

How to Prepare for an Upcoming CAFR Audit

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How to Prepare for an Upcoming CAFR Audit

Overview

- An annual audit is an irreplaceable and useful tool to ensure that your internal controls are functioning as designed and your financial statements are materially correct
- Your auditor should be viewed as a resource, not an adversary
- As a result of the audit, opportunities for improvement might be identified, leading to effective and efficient procedures for the future
 - ❖ Challenge comments but don't be offended
 - ❖ Take management letter comments seriously

How to Prepare for an Upcoming CAFR Audit

Agenda

- PBC List
- Tips for preparation
- Year-end close process
- Discussion of various sections of CAFR Audit
- How to prepare for each section of CAFR Audit
- What the auditors are looking for in regards to each section of the CAFR Audit
- Discussion
- Questions and Answers

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PBC (Prepared By Client) List

- PBC list – this will be your guide to prepare for an upcoming CAFR Audit
 - A detailed list of items needed to complete the audit. Additional requests should be expected during fieldwork based upon a review of the documents provided.
 - Include due dates
 - Divide list up for different team members
 - Determine contact people for specific areas under audit and avoid any potential scheduling conflicts, such as vacations, scheduled medical procedures, work schedules, out-of-town needs and holidays.
 - Go over list with auditors before field work – pre-audit planning meeting and weekly progress meetings
 - Challenge items you think are unnecessary

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Tips for Preparation

- Preparation upon auditor's arrival is key
 - Ensure PBC items are completed and ready for auditor's review
 - Year-end close process is complete
 - All journal entries have been recorded
 - Review supporting documentation and ensure it agrees to Trial Balance
 - Provide populations (detailed schedules/reconciliations) ahead of time (true for Single Audit too) so that the auditor can make selections in advance
 - Use of electronic portal is key
 - Two-way communication is vital

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Tips for Preparation

- Key items to discuss with your auditor prior to year-end:
 - Adoption of new accounting standards
 - Significant/sensitive estimates
 - Valuations involving judgment
 - Unusual transactions
 - Timeline and deadlines
 - GFOA Certificate Program Comments from PY CAFR
 - New key personnel (on both sides)

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Year-end Close Process

- GFOA Best Practice Document:
 - *Improving the Timeliness of Financial Reports*
- Benefits of efficient close process:
 - Timely reporting
 - Reliability of information
 - Reduced stress on staff
 - Eases preparation of financial statements
 - Ease of audit process

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Year-end Close Process – Tips to Ease the Pain

- Record “year-end” transactions throughout the year (monthly and quarterly)
 - Capital Assets
 - Grants
 - Reconcile balance sheet accounts monthly
- Capture all expenditures/payables timely
 - Implement strong interdepartmental process
 - Consider performing your own “search for unrecorded liabilities”
 - Single audit programs/major programs

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Year-end Close Process – Tips to Ease the Pain

- Communicate with all parties timely
 - Other departments across the City
 - Auditors
 - Component Units/related parties
 - Actuaries and other custodians of information
- Accounting policies and procedures
 - Should address year-end close process in detail
 - Specific steps in close process, including who is responsible and due date
 - Includes process to complete/compile financial statements including Final SEFA

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Items That Could Potentially Hold the Audit Up

- Make sure all PBC schedules agree to your trial balance
- Actuarial Reports
 - ❖ Schedule actuarial studies timely and make sure you communicate deadlines to actuary
- Legal Representation Letters
 - ❖ Provide to auditor within two weeks prior to the audit report date
- Engineering Reports
 - ❖ Landfill liability (if applicable)
- Draft of CAFR not completed or provided timely

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Cash and Cash Equivalents

- Bank reconciliations should be completed in a timely manner with bank statements attached
- Ensure entries are not being made to off balance sheet accounts
- Review bank reconciliations to make sure there are not any stale reconciling items that should be removed
- Prepare bank and investment confirmations before the audit begins and notify auditors if there are new accounts opened since the prior year audit

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- Investment Rollforward including realized and unrealized gains/losses
- When recording investments, adjust balance based on investment statements
- Ensure that investment restrictions are considered and that proper classifications have been made on the financial statements
- Ensure City has an Investment Policy and provide a copy to your auditor

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Receivables

- Detail/schedule of Sales Tax Receivables and provide auditor with statements from Texas Comptroller
- Property Tax Analysis – provide auditor with detail, 60 day collections, detail of deferred revenue, and confirmation from Tax Office
- Detail/schedule of Other Receivables
- Detail/schedules of all other Accounts Receivable
- Notes Receivable Rollforward and Details (if applicable)

