government-wide Statements



- Losses on the sale of capital assets of governmental activities should be reported as an expense of the general government or as a direct expense of the related function or program.
 - Governments often place this in the General revenue section as a negative amount. Only gains on sale of capital assets should be reported in general revenues.

GWS –Pension/OPEB Reporting



- Inappropriate netting of deferred inflows and deferred outflows of resources.
 - DIR and DOR related to pensions/OPEB should not be netted on the Statement of Net Position.
 - The exception to this relates to differences between projected and actual pension/OPEB plan investment earnings.

GWS – Pension/OPEB Reporting



- Inappropriate netting of net pension/OPEB liabilities and net pension/OPEB assets.
 - Separate presentation of net pension/OPEB liabilities and net pension/OPEB assets is required on the Statement of Net Position.
 - If employer participates in multiple pension/OPEB plans, it is permissible to present all net pension/OPEB liabilities on one line on the Statement of Net Position. Similarly, all pension/OPEB assets can be presented on one line on the statement but netting of liabilities and assets is not allowed.

Budgetary Reporting



- Missing Budgetary Comparisons
 - Budgetary comparisons should be presented in the financial subsection of the ACFR for all governmental funds with legally adopted annual or biennial budgets.
 - ACFR reviewers have found that budgetary comparisons for nonmajor funds are sometimes excluded.

Budgetary Reporting



- Unallowable Budgetary Reporting
 - Requirement is to present budgetary comparisons for the General Fund and all Major Special Revenue Funds either as basic financial statements or as RSI.
 - You cannot expand the definition of the basic statements or include in RSI items that are not required.
 - Thus, budgetary presentations for non-major special revenue funds or major other funds (major debt service or major capital projects funds) is not correct in the basic statements or RSI.

RSI –Pensions



- RSI for some governments was missing the annual money-weighted rate of return on pension investments for single-employer plans.

RSI –Pensions and OPEB



- A notation should be included on Pension and OPEB RSI that information will be presented when available (10 years of data not available).
- For OPEB RSI, a notation is required regarding whether the government has assets accumulated in a trust in accordance with GASB 75.

Note Disclosures - General



- For notes that reference the related GASB statement, ensure that the reference is current. It is a common deficiency to refer to outdated GASB statements.

Note Disclosures – Legal Level of Control



- Inadequate demonstration of compliance at the legal level of budgetary control.
 - Some governments have conflicting information regarding the legal level of control for budgetary statements/schedules.
 - The legal level of control is the level at which management cannot overspend/transfer the budget without the approval of the governing body.

Note Disclosures - Pensions



- Note disclosure and required supplementary information (RSI) deficiencies- Common deficiencies:
 - Type of plan (single-employer, agent multiple-employer, or cost sharing multiple-employer defined benefit plan) not disclosed.
 - Disclosure on whether a stand-alone report is issued and how to obtain it was missing.

Note Disclosures - Pensions



- Note disclosure and required supplementary information (RSI) deficiencies- Common deficiencies:
 - For single employer or agent multiple-employer plans, the notes should include a schedule of current changes in NPL. This is also in the RSI so some governments did not include the disclosure in the notes (only in the RSI).

Note Disclosures - OPEB



- OPEB Footnotes – no disclosure regarding whether the plan issues a stand alone report and how to obtain it, missing brief description of the plan including types of benefits and the authority under which benefit provisions are established and amended, no disclosure of the type of plan (single-employer, agent multiple-employer or cost-sharing multiple-employer, defined benefit OPEB plan)

Note Disclosures – Pensions/OPEB



- Note disclosure and required supplementary information (RSI) deficiencies- Common deficiencies:
 - Amounts in the notes should articulate with amounts on the SNP. The total amount of net pension/OPEB assets, net pension/OPEB liabilities, and DIR and DOR associated with pensions/OPEB disclosed in the notes should agree with the SNP. For some governments, primarily those with multiple pension/OPEB plans, these did not agree.

Note Disclosures - Pensions



- Government employers are required to include a schedule of DOR and DIR related to pensions that will be recognized as pension expense for each of the subsequent five years. For some governments, the schedule has included the employer contributions made subsequent to the MD, which is properly classified as a DOR, but will not be recognized as pension expense; it will only reduce the NPL in the next year and should not be included in the schedule.

Note Disclosures- Long term Liabilities



- Some governments do not include all long-term liabilities in the note progression. Most commonly excluded items are landfill closure and claims and judgements.
- The funds used to liquidate these long-term liabilities is not disclosed.

Note Disclosures- Donated Assets



- Reporting donated capital assets
 - Notes should disclose how donated capital assets are reported in the financials.
 - Under GASB No. 72, these are reported at acquisition value.
 - Disclosure in notes should no longer say these are reported at fair value.

Note Disclosures- Interfund Transfers



- Interfund Transfers
 - Notes should disclose the purpose of interfund balances as of the BS date and transfers made during the FY.
 - Descriptions should be specific to the government rather than generic boiler plate wording.
 - Reporting is required for each major fund and then for non-major by category (special revenue, debt serv

SEFA



- Some governments do not include needed disclosures for the SEFA.
- The SEFA does not total federal and state expenditures by program.
- The SEFA does not include the Assistance Listing/CFSA number.
- Amounts on the SEFA do not reconcile to the financial records.
- The SEFA does not properly identify pass-through entities or sub-recipient expenditures.

Common Financial Reporting Deficiencies



Questions?