

# 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 <b>pension</b> plans	Covered payroll	Covered-employee payroll
Single-employer, agent multiple-employer plans, and cost-sharing multiple-employer <b>OPEB</b> 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



## Net Investment in Capital Assets

Total capital assets (both tangible and intangible)  
 Less: Accumulated depreciation/amortization  
 Net carrying value of capital assets

Less:

Outstanding principal of capital-related borrowings related to the government's own capital assets (limited to proceeds expended for capital purposes and excluding unspent proceeds) ("outstanding capital debt")

Outstanding principal of debt and other borrowing used to refund capital-related borrowings

Outstanding principal balance of any other (non-debt) capital related liabilities as of fiscal year end, including capital accounts payable and retainage payable

Unamortized original issue premiums on outstanding capital debt

Capital-related deferred inflows of resources (such as a gain on refunding of outstanding capital debt)

Other reductions, if any [SPECIFY]  
 Specify \_\_\_\_\_  
 Specify \_\_\_\_\_

Plus:

Unamortized original issue discounts on outstanding capital debt

Capital-related deferred outflows of resources (such as a loss on refunding of outstanding capital debt)

Other additions, if any [SPECIFY]  
 Specify \_\_\_\_\_  
 Specify \_\_\_\_\_

### Governmental Activities

### Business-Type Activities

\$ PG #

\$ PG #

<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
\$	PG #	\$	PG #
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# 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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