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
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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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Investments

- 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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Insurance

- 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

- Debt Rollfoward
  - 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 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?
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Questions?