

Top Ten Mistakes in the Audit and the ACFR/FS

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Agenda

- Top 10 mistakes noted in the audit and/or in the ACFR/Financial Statements
- Anticipated future items prone to errors
 - Start preparing for FY 23 FS compilation and associated audit

Disclaimers

- The situations and scenarios discussed today are hypothetical. 🤪
- We make no assertions as to whether any of the mistakes or errors discussed were caused by breakdowns of internal controls at the entity.
- Although we assist our clients with reviewing GFOA comments and suggest methods of correction, it is the responsibility of the entity as part of their submission to GFOA for awards.

**Let's get started with
the Countdown!**

Number 10!

Statistical Section

Statistical Section

- Remember these are unaudited! Do not solely rely on auditor review of these.
- Footing errors
 - Be wary of rounding!
- Figures from financial statements don't agree to statistical section
 - FS changes throughout compilation and/or audit not reflected in stats.
 - Linking within own worksheets not working properly

Statistical Section

- Errors in prior year columns
 - Rollover not done correctly or linking errors
- Ratio of debt service as a percentage of noncapital expenditures is not correctly calculated.
 - Capital outlay = reconciling item for capital outlay in the reconciliation between the government-wide statement of activities and the statement of revenues, expenditures, and changes in fund balance.

Number 9!

General Note Disclosures

General Note Disclosures

- In years with a GASB implementation, ensure a paragraph explaining the GASB and its effect on the report is included in NOTE 1
- The note disclosure defining deferred resource flows should state that:
 - Deferred outflows of resources “represent a consumption of net assets that applies to future periods” and
 - Deferred inflows of resources “represent an acquisition of net assets that applies to future periods”
 - Not: “consumption or acquisition of ‘net position’ that applies to future periods”

General Note Disclosures

- Amounts in the Notes to the FS are not consistent with amounts presented on the face of FS
 - Last minute FS updates not addressed in footnotes
- Changes in major funds are not reflected in various tables included in footnotes

General Note Disclosures:

- Capital Assets:
 - Notes should include donated capital assets are reported at acquisition value (not fair value)
 - Give explanations for the following:
 - Decrease in accumulated depreciation/amortization without a decrease in depreciable capital assets
 - Decrease in accumulated depreciation/amortization that exceeds decrease in depreciable capital assets
 - Decrease in construction in progress greater than the increase in capital assets

Number 8!

Cash Flows

Cash Flows

- Often one of last FS statements to be completed because propriety and internal services statements and GW's must be finalized. Usually rushed and has errors
 - Cash amounts can not be traced to the statement of net position
- Incorrect line items or items in incorrect section
- Non cash portion of capital contributions should be included in the schedule of noncash investing and financing activities

Number 7!

General FS Items

General FS Items

- Amount reported on the reconciliation of the statement of revenues, expenditures and changes in fund balances as “changes in fund balances – governmental funds” should agree to the “changes in fund balances” on the statement of revenue, expenditures and changes
 - Not including changes in inventory or prepaids
- Major funds must be analyzed and updated each year
- Only the General Fund can report a positive unassigned fund balance

General FS Items

- Missing combining statements for a column that aggregates more than one fund
- Including budget compares for Debt Service, Capital or Nonmajor Special Revenue Fund as a basic statement or in the RSI
- Not including major Special Revenue Fund budgets as basic statement or RSI
- Not including budgetary comparison for a legally adopted budget

Number 6!

Debt Refundings

Debt Refundings

- Debt refundings are often complex and involve several funds – could even involve proprietary and governmental
 - GL postings or AJEs are not accurate and are not caught until the Fund Statements are being reviewed
- The notes should disclose the aggregate difference in debt service between the refunding debt and the refunded debt

Number 5!

Cash and Investments

Cash and Investments

- Footnotes – Investment activity and/or number of individual investments can be robust and providing sufficient breakouts of amounts and maturities often not 100% correct
- Ensuring total Cash and investments in FN = FS. Again, FS changes throughout compilation and/or audit results in changes to cash amounts in FS and footnotes not properly updates to reflect those changes

Cash and Investments

- Ensuring that FS amounts (Governmental, Proprietary, and Fiduciary) = total amount presented in footnotes.
- Ensuring disclosing the information for each type of asset measured at fair value. A common comment is government should specify the valuation techniques used in the fair value measurement of Level 2 investments.