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Capital Assets

- Capital Asset Rollforward – Government Wide & Business Type Activities
- Details of additions (including contributed capital) and disposals during the fiscal year that agree to Capital Asset Rollforward
- Detail of capital outlay that agrees to general ledger. Analyze governmental funds at year end to ensure all capital outlays have been capitalized for government wide purposes
- Ensure depreciation expense per general ledger agrees to Capital Asset Rollforward
- Do NOT wait until year-end to begin reconciling!
- Best Practice Tip: Reconcile capital assets on a monthly basis

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Prepaid Expenses and Other Assets

- Interfund Receivables and Payables Schedule
- Schedule of prepaid insurance
- Schedule of prepaid expenses by fund
- Detail/schedule of any other material prepaid assets
- Details/schedule of deferred outflows of resources

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- Summary Schedule of Insurance Coverage for FY2016
- 2016 IBNR Calculation and Details (if applicable for self insurance)
 - ❖ Medical and Dental
 - ❖ Worker's Compensation

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Accounts Payable

- Detailed aging of Accounts Payable at year-end by fund
- Check Register by fund beginning on first day subsequent to year-end through the end of audit fieldwork
- Consider performing your own Search for Unrecorded Liabilities

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■ Debt Rollforward

- ❖ Description
- ❖ Amount Issued
- ❖ Date Issued
- ❖ Maturity Date
- ❖ Beginning Balance + Issued – Retired – Refunded = Ending Balance
- ❖ Interest Paid during Fiscal Year
- ❖ Principal Due next Fiscal Year

■ Debt Maturity Schedule

- Copies of new debt agreements and economic gain/loss disclosures for refunding issues
- Prepare confirmations timely before the audit begins
- Arbitrage calculations and summary

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Accrued Liabilities

- Schedule/Details of Accrued Payroll and supporting documentation (including payroll registers)
- Schedule/Details of Compensated Absences – record based upon policy
- Calculations of landfill closure and post-closure costs, including most recent landfill engineer's report (if applicable)
- Construction and retainage payable details by fund
- Schedule/details of unearned revenue and all other liabilities by fund

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Net Pension Liability

- Actuary Report as provided by TMRS
- Census Data Detail including actives and inactives – from this listing, we will select a sample to perform Census Data Testing to agree various attributes from the Census Data to personnel records
- New Hire Listing – from this listing, we will select a sample to perform testing to verify eligible employees were properly enrolled into the Plan during calendar year 2015
- Schedule of Contributions for the period of 1/1/15 – 9/30/16
- Copies of any TMRS plan changes/City Council ordinances impacting plan
- TMRS SOC 1 Report
- TRMS Internal Control Questionnaire – from this questionnaire, we will select a sample of controls to walkthrough the process

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OPEB Liability

- OPEB Calculation and Rollforward
- OPEB liability fund allocation spreadsheet that agrees to the balances of the funds in the CAFR
- Actuarial Valuation Report for OPEB
- Copies of any revisions to the plan document (changes in coverage, benefits, vesting or other matters that could result in a change in recognized costs, assets or liabilities)

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Fund Balance and Net Position

- Net Position and Fund Balance Rollforwards
- Supporting documentation for material fund balance restrictions to support classification
- Detail list of all restricted cash and investments
- Detail list of all debt proceeds unspent
- Calculation of Net Investment in Capital Assets

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Revenues and Expenses

- Franchise Tax Fees Details
- Transfers In/ Transfers Out Schedule
- Comparative Analytical Review by Fund – variance analysis at the financial statement line item level by fund for significant fluctuations from the PY – consider performing your own variance analysis at year-end

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Comprehensive Annual Financial Report

- Items to be included in CAFR Draft
 - ❖ Introductory Section
 - ❖ Financial Section
 - ❖ Required Supplementary Information
 - ❖ Combining and Individual Fund Statements and Schedules
 - ❖ Statistical Section
- Use GFOA CAFR Checklist to review draft CAFR
- Timeline for providing draft of CAFR to auditors
 - ❖ What methods and processes to do you have in place to provide a draft of the CAFR to the auditors by the designated timeline?
 - ❖ What challenges do you face in preparing the draft of the CAFR and meeting the designated timeline?

How to Prepare for an Upcoming CAFR Audit Questions

Questions?