Number 4!

Finance Purchases and Leases

Finance Purchases and Leases

- Significant audit focus in FY 22. Required back and forth with auditors and auditees.
- Draft FS included incorrect calculations, incorrect line items on the FS, incomplete FN disclosures.
- Terms of the lease agreement per the support did not agree to the note disclosure.
- Ensuring any statistical schedules that include leases had proper verbiage updates.
- Unknown – what to expect from GFOA comments.

Number 3!

Management Discussion and Analysis

Management Discussion & Analysis

- MD&A does not match FS. Usually from FS changes late in the process that are not properly updates in the MDA
- A change in major funds is not caught and sufficient detail not added to MDA
- Explanations not included for significant changes to fund balance/net position for major funds
 - Not just an increase in property tax revenue but explaining the why (tax rate, property values)

Number 2!

Pensions and OPEB

Pensions and OPEB

- Oftentimes includes numerous plans and actuarial studies – results in numerous calculations and one wrong calculation causes financial statement line items to be incorrect
 - Summary in the notes does not always include the correct amounts
- RSI often incorrect or not linking to correct numbers
 - Measurement date vs. Financial Statement date
- Footnote disclosures are insane! Very large amount of numbers, years, figures, to input and often results in recommended changes from auditors or GFOA points
- OPEB asset/liability amounts netted together

Pensions and OPEB

- Notes should disclose which governmental funds have been used in prior years to liquidate pension and OPEB liabilities
- Covered payroll vs. covered-employee payroll
 - Covered payroll – includes only the payroll that is used in the calculating the pension of an employee
 - Covered-employee payroll – total payroll of employees covered in a pension plan and may include forms of payment not included in the calculation of the pension

Pension & OPEB

- Payroll-related measures in RSI – defined benefit plans

	Plan Assets in Trust	Plan Assets Not in Trust
Single-employer, agent multiple-employer plans, and cost-sharing multiple-employer pension plans	Covered payroll	Covered-employee payroll
Single-employer, agent multiple-employer plans, and cost-sharing multiple-employer OPEB plans	Covered payroll <i>if contributions are based on pay</i> ; otherwise, covered-employee payroll	Covered-employee payroll

Pension & OPEB

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Measurement date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
District's proportion of the net pension (assets) liability	0.10%	0.09%	0.10%	0.09%
District's proportionate share of the net pension (assets) liability	\$ 12,951,660	\$ 16,217,623	\$ 13,900,726	\$ 12,493,257
District's covered payroll	\$ 11,043,948	\$ 10,174,314	\$ 10,016,762	\$ 8,869,606
District's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	117.27%	159.40%	138.77%	140.85%
Plan fiduciary net position as a percentage of the total pension liability	78.58%	69.33%	73.24%	73.40%

SCHEDULE OF PENSION CONTRIBUTIONS ARIZONA STATE RETIREMENT SYSTEM LAST EIGHT FISCAL YEARS

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Actuarially determined contribution	\$ 1,219,652	\$ 1,286,620	\$ 1,164,959	\$ 1,119,874
Contributions in relation to the actuarially determined contribution	<u>1,219,652</u>	<u>1,286,620</u>	<u>1,164,959</u>	<u>1,119,874</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered payroll	\$ 10,155,304	\$ 11,043,948	\$ 10,174,314	\$ 10,016,762
Contributions as a percentage of covered payroll	12.01%	11.65%	11.45%	11.18%

Number 1!

**Net Investment in Capital Assets – Net
Position**

NICA Calculation

- Net investment in capital asset is not calculated correctly:
 - Includes debt not expended for capital purposes
 - Does not include unexpended capital bond proceeds
 - Does not include retainage or construction contracts payable
 - Calculation Template: [Net Investment in Capital Assets Calculation Template \(gfoa.org\)](#)
 - Support for calculation required to be turned in with GFOA application

Anticipated Future items prone to errors or issues

Leases – Year 2+

- Properly analyzing changes in currently-recorded finance purchases or leases ensure removal and/or adjustment
 - Agreement altered, ended, extended, or terminated?
- Staying aware and communicating within organization for new agreements that must be analyzed for lease recognition

Subscription-Based Information Technology – GASB 96 implementation

- Expected to be similar to GASB 87
 - Analyze current agreements
 - Determine materiality thresholds
- Auditors and neighboring entities are a resource!

Questions?

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